NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

TO: Members of the Authority

FROM: Caren S. Franzini
Chief Executive Officer

DATE: June 1, 2012

SUBJECT: Urban Transit Hub Tax Credit Program
Prudential Financial, Inc. and / or Affiliates

Request

The Members are asked to adopt an amendment to the approval of the Urban Transit Hub Tax Credit ("UTHTC") for Prudential Financial, Inc. and / or Affiliates ("Prudential" or "the Company" or "the Applicant") due to a change in the project site address. The amount of the UTHTC is to be reduced from $250,785,077 to $210,828,357. All other previous conditions as previously approved remain the same and the methodology in determining the net benefits continues to be calculated more conservatively than as required per the legislation for the UTHTC program.

Project Background and Description

On November 9, 2011 the Applicant was approved for a tax credit in an amount up to $250,785,077 or $25,078,508 annually for 10 years as the owner of the proposed new office facility on an eligible site located at 3 Center Street, with at least 250 employees, in Newark, New Jersey. The Project's total eligible cost was $341,637,738 (total budget was $368.9 million). The net benefits to the State calculated over 20 years were $250,785,077. As a result of the net benefits test, the award was not the amount of the total eligible costs but instead was reduced to the nominal value of the UTHTC's of $250,785,077. Additional conditions were also placed on the award.

The Company has decided to change the project location to 635-677 Broad Street[1]. The majority of the property is owned by the Applicant with the remainder under contract and aggregating 3.25 acres (currently the primary use of this land is surface parking). The new project address will be referred to in this memo as 635-677 Broad Street. The aggregate budget for the new site is $444 million which represents an increase of $75.1 million from the previously approved application. This increase is the result of additional costs to construct the building which has grown from 600,000 to 650,000 square feet of space.

[1]The site also encompasses 2-22 West Park Street, 68-74 Halsey Street and 28-38 New Street as there are nineteen separate parcels (collectively the project site is the entire Newark tax block 51 and includes 23 lot numbers).

Prudential Financial, Inc. currently has several owned and leased office buildings in Newark (namely 751 Broad Street, 213 Washington Street and Gateway Two, Three and Four all of which are within proximity to each other).

Due to the operational inefficiencies, capacity constraints and leases expiring in 2014 mainly relating to the three Gateway locations, Prudential has performed a comprehensive evaluation of its Newark occupancy to identify the optimal location strategy. The Company is proposing to construct a new Gold LEED certified office tower totaling 650,000 ± square feet along with a parking structure for 1,600 vehicles for executive, managerial and administrative staff. The Company will construct this new facility and locate 400 new jobs (from a combination of relocations from out-of-state estimated at 100 employees and business growth estimated at 300 employees) plus 2,050 existing jobs. Further, Prudential's occupancy strategy, including the proposed new facility construction, is designed to accommodate continued job growth of an additional 50 to 75 jobs per year, for an additional 500 to 750 new jobs over 10 years (above the 400 new jobs), following occupancy of the new building. This annual job growth is subject to economic, industry and market conditions and reportedly represents a conservative projection at approximately half the annual rate of employment growth achieved over the previous five years. It is noted that there are no jobs considered at risk in this project.

As part of its overall realignment of occupancies in Newark and to make space available within their Newark facilities to accommodate future headcount growth (both prior to and after construction of the new building) additional capital improvements will need to be made to the 751 Broad and 213 Washington Street facilities (and are included in the eligible project costs). Staff has concluded that while the three facilities (635-677 Broad Street, 751 Broad Street and 213 Washington Street also referred to as "Project Sites") are not contiguous but are to be occupied by entities under common ownership of the Applicant (as well as have similar design team and are all part of the Applicant's overall strategic occupancy plan) they qualify as a complex of buildings. The Project Sites are deemed a complex of buildings within HUB rules (and all three of these sites are located within ½ mile of a transit station and HUB eligible).

Prudential has applied for the UTHTC to make their site realignment and consolidation a financially viable solution to their current occupancy needs in the Newark region. The Project Sites have been verified to be in an eligible municipality and located within one-half mile of an Urban Transit Hub (New Jersey Transit Broad Street Station and Light Rail stop at Washington Park).

Under the UTHTC law, the applicant must employ at least 250 full time employees at the Project Sites (or qualified business facility) by January 13, 2016. Prudential anticipates meeting this requirement in the fourth quarter of 2014 when construction on the new facility will be near completion with initial occupancy of 2,450 full time employees. The Applicant also will be required to maintain full time employment in New Jersey in each of the ten years of the tax credit period of at least 80% of the total Statewide employment of 7,201 as of 12/31/2010 (as this date was set based upon the original Authority approval on 11/9/11).

Prudential has indicated that it investigated three possible long term site solution options, 1] the new construction (and renovation of their two existing sites) being outlined as part of this project (as well as several other sites in Newark proximate to Penn Station), 2] the renewal and restacking within the Gateway complex (requiring substantial capital investment for modernization and environmental efficiency) and 3] the relocation to existing facilities in the NJ/NY region. Prudential has provided the Authority with a detailed chronological listing (commencing in January of 2011) evidencing their efforts to renegotiate the leases in the three Gateway facilities. This includes a Request For Proposal from Jones Lang Lasalle in May of 2011 to each of the landlords for Gateway Two, Three and Four in an effort to obtain renewal options for Prudential due to upcoming lease maturities at the end of 2014. There appears to be material communication and efforts made by Prudential with the landlords beginning in January of 2011 in an effort to negotiate renewals of the leases, however ultimately this was not able to be concluded as the terms offered were not satisfactory to Prudential.

In the end, Prudential determined to elect new construction. The other two options both created substantial operational disruption and neither would allow the Company to fully realize its sustainability and modernization goals and accommodate employment growth. New construction presents the opportunity to maximize space planning, recruitment and sustainability goals with minimal operational disruption.

Prudential focused on three compelling sites for new construction, each of which presents extremely attractive opportunities to undertake an exciting urban campus development to provide for the kind of modern, sustainable and productive workplace for their employees that will help them attract the best talent in the industry. Prudential decided on the 635-677 Broad Street location and concluded that this development is best suited to fulfill their specific needs for a mixed-use urban campus environment while offering them the opportunity to maximize the catalytic impact of their investment and employment. The proximity to the Performing Arts Center, Theater Square and related amenities, planned improvements to Military Park and waterfront, all constitute an established and well-planned community of coordinated elements that offer Prudential the opportunity to be an integral part of the revitalization of Newark's downtown district.

The estimated total capital investment in the project as it relates to the acquisition of the land and the development is $444 million ($1.5 million is attributable to the improvements at the two existing sites with the remainder attributable to the new location). The eligible capital investment relative to the development of the applicant's space is $393 million which excludes land, moving costs and other items deemed ineligible under the UTHTC program. The Authority recommends approval of this project for a tax credit in an amount up to $210,828,357 based on the results of the revised net benefit analysis and eligible capital investment. Prudential expects to begin building construction in the third quarter of 2012 and be completed by the fourth quarter of 2014.

Project Ownership

Prudential is publicly traded company on the New York Stock Exchange. This entity and its affiliates offer a wide array of products and services, including life insurance, mutual funds, annuities, pension and retirement-related services and administration, asset management, banking and trust services, real estate brokerage franchises and relocation services. The Company has approximately 53,000 employees worldwide with offices and operations in the United States, Europe, Asia and Latin America. One of Prudential's principal indirect wholly owned subsidiaries is Prudential Insurance Company of America ("PRU"). PRU was founded in 1875 in New Jersey and is one of the oldest life insurance companies in the United States (and was converted from a mutual life insurance company to a stock insurance company on 12/18/2001).

Prudential is a publicly traded entity whose stock is listed on the NYSE (long term debt is rated A from Standard and Poors, Baa2 from Moody's and financial strength rating of A+ from A.M. Best Company). Fiscal year end 2010 revenues were $31 billion with consolidated net income of $3.1

billion. Total assets under management were $784 billion with $3 trillion of life insurance in force worldwide and their shareholder equity was $33 billion as of 12/31/2010.

Project Budget for the 650,000 Square Foot Development:

Item	Total Development Cost	Eligible Capital Investment
Land, Site Work, Building Shell, Contingency and Parking	$ 237,000,000	$ 209,000,000
Interior Construction Costs, Furniture and Equipment, Moving and Contingency	$117,000,000	$ 94,000,000
Architect & Engineering, Insurance, Project Administration, Testing and General Conditions	$38,000,000	$ 35,000,000
Finance Fees and Soft Costs	$ 44,000,000	$ 32,000,000
TOTAL	**$444,000,000**	**$393,000,000**

Eligible capital investment excludes $51 million in costs associated with land, developer fee, moving costs and other items which do not meet the eligible cost criteria under the program.

Net Positive Benefit Analysis

Pursuant to the UTHTC rules, the Authority calculates the Net Positive Benefit of the project based on the salaries and multipliers attributable to the new jobs to the state (as there are no jobs deemed by the company as being "at risk" from leaving the State). The net benefit includes zero corporate business taxes or insurance premium taxes. The net benefits model calculates the annual corporate spending based upon new employment levels at the Project sites. In this case the figure for the annual corporate spending computed by the model aggregated $498 million; however, the Authority only utilized 50% of this amount in order to be conservative. Additionally, the Net Benefit Analysis assumes that there will be no sales taxes collected on construction materials as all the sites are within the UEZ boundaries.

The Authority conducted the required Net Benefit Analysis for this new project site based on 400 new jobs at the Project Site (along with all other items as noted in the previous paragraph) and has found that the cumulative net present value of the Net Positive Benefits to the state of New Jersey over 20 years is approximately $171 million using a 6% discount rate. Since the cumulative amount of net benefits to the State must have a 10% cushion, this net benefit figure is reduced to $155 million. Converting the $155 million into a non discounted or nominal value over ten years results in a maximum tax credit award of $210.8 million over ten years. This total Net Benefit to the State includes stimulus from one-time construction costs associated with the proposed Newark facility, direct tax revenue (Gross Income Tax from the State and City, Real Estate Tax, Parking Tax and Unemployment Tax) and the indirect tax revenue expected to be generated by the Company over 20 years.

It is noted that since the Members of the Authority's approval of the Prudential project on November 9, 2011 we have received and implemented into the net benefit analysis updated information for the regional input-output modeling system "RIMS". RIMS data is provided by the US Department of Commerce's Bureau of Economic Analysis on a periodic basis to account for inter industry relationships within regions. RIMS is a widely used tool in public and private industry for regional economic analysis to determine the impact of projects and programs in regions. RIMS salary information and multipliers in this amended approval are based on 2008 data (as compared to the 2006 data that was the basis of the previous approval of this Project). The two ongoing multipliers utilized in the current net benefit model (namely the final demand output multiplier and the indirect effect earnings multiplier) reflect an average of a 20% reduction from the multipliers used in the prior model (which used the 2006 RIMS data) used at the time of the November approval by the Members of the Authority. The prior approval reflected a cumulative net positive benefit to the State of $203 million which when the 10% cushion is taken results in a net benefit of $184.6 million. Converting the $184.5 million into a non discounted or nominal value over ten years resulted in a maximum tax credit award of $250.8 million.

The nominal value of the tax credits is $210,828,357 which represents a decrease from the prior Authority approved amount in the amount of UTHTC of $250,785,077 over 10 years. Based solely on the amount of capital investment, the Applicant could have received a grant of $393,000,000. In this project, the net benefit establishes the maximum tax credit award. As such, should the Applicant not create 200 new jobs at the Project Sites, in accordance with the UTHTC statute, the maximum tax credit grant would be reduced by 20% to $16,866,269 annually (from $21,082,836) for any year in which the statutory minimum of 200 new job requirement is not satisfied. The Applicant will also be required to maintain full time employment in each of the ten years of the tax credit period of at least 80% of the total Statewide employment (which was 7,201 as of 12/31/2010, the last tax accounting year end prior to application) or they shall forfeit tax credits in any year until such time as these thresholds have been re-instated. Note that this figure was previously reported by the Applicant to the Authority as 7,868 (and used in the original board approval) but has since been revised due to inaccuracies found in their initial reported headcount as of 12/31/10.

In addition to meeting the statutory minimum of 200 new jobs, the Applicant has also consented to a proportional reduction in the tax credits in any year prior to their reaching the projected employment level of 400 new jobs (which the net benefit analysis was based on). As such, prior to reaching the 400 new job threshold, in any year where the new jobs are below 400 the tax credit award for such year shall be reduced by the percentage the actual new jobs created are below the projected 400 new jobs. For example, if in year one of the ten year tax credit term the Applicant has achieved 375 new jobs, or ninety-three percent of the projected 400 new jobs, the tax credit for that year would be reduced by seven percent. Upon achieving the 400 new jobs, the Applicant will no longer be subject to the proportional reductions, but will continue to be subject to the Statutory 20% reduction in the amount of their tax credits for any year in which there are not at least 200 new jobs (or greater) at the Project Sites as well as the 80% statewide test.

In addition, new jobs are only credited when those new jobs are located at the Project Sites and there has been a net increase in the Applicant's statewide jobs of at least the same amount as the new jobs at the Project Sites (i.e. over and above the 7,234 full time employees as of 11/9/11 which is comprised of 4,443 in Newark and 2,791 elsewhere in NJ reported by the Applicant and their related entities as per their amended application with the Authority). UTHTC regulations require that the date to be utilized for measuring the increase in net new jobs is the date of the approval which is 11/9/11 in this Project. The Applicant is being held to the Authority's recent standard policy that new jobs will count only when the job is new at the Project site and there has been no reduction in employment in their other New Jersey locations.

Details of Net Benefit Analysis

The Authority, in an effort to be open and transparent, has afforded Gateways 2,3 and 4 ("Gateway"), the current landlords of Prudential, the opportunity to review the incentive committee memo that was originally presented to the Incentive Committee on April 30, 2012 that reviews the amended application. Gateway has submitted a detailed presentation wherein it suggests that the net benefit analysis undertaken by staff was flawed. Staff has had the opportunity to review the Gateway submission and has determined that there is one minor adjustment that needs to be made, as noted below, but that on the whole the methodology that the Authority has used in the net benefit analysis is sound and reflects the goals of the legislation. Throughout the development of the net benefit model, when faced with a decision, staff believes that the Authority has adopted a conservative approach. It has subtracted negative impacts to the extent they are quantifiable. It has required that the benefit be greater than any negative impact by 10%, which is stricter than the plain language of the Act. It has refused to include in the net benefit calculation any capital investment that predated the application – again stricter than the plain language of the Act. If the RIMS model generates lower salaries than those projected by the applicant, staff inputs the lower salary. In the Prudential approval, this conservative approach is especially evident in the requirement that Prudential only receive the tax credit benefit pro rata, based on the new jobs that actually materialize at the project site, a requirement that is not required by the UTHTC Act but that has been added by the Authority. If these safeguards were not in place, the net benefit for Prudential would support an award of $393 million instead of $210.8 million. Any evaluation of the net benefit analysis should recognize the conservative assumptions that the Authority has integrated into this calculation.[1]

It is also important to note that the net benefits model is not new. The requirement to undertake a net benefit analysis for both the UTHTC and ERG programs was enacted into law in June 2009. The Authority approved the net economic benefit model in November 2009 and has been using it since that date. The UTHTC and ERG statutes have been amended at least three times since the advent of the Authority's use of the model. If the Legislature disagreed with the Authority's approach, it has had ample opportunity to amend the Act. The Legislature has certainly amended many aspects of the program, and it would not have hesitated to amend the net benefits calculation if it were not reflective of legislative intent.

Gateway does not acknowledge the Authority's conservative approach and presents objections that can be grouped into four categories. First, Gateway suggests that it is inconsistent with past Authority practice to include the 300 new jobs in the net benefit calculation, because they are the result of natural growth at the company. As characterized by Gateway, Prudential has no intention of leaving Newark and all the new growth will occur in Newark, with or without a grant of tax credits. Factually, this assertion is incorrect as noted in the attached letter from Prudential. Absent the tax credit award, there is no guarantee that the growth in the company will occur in Newark. Prudential has nearby sites in New York and Connecticut, as well as national locations, and the growth in the company could occur at any of these locations. The award of tax credits has the direct effect of guaranteeing that the growth of new jobs will occur in Newark. This is consistent with the legislative intent to support the revitalization of New Jersey's urban centers.

Gateway's submission also misreads recent amendments to the UTHTC Act as meaning that only "at risk" jobs may be included in the net benefits calculation. To clarify, the amendment states that in undertaking the net benefit calculation, the authority shall not consider the transfer of an existing job from one location in the State to another location in the State as the creation of a new job unless certain criteria are met. With respect to Prudential, staff has included no existing jobs in the net benefit analysis; consistent with the legislation only new jobs have been included in the calculation.

Second, Gateway asserts that Prudential's move from the Gateway will glut the Newark market with leasable space, increase the Newark's "absorption rate," and lead to lower real estate taxes. Gateway

[1] By letter dated March 28, 2012, Prudential's property consultant provided assurances that the proposed building was large enough to accommodate the proposed growth. A copy of this letter was given to Gateway on May 1, 2012. Thus, staff has followed the procedure to verify job growth as set forth in its letter of June 27, 2011 to Prudential.

cites a 2012 absorption rate and speculates about three possible negative impacts.

Throughout the Authority's consideration of the net benefit model it has avoided including positive or negative impacts that are too speculative to quantify. The real estate absorption rate over a twenty year period is one of the impacts that are too speculative to include in the model. Thus, although in enacting the UTHTC Act the Legislature determined that significant capital investment in distressed cities would have a positive transformative effect on those cities, the Authority has never included in the net benefits model the increased local taxes that might be generated over twenty years from the now more valuable property adjacent to a UTHTC project. A recent Jones Lang LaSalle study undertaken for New Jersey Transit concluded that over the past ten years transit hub real estate markets have significantly outperformed suburban office markets, with vacancy rates averaging about 10% less than suburban markets and asking rents exceeding suburban markets by an average of $3.00. ("On track: New Jersey Transit Hubs outperforming overall suburban markets" Spring 2011). A recent report also states that Newark's current vacancy rate for Class A space has declined to 10%. (Real Estate Forum, May 2012). Both studies cite the positive effect of the UTHTC program on urban hub real estate markets. Because real estate values are by their nature cyclical and speculative, however, the Authority has not included these positive impacts in the net benefit calculation. It would therefore be inconsistent to include speculative worst case scenarios that assume falling tax revenues, especially when Gateway has over two years to identify a replacement tenant.

Third, Gateway challenges certain specific components of the net benefits test as follows.

Industry Classification (II. A.)[1]

The Authority conducted the net benefit analysis for this project based on 400 new jobs with average salaries of $77,675 (average salary as calculated by RIMS.) It is noted that the Applicant indicated they anticipate the average salaries of the new employees to be $150,000, but that staff used the lower RIMS salary instead. The applicant estimated that the specific job types are comprised of 60% insurance carriers and related positions, 30% funds, trusts and other financial vehicles and 10% administrative and provided information supporting the salaries and job classifications. Because staff used the classifications provided by the applicant but the average salaries provided by the model, the total payroll used in the net benefit analysis was $31 million as compared to the $60 million figure provided by the applicant (based upon the average salary provided by the Applicant of $150,000). The classifications utilized by the Authority in the Net Benefits Analysis appropriately match the job functions performed by and compensation levels for the 400 new employees.

Corporate Spend (II. E.)

The Gateway response contends that the Authority erroneously utilized a "generic" assumption to calculate the levels of indirect and induced spending. The response goes further to suggest that utilizing Prudential's actual corporate financial statements is a more accurate indicator of corporate spending and therefore, indirect and induced spending. The company's financial statements reflect operational costs regardless of location or job classification. The Authority's use of the RIMs model more narrowly predicts spending attributable to the job classifications housed at the project location, and are therefore an appropriate method to calculate the corporate spend, as well as indirect and induced spending. Staff inputs only half of the corporate spend into the model and then uses a conservative 3.5 % tax rate, which is half of the state's 7% sales tax, to estimate tax revenue

[1]Parenthetical numbers refer to sections in Gateway's submission.

generation. In effect, as a result of these reductions, the rate applied to the predicted corporate spend is 1.75%.

Inflation (II. F.)

The net benefit model also uses a salary growth factor of 3% per annum which was suggested by Gateway as aggressive as their methodology was to consider a five year horizon. Review of actual CPI growth over the past 20 years reflects an average increase of 3% which is consistent with the growth factor utilized in the model.

Indirect Spending Multiplier (II. B.)

Gateway has challenged the one time direct construction multiplier of 1.562 which is utilized to calculate the one time indirect taxes on spending related to the construction costs, arguing that the multiplier should be 1.46. This multiplier is generated for each county in New Jersey and upon conferring with our consultant at JLL it was determined that the figure was inaccurate and the correct mulitiplier figure is 1.476. As a result the indirect one time taxes on spending for the Project are $6.5 million and not the $7.7 million previously reported. The impact to the UTHTC award is a reduction of $1.5 million from $212.3 million to $210.8 million which is the amount now recommended for approval.

Unemployment Taxes (II. C.)

The Authority has made a policy decision to include unemployment taxes in the net benefit model because these taxes are paid to the State. The fact that this tax is dedicated for a specific purpose does not alter the fact that it is a tax that is received by the State. The unemployment tax is indistinguishable from the Gross Income Tax, which it is dedicated for property tax relief, or the Corporate Business Tax, a portion of which is dedicated to the repayment of general obligation bonds. Because the project will have the effect of increasing unemployment taxes incrementally, these taxes are appropriately counted in the model.

City Infrastructure and Services (I. B.)

In accordance with the UTHTC Act, the net benefit calculation is undertaken at the time the Board approves an application. N.J.S.A. 34:1B-208. By regulation, the Authority will not include in the net benefit calculation any capital investment that has already commenced. N.J.A.C. 19:31-9.7(c). Thus, by virtue of these requirements, all applications are received and evaluated early in the life cycle of a project. It is therefore appropriate that the City of Newark has stated that based on its "initial review", it does not anticipate any new burden on City services from the project. In response to the Gateway submission, the City has also indicated that the City has had virtually no additional infrastructure cost on the Panasonic project, which as a downtown office building is much more analogous than an arena, and therefore does not anticipate significant infrastructure costs for the Prudential building. Gateway's submission of a cost figure ($10 million) that is attributable to the arena security costs is similarly unreasonable as arena operations differ significantly from that of an office building in that events generally occur after downtown business activity has ceased and involve sizable crowds. At initial review, the relocation of Prudential's employees to the new site proximate to its existing headquarters does not suggest additional city policing is needed in the downtown business district for the project. Prudential has also indicated that it will continue to maintain a private security force to patrol the interior, exterior and perimeters of its buildings in the project location.

City Taxes and Acquisition Costs (II. D.)

In response to the Gateway's submission, the City has indicated that it anticipates that Prudential will not enter into a PILOT and will pay full taxes on the building. It also anticipates that any purchase of City property will be at fair market value. In addition, Gateway asserts that the $2.6 million in real estate taxes used in the net benefit model did not take into consideration the $250,000 in taxes currently being paid on the project site. The Applicant has indicated in its correspondence with the Authority that the $2.6 million in real estate taxes does reflect the net incremental amount to be received by the City based on the improved value of the property.

Fourth, Gateway asserts that the net benefit model that the Authority adopted in November 2009, with the assistance of JLL's econometrics staff, should be discarded because JLL's real estate consulting staff assisted Prudential in its negotiations with Gateway between January and May of 2011, and thus there is a conflict of interest that taints the process. The Authority had no knowledge of JLL's participation in the Gateway negotiations and at no time did JLL represent Prudential in its conversations with Authority staff. As indicated by JLL, New Jersey clients are serviced by various locations and divisions and those staff work autonomously and often under client required confidentiality agreements (as was the case with Prudential) , such that the JLL econometrics staff was not aware of the JLL real estate consulting staff's work with Prudential. Moreover, JLL's most significant input into the net benefit model predated Prudential's application by two years. By the time the Authority received the Prudential application, project officers, such as Michael Conte, had been working with the model for over two years and had the expertise to run the model independently. In July, 2011, Mr. Conte reached out to JLL for consultation about the characterization of the Prudential jobs, but other than this brief consultation, he controlled the net benefit model. For all the above reasons, no conflict has impermissibly tainted the process.

Aggregate Awards to Date

As of May 8, 2012, $248,583,206 in tax credits has been approved under the UTHTC program for qualified residential projects and $731,045,989 for commercial projects for a total of $979,629,195. After approval of this Project by the Board today, the total tax credits approved under the UTHTC program will decrease to $691,089,269 for commercial projects and $939,672,475 for all projects.

Recommendation

Staff has reviewed the application for consistency with the Act and Rules, as amended, implementing the UTHTC Program and recommends adoption of an amendment to Prudential's original approval, including the following:

1] The Members of the Authority have reviewed staff's finding of fact analysis and concurs that the project qualifies as a complex of buildings (with all three sites eligible for HUB).

2] The tax credit will not exceed a maximum amount of $210,828,357. The NJEDA will provide the Applicant with an approval letter for the total amount of the credit, but receipt of the total amount will subject to the various conditions cited herein that might have the effect of lessening the amount of the credit.

Pursuant to the rules governing the program, the project will need to meet certain milestones within 12 months of today's approval in order to maintain the project's credit approval.

These milestones include:

1) Site control;
2) Site plan approval;
3) Other project specific items which may be added.

Upon project completion, the Authority shall issue a tax credit certificate based on the final qualified costs, not to exceed the approved amount. The tax credit certificate shall indicate that the Applicant may take one tenth of the total credit annually over ten years when accompanied by a letter issued by NJEDA indicating the project is compliant with program guidelines and the board approvals.

Caren S. Franzini
Chief Executive Officer

Prepared by: Michael Conte

NJEDA Economic Impact Model

NJEDA Economic Impact Model (2008 Rims data)		
County Number	7	
Address	77 Broad Street, Newark	
County	Essex	
Ongoing Jobs(Direct)	400	
One Time Jobs(Direct)	1,455	
State & Local Direct Ongoing	Services	Select Industry Sector
Sales Tax	$0	@7%
Corporate Income Tax (CBT)	$0	@9%
Gross Income Tax	$1,242,914	@4%
Misc. State Tax Revenue	$794,000	parking, unemployment and city payroll per co
Property Tax (Default to Total Const Value*3%)	$2,600,000	@ $4 a square foot
Direct Ongoing Annual Taxes	$4,636,914	a
State Indirect Ongoing		
Annual Corp Spending	$249,023,836	Direct Output Composite at 50%
Final Demand Output Multiplier	1.57x	Direct Output Composite Multiplier
Indirect Annual Spending	$142,324,593.07	Direct Output Composite*(Direct Mult.-1)
At 3.5 % Tax Rate	$4,981,361	b
Annual Payroll	$31,072,854	Direct Earnings Composite
Indirect Effect Earnings Multiplier	1.95x	Direct Earnings Composite Multiplier
Indirect Earnings	$29,367,886.17	Direct Earnings Composite*(Indirect Mult.-1)
At 4% Tax Rate	$1,174,715	c
Indirect Ongoing Annual Taxes	$4,981,361	b
Total State Ongoing Net Benefits		
Annual Net Benefit	$10,792,990	a+b+c
Cumulative Net Benefit (20yrs w/ 3% yearly inflation)	$290,011,693	
Present Value @6%	$157,162,481	d
One Time		
Construction Value	$195,000,000	@300psf
Direct One Time Taxes on Spending	$13,650,000	Count to total only if project is NOT in a UEZ zone.
Direct Construction Multiplier	1.48x	
Indirect One Time Spending	$92,820,000	
Spending Tax Rate	7.0%	
Ind One Time Taxes on Spending	$6,497,400	
Assumed Portion of Const. on Labor	50%	input
Dir One Time Earnings	$97,500,000	
Earnings Tax Rate	5%	input
Dir One Time Taxes on Earning	$4,875,000	
Direct Effect Earnings Multiplier	1.44x	
Indirect One Time Earnings (50% of Construction)	$43,075,500	
Earnings Tax Rate	5%	input
Ind One Time Taxes on Earnings	$2,153,775	
Total One Time Tax Benefits	$13,526,175	.
Total State Benefits		
Total One Time Tax Benefits	$13,526,175	e
Total State Ongoing Benefits (PV @ 6%)	$157,162,481	d
Total Benefits	$170,688,656	d+e
Implied Maximum Incentive at 110% Coverage Ratio Before Adjustments	$155,171,506	
Maximum HUB Award Test		
Total Qualifying Costs (NJEDA Cost Analysis sheet)	$393,000,000	
Tax credit limit due to NB at 110%	$155,171,506	
Nominal Value of the tax credits	$210,828,357	

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

MEMORANDUM

TO: Members of the Authority

FROM: Caren S. Franzini
Chief Executive Officer

DATE: June 1, 2012

SUBJECT: NJEDA Economic Impact Model

NET BENEFITS OVERVIEW

The New Jersey Economic Development Authority (the "Authority") contracted the services of Jones Lange LaSalle ("JLL") to build an economic impact model to help measure the likely impact of a given development to the State of New Jersey (the "State") and/or its municipalities. The model utilizes multipliers from the Regional Input-Output Modeling System ("RIMS II") data base, published by the US Department of Commerce and JLL's econometric analysis and modeling to assess economic outputs, impacts and likely jobs creation. In addition to economic information the model estimates the taxes from personal and corporate earnings that result from a certain project.

The model estimates both direct and indirect impacts on a one-time and ongoing basis. Direct impacts are measurable benefits to the State caused by the capital flows of people and material directly associated with the project. Examples of direct impacts are payroll taxes generated from site workers salaries and sales tax generated from the purchase of construction materials used in the project. Indirect impacts are measurable benefits to the State caused by economic activity tangential to the project. Examples of indirect impacts are sales taxes generated from the sale of local food vending establishments, equipment repair services, and local retail. One-time (or non-recurring) benefits are those associated with the project's capital investment. For instance, the sales tax generated from the sale of construction materials is a one-time benefit. Ongoing (or recurring) benefits are attributable to the project's annual economic activity. An example of an ongoing benefit is annual sales tax generated from a commercial tenant occupying space in a project site comprised of commercial development. Note that one-time or ongoing benefits to the State may be either direct or indirect.

The model can provide unique analyses for office, retail, industrial, hotel and residential projects in all New Jersey counties. The model is used for both the Economic Redevelopment and Growth Program and Urban Transit Hub Tax Credit ("HUB") programs. Note that per the enabling legislation for this program, HUB requires a combined state and local impact analysis.

The primary user inputs of the model include but is not limited to project location, total construction/project costs, property development type, size of project (based on square feet), and job categories. Based on these inputs and several optional inputs, the model calculates the likely impact on job creation, spillover economic activity (i.e., indirect economic activity), and earnings. However, whenever actual values are known, Authority staff can override the model's estimates to use the known values rather than the model's calculated results. It is noted that it is common practice for Authority staff to choose the lower of the model generated or applicant provided figure

The RIMS multipliers that are used provide a customized value for each location, project type and job categories. The model uses total economic output, employment, and earnings multipliers from the database as well as RIMS "Direct effect" multipliers to estimate the portions of total impact attributable to Direct and Indirect activity. Note that the model is updated with new RIMS data when new information is available. Also, adjustments are made to the model when deemed necessary.

TOTAL STATE BENEFIT METHODOLOGY

Once all of the preliminary data points based on the primary user inputs have been calculated, either through the model generated figures or using the actual estimates from the project, the model then calculates likely increases to sales tax, gross income tax, property tax, corporate business tax, and miscellaneous local and state taxes applicable to the development, all over a period not to exceed 20 years.

First, the model calculates the ongoing effects from the project, both direct and indirect. The direct effects are the most assured of realization and the Authority uses either the model generated figures or actual numbers when they are available for measures of sales tax, corporate income tax ("CBT") and wage taxes. Collectively, these taxes represent the expected direct ongoing annual taxes. For the indirect ongoing effects, the model takes the annual corporate spending (on operating expense items such as office supplies, marketing expense, salaries, etc) and multiplies that figure by the RIMS factor (i.e., the multiplier). The result is a measure of indirect annual spending. To be conservative, the model applies a 3.5% sales tax rate (as opposed to current full 7%) on the indirect annual spending to calculate the tax revenue.

Next, the model looks at the annual payroll from the project and applies a RIMS factor to get to the indirect earnings that can be expected from the project. The model applies an average wage tax (current range in NJ is 3%-8%) on that figure to come up with the expected wage tax revenues on indirect earnings. The model then adds the expected wage taxes on indirect earnings to the sales taxes on the indirect annual spending amount in order to derive the indirect ongoing annual taxes.

The sum of the direct ongoing annual taxes and the indirect ongoing annual taxes equals the annual ongoing net benefit. The ongoing net benefit is grown at a 3% annual rate (an approximation of inflation) for 20 years (measure of useful life) to come up with the cumulative net benefit. The cumulative net benefit is taken back to its present value at a 6% discount rate. A 6% discount rate is used as it reflects the standard measure for discounting the value of long term projects in economic impact models. Lastly, the model adds on to the discounted cumulative net benefit number the one time taxes that can be expected from the construction of the project. The model uses the same concept of employing RIMS multipliers and applying a 3.5% tax rate on sales activity and a 5% tax rate on wages. This calculates the total State benefits in the form of tax revenues.

Authority staff then completes a separate analysis for the local net impact and the State impact. Under the local analysis, the model uses the estimated incremental local portions of revenues, and then, if indicated by the municipality, subtract the estimated incremental costs of the municipality for servicing the development (such as additional police, fire, infrastructure, etc.), to form the basis of the local net benefits. If the municipality indicates that there are incremental costs, the estimated incremental costs are estimated by the municipality which staff confirms from data from public filings such as financial statements of the municipality.

For the State analysis, the model will compare all the estimated non-local revenues to all requested State funding assistance. The model takes the present value of those costs, and incentives and finally subtracts the figure from the total State benefits derived above. This results in the Present Value of the Net Benefits to New Jersey.

In no case is the maximum award greater than the capital investment in the project. In analyzing the value of jobs in the model, the Authority considers whether the employment is "at risk" of being located outside of the state, or whether the project entails moving jobs from suburban to urban locations.

Jobs that are moving from a suburban location to an urban location, but are not considered "at risk" are given 25% of the credit that an "at risk" job would be given. Jobs that are neither "at risk", classified as a "suburban to urban move", nor otherwise deemed new jobs to the State are not considered to provide any incremental benefit to the State under the model and are thus given no credit in the net benefits calculation.

Jobs that fall into the freight and rail or urban grocery store or logistics (warehousing, manufacturing, distribution, and manufacturing) categories, are given a 25% increase to the total calculated benefit from those jobs. The bonus addresses the hurdle that these projects have in meeting the net benefits test due to lower direct wages paid for workers employed in these industries, and is consistent with the program's policy and intent to recognize freight locations and mixed use projects as economic impact drivers.

This logic is meant to quantitatively implement the priorities of the State of New Jersey and NJEDA in a way that is transparent and fair to all applicants.

In each case, if this Present Value results in a figure that is 110% greater than the requested amount of financial assistance, then the project passes the net benefit test. The result is a model that takes an econometrically defensible and prudent approach to assessing the economic impact of a project.

PRIMARY MODEL USER INPUTS

In this section, the required inputs into the model made by Authority staff are discussed.

Project Description

This first step of the net benefits model requires the user to input the following items:

Analysis Start Date:	This input represents the date the project is assumed to be complete and tax revenues have commenced to be generated. The model assumes taxes are generated for a period not to exceed 20 years. The 20 year time frame is a standard period of time used in economic impact analyses. Should the applicant or tenant be leasing, then the term in years is 75% of the lease term.
Applicant Name:	The primary identifier of the project. This field has no impact on the model results.
Project Name:	The secondary identifier of the project. This field has no impact on the model results.
Address:	Represents the physical location of the project. This field has no impact on the model results.
County:	The County in which the project is located. This input is completed by selecting the appropriate county via a drop box in the model. The county selected by the user determines what RIMS II data source is used by the model to calculate the implied salary; among other items.

Project Questions

The purpose of this input section is to determine the commercial versus residential mix of the project. Specific inputs in the model include:

- Is the project commercial only? Requires a yes or no response.
- Is the project residential only? Requires a yes or no response.
- Is the project mixed use? Requires a yes or no response.
- Total square footage of the project broken down between project types defined as either commercial and/or residential. Commercial and residential space is shown in actual square feet and as a percentage of the project's total square feet. Commercial may be further broken down into components such as retail or food service.

If the user inputs determine that the project is primarily residential (defined as more than 50%), then a net benefits test is not completed for the project.

Job Information

The user first via a drop down menu in the model selects up to three types of job classes that will exist and/or be created at the project site. The total number of job classes contained in the model is 61.

The user then determines the applicable project type for each job class. For instance, 100 administrative jobs for a certain project will be created at the project site. The project based on total square feet is 60% commercial and 40% residential. All of the administrative jobs will be located in the commercial space. As such, the user selects "Commercial" as the applicable project type.

The user then inputs the number of full time employees represented by each job class. The number of jobs for each class is determined by the applicant and provided to the Authority in its application. The model provides separate fields to classify the jobs as either "at risk" or "not at risk".

Using the inputs in this section, the model references RIMS II data to determine the average salary of the job types. The salary the Authority ultimately uses in the model is the lower of what is calculated by RIMS II or the actual figure provided by the applicant.

NJEDA ECONOMIC IMPACT MODEL

State and Local Direct Ongoing

The State and Local Direct Ongoing section of the impact model calculates the total Direct Ongoing Annual Taxes generated at or near the project site. The components of this section are provided below.

<u>Sales Tax</u>

The model only calculates sales tax for those projects that are in the retail trade sector and are either a "destination" or relocating from a neighboring state. The model defaults to zero sales tax revenue, if there are no jobs created in the retail trade sector. The user also has the option of directly inputting a sales tax figure.

Sales tax revenue is calculated by taking the square footage applicable to the retail trade sector and multiplying it by $250 per square foot. The figure of $250 per square foot represents the average retail revenue per square foot across the United States retail industry. Sales tax revenue to the State is then calculated by multiplying this total sales figure by the retail sales tax (user input) and factoring in potential cannibalization of existing NJ sales (user input). The input fields for this section of the model include the following:

- Are the majority of jobs in this project in the "retail trade sector"? If "yes" is selected, a market study is required and the user is directed to continue to the next question. If "no" is selected, the model does not require further input in regards to sales tax calculation.

- Is the project a "destination" or the relocation of retail from a neighboring state? If "yes" is selected, the incorporation of sales tax still applies and the user is directed to continue to the next question. If "no" is selected, the use of sales tax does not apply and the model does not require further input in regards to sales tax calculation.

- What percentage of sales will be cannibalized from existing NJ sales? The percentage entered by the user must be substantiated by the required feasibility study.

- What is the Sales Tax Rate? Applicable only if the project has been deemed retail. The standard rate used by the Authority is 7.00%.

- Do you want to manually input a sales tax number? The user has the option of overriding the model's calculated corporate tax figure with the actual figure provided by the applicant.

Corporate Income Tax

The model calculates its own corporate income tax by multiplying the number of jobs created by a profitability figure (pretax income) for the industry sector of the job, which is then multiplied by 9.00%. 9.00% is assumed in the model to represent the average NJ corporate income tax rate. If the user provides a figure for the corporate income tax, the model will take the lesser of the calculated figure and the inputted number.

If the majority of jobs are in the retail trade sector, then the model multiplies the calculated figure by 2/3 to arrive at the corporate income tax. The input fields for this section of the model include the following:

- Did the applicant provide a Corporate Income Tax figure in their application? If "yes", then the user inputs the applicant provided figure in the appropriate field. If "no", the model calculates the corporate income tax.

Gross Income Tax

The gross income tax is calculated by taking the salaries for each job classification and multiplying them by 4.00%. The model uses the lesser of this calculated number and the number inputted by the user.

If the majority of jobs are in the retail trade sector, then the model multiplies the calculated figure by 2/3 to arrive at the gross income tax.

Miscellaneous State Revenue Tax

In this section, the user inputs any additional tax revenue that will be generated by the project.

Property Taxes

The model assumes the construction cost for development is $300/psf. In the event the actual price per square foot is greater than $300.00, the model keeps the figure at $300.00 per square foot to be conservative. The property tax is calculated by multiplying this total construction costs (hard costs) by 3.00%. 3.00% is an approximation of the average NJ property tax rate. The model then takes the lower of the inputted value and the calculated value. The amount of property taxes credited to the project must only reflect the incremental increase. If there is a Payment In Lieu of Taxes agreement, then the user only gives credit to the amount of tax revenue retained by the city.

Direct Ongoing Annual Taxes

Direct Ongoing Annual Taxes equals the sum of all sales tax, corporate income tax, gross income tax, miscellaneous State tax revenue, and property tax as calculated by the model.

State Indirect Ongoing

State Indirect Ongoing taxes represent recurring tax revenue the State will receive from indirect economic activity at or near the project site. The components of this section are provided below.

Annual Corporate Spending

Annual Corporate Spending is calculated by the model to represent the total annual dollars spent by businesses located at or near the project site.

Final Demand Output Multiplier

The RIMS multiplier as determined by the model via a look up table.

Indirect Annual Spending

Indirect Annual Spending is calculated in the model to total the Annual Corporate Spending times one minus the RIMS multiplier. For instance, if the annual corporate spend is $5 million and the RIMS multiplier is 1.50x, then the indirect annual spending is calculated at $5,000,000 x (1-1.50) = $2,500,000.

At 3.5% Tax Rate

This figure represents taxes generated from indirect annual spending. It is calculated as Indirect Annual Spending times 3.5%. A rate of 3.5% is used in the model versus the State's 7% sales tax rate to be conservative.

Annual Payroll

Annual Payroll represents the total annual salaries to be generated at the project site. The figure is calculated as the total number of Ongoing Direct Jobs times the average salary of the Ongoing Direct Jobs. Note that the average salary is the lesser of that provided by the applicant or calculated in the model using RIMS data.

Indirect Effect Earnings Multiplier

The RIMS multiplier as determined by the model via a look up table.

Indirect Earnings

Indirect Earnings represent the income generated at the project site as a result of the Annual Payroll. The figure is calculated as total the Annual Payroll times one minus the RIMS multiplier. For instance, if the Annual Payroll is $2 million and the RIMS multiplier is 1.50x, then the indirect annual spending is calculated at $2,000,000 x (1-1.50) = $1,000,000.

At 4% Tax Rate

This field illustrates the total income taxes generated for the State as a result of Indirect Earnings. The figure is calculated as Indirect Earnings times a 4.00% tax rate.

Indirect Ongoing Annual Taxes

This figure also represents taxes generated from indirect annual spending. The number will always be equal to the calculated figure in the "At 3.5% Tax Rate" field.

Total State Ongoing Net Benefits

Total State Ongoing Net benefits represent the recurring tax revenues to be received by the State as a result of the project. The components of this section are provided below.

Annual Net Benefits

The Annual Net Benefit to the State is the sum of Direct Ongoing Annual Taxes, taxes generated from indirect annual spending ("At 3.5% Tax Rate" field), and total income taxes generated for the State as a result of Indirect Earnings ("At 4% Tax Rate" field).

Cumulative Net Benefit

The Cumulative Net Benefit represents how much tax revenue the State will receive over a 20 year period adjusted annually for inflation. The figure is calculated as the sum of the Annual Net Benefit over a period of 20 years and grown annually at an assumed inflation rate of 3.00%.

Present Value @6%

This figure represents the net present value of the Cumulative Net Benefit. The present value calculation assumes a 6% discount rate over a 20 year period. The purpose of the present value calculation is to place the future State benefit into today's dollars.

One Time Tax Benefits

One Time Tax Benefits represents the aggregate of all one-time (non-recurring) taxes generated by the project. The components of this section are provided below.

Construction Value

Construction Value represents the hard cost component of the total project costs. The model will use the lesser of the hard cost figure provided by the applicant or the product of $300.00 per square foot times the total square feet of the project. It should be noted that despite of what the applicant provides in respect to project costs, the Authority will cap the price per square foot at $300.00 to be conservative.

Direct One Time Taxes on Spending

Direct One Time Taxes on Spending represents the New Jersey sales taxes to be generated from the purchase of materials used in the construction of the project. The field takes the hard costs of the project (as represented by the "Construction Value" field) and multiplies the figure by the State sales tax rate of 7.00%. Note that if the model user deems in the assumption page that the project is in a UEZ zone, this field will not be included into Total Onetime Tax Benefits.

Direct Construction Multiplier

The Direct Construction Multiplier represents the RIMS construction multiplier based on county. The multiplier is determined by the model via a look up table.

Indirect One Time Spending

Indirect One Time Spending represent the income generated at or near the project site as a result of the purchase of construction material. The figure is calculated as total the construction hard costs times one minus the RIMS construction multiplier.

Spending Tax Rate

The Spending Tax Rate of 7.00% represents the New Jersey sales tax rate.

Indirect One Time Taxes on Spending

Indirect One Time Taxes on Spending represents the sales taxes generated from the Indirect One Time Spending. The figure is calculated as the Indirect One Time Spending times The Spending Tax Rate.

Assumed Portion of Construction on Labor

This section of the model provides an estimation of State income taxes generated from the labor portion of the hard construction costs. It is first assumed that labor costs related to project construction will equal 50% of the hard construction costs. Note that this labor component is incremental over and above the hard construction costs.

Direct One Time Earnings

Direct One Time Earnings represents the actual calculation of the labor earnings. The figure is calculated as the Construction Value times 50%.

Earnings Tax Rate

The Earnings Tax Rate represents the New Jersey income tax rate of 5%.

Direct One Time Taxes on Earnings

Direct One Time Taxes on Earnings represents the income taxes generated on the labor portion of the project. The figure is calculated as the Direct One Time Earnings times the Earnings Tax Rate.

Direct Effect Earnings Multiplier

This section of the model calculates the State income taxes generated from the indirect consumer spending resulting from the labor portion of the project. The first field in this section is the Direct Effect Earnings Multiplier. This figure is a RIMS earnings multiplier based on the county of the project and job type. The multiplier is determined by the model via a look up table.

Indirect One Time Earnings

Indirect One Time Earnings represents the indirect earnings generated from the labor portion of the project. The figure is calculated as total the Direct One Time Earnings times one minus the RIMS earnings multiplier.

Earnings Tax Rate

The Earnings Tax Rate represents the New Jersey income tax rate of 5%.

Indirect One Time Taxes on Earnings

Indirect One Time Taxes on Earnings represents the income taxes generated on the Indirect One Time Earnings resulting from the labor portion of the project. The figure is calculated as the Direct One Time Earnings times the Earnings Tax Rate.

Total One Time Tax Benefits

Total One Time Tax Benefits is the aggregate of all one time taxes generated by the project. The figure is calculated as the sum of the Indirect One Time Taxes on Spending, Direct One Time Taxes on Earnings, and Indirect One Time Taxes on Earnings.

Total State Benefits

Total State Benefits represents the total of all one-time and ongoing tax benefits to be generated from the project. The components of this section are provided below.

Total One Time Tax Benefits

As stated earlier, the Total One Time Tax Benefits is the aggregate of all one time taxes generated by the project.

Total State Ongoing Benefits (PV @ 6%)

This figure represents the net present value of the Cumulative Net Benefit. The present value calculation assumes a 6% discount rate over a 20 year period.

Total Benefits

Total Benefits equals the sum of the Total One Time Tax Benefits and the present value of the Cumulative Net Benefit.

Implied Maximum Loan/Award at 110% Coverage Ratio Before Adjustments ("Limiting Field")

The amount of an ERG award is the lesser of (1) 20% the eligible projects costs or (2) an amount that results in the projects Net Benefit to the State to be a minimum 110% of the award. The Limiting Field provides the model user a figure that represents the maximum ERG award the applicant may receive while at the same time comply with the 110% requirement. It is possible that a certain project is very large in size and 20% of the eligible project costs will result in a figure that exceeds the maximum award in the Limiting Field. Should this be the case, the ERG award is capped at the amount shown in the Limiting Field.

In respect to the UTHTC program, the award is 100% the eligible project costs. As similarly required under the ERG program, the UTHTC project's net positive economic benefit must equal at least 110% of the amount of grant assistance. As such, in the event the eligible project costs of an UTHTC project exceeds the figure in the Limiting Field, the award is capped at the amount of the Limiting Field.

Adjustment Tests

Urban Economic Zones (UEZ) receive tax breaks for construction spending. Thus, any development site that is in an UEZ should not include this lost tax revenue in the final net benefit figure. The one time spending tax is calculated by taking the construction value and multiplying it by 3.50%, which is the typical tax rate in a UEZ. Taxes on construction materials in a UEZ is counted at zero

The final net benefit award cannot be greater than 90% of the development costs of the project. This input is used as a limiting factor in calculation of the final net benefit award.

Jobs associated with freight or urban grocery stores receive a 25% bonus on the final net benefits award.

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