

## **New Jersey Smart Growth Tax Credit: Frequently Asked Questions**

### **➤ What is the Smart Growth Tax Credit?**

The Smart Growth Tax Credit is proposed state legislation that would create an incentive program to encourage developers to invest in appropriately located, energy efficient residential and mixed-use construction projects that minimize land and water impacts, are pedestrian friendly, and facilitate the use of public transportation. In short, it is a tool to help the state grow in smarter, more sustainable patterns.

### **➤ How does the Smart Growth Tax Credit work?**

The program would provide a credit for a developer, against state income or corporate business taxes, equal to a specified percentage of the “allowable costs” of development (which would include the capitalized costs of construction but exclude the cost of land) for new and renovated buildings that meet all of the required criteria specified in the bill. These required criteria relate to location, proximity to transit, neighborhood design aspects such as compactness and walkability, and “green building” features of construction. Additional incentives would be available for those who redevelop brownfields, build specially certified green buildings, or take certain other “extra credit” measures that are not required.

### **➤ How can subsidizing the cost of development help save the environment?**

Development that uses resources efficiently is much better for the environment than low-density sprawling development. Sprawl is the status quo, however, and many political and market barriers prevent developers from adopting even the smartest, most cost-effective measures to reduce the adverse environmental and public health impacts of new development. In order to effectively change the way that developers use natural resources and build neighborhoods, it is necessary to reduce the costs of learning about and implementing more efficient development practices. The tax credit will encourage developers to use cutting edge technologies and better design practices that will provide substantial environmental benefit. This will result in a new class of developments with the potential to demonstrate the benefits of, and the consumer demand for, environmentally superior development. The legislation aims to create long-term changes in the market through a short-term incentive program by helping to jump-start the market for smart growth developments.

### **➤ What is the likely fiscal impact of this legislation for New Jersey?**

The precise fiscal impact will vary depending on how many developments qualify, but the amount of tax credits available has been explicitly capped at \$20 million for the first year of the program. In addition, the program is available for a limited number of years, and developers are required to collect the tax credits they earn over a five-year period, spreading out the impact to the state budget.

In the long run the state will benefit economically from smart growth and the short-term impacts will be much smaller than might be expected at first glance. A substantial portion of the immediate revenue reduction will be offset by an annual increase in the taxes paid by commercial customers who will save up to 30% on their energy bills and thereby enjoy higher revenues. If New Jersey is experiencing a recession, it is not likely that a tremendous amount of building will take place, and so there will be few developers applying for the credit during this period.

The tax credit is also likely to deliver substantial financial benefits to the state, as smart growth developments reduce the need for costly infrastructure investments to connect sprawling residences and office parks to the rest of the world. Many states have realized that the infrastructure costs associated with sprawl are high and unsustainable. A 2000 study by Rutgers University found that New Jersey could save \$2.32 billion by 2020 in transportation and water infrastructure costs if it were to adhere to its own statewide plan rather than allowing unfettered sprawling development.

Furthermore, incentives like the Smart Growth Tax Credit can spur private sector investment in older urban and suburban areas, and the wider effects of revitalization are likely to create new revenue for the state. Although the creation of a Smart Growth Tax Credit is unprecedented, a recent analysis of Maryland's "Heritage Structure Rehabilitation Tax Credit" found that in 2000 and 2001, \$39 million worth of tax credits granted by the state spurred \$155 million worth of private investment in existing urban areas, and resulted in \$20 million of *new* revenue for the state.

➤ **What is the purpose of the proximity-to-transit criteria, and where did they come from?**

Because less dependency on automobiles results in less traffic congestion, decreased oil consumption, and reduced levels of air pollution and greenhouse gases, the Smart Growth Tax Credit requires that eligible developments be accessible to adequate levels of transit.

The proximity-to-transit criteria for the New Jersey legislation were derived from studies of transit use behavior, combined with the advice of experts on transit systems in New Jersey. Research demonstrates that decreased automobile usage is linked to better transit accessibility and more compact, walkable neighborhoods. For instance, studies found that people are generally willing to walk ½ mile in order to get to rail transit, but they are less likely to walk more than ¼ mile for bus transit. The legislation allows developments with levels of transit service that are even higher than that required by the base credit criteria to receive "extra credit." The amount of additional credit is calculated to be proportional to the energy savings and environmental benefits resulting from the corresponding increase in transit availability.

More information on this research regarding transit-use is available from the Institute for Location Efficiency and the Natural Resources Defense Council at [www.locationefficiency.com](http://www.locationefficiency.com) and [www.nrdc.org](http://www.nrdc.org).

➤ **What is the purpose of the residential density criteria, and where did they come from?**

Moderate to high densities result in more efficient land use and can support transit service successfully. At higher residential densities, homes share infrastructure and resources more efficiently. Such compact neighborhoods are more walkable and accessible by transit, and thus decrease dependence on automobiles. Because of these factors, the Smart Growth Tax Credit requires a minimum level of residential density, but since it applies to the overall *average* residential density of a development, a wide variety of lot sizes and housing types can qualify for the tax credit.

The particular threshold included in the legislation's required residential density criteria is based on the minimum average density that can be expected to realistically support adequate transit service. Like the "extra credit" for increased accessibility to transit, the amount of additional tax credit for increased density is based primarily on estimated energy savings resulting from increased density, with some consideration also given to the state's traditional development patterns.

➤ **What makes an area "highly urbanized" and why is that definition important?**

The location criteria prevent developments in environmentally sensitive areas such as coastlines and wetlands from qualifying for a Smart Growth Tax Credit. However, where significant development has already taken place, an area may be categorized as "highly urbanized" and exceptions to some of the environmental criteria may be made. This makes areas eligible if further urban development makes sense because it has historically occurred there, even if it is in an area that is in some ways environmentally sensitive. For example, Hoboken is near the coast, but it is already so built up that the net environmental benefit of encouraging compact development there, in order to utilize the existing infrastructure and services, outweighs concerns for protecting the coastline from further development.

The definition of "highly urbanized" used in the legislation is based largely on the amount of existing impervious surface coverage in the area, since that is a key aspect of sprawl's impact on the environment. Abundant research on rivers and estuaries confirms that when impervious surfaces cover more than 10 percent of a watershed, the rivers, creeks, and estuaries they surround become biologically degraded; so in order to optimize water quality, watersheds that are less than 10 percent impervious should be protected, and watersheds with imperviousness of more than 10 percent should absorb the majority of coastal growth. In general, exceptions to environmental criteria based on the fact that an area is "highly urbanized" should encourage infill development in existing urban areas.

For more information on this research is available regarding watershed protection and development patterns, please see the report "Coastal Sprawl: The Effects of Urban Design on Aquatic Ecosystems in the United States," by Dana Beach, available at [www.pewoceans.org](http://www.pewoceans.org).

➤ **What is “green building”? How does it fit in with smart growth?**

The term “green building” encompasses a number of different design elements, including the integration of energy efficient lighting and appliances, water efficient faucets and appliances; the selection of non-toxic materials; and the use of recycled materials wherever practical. The benefits of incorporating these practices and technologies include reduced stress on the state’s water supply and power grid, healthier indoor and outdoor air, and lower utility bills for consumers.

The vast majority of residential structures utilize more energy and water than necessary. Thus, new developments deplete existing resources and infrastructure capacity far too quickly. Because smart growth encourages compact development around existing infrastructure systems, infrastructure capacity must be used carefully. In order to reduce the depletion of energy and water resources and ensure that infrastructure is efficiently used, the Smart Growth Tax Credit requires that new developments integrate certain green building practices.