Meeting

of

ASSEMBLY COMMERCE, TOURISM, GAMING, AND MILITARY AND VETERANS' AFFAIRS COMMITTEE

AND

ASSEMBLY TASK FORCE ON BUSINESS RETENTION, EXPANSION, AND EXPORT OPPORTUNITIES

"Issues dealing with workforce development, small business financing, and county economic development entities partnering with State commerce and finance organizations"

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: March 1, 2001
2:30 p.m.

MEMBERS OF COMMITTEE AND TASK FORCE PRESENT:

Assemblyman Nicholas Asselta, Vice-Chairman
Assemblyman George F. Geist
Assemblyman Guy R. Gregg
Assemblyman Kenneth C. LeFevre
Assemblyman Jack Conners
Assemblywoman Mary T. Previte
Assemblyman E. Scott Garrett
Assemblyman Gerald H. Zecker
Barbara Amen, Ph.D.
Michael Katz
Eugene Simko, Ph.D.
Stephen Van Campen

ALSO PRESENT:

Karlis C. Povisils
Committee Aide

Brendan H. Peppard
Task Force Aide
Office of Legislative Services

Deborah K. Smarth
Assembly Majority

Hearing Recorded and Transcribed by
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ASSEMBLYMAN NICHOLAS ASSELTA (Vice-Chairman): We're going to call first the first person to testify, Mr. Herb Ames, Director of Economic Development, Mercer County.

Okay, let's begin. I know we're running real late. And we have people out there from the Department of Labor. They're up next.

Mr. Ames, please begin.

HERBERT K. AMES: And I will be brief.

Mr. Chairman and the Task Force, I want to thank you for inviting me here today.

I am Herbert K. Ames, the Director of Economic Development for the County of Mercer. And I just wanted to talk about business retention and the relationship that we have with commerce and the success that we have had.

It's been very important for my office to have a relationship with Commerce, the Department of Labor, the Economic Development Authority, and each municipality, simply because when a business wants to come into Mercer County, it is very important that all these agencies get together and pull together in meeting with the business that wants to move into Mercer County.

One area that we found that we could use some help in is existing businesses in New Jersey who want to relocate within New Jersey. The Business Employee Incentive Program only covers businesses from out-of-state -- out of New Jersey who would like to relocate to -- or into New Jersey. One of the other areas that we could use some assistance in is creating a brochure on the Business Incentive Employee Program, which talks about the success stories of businesses who have come into the State of New Jersey and utilized the business incentive -- the Business Employee Incentive Program.

And the last focused area are -- the access to the State CoStar program, which is the computer system that tracks available land and buildings. If the county and municipalities -- all the municipalities were able to tie into that system, it would be a great help in helping our office do our job much better and be able to give information to businesses.

I want to thank you.

Are there any questions?

ASSEMBLYMAN ASSELTA: Any questions from the Task Force?

Yes, Assemblywoman Previte.

ASSEMBLYWOMAN PREVITE: How does a person access your services? How does an industry or a company access your services?

MR. AMES: They would either call county government or they would call the Economic Development Office, and that would trigger my office to gather information from this business who wants to relocate to Mercer County. And that starts a process. Or they would call the State -- they would call the Commerce Department, and the Commerce Department would then get my office involved, and then we, in turn, would get the local municipalities involved.

ASSEMBLYMAN ASSELTA: Thank you.

Any other questions for Mr. Ames? (no response)

Thank you very much.

MR. AMES: Thank you.

ASSEMBLYMAN ASSELTA: Let me call up Brian Peters, Director, Division of Business Services, New Jersey Department of Labor, and Neil Cavaleri, Plant Manager, Air Cruisers, Wall Township, New Jersey.

BRIAN J. PETERS: Good afternoon, Mr. Chairman. Thank you for allowing me to make some remarks.

ASSEMBLYMAN ASSELTA: Thank you for being patient, Mr. Peters and Mr. Cavaleri. Thank you very much. I hope you learned a little bit about urban enterprise zones.

MR. PETERS: A little bit.

As you say, Mr. Neil Cavaleri is here with me with Air Cruisers in Wall Township. And I think he'll give a pretty good perspective from the business side in a moment.

I'd just like to give you some brief remarks from the Department of Labor.

As the Task Force requested, I would like to share with you the role our Customized Training Program plays in keeping private sector firms in New Jersey. I'll be brief, because I believe it's important that you hear directly from the private sector as to how our resources benefit the business community. Mr. Cavaleri will provide that perspective to you in a moment.

In the area of workplace training, the Department of Labor's principal tool is our Customized Training Program. As the name implies, we provide financial assistance in the form of matching grants designed to meet the specific requirements of the employer. Our goal is to help organizations increase productivity, implement new technology in the workplace, and simply make that organization more competitive within its industry. All of this is done through the training of its current workers or new workers that may be brought into the organization.

The source of our funds is the Workforce Development Program, which was enacted back in 1992 through an offset from the State's unemployment insurance fund. We're able to provide approximately $40 million annually to support training in the workplace. Other states with similar efforts include California, $100 million; Texas, $60 million; and Louisiana, $44 million, just to name a few.

Since January of 1994, the Department has awarded approximately $174 million in grants to over 5000 firms in New Jersey. An estimated 260,000 workers have been trained in a variety of skill areas in a variety of industries.

In addition to the technical skills, we support the demand for employers -- from employers for more basic skills. Language and literacy skills are increasing each year. This is, in part, a response to an increase in the foreign-born workers and the overall need to improve the basic skills of today's new workers. Many of them lack the normal work preparation needed to enter the workplace. Because of this, the Department recommends increased funding to develop a more comprehensive basic skills program. This will allow more individuals to enter the workforce and the foundation they need to benefit employers.

None of the customized training support-- None of the customized training supported by the Department could occur without the strong partnership we enjoy with members of our higher ed community, our county vocational schools, a network of community-based organizations, and many numerous private-sector organizations.

In addition to our own outreach -- the business community, we work very closely with the New Jersey Commerce and Economic Growth Commission, the New Jersey Economic Development Authority, State Chamber of Commerce, the Business and Industry Association, and many of the local economic development agencies. Working in concert with these organizations, we can effectively provide relevant economic development centers important to retaining businesses in New Jersey.

In addition to our own efforts, the marketing of our Customized Training Program is done through our numerous partners mentioned previously. Information is also available through our Web site, which contains all of our one-stop information. That's our Workforce New Jersey public information network. We are also very careful in marketing the program due to the limited amount of grants that we can award in any one year.

And very briefly, the application process for the Customized Training Program is very straightforward. An internal panel reviews a summary of the company's workplace issues and the amount of funds requested. If we believe we can assist the company, we will request that they complete a more detailed training plan and budget.

All of the applications for financial assistance are approved by the Commissioner. To approve the application process, the Department is developing -- the Internet -- an on-line, Web-based application process that should significantly improve our response time to employers. And we estimate that should be up and running in about six months.

Finally, while the Department believes the program is making an impact, I would defer to the findings in the evaluation conducted by the Heldrich Center for Workforce Development at Rutgers University. Rutgers studied data on 114 firms that received Customized Training Grants in 1994, '95, and '96. They found that 96 percent of the firms surveyed would recommend that other companies participate in the program. Over two-thirds of the firms surveyed reported that the Customized Training Grant had a significant, positive impact on their company. And discussions are under way with Rutgers to evaluate the program's recent activity.

To illustrate a real-world example of how workplace training can assist an organization, I would like to turn it over now to Mr. Cavaleri from Air Cruisers. After Mr. Cavaleri's comments, I'd be pleased to answer any questions you may have.

Thank you.

ASSEMBLYMAN ASSELTA: Mr. Cavaleri.

NEIL CAVALERI: Thank you for the opportunity.

ASSEMBLYMAN ASSELTA: Thank you for coming.

MR. CAVALERI: I don't know that I can be as brief as everybody else is, but I'd like to explain the story of our company.

Have any of you ever heard of Air Cruisers before?

Okay.

We are the No. 1 manufacturer of inflatable evacuation systems.

So, do you fly? Any of you fly? (affirmative responses)

Okay. So when you get on that aircraft, look on that door, because that's the product that we build. We build the life vests and the evacuation chutes to be able to get and save people's lives, hopefully, if the aircraft does go down.

So we are in Wall Township for about -- since 1954. We're there a lot of years. I have a little story to tell you. I'm going to tell you how the Department of Labor has been very beneficial to us, but I have a little bit more of a story that I'd like you to understand, because it's real important to me.

I started off in my company in an entry-level position. Today, I run that company. And I owe it to our people to continue to make Air Cruisers strong in New Jersey. And it's a real task for us today. It is becoming more and more difficult to be able to do that.

So we manufacture many product lines. Slides, slide rafts, life rafts, life vests, and helicopter floats, most of those being mandatory by the FAA. We're standard equipment on most of Boeing's equipment, and we are standard equipment on most of Airbus's equipment. The split between us and BFGoodrich is somewhere around 60-40. We have 60 today. Hopefully, we can continue to keep that part of the market.

A little bit on employment. We have 300 people at our Wall Township facility, but we also have a facility in Liberty, Mississippi. Can you figure out why we have that place -- that facility there? It's because of the labor rate. It is very difficult for us to compete in the labor market with the labor rates that we have in the State of New Jersey. And at the time that we built that, unemployment was very low again in New Jersey, so we had to find some place where the unemployment was high. And that was good. We also have a small facility in Los Angeles, California, which only employs 18 people, and we have one in Renton, Washington that supports Boeing. We have--

Our facility in Wall Township, again, holds about 300 people, and we have about 175,000 square feet.

We also consider ourselves-- Although you don't know us, we consider ourselves to be a world leader. Boeing has an award that they give. Boeing has over 6000 different suppliers. In 1997, we were awarded one of seven president's awards for being one of the best manufacturing organizations that supplies products to Boeing. So we're really proud of that. That just tells you a little bit about it.

We also give back to the community. We're also recipients of the New Jersey Business Education Partnership Award. We also won the Governor's award in 1999 -- okay -- the Malcolm Baldrige criteria. And as of the last two years, we are -- we participate in the association -- AQP association for team-based environment. We won in 1999, beating companies like Lucent Technologies and Johnson & Johnson. And we just won again in the year 2000. And we are traveling to Chicago in March to represent the State of New Jersey, because this is a nationwide contest.

Part of that comes from the grants that the Department of Labor has given us. We have trained our people how to work in a team environment. I can just see from watching what you do today, working in a team environment is not the easiest thing to come across, because obviously there are a lot of different opinions on a UEZ bill that people want to get across. So, for us, we had to teach people how to solve problems so that we can maintain strong in this industry.

Here are some of the challenges that we face. And I just want you to understand those challenges. Boeing has come to us and said that they wanted us to reduce our cost by 30 percent. Now, I don't know if you can envision, but if whoever pays your salary, and I think I know who does that-- If they said to you, "We've got to reduce your salary by 30 percent," that would be an issue to you. That's not what we want to do to our people. What we want to do is find ways to eliminate cost. Through training, we've been able to do that. But that is a real severe issue. From 1991 prices, we've got to reduce our cost by 30 percent.

They were in our facility in January of this year. They said the 757 aircraft, which is probably the third most popular aircraft today that's being built-- They will stop building that if they can't get all of their suppliers to reduce their cost by 12 percent. So that is a challenge that we're faced with right now.

Our future opportunities are-- Again, I don't know whether you've heard of all these new aircraft, but Airbus is introducing the A3XX. They've just nominated the A380. They told us that if we want to win that job, we would do all the development at our facility at our cost. That cost is $10 million. They also have the facility in Hamburg, Germany, that does that testing. They said to us, if we want to win that job, build the test facility and do that yourself. That is an additional $3 million that we are challenged with today.

The problem that we've got, and I need to be honest with you, is that, do we do those kinds of jobs in the State of New Jersey. If we win the A3XX, we know, at least, we have to hire at least 45 engineers -- 45 additional engineers to a staff that already carries about 40. We don't know if we can even hire 45 engineers today. We don't even know if we can do that.

But beyond that, I just want to get across to you that Liberty, today, has come back. The Carter's plant, where they build baby clothes-- I don't know if you heard of them. But if you have any grandchildren or your children, I'm sure you've heard of that Carter's. They shut down. They are offering that building to us at a dollar a year if we will move 100 employees down to that facility.

Now, remember, we are owned by a Zodiac organization. That is a French firm. When the guys look from the top, I always say that what's important to them is, "Where do we make the money?" I don't know how else to say that.

New Jersey doesn't give us a lot of opportunities and a lot of support.

We also have a company-- When Zodiac purchased us-- They have a company in France that does the exact same thing that we do, manufacture inflatable survival equipment.

Today, if we win the A3XX or the 777X, which is going to be combating Airbus, they have already got an agreement that 35 percent -- 35 percent of that $10 million development cost will be paid through the government. So, once again, looking from the top, where would you build this test facility?

Today, I need 30,000 more square feet in demand for manufacturing. I am hiring-- I employ people from Asbury Park, Neptune, Bricktown, Wall Township, and Point Pleasant. Those people want me to continue to grow that business. They don't want to see Air Cruisers go away. But we need more support from the State of New Jersey. I can tell you that.

You may not like hearing those things, because I think you look at it from doing the best you can, but we have letters here-- I have a letter here from the governor of Kansas who wants us to move, who will build us a facility for nothing, again. We have an $8 million check that we got at the beginning of the year -- at the end of the year of 1999 for Amarillo, Texas, to move our facility there, because this is the kind of industry they like. We're manufacturing.

There's a company right across the street from us. It's called Lab-Volt. They moved the whole company this year. They're in Canada. There's a company down the street from me called Standard Tile. They're gone. Two years ago they closed up and -- gone. We don't want to become another statistic.

So, certainly, from my end, I need to plead with you to understand that you need to find other ways to retain our organization. I can tell you today, I might be able to go out and find another job for what I do, but I have a lot of people that report into me that -- they're going to have a tough time. And we pay our people well. We do pay our people well to be able to have good people in our company.

Now, let me just tell you, though-- At least I want to end on a good note. The Department of Labor -- given us two grants. And those two grants-- I can't tell you how much. I don't know that we'd still be here today without them. So I just stress to you, if you're ever thinking, and I don't know that you are, of doing away with that program, I plead with you not to do that, because we have become 58 percent more productive over the last four years in building our product. And that is one of the ways that we're able to give

Boeing that 12 percent reduction. So the product that used to take us 100 hours to build-- Today, we're building that in 40-some-odd hours. That is due to training. That is due to teaching our people the proper way.

I'm sorry. I apologize. I don't know your name. But you talk about statistics and people talking about what good comes out of that. I am giving you a statistic on Air Cruisers Company where we would not be able to compete in this industry today without having these kinds of grants to be able to improve our people.

In our organization, it takes everybody performing, not just top management. Everybody has to perform so that we can reduce our cost. And that's the only way we can give that money back to those organizations.

And I'll tell you. I'm very appreciative of what Brian has done, what you have done, to allow those kinds of programs to go on. But I can tell you, Air Cruisers's a good company. You're not doing enough. You have to do more. It's too easy. We're only 300 people in our company. And I know when an AT&T speaks or a Johnson & Johnson speaks, they carry a lot more clout, but there are a lot of small companies like ours in the State of New Jersey, and we need help also. We need more than just those State grants.

Now, we have taught our people problem solving, team building, blueprint reading, facilitation skills, leadership skills, lean manufacturing. Boeing told us if we don't become a lean manufacturer, we will not manufacture products for them anymore. And when you're a big guy like Boeing -- you do what they want. We trained every one of our people on that, and we are a lean manufacturer. Value stream mapping, computer-based training-- We are leading the industry in the State of New Jersey. We have documented how we build our product. And we do that today on touch screens so people can understand how to develop their product. That's all because of the grants that we have gotten. Accident learning, computer skills, computer-aided training-- Today, engineering won't even allow us to build one prototype until we download those things onto a CAD system and show them how it will interface on their doors.

So, in closing, I just want to say to you I appreciate what's been done so far. I need more help, I think this -- the State grants and the training that the Department of Labor gives to organizations is a very good thing. I try and share that with as many organizations as we can.

But I just want to stress to you, when other states are giving 35 percent subsidies -- not loans, subsidies-- When they're saying they'll build you a building for free, or they'll give you a building for a dollar, it becomes very difficult to compete in that kind of environment.

So, if you're the Committee that's looking to retain organizations in the State of New Jersey, I think we have to find more. And I'd be willing to help in any way I can.

Thank you very much for the time.

ASSEMBLYMAN ASSELTA: Thank you very much, Mr. Cavaleri.

Any questions from the Task Force for either Mr. Peters or Cavaleri?

Assemblywoman Previte.

ASSEMBLYWOMAN PREVITE: Do I understand that your company has to pay 50 percent when you get a grant? It's a matching grant?

MR. CAVALERI: That's correct. With the money that we've given -- we match 50 percent of that. That is correct, because training, even before we were issued the grant, was very important to us. We can't get any better today, as technology changes. We can't push our people to work faster, we have to teach them how to work smarter.

ASSEMBLYWOMAN PREVITE: The trainers-- Are the trainers from the Department of Labor, or are they from private, outside enterprises?

MR. CAVALERI: The people that do the training are our internal people.

ASSEMBLYWOMAN PREVITE: Within your company.

MR. CAVALERI: Within our organization, correct.

MR. PETERS: And in addition, we had support from Brookdale Community College.

MR. CAVALERI: That's right. We do a lot of work with Brookdale Community College. All of the other skills training that we don't have internal, that is done by Brookdale College.

ASSEMBLYWOMAN PREVITE: Why is the State paying for-- Why is the State paying for the training of -- the trainers that are in with your own company.

MR. CAVALERI: The State-- I'm sorry. The State doesn't pay for the people that I have training, they pay for the programs that we bring in, and then we pay for the people to train our other people. I apologize.

ASSEMBLYWOMAN PREVITE: So the trainers are not within your company.

MR. CAVALERI: We train the people. We send our people to classes so that they understand how to do this -- train the trainer how to learn how to work computers, how to be a lean manufacturer. And then our -- those people train our people internally.

ASSEMBLYWOMAN PREVITE: So it's a train the trainers, and now you have the trainers in your company who go about multiplying the benefits.

MR. CAVALERI: That's right. Exactly.

ASSEMBLYMAN ASSELTA: Yes, Doctor.

DR. AMEN: Thank you.

I have a question for Mr. Peters. Actually, a couple of questions.

MR. PETERS: Sure.

DR. AMEN: It may be hard to approximate off the top of your head, but what percent of the requests that you receive are granted?

MR. PETERS: It is a tough question, because what we've done over the years is to begin to filter out and, frankly, discourage people from applying and going through the process if we don't think they're going to meet our basic criteria. And we don't wait until they come to us directly. We do that through a very strong network, as I mentioned, of many of the community college folks, the four-year institutions, and development agencies who have a very good idea of what we do. But there are occasions in which we get applications. That's why we simplified the process up front -- not to subject someone to a lengthy process, only to deny them at the end. So that's why we ask for some preliminary information and get back to them virtually that same day before we make them go through any other lengthy process.

DR. AMEN: So it's a screening process prior to an application.

MR. PETERS: Yes.

DR. AMEN: Any sense of how many come through that screening?

MR. PETERS: Well, we service, probably, in the neighborhood of about 500 or 600 companies a year. We probably get at least twice that in terms of the request. But again, we try not to subject them to a lengthy application process if, up front, we know they're not going to meet our criteria.

DR. AMEN: May I ask another question?

ASSEMBLYMAN ASSELTA: Sure. Absolutely.

DR. AMEN: What percent of the training that you do during the trainers' training would you say is high-tech versus manufacturing versus what you call the basic skills?

MR. PETERS: Probably 50 to 60 percent of the firms that we have assisted have been in the manufacturing sector. And that really goes back to the enabling legislation to try to focus on frontline workers -- frontline or production workers. And frankly, that's a legislative issue that maybe we could deal with in the future. Because now, obviously, with the influx of many more high-tech firms, financial service firms, and others that we deal with, begins to blur the lines between the types of production that's going on in those work environments.

DR. AMEN: Is there high-tech training going on?

MR. PETERS: Yes, we support many high-tech firms.

DR. AMEN: Thank you very much.

MR. PETERS: You're welcome.

ASSEMBLYMAN ASSELTA: Thank you.

Questions?

Mr. Katz, Cenogenics Corporation.

MR. KATZ: Mr. Cavaleri, I enjoyed every one of your comments. We, too, are a manufacturer in New Jersey. And what I'd like to pose is a few questions to make a few points to the Committee and to the public at large.

The first, and you brought it up, is that you're basically being solicited by other states to move your manufacturing organization there. Do you know how many different states or economic development programs have solicited you, for example, in the last five years?

MR. CAVALERI: I can tell you that there's probably four or five that I know of to our-- These letters actually go to our president. They don't come to me. And I know he tells me he continues to get-- And not only did we get letters, last year, we actually got visits by people to do that.

MR. KATZ: Yes, that's exactly the point.

I'd like the legislators to know that our New Jersey companies are under an intensive attack. We ourselves have had several visits from Maryland and Virginia, Arkansas, Mississippi, Montana. You wonder, in some of these regards -- all giving us good reasons why we should move.

But-- There is the but. And I'd like to bring up some of the positives, too, and reflect them on you. And then I will have an additional question.

The but is, we have found that this New Jersey environment -- to be -- enables us to compete for international business more effectively than if we were in some other areas of the country, based on the fact that we have a phenomenal infrastructure for getting products all over, a phenomenal freight forwarding system -- a lot of competition for goods and services that will allow us to move the freight easily.

Extending that, as a point, are there saving graces for your industry in New Jersey?

MR. CAVALERI: I think the most positive thing that we can talk about is that we have good people in New Jersey. And we have-- In our industry, there's not many people that go to school on how to build and deploy evacuation systems. Our engineers are the strength of our corporation. I guess the only negative side of people moving to Mississippi is-- I don't know that that's an attractive place to go. But Phoenix, Arizona is. And those are some of the places that are also coming at us. But I would say we have good people in the State of New Jersey.

When you deliver most of your product overseas, as we do, the infrastructure is important, but you get it up to Newark Airport -- it's going on that airplane. It's going where it has to go.

MR. KATZ: What were the reasons -- the actual financial reasons that you moved some of your manufacturing out of the state? And what were the advantages that you found wherever?

MR. CAVALERI: The reasons that we actually moved some of it was because, first of all, at the time that we needed more people -- unemployment was very low. Liberty had given us a lot of opportunities. They built that building. They put the streets in. They did almost everything. The cost-- The labor cost is less than half of what it is in our state.

We compete a bit against BFGoodrich. And BFGoodrich's facility is Phoenix, Arizona. And Phoenix, Arizona's labor rate is, also, a whole lot less, as is their housing, as is their insurance.

Obviously, if you run a manufacturing company, you understand, those are the things that you're up against. And those are some of the decisions why we moved it there. Today, we're challenged with-- We're ready to grow again.

MR. KATZ: Are you seeing any foreign competition -- impact your ability to compete as a company in New Jersey?

MR. CAVALERI: Can you be more specific? I don't know that I understand the question.

MR. KATZ: Let me give it as an example from our side. We manufacture medical diagnostic products. We have had huge pressures against our margins, first in the United States, through the effective buying groups and consolidations of fine institutions, to do exactly what Boeing did to you. And that is pressure for lower prices.

In Boeing's situation, we know that they're competing in the international market. We know that they've had layoffs just eight years ago of over 10,000 people. We know that they've announced, within the last 12 months, some economic issues that they have in competing, even from the U.S. base. So, in effect, you're seeing that. But in addition, they're not your only customer.

The dilemma that we face is that there are now almost no companies -- countries that don't have a well-established manufacturing infrastructure. So we're competing against their ability, now, to make almost everything.

So, the question was, coming to that, is, is your product used only in the United States -- sold only to U.S. companies, or do you have any international business?

MR. CAVALERI: Actually, more of our business is international. They're on-- Sixty percent of the airplanes that are flying today, are flying domestically and overseas.

MR. KATZ: Then, are you seeing competition effects against your margins?

MR. CAVALERI: Absolutely. Absolutely. Coming from, number one, from Airbus, because they are subsidized, they are able to see their aircraft at a lower cost than Boeing can, so they want -- Boeing wants us to drive our cost down. And, go one step further--

Three years ago, the Japanese were sitting on Boeing's doorstep saying, "We will do everything we need to do to get into this inflatable structure business. That's what we want." We know, today, they are still testing -- have not been able to do it -- achieve it yet, but they want into our business. So they are applying a lot of pressure. If we don't continue to lower our prices, we know Boeing will give them the nod.

I think that's what you're looking for. I think that's--

MR. KATZ: Well, what I'm looking for is all of the structures, all of the mentoring, all of the programs that will help other companies be as, basically, competitive as you. The talent of your people, which--

I think it’s a wonderful New Jersey story -- to take people and give them training that will make them effective and competitive, because one of the dilemmas that small companies really have is the true inability to compete for expensive talent. We don’t have a choice, other than to take individuals and give them the skills that will allow us to compete domestically and internationally.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Katz.

Any more questions for Mr. Peters or Mr. Cavaleri?

Yes, Mr. Van Campen.

MR. VAN CAMPEN: Steve Van Campen of Gilbert and Van Campen.

I enjoyed your presentation. Some of the things I’ve -- we’ve heard before. And I think that I understand them.

I’m kind of curious-- If you were to -- and maybe I missed it in your presentation-- But I would like to just ask you, in terms of not so much the problem, but the solution, what would be your recommendations, if you were coming before, let’s say, this body or another body? What would be your recommendations for solutions to your problem?

MR. CAVALERI: There are several areas where Air Cruisers could be helped more. One of them is that-- Lafayette, Louisiana built the test center for that state. I mean, this is not an easy challenge. But we need a test center today. Our president is challenged with where does he build that test center. He’d like to build it in New Jersey. Whether we do or we don’t, I don’t know.

I just told Brian that before I came here, we sat down. And he said, "Where are our opportunities, Neil? What is the best place for us to be able to do this?" So if the State could help us in any way-- Again, it isn't that we're looking for loans, we're looking for-- We need somebody to come out and say what other states are doing today.

In France, they have guaranteed that they will give 35 percent of the development costs. Now, they have programs over there that are creative. In some ways, if the company is successful in that development, you give a little bit of money back. They also continue to hire people. So there are creative programs where I think the State can still benefit and not hurt itself.

We just need support in that when you talk about a company like ours that we do -- maybe $75 million or $80 million a year, and we have 300 people, and you say, "In the next three years, you've got to spend $13 million in development and not receive anything back," probably for five years, because that's how long the development time is, that's really severe to us. That is severe to us. So we need help in those. If you could help us develop product--

Now, I've heard we've been to visit Secretary Hance. We were with Mr. Medina two years ago. There's a lot of programs. But the programs that I hear about all the time are for big companies. There are a lot of small companies. We need that attention also.

I think if you add up all the small companies, we employ as many, if not more, than the large companies do. But we're dwindling.

MR. VAN CAMPEN: So, if I understand you correctly, what you're talking about are technical resources. It's out-of-pocket costs for technical resources.

MR. CAVALERI: For building a test facility, for doing development costs.

MR. VAN CAMPEN: Or outsourcing or whatever you need to do to offset your costs.

MR. CAVALERI: That's right. Correct.

MR. VAN CAMPEN: New Jersey is well known for its technology. You would think that there would be technology available to you, either through universities or other adjuncts -- technology centers that would be able to provide you with some of this knowledge that you need in order to be competitive. Are you having difficulty accessing these technology centers or--

MR. CAVALERI: No. We-- Again, our engineers-- Mostly we hire mechanical engineers. Our engineers, even from our standpoint-- They're very intelligent people, but they have to learn that process on inflatables. It's not an easy thing. We have a lot of requirements that they have to meet.

So us going to NJIT and asking them to come in and help us-- It really doesn't benefit us to go after them and say -- because they don't have that expertise. I agree, there are a lot of technology people out there. If they had an expertise that was available to us that would help us, we would go after that, but we don't see that today. We don't see that avenue.

MR. VAN CAMPEN: So therefore, you need to create it.

MR. CAVALERI: In turn-- That's right. We need to create it, or we do it internally. And that's what we do today. That's why if we were to win that A380-- And that announcement, by the way, will be made within this month -- that we would immediately have to go out and start hiring 40 engineers to be able to do that. And we are in fear, even if we do it in New Jersey -- could we do that.

ASSEMBLYMAN ASSELTA: Thank you.

Any more questions?

Assemblyman Gregg.

ASSEMBLYMAN GREGG: Just a quick question. I want to be clear.

Being a businessperson, direct to the point-- And I think everybody's waltzed around the issue a little bit here.

Are you coming to this Committee saying that you want the State of New Jersey to build you a facility?

MR. CAVALERI: I'm coming to this Committee because what I'm asking is for any other help that we can get to strengthen Air Cruisers Company in the State of New Jersey, whether it's via grants, whether it's building us a building, whether it's paying for some of the development costs, whether it's reducing our taxes. Any way you want to look at it, we need help.

ASSEMBLYMAN GREGG: I understand that. And that's a good segue for my next thought pattern. I mean, my assumption, quite frankly, is the State of New Jersey is not going to go into building facilities for private entities. And as a businessperson, I wouldn't want that. I don't think that that's what we should be doing. However, I'm interested in, whether it's today or another day, telling us the things that are barriers to you to achieving what you need to achieve and what areas are less competitive.

And I'll give you one I happen to think is less competitive in some respects -- is the way we tax long-distance rates. It may not have anything to do with your business, but it has a lot to do with other people's businesses. I don't know how many phone calls you make. I would imagine a lot if you're doing 60 percent of your business outside of the United States -- that that might be a competitive benefit statement that's a good thing for you.

I'm sure we can go through a series of other areas that are similar to that. I find those probably easier for this Committee, and ultimately, the Appropriations Committee to accept this palatable -- because that is something that will allow you and your competitor on the same playing field -- be able to compete -- whoever your competitor may be in the State of New Jersey.

I think that's important that we get from people who testify today -- things that, to me -- and I don't know who's testifying after you-- I am a person who employs people. I'm a real live businessperson -- have been for 25 years. And I have only asked for two things in my life from government, and they haven't always given it to me. Either give me tax relief or regulatory reform and leave me alone. And ultimately, I think my business would be able to flourish a heck of a lot better. And I think we haven't always done such a good job. We're doing a better job, certainly, in tax relief.

What I would hope that this Task Force is going to be able to come back and give us advice on is things of that nature that are making it difficult for you to compete in the international market because of what's happening outside of this country, what may be happening in other states that we can do.

If another state's going to come to New Jersey and just buy our businesses, I'm not so sure that's ever going to change. I mean, if you can come to me and say how I can create a $6-an-hour person for you, I'd like to know personally.

I can't do it in what I do, and what you do, probably, is more technical than what I do. But I think we can do a better job in making the environment in New Jersey easier for -- to deal with, more effective, whether it has to do with your communications cost -- even if your ability to expand in regulatory issues -- and is it worth it for you to expand your existing facility or the DEP won't let you, or construction codes are troubling to you. Those are things that I think have to happen first, in my view. Training your people-- I think New Jersey has a number of programs, and I hope we continue those programs to ensure that you can get that support from either the workforce development programs or any other programs we have from Rutgers or NJIT. Those are very-- Those issues I would like to know, as well. Do they need to have other programs for you? Can we help you outside of your business to compete by giving you something that we have -- a wealth of knowledge in NJIT and Rutgers? Can we help you there? That's not a gift. That's not a grant. That's using the facilities and existing assets we have in New Jersey to ensure our businesses move forward.

So, if you could create a list some day of that for us, I would be appreciative to see it. I don't necessarily think you need to respond. If you feel you wish to, that's fine, as well.

ASSEMBLYMAN ASSELTA: Thank you, Assemblyman.

DR. SIMKO: Mr. Chairman.

ASSEMBLYMAN ASSELTA: Dr. Simko, yes.

DR. SIMKO: Yes. Thank you.

Just a quick comment.

I apologize that I have to return to West Long Branch tonight to teach at 6:00. So I will be very, very brief.

I enjoyed your comments immensely. I'm from the other institution in your backyard, the one a little bit further from Brookdale, Monmouth University and the School of Business.

I just returned from sabbatical, just to echo--

ASSEMBLYMAN GREGG: Sorry I didn't mention your university. I apologize.

DR. SIMKO: Oh, no, no, no. That's okay. That's fine.

I just returned from sabbatical, and I wrote a textbook on cases of New Jersey businesses, specially a baker's dozen in Monmouth and Ocean counties, to be used in a strategic planning course.

The one theme that came up-- Most of them-- Eleven of them were small -- about -- businesses between 150 and 400 employees. Half of those were family owned. And one recurrent theme that came up again and again and again was basically, and I'm paraphrasing, we succeeded here, in the State of New Jersey, in spite of the State of New Jersey -- again and again. Whether it was the kinds of -- specific things that you talked about or whether it was because of brain drain or because of specific types of training programs -- initiatives that the companies took over--

I hear you. Let me also say, your company would be a fantastic case for my students, because it's an example of how a company can weather external constraints of that external strategic environment in such a way -- but then to turn around and give something back -- to hold out the carat and give something back and say, “This is what we can do. We want to raise that pole a little higher. Help us. Give us whatever help you can.”

And while I appreciate your concern, in terms of pumping in lots and lots of funds for things that the company, or companies like them, should be doing anyway, regardless of where they are -- you know, the research and development facility.

I think this Committee has a responsibility -- the joint Committee -- the Task Force and your Committee has a responsibility to, at least, search for points of commonalities that exist in terms of problems -- that companies like Air Cruisers -- given their structure, given their strategy actually, you know--

But a fascinating story -- and thank both of you for sharing that with us.

Thank you, Mr. Chairman.

ASSEMBLYMAN ASSELTA: Thank you, Doctor.

Anyone else? (no response)

Let me just first finish up with--

And Mr. Peters, thank you for coming.

In your testimony, your $40 million annual support for the training workforce program and some comparisons to other states -- obviously you’d like to see that number boosted up. That would be something you would like to see.

MR. PETERS: We certainly wouldn't mind that, particularly since many of the other states who have patterned their program after Jersey's programs--

ASSEMBLYMAN ASSELTA: Thank you.

MR. PETERS: Thank you.

ASSEMBLYMAN ASSELTA: Thank you for all your help.

The next person I'd like to call up is Mr. Kenneth Nickel, Senior Vice President, Valley National Bank, 30 years of banking experience.

KENNETH W. NICKEL: Mr. Chairman, Assembly members, I thank you for giving me the opportunity to speak before you today. It's almost 33 years. But who's counting.

I was asked to comment today on the state of lending to the small-business market here in New Jersey. And from our perspective, I'm pleased to announce that we have seen a high level of demand in the small-business market, despite the gloom and doom we hear on Wall Street and coming out of Washington and that the media would like us to believe. We have not yet seen it in the northern New Jersey counties that we serve. It is holding up well.

In some of those markets, the very small, commercial loan market-- If anything, the market has improved for the very small lender. In the proliferation of the new credit (indiscernible) models that have been developed for small-business lending, the shorter applications, the much shorter processing times-- We've just seen some tremendous growth in that area. The area of loans under a million dollars has also been very strong within our bank and I believe within the banking market in general.

We are-- We have been, and continue to be, one of the state's largest lenders within the SBA program -- an ideal program and -- market program that deals very heavily with those customers that are possibly less than ideal bankable customers. Small businesses that are either start-ups, acquisitions, poor capitalization in those businesses-- SBA has done a very good job at serving that market. The traditional market on up to the $10 million level has been also very strong.

Where I'd like to comment today would be on that market between $1 million and say $5 million. We deal, quite heavily, with the New Jersey Economic Development Authority, a wonderful organization, a great program. We talked about trying to increase lending here in the State of New Jersey. That increase can come about through enhancements. The SBA program provides enhancements to us. The EDA provides enhancements.

We have done loans in the EDA pool program, which you may be familiar with -- provides a 25 percent participation with a bank, reduces the bank's exposure. It's low rate funding -- improves the borrower's opportunity to get the loan and improves their cash flow.

Unfortunately, and here I would make a suggestion, that program -- the pool program deals only -- 25 percent -- up to a million dollars with a $250,000 cap on that program.

The businesses that, in fact, need more than a million dollars-- If you're dealing with the New Jersey EDA, move up to the next level, which is the State Bond Program.

I have to tell you that for the smaller bond applicants, it is intimidating, it is costly, it is time consuming, and it is, frankly, something that we find very hard to sell to borrowers to get them into that program. Someone looking for $5 million -- $8 million on a bond-- It's well worthwhile. The smaller bond-- We find it, again, intimidating.

In order to improve upon what we've already got, which are excellent programs through the EDA, what I would suggest, and I know it has been talked about at some levels, would be increasing the amount of participation allowed by the EDA in programs above a million dollars. Increase the amount of that $250,000 to a $500,000 level, and you will literally double or triple the amount of the loan a bank would be willing to lend to a customer with that type of enhancement. It would also, again, improve the cash flow of the small-business borrowers to have these lower interest rates. It would cover a broader segment of the market that I don't feel, today, is being well-served with enhancements.

The SBA, you may be aware, just within the last two months -- the 21st of December, modified their program. They have increased their guarantee from $750,000 to $1 million on a loan. They've increased their maximum loan to $2 million. A great enhancement, but unfortunately, SBA is not a program for everyone. It is an expensive program. We can move loans quickly through the program, but when we're dealing with the acquisition of real estate, as an example, you're looking at interest rates, today, that, with the SBA program, are floating rate loans that vary up to two and three-quarters over the prime rate. You're talking as high as 11 and a quarter percent for commercial mortgage. The traditional market -- the conventional market today is in the eight and a quarter -- eight and a half percent range. It is a turnoff of most businesses, when you give them these kinds of rates, plus the guarantee fee runs up to 3 percent of the amount of the loan.

But they have improved that program -- or increased that program to allow a higher level borrower to get into that program when it's needed. If the New Jersey EDA were to provide the same type of enhancement, increase the amount of the participation-- It is a subordinate participation to the bank, therefore, it improves my position on the loan, makes me much more willing to lend to a company that may be, somewhat, again, less bankable in the traditional markets.

The whole thrust of the New Jersey Economic Development Authority, the whole qualifying factor is, it must be manufacturing, it must increase jobs, it must retain jobs, and in many areas -- many situations, it's in areas that the State would like very much for development to occur -- the targeted areas of the Newarks, the Patersons, the Elizabeths, the Dovers. These are areas that need this kind of development.

By increasing what we can do in the programs that are more user friendly than the bond program, we're going to increase the amount of lending that goes through the EDA that we see.

One other issue, and I'll end with this, would be the possibility, and it's a legislative issue, I'm sure-- Today, I will tell you, if on the 18th of March I submit a loan to the EDA for approval, we have approved it, submitted it to the EDA, I will have missed the window of the 15th of the month in order to get in on the agenda for the April meeting. That loan will appear on the agenda. In this case, it will be May 8th -- would be the first opportunity for that loan to be approved. Understand, I'm processing it today, I get to them on the 18th of March, it will appear on the May 8th meeting with the necessity to have the Governor sign that. It's not going to occur until the-- The closing will not occur before the beginning of June.

We are in a world of instant gratification today. Businesses don't want to wait until June to close a loan. I would suggest the possibility -- and I don't know how -- whether this even exists -- but the possibility that a very fine lending and underwriting staff, that currently exists very close to this building in the EDA offices, be given the opportunity, at least at some level -- what we do in the bank, and that is to approve a credit, be able to allow us to fund a credit, and have it ratified at some future point -- at the next meeting, something to that extent so that every credit, whether it's--

I mean, if I do a $50,000 loan with EDA, it's going to take the same amount of time as a million dollar loan. It has to go through the same process. So, if there was some way to speed that process-- And I'm not-- I could go so far as to allow authority at the bank level for successful lenders. The SBA has done that through their preferred lender program. We are a preferred lender. We utilize that program. We move a credit through in five days. If we could do that with the EDA program, so much the better.

Thank you.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Nickel.

Any questions?

Yes, Dr. Amen.

Let's go to her first.

DR. AMEN: Thank you.

I noticed you stated that the program is strictly towards manufacturing. And this shows a bit of my ignorance here in terms of what our State does for service businesses.

I am an owner of a service business and find it very difficult, since we don't have a manufacturing plant, and yet 12 years of successful experience, to gain the funds that we need to buy two other small businesses that would help us to grow threefold.

MR. NICKEL: I would--

DR. AMEN: Is there anything for us service businesses?

MR. NICKEL: I led you astray. I said the New Jersey Economic Development Authority does target manufacturers. We have been successful in doing loans for service industries in nontargeted areas. We are located in Wayne. We are not a low-income neighborhood. We have been able to do loans through the EDA in our community to service organizations where we can demonstrate an increase in employment. It need not be manufacturing to qualify under the program.

The SBA also prohibits loans to the nonprofits -- the 501(c)3s. The EDA allows us to do them. We will do nonprofit day care centers, schools. We can do almost anything with the EDA that will -- in any area as long as it will show that increase in employment. That's critical to what they do.

So I'm sorry I led you astray.

DR. AMEN: Okay. What percent would you say are manufacturing versus service or nonprofits? They're not the same, but--

MR. NICKEL: I would have to suspect, at least, a 50-50.

DR. AMEN: Okay.

MR. NICKEL: In what we have done -- I don't know statistically, through the EDA, what their percentages are.

DR. AMEN: If I may ask one other question.

The influx of the megamergers and the large banks coming in-- From your perspective, how does that change the landscape of loans to small businesses?

MR. NICKEL: On the very small side, what we have seen, and you've all seen it in the newspapers and heard it on the radio through some of the larger megabanks here in New Jersey-- What has happened -- and I mentioned the credit scoring aspect of what's going on in the commercial lending area. We have not yet ascribed to that format of making loans at Valley.

What we're seeing is the very small lender being reduced to a number. We don't believe in that, and I hope we never do. But it's having an impact where the larger banks-- The larger the bank gets, the less they have the ability, regardless of what the advertisements say -- the less they will have the ability to deal on a one-to-one level with a very small offering. It is not economically profitable for them to do that.

DR. AMEN: Thank you.

One point, I guess, I would like to make -- if it is possible for the Assembly to consider some way to encourage the megabanks coming in to set aside some of their business funds for small businesses. That might certainly be a value.

ASSEMBLYMAN ASSELTA: Okay. Thank you.

Mr. Katz.

MR. KATZ: Mr. Nickel, I definitely appreciated many of your comments, especially for suggestions to the Committee concerning enhancements for loans -- I would really say for $500,000 and above -- definitely the $1 million target figure.

I have a series of questions, and I'd like you to permit me to ask them.

We as a company have faced -- and recognizing potential solutions-- But they also suggest that potential programs-- The first -- that my colleague brought up is basically true, in regard to what we consider to be large foreign banks -- banks from outside the state, who've taken over most of our larger state banks -- to the point that small companies are not facing a competitive interest rate market, as we once faced or had an advantage in our state for many, many years. That really hasn't existed for approximately 10 years.

The situation truly is -- is that the interest rates, and-- This will be the first question. So rather than phrase it as a declarative sentence, let me state it as a question, the-- In your bank's dealing with small companies -- are your interest rates larger to the small company with a positive balance sheet than they are to a larger company with a positive balance sheet?

MR. NICKEL: Using just that one criteria would be absolutely unfair when I price a loan. When we price a loan-- First of all, let me state that within my group, and I've got six lenders that work on my team with me, we have not-- In the nine years that I've been with Valley National Bank, we have not yet booked a loan for more than two over prime. We feel anything over that is either -- should be someplace else in another area of the bank, or I think it would be-- So we do keep the rates down.

To answer your question, rate-- Quoting a rate is a variety of factors -- is not dependent upon the size of the company. It is more dependent on the size of the relationship that that company has with us. Someone coming in off the street, at any size, will be subject to the market competition, the external forces that drive our business.

If PNC or Fleet is going to do a loan at prime or one over prime, I probably cannot poke that through a new piece of business at any level. So that is more of the reason.

A good company, internally-- I have loans to small companies, and I'm talking very small companies-- We'll do loan down -- loans -- $10,000 for some of the, what we call -- the really mom-and-pop businesses. I have them at prime. I have them at one over prime, and I have them at two over prime, dependent upon the total relationship and the ultimate risk that we believe exists in that particular credit.

MR. KATZ: I'd like to add a question, because it's the direction I'm really going.

At one point, there could be noted rates when the State was participating -- or the SBA was participating in some of these enhancement programs. Is that noted rate a vehicle still being used, or is it--

MR. NICKEL: Absolutely it is. Yes, their pool program has the effect of taking-- We negotiate, again-- Today is a 25-75 percent ratio. They have 25 percent of the credit, we have 75 percent. We negotiate our 75 percent, as we would with any credit coming through the door of the bank --

rates, fees, whatever. When we take the portion that the State enhances our credit with that 25 percent-- By their rules, that is anyplace from 5 percent to one-half a percent under prime. I'll tell you, what we're seeing today is usually in the 5 to 5 and a half percent range coming in.

If it's at that range at a 25 percent participation, you end up knocking about a rate -- about point -- what the rate that the borrower pays-- There is-- I mean-- And that's real enhancement, particularly if you're doing something such as the financing of a building, which is a long-term asset with a 20-year payout. That 1 percent is significant.

MR. KATZ: It's extremely significant. We fight for every-- (laughter) And the message is, is that every time that point lowers, we have money for training of our employees, we have money for development that we wouldn't have had before.

The last question is, have there been fewer EDA participations-- Let me rephrase that. Is-- What would it take to have more EDA participation and therefore more of these funds available for banks like you who are willing to use them. And I have a corollary to the question -- is, are you familiar with how many banks are actually utilizing some of the State's programs?

MR. NICKEL: I'll answer the last question first. They do publish an annual report every year through the EDA. And it does list all the loans. You can go to them, and they will provide you a list of who the banks are. On their list of approved banks-- Honestly, I have not counted it. But at one point, there were about-- There had to be close to 50 banks. Many of those banks, from the last time I looked at the list, I would tell you don't exist anymore. I don't know whether their volumes are keeping up.

As to how you would improve or enhance our -- or make us more likely to use the EDA-- If you look back to 1991, when the pool programs first developed, the reason it was developed was because we were in an extraordinarily poor commercial lending market. I mean, even if Valley-- I mean, we were not making loans that we had, obviously, back in the '80s.

One of the things that was very attractive to us -- was very attractive to us was the ability for a borrower to come in with a low -- a good, solid borrower, who could use their capital well in their business-- They could come into our bank. We could put them through the pool program with as little as 10 percent of their own capital into it. As a traditional lender, I would never do a 90 percent loan on a large piece of equipment or on a commercial mortgage. But if you took that 25 percent enhancement with a 10 percent participation-- Suddenly, I was down to a 65 percent loan. The value on that property-- Was that attractive to me to make me make the loan? Obviously, it was.

What we've seen occur in the next nine years or ten years since that time is, as the markets -- the commercial lending markets opened up, the EDA tended to move to a more traditional lending position, where now, they would like to see 20 to 25 percent invested capital. Then they take their piece. And then I do my piece. So there has been a change in the trend of EDA to that extent. And it has probably-- And I don't know statistically, but I'm sure it has had an impact of having fewer borrowers go through the program.

MR. KATZ: You had suggested that if the legislative part of our Committee were to consider methods of streamlining the process, that-- Well, I have to ask, what would be the implication, because the implication or the thrust would be that therefore, maybe more EDA participation could occur -- that is, more companies might then be facilitated, or does it just aid the companies that are in the process themselves get a quicker resolution?

My attitude would be that if streamlining the process enables more applications, that's a plus for business growth. I can see, also, the advantage for anybody waiting on the line to get going, because every day is a profit day, perhaps. Both have applications. But I need to know what you're thinking.

MR. NICKEL: Unfortunately, I've been around in this business long enough, and I'm going to make a correlation between what occurred in the SBA program. And again, as a major SBA lender, I've seen what can happen. Anyone-- If you've ever dealt with the SBA, going back 20 or 25 years ago-- It was the most cumbersome program that existed anywhere in the country. You had to go to three banks, you had to be -- you had to apply to three banks. You had to be turned down by three banks. Then one of those banks could take your application, could send it down to Newark, where it would languish for six months at a time. Finally, you'd get an answer back. The whole process could take you a year to close a loan. A terrible program.

At some point, the SBA decided, "Well, maybe we'll allow the lenders to do more of the work," that was being done by the traditional SBA folks in centers such as Newark, initially streamlining the process to eliminate some of the paperwork, then speeding up the process, and then, ultimately saying, we've got lenders out there that have done this for a long time, lenders that are very successful in what they do. Why not allow them to do some of this on their own. And they have developed three levels of lenders. Lenders still have to submit their paper, intermediates, and the preferred lender program. It's closely monitored. They have all their numbers. They know where delinquency-- And in my business, delinquency is the greatest monitor. If loans are performing, we know the program is successful. Compared to what the rates were of delinquency back 25 years ago with the SBA compared to today, there is no comparison. They were the lender of last resort. Absolutely. And if you take that position and you fill that role, you're going to have a huge default ratio. Well, we don't have that today. And part of it is because they look over our shoulders.

There are secondary markets. If we start doing paper that is not of prime quality-- Well, the secondary market's going to turn us off just as quickly. And there's money to be made there. And I'm sorry to say, we're in the business to make money.

I honestly believe if the process were streamlined, if there are greater authority levels, if the Legislature is not comfortable with the lenders doing this, then allow the people that we've hired in Trenton that work for the EDA, who do the processing, who do the underwriting, write it up, who'll then submit it to a board. And I will suspect that a great majority of those are, basically, rubber-stamped by the time we get to that point, because the people on board are not necessarily the underwriting type.

ASSEMBLYMAN GREGG: Thank you, Mr. Katz.

Any other questions from the Committee? (no response)

Then thank you, Mr. Nickel.

MR. NICKEL: Thank you very much.

ASSEMBLYMAN GREGG: We appreciate your time.

Jack Leber, Chief Executive Officer, NomadNetworks.

Welcome, and thank you for your patience, and the Chairman is back.

J A C K L E B E R: Today was a lost day, anyway. I got back on the red-eye.

ASSEMBLYMAN ASSELTA: Sounds like you're wide awake -- sounds like you're wide awake and--

MR. LEBER: Yeah (indiscernible) (speaking off mike)

You have a packet there that will hopefully eliminate some of the time that we need to discuss some of the issues. It includes an executive summary of our business plan -- a flyer describing our business. It's sort of a promotional flyer and an outline that you can use to follow as we talk.

So, Mr. Chairman and Committee members and Task Force members, I appreciate your invitation to come and be able to tell our story.

NomadNetworks started just about two years ago. We started discussions in April of '99. We incorporated in June of '99 -- three founders -- a seasoned management team.

Our chief technology officer, John Duffy, was -- worked for nine years on Wall Street as an analyst in the networking and telecom industry. He's an electrical engineer, knows the technology from the macro and micro level in the networking area.

Marty Gottlieb is our VP of business development and sales. He worked with me at HP for three years. We stared a new business. I lived in Korea for eight years, started two new businesses, one in Korea, R&D and manufacturing operation. I commuted two years to Beijing and started a marketing center in China. Marty was-- He worked nine years at HP. So we had a good team.

We were able to hire good people. We didn't have any problem hiring. We had the number eight employee from Omnipoint as our operations manager. We had a technical program manager with 20 years experience in the telecom industry, so we had a pretty easy time getting good resources.

Unfortunately, we're down to the three founders at this point in time, and I'll tell you why. That process started, I guess, probably -- go through our business mission and objective. What we're doing is building a Bluetooth-based ISP, Internet service provider. Bluetooth is a new high-speed wireless technology. It allows communication by mobile users to the Internet at 15 times faster than the dial-up. If you can connect at 56k, it runs at 721.

There are some competing technologies, but we believe that Bluetooth will be the dominant standard in the future. It's going to be -- depending on whose forecast you read -- in over a billion products -- computing and communication products in the next four or five years -- in PDAs, laptops, (indiscernible) speakers, VCRs. Basically, it eliminates wires from all your connections.

That's our focus. And-- That's our mission. Our focus is on airlines and airports. We have a contract with Trans World Airlines to install our service, which we call BlueStreak, and all their Ambassador Clubs in selected gate areas at their selection. Also, we have a contract with Shuttle America. It's a northeast carrier. It runs out of Trenton-Mercer. That's one of their stops -- to do their gate areas, as well.

We've talked to over 30 other airlines at various stages of interest. They're waiting to see the demo in Saint Louis up and running. Virgin Atlantic -- British Air is very interested. We've had meetings with United, Continental, etc.

Bluetooth technology suppliers-- We've got relationships with 3Com, Intel. All those companies will fund us when we get a VC backer. So they'll do the first position. We have a relationship with Hewlett-Packard to bundle the laptops with Ambassador Club memberships that are in service. That's where I was at yesterday -- talking to Toshiba about a similar agreement.

And the way we're going to sell our service is through -- to corporations and to individuals. We've already -- at TWA's initiative, introduced us to some of their top customers based in Saint Louis. We're-- And they're very interested in signing up all their employees, as a group, to use our service.

So I don't have any questions at all about getting customers, once we get the infrastructure. And that's the issue. We need money to put -- infrastructure in up front.

So that's why I really distinguish our company from a small business. We're not a small business, because we don't have any (indiscernible). We're a start-up company. We need money to put the infrastructure in place.

The founders put in, originally, $75,000, and now it's up to $225,000. New Jersey, actually, has been one of our best friends in terms of funding. We received a $250,000 grant from the Commission of Science and Technology as part of their TTCP program. We also do have approval for a

$500,000 loan from the EDA. And that's contingent -- $100,000 up front -- except that the contingencies are personal guarantees and mortgages on our homes, which our wives aren't too interested in right now. But we'll see how that plays out.

Also, NJIT has been very helpful. We're located in the Enterprise Development Center at NJIT. And we've met with Dr. Fenster, and he agreed to let us use the facility as our demo center. That's how we were able to sign up TWA. We did Demo Air. And our commitment is to wire the University and their business center and their student pub and in the library. So that's part of the deal.

We raised just over a million dollars from the private investors that closed last January, and actually, we're oversubscribed. We actually had to amend private placement to take more money, and we've cut it off at one point, because we didn't sell more of the company. At that time, the market was in good shape.

But we need a lot more than a million dollars. We need $2 million, at this point, to just do the TWA contract. And that's basically to put in the infrastructure in all the airports. There's 16 of them that have Ambassador Clubs and others that have gate areas where you don't have clubs. And also, our network and operating system and our operating expenses--

We've talked to more than 100 venture capital companies -- well over 100 -- probably closer to 130. We met in person with at least 30 of them. And some of them were geographic issues out in the West Coast -- didn't want to invest in the East Coast. We had one in Atlanta that was very interested. So they're committed to Georgia, Florida, and North Carolina. And some of them said that we were asking for too much money, some said we were asking for not enough money. So it was interesting feedback. And some of them felt that we were too early in terms of the technology. And that's one of the problems. Bluetooth technology has been delayed, so we've become more technology agnostic, where we can use some of the other marvelous technologies to set up the system and get it running. But we believe, still, that Bluetooth will be the standard, ultimately.

Basically, the situation in the market today-- As we see it, the capital markets have deteriorated. Actually, one of the problems we faced is we, all of a sudden, had an 800-pound gorilla enter the market in the name of Air Zone. They were formed out of an inside agreement, we believe, with Delta Airlines. And they gave 16 percent of the company to Delta. Delta helped them get United Airlines. Sixteen percent went to United Airlines. And about a week before the holidays, the parent company, Softnet, pulled the plug on it. And the reason was, their stock went from mid-50s to 1. So their market cap went from a billion and a half to less than $50 million.

So their board basically says, "Stick to your knitting and focus on your original businesses and cut out--" Basically, the market's wide open right now. This infrastructure is definitely going to get built. There are several companies-- Concord Communications is one that has a contract with the Port Authority of New York as a neutral service provider. So they will let us in, but the price of admission is $100,000 -- to be able to put our system in. And part of that goes to the Port Authority. All the airports want a piece of the action, as well.

And there's still some issues as to which is public area in airports and which is private area. For example, are clubs private areas versus public areas in the gate areas?

We also find that the VCs are very inward focused at this point in time, because they made a lot of bad investments over the last couple of years, and they're trying to rescue those. So there's not a lot of external activity.

As a matter of fact, on your sheet there, I put a link to a Web site. You might want to read that article from *Business Week* a few weeks ago on the -- I think it's titled, "The Bubble's Ready to Burst" for VCs -- that there's going to be a shakeout in that industry -- and it's going to hurt start-ups as well as the economy.

I mentioned Bluetooth technology is delayed. Here's a Bluetooth card so you don't go and buy a new PC to be able to use this system. You basically put this in your PC card slot and your PC -- your existing PC is Bluetooth enabled. We've used it in our office for six months. It works great. I can walk from one room to another. I don't have any wires. I'm still connected to the Internet. It's fast.

A new wrinkle was TWA's bankruptcy announcement. That hearing is scheduled for March 9th. And it turns out that American Airlines is the only other airline in the country who's -- that's the bidder -- who has a contract on another provider. So that's an issue that we're dealing with, as well. We're trying to get the -- some amendments to that contract before that hearing is done with TWA. And their feeling is that nothing is going to happen for nine months to a year anyway, so--

So we're still actively pursuing several opportunities to keep the business going. We're looking at merging with other companies, either legally or just in partners, to become more synergistic in terms of what we're able to do together. I've had some calls from other CEOs that are in similar situations. For example, one of them is doing kiosks in airports, and they felt that maybe if we combined our efforts, we can have a better footprint and -- or be more appealing to VCs.

We're working with a Swedish company. They've agreed to work with us. We have a letter of intent to work on the TWA deal together. So that's one area of progress. We've applied to the NJ Technology Council venture fund to (indiscernible) running ads -- waiting to hear back on that one. We're also talking to a couple private investors at this point.

Actually, the good news is we're getting calls from people now, so that's more positive. So I think it's really a timing issue. We basically have to -- had to let our employees go because, you know, we're out of money. We can't pay them anymore. And they need to support their families.

ASSEMBLYMAN ASSELTA: Well, Mr. Leber, let me interrupt real quick, because I want to kind of get to your point here. I guess the point-- And the reason why you were brought in here today was to accentuate the possibility that small businesses and companies like you -- and the start-up capital needed to start up and then begin to compete is dramatic. And you're asking the State to look at some type of incentive program to help those small businesses in that initial stage of development.

MR. LEBER: Yeah, I think--

Actually, I'm not sure I'm asking the State for anything at this point. I think I'm describing what our situation is. And if there's any ideas of where the State can help, I think that would be beneficial. I think in terms of one way is-- What we're trying to do with this EDA loan, rather than put up our house as collateral, can be put up--

There's another program where you can sell your net operating loss certificates. Can we use that as collateral for those loans, because that money will be coming in, and it will be coming in later. But can we use that as collateral to get a portion of that loan right now.

ASSEMBLYMAN ASSELTA: Assemblyman.

MR. LEBER: We've also talked to bankers about that, as well. Can we borrow money against a debt -- net operating loss certificate that we could get later on?

ASSEMBLYMAN ASSELTA: Assemblyman Gregg.

ASSEMBLYMAN GREGG: As the local business guy on the panel, I got to ask you a tough question, and I'm sure a lot of people are thinking about it, but we don't want to ask it. And I'm the guy who always asked the tough questions.

I founded my business 18 years ago. And I signed on the dotted line with my house and everything I owned. Quite frankly, my attitude is, if you don't want to do that, then don't do it. Don't do the business, because, quite frankly, I, as a banker, wouldn't feel good if you don't have any collateral to back it up. I'm looking at divesting from some of my business, and I'm going to have to take back a note for part of that. You can be real -- fast that that person is going to be signing on with their homes, because, quite frankly--

There's two reasons that make somebody sign on with their home. And everybody knows that that's been in business. One is the collateral. The other one is the factor you're talking about. The factor you're talking about -- we used to call in the Marine Corps -- the pucker factor -- the real fear that you might lose everything you have. And that's a decision you make before you start a business.

And if you don't have the confidence, then, quite frankly, the people who work for you should be concerned, because, ultimately, they may be the ones betting on you to be successful. And I'm not so sure, as an employee, I would feel that good about working for a company that's principals are not that confident.

I'm not saying your idea for collateral isn't an interesting concept, but quite frankly, I would be careful coming in front of committees like this and telling us the story about your fear about bringing collateral to loans that are going to be guaranteed by the State of New Jersey. And I don't want taxpayers to bite a bullet because your wife is concerned about a loan. I need to be direct about that.

So, be advised, this Committee has real businesspeople on it. We've been there and done that in many cases. So you may have an interesting concept of financing that I'm certainly interested in hearing about, but I'm also interested in hearing about creative businesspeople and have great confidence in what they're going to do. And if they're not sure that it's going to work, then sometimes it's better to stay working for AT&T or someplace else.

Thank you, Mr. Chairman.

ASSEMBLYMAN ASSELTA: Any other comments? Anyone else?

MR. LEBER: Just let me add.

Could I add to that?

ASSEMBLYMAN ASSELTA: Sure.

ASSEMBLYMAN GREGG: Feel free to respond.

ASSEMBLYMAN ASSELTA: He didn't add that.

ASSEMBLYMAN GREGG: As Mr. O'Reilly would say, have the last word.

MR. LEBER: I paid everybody's salary for November and December, and that's all I could do at that point. And my two other partners don't have the ability to do that. They have-- We didn't take any salary last year at all. And we didn't take-- We took some salary earlier this year, and then we cut it off midyear.

ASSEMBLYMAN GREGG: Understand, I'm not trying to be cruel here.

MR. LEBER: No.

ASSEMBLYMAN GREGG: I'm trying to be realistic. I mean, I've been out there trying to get loans myself, at times. And I speak from a been there, done that attitude who looked at bankers looking at me, going, "Why the heck would I give you money?" And I said, that's a good point. And I've got to go back and try another alternative. So I appreciate your commitment to finding another way.

And the State, certainly, should be involved in ensuring that we can help businesses, as best as we can, but also-- Like a good lawyer, or like a good accountant, at times we have to sit there and say, it's just not going to happen. And I'm just trying to be frank with you -- that I think that we need to find better ways -- more creative ways to let businesses be financed. But at some point, we can't put capital at risk. I mean, we are preservationists. The State is much more like a bank than it is a venture capital company, at least in my view. It has to be more protective of taxpayer dollars.

Whether it could leverage money through the State to help that issue open doors up to venture capitalists that are more interested in taking more risks on a long-term gain, certainly, this Committee, I think, would be very interested in that, if there's a way we can leverage EDA in a different way to get into a different financing group that may have a higher risk tolerance than the taxpayers of the State of New Jersey. That's all I'm saying. And I don't want you to think that I've become Scrooge here, but--

MR. LEBER: Yeah. I think the problem is that we need more money that we can get from our own personal funds. It's, you know, $2 million to do the TWA thing, plus any other contracts that we get.

ASSEMBLYMAN ASSELTA: Thank you.

Anyone else?

Yes, Mr. Katz.

MR. KATZ: Well, some comments, not necessarily directed towards Jack, whose presentation I can appreciate -- and probably has suffered, too, as we all have in business.

And the comments of Assemblyman Gregg are truly correct. There's no way that I've ever seen a business be funded these days-- Maybe even one of my complaints is that even with strong balance sheets, we are seven to one -- assets to liabilities. And I still, every time I go to the bank, sign those personal guarantees -- without a doubt.

I've gotten over -- my reaction-- It's the world that we have right now. We heard a banker say that it's safer for him, and I'm not surprised, quite frankly, that they're doing much better.

But you bring a learning in here, as well. And it's that that I'd like to emphasize -- that a Committee like this can think of ideas -- and I can begin to maybe put some of these in writing -- that one of the things that we lack in New Jersey is a strong mentoring program that exists in a lot of states that really have two functions. And I have one more idea in that area.

And those mentoring programs bring together capital, as has happened in Silicon Valley, where so many of these millionaires -- actually, some of them billionaires get together almost on a monthly basis, see each other, talk about the technology, and are enticed with wonderful ideas that they then become active in. And so California has developed a phenomenal number of C companies. I'm aware that it's happening right now in the Philadelphia area, as well, within that business community -- so that we can--

We have an entrepreneurial association in New Jersey. What we need is to formalize and -- in two ways. One, the press to be a friend of the New Jersey Legislature, not just reacting to the bills that are being presented or the public reactions, per se, but the -- but a liaison function that helps us show that there are many groups, both within the trade arena, within the entrepreneurial programs that some associations have -- the Biotechnology Council that I'm familiar with -- that we give some press -- and a focus -- perhaps within what we call our commerce area in the state -- a focus that people who are looking to associate themselves with these kinds of groups can enjoy.

We don't have it. It's really quite frightening. It's not organized. It doesn't have a structure. It comes, I believe, with a certain amount of leadership -- a Committee like this encouraging these companies to make themselves known to a commerce department area, a liaison, we might call it, to the business community. I think it's extremely important, because it salvages great ideas that really are laying here -- laying within the New Jersey mind-set.

I've given a lot of thought to this one issue as being one of the things that is very difficult for small and mid-size companies to overcome, and that is, how do you grow to the next step, not so much in the financing stage of things, but in the know-how to seek the mergers and the acquisitions and who are the people that perhaps we can go to? Who are the groups within our universities that maybe can advise us?

We have many small companies that seem to be quagmired at a million dollars -- or put some number on it -- $5 million. There's a certain amount that they can leverage. Their growth is going to come from whatever that cash flow permits. But who can help train New Jersey business for the next step? I think we can put some ideas together that might give us the utilization -- better utilization of some of the programs that are being used -- the NJIT, the Manufacturer Extension Program that exists as funding through the Commerce Department, perhaps some things through Rutgers -- the business schools. But New Jersey needs this.

New Jersey has 25,000 companies of 100 employees or less. You know these people. And if you look at them, do they have the know-how to grow their companies to the next step? We have to focus on what we could possibly do to help our companies grow to the next step. That is a thrust of the dilemma that you present.

And the other is one that is dear to my heart, which I'm trying to work on, you know, as an individual -- to make these entrepreneurial groups that really, truly exist in New Jersey and are phenomenal-- Their experience is phenomenal.

Get them set up within their trade units. And get it to be an exciting thing that we can formulate; present as it -- that it exists; show New Jersey business, through our press, how to access it; and then, thrive with the results.

Thank you, Mr. Chairman.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Katz.

Anyone else?

MR. LEBER: One other area-- What we're trying to do is get AT&T interested in this, as well. They're a New Jersey-based company. They could basically dominate this market if they decided to enter it. And we have a meeting with Rick Roscitt and he -- I think he's since left AT&T. And it's hard to get a contact in there, now, because of-- They're trying to reorganize and add three or four different companies at this point.

So if there's any way to get some high-level contacts like that, that would be helpful as well. They could, basically, as I said, dominate the business. We could help them do that.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Leber.

Thank you.

I guess that concludes, unless there's any more comments.

I want to thank Assemblywoman Previte for staying the entire time and Assemblyman Gregg and Assemblyman Garrett and everybody here on the Task Force.

Thank you.

I think we come away with a better understanding as to what we need to do legislatively. We appreciate all your input.

Thank you, again.

(MEETING CONCLUDED)