Volume III contains the following three documents:

- **Report of the Tax Policy Advisory Group**
- **Summary Volume of a two-volume report prepared by the New Jersey Economic Development Strategy Team**
- **A detailed presentation of national economic development best practices as recommended for New Jersey by the Reinventing Government Network Consulting Group**

These reports were considered by the Commission as advisory documents in the preparation of the overall report. They were not evaluated or approved by the Commission, but have been included herein for purposes of further consideration, reference, and completeness.

ECONOMIC MASTER PLAN COMMISSION

State Tax Committee

Summary

MANDATE

Our committee was asked to review the state and local tax structure in New Jersey for purposes of determining tax issues which may be viewed by businesses as

1) potential barriers to conducting or maintaining operations in New Jersey and

2) potential tax enhancers which could attract businesses to New Jersey.

We were directed to set forth recommendations based on the above two criteria. We were also directed to give consideration to the competitiveness of New Jersey's tax structure in comparison with surrounding states and in Maryland, South Carolina and North Carolina (Exhibit 2). Committee members consist of Jim DiEleuterio, N.J. Dept. of Treasury, Michael Guariglia, McCarter & English, Robert Heinle, Beneficial Corporation, Jack Rothstein, Coopers & Lybrand L.L.P. and Robert Woodford, N.J. Business & Industry Association.

FRAMEWORK

Our focus was centered on the major taxes within New Jersey -- Corporation Business Tax, Gross Income Tax, Sales and Use Tax, Real Property Tax and Payroll Taxes. We concentrated on issues which are broad-based in nature, thus affecting a larger contingency of businesses. We contacted each of the 12 Task Forces to obtain their tax concerns and discuss our recommendations. We analyzed the competitiveness of New Jersey with New York State, Connecticut and Pennsylvania. Based on all information, we analyzed the reasonableness and fairness of tax issues in developing our recommendations.

SUMMARY OF RECOMMENDATIONS

A summary of our individual recommendations are set forth **on Exhibit 1** with a detail explanation discussed subsequently. In the detail discussion, we have identified certain contrary viewpoints, where applicable. Nevertheless, on balance, we believe that all of the recommendations would create a fairer, more competitive and more attractive tax environment for businesses in New Jersey. Next to each recommendation are estimates of the annual loss of revenue. Annual revenue estimates were provided, where possible, by the Treasury Department of the State of New Jersey.

From a competitive viewpoint, the tax base, tax rates and tax credits/exemptions in New Jersey are reasonably competitive with New York, Connecticut and Pennsylvania as they relate to the Corporation Business Tax and Sales and Use Tax. However, the Gross Income Tax is less competitive and discourages investment for entrepreneurs or executives. Income or losses derived from conducting business or carrying investments in various forms are treated as being in separate "baskets" which may not be combined in determining taxable income. In addition, the lack of a loss carryover inflates taxable earnings by limiting the determination of gain or loss to each separate tax year without recognition of the long-term earnings experience of a business as a continuing enterprise. Reforms should be accomplished either within the Gross Income Tax or by creating a linkage to the Federal Income Tax. Our other recommendations would be viewed as competitively attractive because they would adopt a favorable provision which exists in a surrounding state, eliminate an unfavorable provision which does not exist in a surrounding state, or eliminate an obstacle to business investment.

Exhibit 1

TAX RECOMMENDATION	ANNUAL REVENUE ESTIMATE (LOSS)
Corporation Business Tax	
Consolidated Return Elections	($100-300 million)
Double Weighted Sales Factor	($30 million)
Eliminate the "Regular Place of Business" Requirement	(Less than $30 million)
Eliminate the disallowance of the interest expense deduction owed to shareholders	(Less than $30 million)
Gross Income Tax	
Conformity to the Federal Income Tax System	Depends on the rate
Sales and Use Tax	
Repeal the Sales and Use Tax on telecommunications	($350 million)
Create an exemption for Pollution Control Equipment	($37 million)
Real Property Tax	
Transfer the administration from municipalities to the State (Regionalization)	Uncertain
Payroll Tax	
Reduce **or eliminate** the reliance on **Payroll Taxes** for funding hospital charity	Uncertain

CORPORATION BUSINESS TAX

The New Jersey Corporation Business Tax Act ("CBT") was originally enacted in 1946 (L.1945, c.162). It is imposed on the net income allocated to New Jersey. Net income may be allocated outside of New Jersey only if the corporation maintains a "regular place of business" (other than a statutory office) outside of New Jersey. A business allocation factor consisting of a three-fraction formula similar to that utilized by many other states is used for the allocation of income of corporations doing business within and without New Jersey. The business allocation factor is computed by adding together the percentages of the corporation's property within and without New Jersey, sales within and without New Jersey and payroll within and without New Jersey and then dividing the total percentages by 3.

While the rate of tax imposed under the CBT (9 percent) is very competitive with the corporate income taxes imposed by our neighboring states of New York, Connecticut and Pennsylvania, the basic CBT has not changed substantially over the last 40 years to reflect New Jersey's changing economy and base of business. Accordingly, we recommend that several provisions of the CBT be modified in order to reflect the changing manner in which business is conducted and to put New Jersey on a more competitive basis with its surrounding states.

Elimination of Regular Place of Business Requirement

We recommend that the current allocation standard be amended to eliminate the requirement that a corporation must maintain a "regular place of business" outside New Jersey before it is entitled to allocate income under the business allocation factor. Substantially all of the states do not impose this strict pre-requisite to allocation and given the manner in which the re-quirement is interpreted and applied by the New Jersey Division of Taxation, the requirement can work rather harsh results on a corporation with headquarters in New Jersey which conducts a multistate business. The current administrative remedy, which provides for a credit for taxes paid to other states, is an inadequate remedy.

We propose that if a corporation is actually conducting business outside New Jersey and is required to pay an income tax to at least one other jurisdiction, it should be entitled to use the business allocation factor in order to allocate its income inside and outside New Jersey. Many corporations conduct business in a manner which does not require separate office space in another state, but which still triggers the imposition of taxes in that state. The elimination of the regular place of business requirement merely reflects the reality of modern business and favors those corporations that have chosen to establish their headquarters or primary business locations in New Jersey or who may consider establishing headquarters in New Jersey.

We considered and do not recommend a "throwback" concept (or any derivative of such concepts) to the CBT. A throwback concept would increase the sales factor by including certain sales, not included in any other state sales factors, in the numerator of the New Jersey sales factor. Generally, by including this provision in the CBT, the benefit afforded to New Jersey-based corporations by the elimination of the regular place of business requirement would be negated. In most cases, a "throwback" rule would only serve to hurt New Jersey-based corporations.

Double-Weighted Sales Factor

We recommend that the business allocation factor be modified to "double-weight" the sales fraction of the formula. Generally, in computing the business allocation factor, the sales factor would be counted twice and the combination of the sales, payroll and property percentages would then be divided by four. This has the effect of increasing the relative value of the sales fraction to one-half from one-third and decreasing the relative values of the property and payroll fractions from one-third each to one-quarter each. Double-weighting would be particularly beneficial to corporations with headquarters locations in New Jersey or companies with major facilities, e.g., manufacturing or research in New Jersey, since the New Jersey property and payroll percentages are typically higher than their New Jersey sales percentages.

Those corporations based in New Jersey which conduct a multistate business would probably see their CBT liabilities reduced by this change. On the other hand, corporations based outside of New Jersey which make sales into New Jersey would generally see their CBT liabilities increase under this approach. Nearly every major industrial state has adopted the use of a double-weighted sales factor as an effective technique to keep business in the state and to encourage business investment and job creation.

Eliminate Interest Expense Addback

In computing the income taxable under the CBT, a corporation must add back to its income base 90 percent of interest paid on indebtedness owing to a 10 percent or more stockholder. Over the years, decisions by the New Jersey courts have carved out so many exceptions to this provision that, as a practical matter, it now serves only as a trap for those taxpayers who do not properly plan their affairs. Under the current provisions, New Jersey would still tax the respective interest income despite disallowing the expense. With minor exceptions, no other states have such an adjustment. Elimination of the addback provision would appear to be fair and reasonable.

Consolidated Return Election

Currently, New Jersey does not allow the filing of consolidated CBT returns. Each corporation having a taxable presence with New Jersey must file a CBT return on a separate company basis. We make no specific recommendations concerning the requirements of consolidation except to note that many states now allow an affiliated group of corporations who file a federal consolidated return to elect to file a consolidated state return. The manner and details of consolidation can vary widely from state to state.

We recommend that New Jersey give serious consideration to some form of consolidation which would properly reflect the modern tendency to conduct business through an affiliated group of corporations and to eliminate some of the duplication and other issues which arise as a result of the separate return requirement.

GROSS INCOME TAX

Federal Conformity

It is our opinion that the New Jersey individual income tax system should, in some way, conform to the Federal income tax system or be reformed to modify the "basket" system. Conformity is defined as utilizing an amount reported on the Federal income tax return as the starting point for New Jersey. Adoption of conformity to any aspect of federal tax liability will reduce administrative costs at the state level. This offers the potential for both significant saving opportunities and revenue enhancement. Another benefit would be the ease of compliance in terms of a simplified return. Most importantly, tax inequities in the New Jersey law (such as the inability to use losses) would also be eliminated as would contested issues which are ambiguous.

The manner in which the various states tax the personal income of their citizens differs across the country. Only nine states have no broad-based tax on personal income. Of those states, two assess tax on interest and dividend income. The remaining forty-one states impose a tax on personal income. The majority of the states use as their starting point Federal Adjusted Gross Income, adjusted for certain items not taxed by the Federal government, and then allow either a standard or itemized deduction of certain personal expenses.

The New Jersey Gross Income Tax ("GIT") is unique among the states with only Pennsylvania and Massachusetts having a similar base for those income items included and those limited deductions allowed. As originally enacted in 1976, the GIT provided for two rates of taxation; 2% on gross income up to $20,000 and 2.5% on income in excess of $20,000. In the nearly twenty years since its enactment, the original law has been expanded to six separate rate brackets currently ranging from 1.9% to 6.65%. The current law also allows for different rate structures for two filing status categories. The only deductions allowed are a limited retirement income exclusion, medical expenses in excess of 2% of gross income and alimony and separate maintenance payments. The most onerous aspect of the GIT is the fact that it does not allow for a loss in one category of income to be used to offset income in another category of income. Such unused losses cannot be carried forward and are thus lost forever, including the lack of use of such losses against a gain from the sale of the assets which gave rise to the loss. Thus, individuals who might consider start-up operations, capital investments and other venture capital type of investments, which could employ more taxpayers and expand the economy of the state, have an added burden should they decide to commence operations within New Jersey. This is especially important in light of the increased activity of sole proprietorships, partnerships and S corporations the income from which are all treated as different categories.

The most recent endeavor to analyze the total scope of state government income and expenditures was undertaken by the New Jersey State and Local Expenditure Commission ("SLERP") in July of 1988. SLERP strongly preferred the concept of the GIT to alternative methods of personal income taxation. However, this commission is not in total harmony with SLERP's conclusions since the law in its current form is not a stimulus for economic growth. We do concur with the former Commission that individual taxation alone is not the overriding factor for either establishing or expanding business activity within a jurisdiction. However, it is one of the major economic considerations made <u>on a personal level</u> by those high income individuals responsible for arriving at any relocation decision. While we believe, as did the SLERP Commission, that the GIT is the most progressive tax because it assesses the total receipt of income, it does not consider the economic impact of the added costs incurred in generating current and future income. The gross income tax impedes the current incentive for the generation of future income and ignores the future tax revenues that new investment may produce in New Jersey.

In evaluating the economic environment of a state, those responsible for relocation and/or expansion decisions acting as both employer and employee, will consider, on both the business and personal level, the financial impact of state taxation upon housing, long-term benefit plans and disposable income in general. Evidence of this last statement is found in <u>most</u> newspaper accounts of a business which decides to relocate out of New York City. Unfortunately, the GIT makes certain benefit plans less attractive and employee housing more costly. For example, many corporate employers provide a stock purchase plan for employees. Generally, an employee must borrow funds in order to purchase the stock and is therefore subjected to interest costs during the holding period. This results in the incongruity that while the dividends from such stock are taxable under the GIT, the interest expense incurred on the borrowing to purchase said shares is not tax deductible. Such an imposition creates a deterrence to providing the capital necessary to attract many new ventures as well as established corporate taxpayers.

Mortgage interest incurred for housing receives no tax benefit under the GIT. More important than the basic relocation decision of the employer and employee, is the trickle-down effect that an increase in the housing market would have to the State's economy taking into consideration both new construction as well as the improvement of existing dwellings.

Conformity can be adopted at any of the several different levels of calculation of the federal tax liability. The reason for such options is that Federal tax liability is determined in various established steps or levels. First, the concept of Total Income generated is refined by computing "Adjusted Gross Income."

Secondly, certain deductions (either an allowed itemized or a recognized standard deduction) is determined and subtracted from Adjusted Gross Income to produce "Taxable Income." Finally, Federal tax liability is determined by applying a tax rate to Taxable Income and then increasing or reducing that number for any additional taxes assessed or credits allowed under the Internal Revenue Code. Adoption of conformity at the earlier level of federal tax determination would mitigate the extent to which the United States Congress could control the tax revenue of such a conforming system. However, adoption of conformity at a later level of Federal tax determination maximizes processing cost reduction, ease of compliance and efficient enforcement. There are three principal levels for adoption of a conforming tax system:

1) Adjusted Gross Income
2) Taxable Income (before exemptions)
3) Tax Liability

Adjusted Gross Income

Adopting the federal concept of Adjusted Gross Income for a New Jersey tax base would serve to eliminate most of the controversies which arise over the characterization of income and whether certain losses belong to one category of income or another. Adjusted Gross Income is clearly defined under federal law and is not generally subject to dispute. There have been relatively few amendments to the Internal Revenue Code which have affected the computation of Adjusted Gross Income and, in most cases, the amendments serve to increase the base (e.g., taxation of Social Security Benefits and Passive Activity Loss Limitation).

Taxable Income (before exemptions)

A tax base using federal taxable income (before exemptions) requires a state to accept all itemized deductions allowed under the Internal Revenue Code. Acceptance of deductions allowed by the Internal Revenue Code transfers more power to affect the State tax base to the Federal Courts and the United States Congress which would force state legislators to adjust New Jersey tax revenue by either creating special adjustments to Federal taxable income or manipulating rates of taxation. It might be noted that certain itemized deductions allowed by the Internal Revenue Code do not directly stimulate economic conditions (i.e., charitable contributions), while other expenses that do not receive federal tax benefit would have positive effects on the local economy if tax deductible in determining the state tax base (i.e., sales taxes). Therefore, another option may be to adopt an Adjusted Gross Income base with adjustments for either total interest expense or limited interest expense in arriving at New Jersey taxable income.

Tax Liability

The further extension to a level closer to federal tax liability determination offers maximum simplicity in compliance and administration but further erodes the discretionary flexibility of state legislatures to react to local economic situations in that any and all new income categories taxed or credits allowed by the Code automatically become part of the state tax structure.

Prior to November 5, 1990, the Internal Revenue Code contained provisions which would allow the Federal government to collect taxes and administer a state's tax compliance if the state's tax law was compatible with the Internal Revenue Code. Prior to repeal of these provisions, no state had acted to adopt Federal administration of its tax compliance despite the obvious cost savings that could be achieved. We believe that the inflexibility of federal administration precluded states from electing to allow the Internal Revenue Service to collect state taxes.

Furthermore, rate manipulation will have to be utilized to fine tune the budget process. This most certainly will have recurring political repercussions when the annual budget process takes place. On the positive side, however, upon adoption of an alternative system, revenue could be held constant by rate manipulation.

SALES AND USE TAX

Telecommunications

A repeal of the sales tax on telecommunications would be a benefit to New Jersey businesses, the State's economy and an attractive edge in competing with surrounding states.

In today's technologically advanced society, telecommunications are an important element and becoming an increasing cost of doing business. This cost extends to all businesses as a service which has become heavily relied upon. Thus, the repeal of this tax would benefit virtually all businesses by reducing this ever-increasing tax burden.

As a regressive tax, both profitable and loss companies incur this tax burden, as do individuals of all income levels. A repeal of the tax would produce healthier bottom lines to businesses and increased savings to individuals which could lead to additional purchasing power. This would result not only from lower costs on telecommunications but on all other products and services. Since telecommunications are purchased by all businesses, such costs are an element of all products and services.

By removing the telecommunications tax, New Jersey would be viewed as a more attractive business climate. Although Connecticut, New York and Pennsylvania all impose a sales tax on telecommunications, this repeal in New Jersey would put the State in an exceedingly competitive advantage. It should be noted that

New York currently enjoys a competitive advantage since its sales tax is only imposed on intrastate services.

The contrary viewpoint to this approach is that the sales tax is the largest revenue source to the State. A significant component of this tax base is the tax on telecommunications. As our society becomes more technologically advanced and our business and personal environments change from a tangible product-oriented society to a service-oriented society, the sales tax base will rely on revenues from telecommunications and its elimination would erode this revenue base. However, this erosion could be offset by the potential importing and start up of business created by the repeal of this tax and the increased purchasing power discussed above. A state's business costs are an important factor in influencing business location and expansion decisions.

Alternatives to the complete repeal of this tax would be to phase in the repeal, eliminate the tax on a particular service over several years (e.g., the tax on yellow page advertisement repealed the first year, the tax on interstate services repealed the second year, the tax on intrastate services repealed the third year). Another alternative is to eliminate the tax on interstate telecommunications and tax only intrastate services. This would conform to New York's treatment and create an advantage over Connecticut and Pennsylvania's treatment of taxing interstate and intrastate services. According to the Treasury Department, only five states do not impose their sales tax on telecommunications. Of the 40 states which do impose a sales tax on telecommunications (see Exhibit 3), only 18 impose it on interstate business. Given the dramatic increase of conducting interstate and international business through telecommunications, there is some appeal to removing the tax on only interstate business. However, the strategy of merely "staying even" with New York or gaining an advantage on only some states would reduce the positive economic development advantages on businesses looking to avoid onerous taxes. Thus, the essence of this recommendation is to put New Jersey "ahead of this field" in the United States.

Pollution Control Equipment

The absence of a sales and use tax exemption for pollution control equipment creates a competitive problem for manufacturers. Enactment of such an exemption would reduce the relative costs of production for companies located in or considering a move to New Jersey.

To the extent possible, a soundly designed sales and use tax law should avoid transporting the tax to out-of-state purchasers and should be designed to tax only sales made to final retail consumers. Cascading of sales taxes would result if a sales tax were to be levied on manufacturers' purchases (such as raw materials, components, and production machinery), then on sales of the final product to a consumer. Through a series of exemptions, including the exemption of sales for resale, states design their sales taxes to exempt all but the final retail sale. Thus, New Jersey exempts the raw materials and component parts which become part of a manufactured product and further exempts production machinery, catalysts, fuel and electricity used in production. However, pollution control equipment is taxable, thus building this sales tax cost into the price of manufactured products. If those products are purchased in New Jersey, the price of the pollution control equipment and the tax imposed on it will again be taxed.

Because of the stringency of New Jersey's environmental laws, and the requirement that "state-of-the-art" technology be used, pollution control expenditures are viewed as a major competitive cost factor by manufacturers. The failure to exempt pollution control equipment increases already disproportionate costs and reduces the likelihood of competitively pricing New Jersey manufactured products.

It should be noted that the surrounding states of Connecticut, New York, Ohio and Pennsylvania, all offer some type of exemption from sales and use tax on various types of pollution control equipment. Businesses are generally surprised to learn that a similar exemption does not exist in New Jersey. The public benefit resulting from expenditures to protect the environment argues for excluding such expenditures from tax. More importantly, the lack of a sales and use tax exemption for pollution control equipment continues to contribute to a loss of market share and the resultant downsizing or relocation of industries with high pollution control costs.

REAL PROPERTY TAXES

Regionalization

New Jersey municipalities continue to rely heavily on the local property tax to fund municipal and county governments and the state's school districts. On the average, property taxes comprise 43% of municipal, 61% of county, and 52% of local school district revenues (per N.J. Treasury Dept.).

Local property taxes are assessed and collected by the state's 567 municipalities. However, the significance of the amount of local property taxes as an expense of doing business in New Jersey, the problem of meeting the constitutional challenge of equalized assessments in a timely manner, as well as the current system's inadequacy with respect to dispute resolution without resorting to the New Jersey Tax Court, increase the level of taxpayer frustration and perception of unfairness.

Local property taxes are the largest single source of revenue collected for state and local purposes. For fiscal year 1992, the amount of local property taxes assessed exceeded $10 billion which is 45.2% of all state and local taxes. New Jersey continues to be a high property tax state by most measurements. Although the rate of growth in the tax has slowed in recent years, it continues to represent a significant expense to commercial and individual taxpayers.

The assessment and collection of local property taxes has been the subject of no less than three specific expert studies over the past ten years, including two conducted by commissions appointed by New Jersey governors and one by a national consulting firm experienced in the review and analysis of real property tax systems. All of these studies resulted in proposals calling for radical changes in the way local property taxes are administered.

While each of the proposals was different, they were actually variations on the same theme - that the assessment and administration of local property taxes needs to be regionalized or brought up to the state level. Aside from the obvious economies of scale that would be achieved by regionalization, the primary goal of restructuring this area of taxation is to move closer to the constitutional requirement for equal assessments. Among the reasons that the present structure precludes equal assessments is the lack of centralized or cross-referenced databases, an absence of clear oversight responsibility for local property tax administration, inadequate frequency of revaluations, use of outside valuation firms unfamiliar with area property values, lack of sufficient expertise in valuing specialized properties, and the intrusion of political considerations in the valuation of larger commercial and industrial properties. Centralized or regionalized administration would permit comparison of appropriate assessment levels across municipal lines and enable vastly improved methods of equalizing the tax burden.

PAYROLL TAX/HEALTH CARE SUBSIDY TAX

Funding Hospital Charity Care

Prior to 1993, bad debts resulting from unpaid hospital care were reimbursed to hospitals through a $750 million New Jersey Health Care Trust Fund which drew its revenue from a surcharge imposed on all hospital bills. The surcharge, 19.1 percent in 1992, was challenged by the State AFL-CIO and other plaintiffs. In May 1992, U.S. District Court Judge Alfred Wolin declared that the surcharge was preempted by ERISA and ordered the State to abolish the charge on hospital bills. The decision was subsequently overturned by the Third U.S. Circuit Court of Appeals, but not before a bipartisan and temporary solution had been enacted into law.

This new law (a) abolished the DRG hospital rate system; (b) launched Health Access New Jersey to provide health insurance subsidies to the unemployed and the working poor; (c) initiated individual and small group coverage under a system of five standard policies having open enrollment and community rating; (d) required insurers, service corporations and HMOs to offer basic health insurance plans to small businesses with two to 49 workers; and (e) funded uncompensated care and subsidies provided under the Access Program by diverting $1.6 billion from the Unemployment Insurance Trust Fund during 1993, 1994 and 1995.

The diversion of Unemployment Insurance ("UI") funds was accomplished by a 0.6 percent Health Care Subsidy Fund ("HC") tax on the UI compensation wage base of each worker and a tax on employers equal to 52 percent of each employer's UI rate in 1993 (36 percent in 1994 and 1995), offset by commensurate decreases in UI rates. Combined worker and employer diversions were to produce $600 million in 1993 and $500 million in each of 1994 and 1995. If the health care taxes produce more than those amounts, the excess is returned to the UI Trust Fund.

Finally, if the UI fund reserve ratio decreased to a level of less than 4.0 percent on March 31 of 1994 or 1995, on the July 1 following:

(1) the UI tax tables would be restored;

(2) the HC taxes imposed would be terminated; and

(3) a new employer health care tax would be imposed equaling 0.62 percent of total wages. The new tax would provide approximately $500 million per year.

New Jersey's Payroll Tax Predicament

Whereas most states impose only a UI tax, New Jersey imposes four separate payroll taxes. These include: the UI tax, HC tax, Workforce Development Partnership Fund ("WF") tax, and Temporary Disability Income ("DI") tax. Although the UI, WF and HC tax rates were initially portions of the UI tax rate in effect from July 1, 1992 through June 30, 1993, employers have faced an increasing payroll tax burden. The diversion of tax dollars from the UI Trust Fund has triggered a higher tax rate schedule. This schedule consists of five rate tables which are determined based on fund balances falling within certain ranges as percentages of total taxable wages. In addition, the diversion from individual employer UI accounts has worsened employer experience ratings (taxes paid vs. benefits paid), thus subjecting many employers to higher rates within the applicable UI rate table. The UI Trust Fund reserve has dropped from $2,344.9 million in January 1993 to $1,832.1 million in August 1994.

If the UI Trust Fund dips below 4.0 percent of taxable wages on March 31, 1995, the next higher UI tax rate schedule will take effect on July 1, 1995, and employers will no longer have an offset for payments of the HC tax. In addition, the new HC tax (0.62 percent of total wages) will take effect. The combined result would be an increase of more than $700 million in annual employer taxes - with profoundly negative economic development consequences.

Authority for the UI tax diversion and for the new 0.62 percent employer HC tax sunsets on December 31, 1995. The system of health care subsidy funding selected for 1996 and thereafter must be selected with careful attention to its potential impact on New Jersey's economy.

Some Tax Alternatives

Short term, there is reason to be concerned over the possibility that the UI Trust Fund balance will fall below the trigger point of 4.0 percent of taxable wages which would result in imposition of both the next higher UI tax table and the new 0.62 percent HC tax. Imposing the new tax from July 1, 1995 through December 31, 1995, after which it sunsets, would produce more revenue than is needed for HC purposes in 1995 and would create administrative and compliance burdens which could only be justified if the HC tax were to be extended to become the long-term funding source. Therefore, from an economic standpoint, a long-term funding solution should be determined promptly with elimination of the contingent HC tax on total wages if that tax is not selected as the long-term funding source.

Other states have funded hospital charity care in a variety of ways, including one or more of the following sources:

a) unregulated hospital rates, resulting in charity care costs shifted to all who pay for hospital services;

b) regulated hospital rates which build in charity care costs;

c) a surcharge on hospital charges, as existed in New Jersey prior to 1993;

d) general state revenue;

e) a sales tax or gross receipts tax on medical service providers;

f) a sales tax or gross receipts tax on hospitals; and

g) combinations of the above.

Weighing the Options

Each alternative revenue source carries economic, political and equity consequences.

Payroll Tax - A payroll tax distributes costs broadly, as would the use of general revenue or an increase in the sales tax rate. New Jersey's pre-1993 surcharge on hospital billings (a system continuing in use in Massachusetts) shifted costs to payers of hospital services. To the extent that some employers provided health insurance coverage for employees (incurring the surcharge costs) and other employers did not, costs were shifted from non-insurers to those providing insurance. The same can be said of sales taxes or gross receipts taxes imposed on hospital and medical providers. The major negatives of the payroll tax includes the multiplicity of payroll taxes in new Jersey and the resulting high payroll tax costs which would increase dramatically if the new HC tax were in place. The new tax, falling on every dollar of wages, would impose a significant burden on employers having New Jersey headquarters locations and companies with significant employment in New Jersey (which are characterized by high compensation levels and health insurance coverage for employees). Such employers are small contributors to the charity care problem, yet would incur a significant tax burden.

Simply removing the trigger for the new UI tax, continuing the current 36 percent UI tax diversion, could force UI taxes to much higher levels. Other states have chosen not to impose a payroll tax to fund charity care.

Medical Provider and Hospital Taxes - Medical provider and hospital taxes would distribute hospital charity care costs among all paying patients, whether insured or not. This broad base would be somewhat narrower than that of a payroll tax. On the other hand, a combination of taxes on providers and hospitals would provide a broader base than New Jersey's pre-1993 surcharge on hospital bills. From a business investment standpoint, provider taxes would be far less visible than a payroll tax (although providers could be expected to pass most of such tax costs through to patients).

Combined Sources - Medical provider and hospital taxes might be combined with an extension of the UI diversion at a much lower rate, replacing the UI diversion with general revenue sources as rapidly as possible. The dangers of continued reliance on UI taxes, even a much reduced amount, lies in: (a) the certainty that employers would continue to be assessed at higher UI tax rates as their own accounts suffered the loss of diverted funds, (b) the possibility that higher UI tax tables would be triggered as reserves in the UI Trust Fund declined, and (3) the likelihood that UI Trust Fund reserves would not rebuild to a level sufficient to fund benefits in a serious recession.

General Sales Tax - A sales and use tax increase to 6.5 percent (from the current 6.0 percent) would provide an alternate source of funds. A sales tax rate increase would provide the broadest possible tax base but would conflict with continuing efforts to reduce state taxes.

Ultimately, the fact that other states do not rely on a charity care payroll tax may argue for a reduced reliance on payroll taxes. Continuing the diversion of UI taxes at anywhere near current levels could force UI taxes to much higher levels. A charity care funding system, sensitive to New Jersey's economic competitiveness, should be enacted promptly, lifting the threat of the new 0.62 percent employer payroll tax and substituting a more permanent funding system. The funding mechanism(s) provided should be reasonably comparable to those employed in other states which compete with New Jersey for business investment and jobs.

Summary

We make no recommendation as to which specific option is most beneficial except that the payroll tax and divergence aspect is the least desirable option since it effects all businesses. We do believe that the other options should be analyzed to determine the most beneficial option to fund health charity care.

Exhibit 2

	NYS	PA	CT	MD	SC	NC
Business Income Tax						
Consolidation	Yes	No	Yes	No	Yes	No
Double Weighted Sales Factor	Yes	No	Yes	Yes	No	Yes
Regular Place of Business Requirement	No	No	No	No	No	No
Interest Expense Disallowed	Possibly	No	No	No	No	No
Gross Income Tax						
Conformity to the Federal Tax System	Adjusted Gross Income[1]	None	Adjusted Gross Income[1]	Adjusted Gross Income[1]	Taxable Income[1]	Taxable Income[1]
Sales and Use Tax						
Tax on Telecommunications	Yes Intra	Yes Intra/ Inter	Yes Intra/ Inter	Yes Specific Types	Yes Intra	Yes Intra
Exemption on Pollution Control Equipment	Yes	Yes	Yes	Yes	Yes	No[2]
Real Property Tax						
Administered at Municipal Level	Yes[3]	Yes	Yes[4]	Yes	Yes	No[5]
Payroll Tax/Health Care Subsidy Tax						
Reliance on Payroll Tax for Health Care	No	No	No	No	No	No

1 With modifications

2 Reduced Rate of Tax (1% rate with maximum tax of $80 per article)

3 Except certain appraisals

4 With some exceptions

5 State responsible for valuation, taxation and enforcement. Listings, appraisals and assessments at local levels.

Volume I:

RECOMMENDED ECONOMIC DEVELOPMENT STRATEGY FOR THE STATE OF NEW JERSEY

Prepared for:

THE NJ ECONOMIC MASTER PLAN COMMISSION

Prepared by:

THE NEW JERSEY ECONOMIC DEVELOPMENT STRATEGY TEAM

November 14, 1994

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Details On The 133 Recommendations

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Preface
(Report Construct)

The Economic Development Strategy Team has prepared a detailed report for consideration by the New Jersey Economic Master Plan Commission. Our report presents a blueprint for enacting a statewide economic development strategy. A total of 133 recommendations have been tendered in this regard. Also, the Team has recommended 29 actions that can be quickly implemented, at minor cost, to launch the strategy.

Our report is divided into two volumes. Volume I features an executive summary and considerable detail on each recommendation. A series of Attachments, containing additional supporting documentation, comprise Volume II.

In Volume I, each section includes progressively more detail. For example, a chart in the executive summary indicates the number of recommendations for each of 13 action categories (e.g. Business Attraction, Business Retention/Expansion, Customer Service, International, etc.). Appendix A then briefly states each of the 133 recommendations, by action category.

The main text arranges the 133 recommendations by the same sequence of action categories. In each section, the following is given: (a) situation or need, (b) immediate recommendations or do now, (c) near term recommendations or 18 months, (d) medium term recommendations or over 18 months, and (e) summary of costs/benefits. Recommendations include a suggested implementing agency, and specific implementation guidance.

Our 29 fast track recommendations are briefly stated in the Executive Summary. Appendix B presents additional background on these 29 recommendations (e.g. rationale, suggested lead implementing agency, cost, benefits). Full discourse on the 29 recommendations, which are part of the 133, can be found in the main text.

Attachments in Volume II furnish additional information or guidance. For example, Attachment D embraces a description of target industries. A listing of trade journals and trade shows, by industry is also supplied. Attachment D comprises more comprehensive support for a target marketing campaign, as recommended in the business attraction section.

To recap, the two volume report is arranged in progressively more detail, beginning with the executive summary. The sequence of action categories (starting with Business Retention/Expansion and ending Tourism) is consistent throughout the report. Volume I embraces the 133 recommendations, of which 29 are targeted for swift implementation. Volume II embodies additional detailed support for selected recommendations. Each attachment appearing in Volume II is referenced in the Volume I text.

Executive Summary

Background

The New Jersey Economic Development Strategy Team was formed in late 1993. It is composed of: state, regional, local, and utility economic development professionals; nonprofit business associations; higher education and technology transfer officials; and banking and other corporate representatives. Most of the 29 Team members have considerable experience and/or familiarity with economic development in New Jersey. Individual Team members are listed in **Attachment A.**

Primary thrust for creation of the Team was the advent of a new government administration that seemed to have an appreciation for the importance of both a favorable business climate and a proactive economic development initiative. Founders of the Strategy Team were excited about the **opportunity to outline the key dimensions of a pragmatic and affordable economic development gameplan for consideration by Governor Whitman.**

A principal goal was to suggest new, improved, or expanded economic development programs that would place New Jersey above the competition, both within the Mid Atlantic region and nationwide. Team members recognized that New Jersey faces formidable competition from other states as a location for industrial and office enterprises.

For New Jersey, economic development needs to be thought of in both **offensive and defensive terms.** Economic development groups from other areas routinely call on New Jersey companies to convince them to either move to or establish new capacity within their respective states. Hence, when making decisions about geographic deployment of people and facilities, New Jersey firms are keenly aware of what other states have to offer.

Consequently, a positive business climate and a strong corporate retention/expansion program are viewed as essential by Strategy Team members. This constitutes the defensive end of the challenge.

Additionally, there is fierce competition among states to attract locationally active companies. Due to both real and perceived reputation, New Jersey is frequently eliminated on site location searches by many corporations. Whenever considered, New Jersey typically is in heated competition with multiple states.

Most of these states will expend considerable resources to land a new company. This includes providing the company excellent customer service (e.g., information, knowledgeable responses to questions, arranging visits to the area, etc.) during the location selection period.

Furthermore, many states that New Jersey frequently competes against have sizable promotional budgets for recruiting both domestic and foreign businesses. As a result, New Jersey must have an aggressive business attraction program to win its fair share of new industrial and office facilities. This is the offensive dimension of the challenge.

These **competitive realities have guided the Team's thinking** in developing recommendations for the Economic Master Plan Commission to consider. In effect, the bottom line goal of the combined recommendations is to maximize the potential for creation of more and better quality jobs in New Jersey.

The Strategy Team retained a nationally recognized consulting firm, specializing in corporate location, to help build recommendations. This firm, **The Wadley-Donovan Group (WDG)** has almost 20 years experience in advising corporations on location of office and industrial facilities. The Wadley-Donovan Group has evaluated New Jersey numerous times as a business location. Most of these evaluations have embraced comparison of New Jersey with other states.

During the course of corporate location projects, WDG interacts with economic development agencies throughout the US. WDG is thus familiar with economic development programs that work well and those that are less than successful.

Due to WDG's knowledge of both corporate location and economic development, the Strategy Team decided to seek their assistance in helping to shape recommendations that will, at a minimum, put New Jersey on equal footing with the better states in the country (from an economic development perspective). **Hopefully, the end result will see New Jersey become a national model for an effective and cost efficient economic development strategy.**

The Strategy Team has viewed itself as a **resource for the Commission** to rely upon as needed. We have interfaced with Commission members and its Task Forces as requested. Accordingly, we are on call to provide additional assistance to the Commission as it proceeds with preparation of its final report.

Process

In early 1994, the Strategy Team defined the areas that would receive priority assessment in research and recommendation development. Six broad areas were delineated. They were:

1. Business Retention/Recruitment.
2. International Trade.
3. Advanced Technology/Technology Transfer.
4. New Business Formation.

5. Customer Service.

6. Tourism.

In March 1994, the Team formally retained the services of The Wadley-Donovan Group. For the past seven months The Team, with WDG's assistance, has been conducting extensive research on the above six components of economic development. This **research has encompassed** the following:

1. Review of information supplied by the New Jersey Department of Commerce and Economic Development (NJDCED).

2. Review of economic development programs of the state's utility companies who have been long been active in the field.

3. Survey of all major economic development agencies in New Jersey.

4. Interviews with over 50 public and private sector organizations.

5. Survey and telephone interviews with economic development agencies in six competitive states.

   - Connecticut
   - Maryland
   - North Carolina
   - New York
   - Pennsylvania
   - Virginia

   Results of this analysis were summarized before the Economic Master Plan Commission on 5/16/94. Hard copy with commentary on how each state compares with New Jersey was given to the Commission as well. A summation of the presentation is contained in **Attachment B**.

6. Survey and telephone interviews with economic development agencies in New Jersey and eight other states for detailed information on international trade promotion and reverse investment programs. States examined were:

   - Georgia
   - Maryland
   - Mississippi
   - New Jersey
   - New York
   - North Carolina
   - Pennsylvania
   - Tennessee
   - Virginia

   Outcome of this international economic development program analysis was presented to the Commission on 8/19/94. Copy of the presentation is supplied in **Attachment C**.

7. Survey and telephone interviews with six states (Georgia, Kansas, Nebraska, Oklahoma Pennsylvania, and South Carolina) on their economic development Ambassadors program.

8. Literature review and telephone interviews with officials from five nationally recognized statewide economic development resource centers (state-of-the-art facilities with information and video displays of buildings, sites, and communities throughout the entire state). States contacted included Alabama, Connecticut, Georgia, Iowa, and Mississippi.

9. Literature review and telephone interviews with industry experts in four target industries.

    - Food Processing
    - Metal Fabrication
    - Pharmaceuticals
    - Back Offices

10. Assessment of direct mail lists, trade journals, trade shows and associations, and geographic concentrations (for prospect sales calls) for all four target industries.

11. Preparation of target industry profiles so that NJDCED could immediately implement a highly focused business recruitment effort (see **Attachment D).** For each industry the following is presented:

    - Industry Description
    - Industry Trends
    - Key Factors Favoring New Jersey
    - Marketing Information (e.g., trade shows)
    - Company counts (e.g., # firms over a certain size) in geographic markets representing the most fertile prospecting territory for NJ

12. Listing of prime international trade shows for reverse investment marketing (see **Attachment D**).

13. Inventory of economic development programs, international resources, and research & development activities in NJ (to be released in mid December).

14. Preparation of a master list of the State's advanced technology centers, industrial incubators, and industrial extension centers (see **Exhibit VIII).**

15. Several half day progress meetings where Strategy Team members presented and discussed results of the analysis.

16. Several meetings between Strategy Team representatives and the Commission's Chairperson.

17. Strategy Team participation in most of the Commission's 12 Task Forces.

18. Meeting of The Team to finalize recommendations.

19. Preparation and delivery of The Team's final report to the Commission.

We should emphasize that once the Economic Master Commission Plan was formed in early 1994, Strategy Team members engaged in frequent dialogue with either the Commission Chairperson or assigned staff. There was good cooperation between both groups as each is working toward the same purpose.

Recommendations

Reality Test

In crafting recommendations for consideration by The Commission, The Economic Development Strategy Team employed the following broad screening criteria for each preliminary idea:

1. Need (is it pivotal to success?).
2. Pragmatism (is it doable ?).
3. Risk (has the general concept been successfully applied elsewhere?, if not is the idea feasible?).
4. Cost (is there a likelihood that funding could be obtained from one or a variety of sources?).

Outcome

Utilizing these guiding principles, the Team has identified **133 recommendations** that we believe would place New Jersey at the forefront of sustainable, intelligent economic development. Recommendations have been aggregated into **three priority classifications**. They are immediate (take action now), near term (implement over the next 18 months), and medium term (beyond 18 months).

The Strategy Team assigned recommendations into 13 action categories (an expansion of our original six focus areas). **The number of recommendations within each action category is presented below.**

	Category	No. Recommendations Immed.	Near Term	Medium Term	Total
I.	Business Retention/Expansion	11	7	0	18
II.	Business Attraction (dom. & int'l.)	15	3	2	20
III.	International (trade dev. & fin.)	10	4	4	18
IV.	Customer Service (to corp. prospects)	7	1	0	8
V.	NJ Economic Development Resource Center	4	2	2	8
VI.	Business Regulation & Permits	9	8	3	20
VII.	Infrastructure	4	2	0	6
VIII.	Incentives	0	1	1	2
IX.	Urban	3	3	1	7
X.	Small Business	4	0	0	4
XI.	Advanced Technology	5	5	0	10
XII.	New Business Formation	1	4	0	3
XIII.	Tourism	3	3	1	7
	TOTAL	**76**	**43**	**14**	**133**

A matrix summary of The Team's 133 recommendations appears in Exhibit A. In the exhibit, the following (immediate, near term, medium term) is presented for each of the 13 action categories:

- Number of recommendations
- Incremental cost
- Incremental jobs
- Incremental state and local tax revenue

The Team's specific recommendations are briefly stated in Appendix A. Comprehensive discussion on each of the 133 recommendations appears in the main report. Where practical, the following is supplied for each recommendation:

- Need (or situation) including what other states are doing
- Brief statement of requisite action
- Primary implementation agency
- Expanded discussion on the recommendation including implementation guidance

- Estimated costs

- Estimated benefits

In effect, The Economic Development Strategy Team has **outlined a blueprint for action**. In the key programmatic areas of retention/expansion, attraction, international, and customer service, sufficient detail is furnished to permit immediate activation of all or individual components of each major program. Several of the Attachments to our report embrace even greater detail on implementation (e.g., Attachment D for business attraction).

Costs/Benefits

Estimated incremental cost of adopting The Team's 133 action measures would be around \$33.1 million per annum. The most conservative estimates of annual incremental benefits to New Jersey are 25,500 jobs and \$200 million state/local tax revenue. These estimates incorporate only direct jobs and attendant tax revenue generated by the various economic development programs. If the multiplier effect (i.e. indirect or spin-off jobs and revenue) were factored into the equation, incremental gains could well be in the 50,000 jobs and \$400 million ranges.

A base assumption for estimating benefits is that 100 new industrial jobs create \$1 million in-state and local tax revenue (national average). We applied this ratio for most projected new jobs except in the tourism sector (where we assumed about \$265,000 state/local tax revenue per 100 additional jobs).

While our recommendations are economically sound, we realize that the \$33.1 million price tag poses an enormous challenge given the current economic climate. Additionally, it is unwieldy to simultaneously implement 74 immediate actions.

Rather, we present a full menu of options for The Commission's review. Complete or partial efforts in the 13 action categories can then be chosen by The Commission.

But we must stress that our strong overall counsel is for the Team's action plan to be adopted, even if it takes several years to fully enact. We believe that the individual components are interlinked and mutually supportive of one another (e.g., the impact of regulatory/permit reform on industry retention/expansion, business attraction, small business, and new business formation).

The Challenge at Hand

While the task is daunting and costly, it must be remembered that New Jersey is starting from a point that is far behind other states in terms of proactive economic development. Furthermore, we face acute challenges from other states who: (a) try to recruit New Jersey businesses, (b) aggressively market their states to domestic and foreign corporations, and (c) expend considerable resources for existing industries programs.

Moreover, these competitive states (e.g., Connecticut, Delaware, Georgia, Maryland, North Carolina, Pennsylvania, South Carolina, Virginia, etc.) have enacted substantive changes to improve their regulatory and overall business climates.

In the opinion of the Strategy Team, the time is at hand for New Jersey to enter onto a new playing field in economic development. A strategy that becomes institutionalized and persists irrespective of state government administrations is envisioned. The positive changes that have occurred early in the Whitman administration should serve as a foundation for building New Jersey into a national economic development powerhouse.

Tackling the Challenge

Statement

So, how do we begin? As a start, The Strategy Team believes there are certain actions which can be undertaken quickly and without substantial cost. In fact some are already underway.

Furthermore, adoption of these measures would have meaningful impact. **Accordingly, we advocate that the following 29 recommendations be implemented right away.**

29 Recommendations to Launch the Strategy

1) Extend the Permit Extension Act. Cost: Minimal. Agency: Legislature.

2) Establish a Regulatory Czar to Expedite Permitting. Cost: $150,000. Agency: Secretary of State.

3) Establish One Stop Environmental Permitting by 1996. Cost: Minimal. Agency: DEPE and Regulatory Czar.

4) Fast Track Permitting Through SWAT Teams. Cost: Minimal. Agency: Secretary of State led by Regulatory Czar.

5) Allow Flexible Rate Pricing for Electric Power. Cost: Minimal. Agency: Board of Regulatory Commissioners.

6) Repeal the Telecommunications and Yellow Pages Sales Taxes. Cost: Undetermined. Agency: Legislature.

7) Reinstitute the NJ Transportation Improvement Trust Fund In 1995. Cost: Minimal. Agency: Legislature.

8) Dredge Reach A of Port Elizabeth-Newark. Cost: Minimal (probably around $1 million but funds already reserved). Agency: Federal EPA Approval For NY/NJ Port Authority.

9) Implement All Customer Service Recommendations ASAP. Cost: $580,000. Agency: NJDCED.

10) Create a dedicated Office of Business Retention and Expansion. Cost: Minimal. Agency: NJDCED.

11) Expand Customer Service and Toll Free Access to Office of Business Advocacy (as part of an enhanced business retention/expansion effort). Cost: $50,000. Agency: NJDCED.

12) Survey/Interview NJ Businesses to Identify Impediments and Develop Business Climate Improvement Plan (as part of an enhanced business retention/expansion effort). Cost: $75,000. Agency: NJDCED.

13) Integrate Community Colleges into Business Retention/Expansion Programming. Cost: Minimal. Agency: NJDCED.

14) Develop a plan for establishing Seven Business Retention/Expansion Field Offices. Cost: $100,000 Feasibility Study (eventually $2.3 million). Agency: NJDCED.

15) Establish a NJ Ambassadors Corps of Business Leaders to Market NJ and participate in Retention. Cost: $75,000. Agency: NJDCED.

16) Appoint a Task Force to recommend a strategy for financing the business attraction program. Cost: Minimal (eventually up to $8.3 million). Agency: NJDCED.

17) Implement An Advertising Campaign Targeted to Corporate Real Estate Practitioners. Cost: $50,000. Agency: NJDCED.

18) Participate in Major Corporate Real Estate Annual Conferences and Regional Meetings. Cost: $75,000. Agency: NJDCED.

19) Market Aggressively to the Location Consulting and Real Estate Brokerage Industries. Cost: $15,000. Agency: NJDCED.

20) Explore the feasibility of establishing an Economic Development Resource Center. Cost: $50,000 for feasibility study (eventually $2.5-$3.0 million per annum). Agency: NJDCED with utilities.

21) Form the NJ International Trade Partnership as a World Trade Center. Cost: minimal (mostly private sector supported). Agency: Governor's Office, DIT.

22) Revamp NJEDA's International Financing Services (more packaging) to Expedite Small Business Exports. Cost: Minimal. Agency: NJEDA.

23) Create Urban Attainment Zones to Recycle Brownfield Industrial Sites. Cost: Minimal. Agency: NJDEPE.

24) Publicize Urban Success Stories. Cost: Minimal. Agency: NJDCED and Local Economic Development Groups.

25) Audit All Twelve Advanced Technology Center Programs and Projects to Enhance Service Delivery. Cost: $100,000. Agency: NJ Commission on Science and Technology.

26) Establish Strong Working Relationships between the Advanced Technology Centers and the Technology Incubators. Cost: Minimal. Agency: NJ Commission on Science and Technology.

27) Establish an expanded toll free customer service center to better serve small businesses. Cost: $60,000. Agency: Div. of Development For Small Business, Women, and Minority Business.

28) Create a financing mechanism to raise NJ's Per Capita Sending on Travel and Tourism to the National Average. Cost: Minimal to Develop Funding Strategy (eventually $2.3 million per annum). Agency: Travel and Tourism.

29) Foster Maximum Cooperation Between Economic Development and Tourism Promotion. Cost: Minimal. Agency: NJDCED.

To help facilitate implementation of our "fast track" recommendations, we have tabulated the number and associated costs for each lead agency. Recommendations and costs thereof for each agency, that in our view comprises the logical choice for marshaling the respective call for action, can be found in **Exhibit B**.

Greater detail on the 29 recommendations targeted for swift action are contained in **Appendix B.** In the Appendix, the following is provided for each recommendation:

- Statement of the Recommendation
- Rationale
- Implementation Agency
- Costs
- Benefits

As evidenced from the above, estimated cost of implementing the 29 recommendations will be $1.4 million. Some 42% of the total cost is composed of customer service enhancements (primarily literature/promotional material). If literature could be provided through private sector contributions, the cost would drop to $1.1 million.

Further cost sharing (e.g., corporate real estate trade shows, feasibility studies, ambassador program, etc.) could well bring the total incremental **cost down to $750,000 or less**. Of course, some recommendations bear almost no cost and can thus be launched instantaneously.

Concerning benefits of 29 most actionable recommendations (over the next couple of months), we could not quantify specific benefits. Rather, these measures should be viewed as the critical first steps to realizing previously stated minimal benefits of 25,500 jobs and $200 million state/local tax revenue per annum.

Concluding Thoughts

The Team's recommendations comprise the elements of a high performance economic development strategy for the State of New Jersey. We believe that our recommendations as a package would produce: (a) strong economic rewards for the state; (b) a business climate that is fair to industry; and (c) a self evolving strategy that will remain intact, in part due to success.

While The Team understands that the entire package cannot be implemented immediately, we urge that a **five year gameplan for instituting our recommendations** be developed. As a start, our counsel is to implement all or certainly most of the aforementioned 29 more doable, yet, important recommendations.

Lastly, we believe that this **process should be shepherded by a senior executive reporting directly to the Governor.** As the plan unfolds, it needs to be monitored and adjusted according to marketplace and political dynamics.

Therefore, an individual with high standing in business and government circles should be appointed by the Governor to oversee implementation of the long range economic development strategy. We suggest that this person be brought on board **no later than early January (1995).**

Lastly, to help facilitate the planning process for implementation, we have summarized the number of actions (i.e. immediate, near term, and medium term) assigned to each lead agency. This implementation summary, by agency, is provided in ***Exhibit C***.

Exhibit A:

MATRIX SUMMARY OF THE ECONOMIC DEVELOPMENT STRATEGY TEAM'S 133 RECOMMENDATIONS

Action Category	No. of Recommendations				Incremental Cost				Incremental Benefits: Jobs				Incremental Benefits: State & Local Revenue ($ Millions)			
	Immed.	Near Term	Medium Term	Total	Immed.	Near Term	Medium Term	Total	Immed.	Near Term	Medium Term	Total	Immed.	Near Term	Medium Term	Total
Business Retention/Expansion	11	7	0	18	$341,300	$2,478,000	$0	$2,819,300	*	2,000	*	2,000	**	$20.0	**	$20.0
Business Attraction																
Domestic	9	2	2	13	$3,197,000	$1,700,000	$375,000	$5,272,000	4,300	3,300	*	7,600	$43.0	$33.0	**	$76.0
International	6	1	0	7	$800,000	$2,200,000	$0	$3,000,000	1,700	2,000	*	3,700	$17.0	$20.0	**	$37.0
Subtotal	15	3	2	20	$3,997,000	$3,900,000	$375,000	$8,272,000	6,000	5,300	*	11,300	$60.0	$53.0	**	$113.0
International Trade	10	4	4	18	$3,275,000	$500,000	$330,000	$4,105,000	*	*	2,400+	2,400	**	**	$24.0	$24.0
Customer Service	7	1	0	8	$1,030,000	$0	$0	$1,030,000	*	*	*	0	**	**	**	**
Economic Development Resource Center	4	2	2	8	$3,700,000	$600,000	$0	$4,300,000	*	*	2,000+	2,000	**	**	$20.0	$20.0
Business Regulation/Permits	9	8	3	20	$150,000	$250,000	$200,000	$600,000	*	*	*	*	**	**	**	**
Infrastructure	4	2	0	6	$1,150,000	$0	$0	$1,150,000	*	*	*	*	**	**	**	**
Incentives	0	1	1	2	$750,000	Undetermined	$0	$750,000	*	*	250+	250	**	**	$2.5+	$2.5+
Urban	3	3	1	7	$0	$4,500,000	$0	$4,500,000	*	*	*	*	**	**	**	**
Small Business	4	0	0	4	$260,000	$0	$0	$260,000	*	*	*	*	**	**	**	**
Advanced Technology	5	5	0	10	$350,000	$1,790,000	$0	$2,140,000	*	*	*	*	**	**	**	**
New Business Formation	1	4	0	5	$0	$850,000	$0	$850,000	*	*	*	*	**	**	**	**
Tourism	3	3	1	7	$950,000	$1,350,000	$0	$2,300,000	*	*	7,500+	7,500	**	**	**	$20.0
Total	**76**	**43**	**14**	**133**	**$15,953,300**	**$16,218,000**	**$905,000**	**$33,076,300**	**6,000**	**7,300**	**12,150**	**25,450**	**$60.0**	**$73.0**	**$46.5**	**$199.5**

Key:
**Additional jobs created by implementing these recommendations not readily quantifiable.*

***Additional state and local tax revenue created by implementing these recommendations not readily quantifiable.*

Exhibit B

TEAM'S 29 FAST TRACK RECOMMENDATIONS: NUMBER AND COST BY SUGGESTED LEAD IMPLEMENTATION AGENCY

Agency/Recommendation(s)	*Recommendation Number Per Executive Summary*	*Cost ($000)*
Legislature		
Permit Extension	1	$0
Telecommunications Tax Repeal	6	$0
Reinstate Transp. fund	7	$0
Subtotal	3	$0
Secretary of State		
Regulatory Czar	2	$150
Fast Track Permitting	4	$0
Subtotal	2	$150
Board of Regulatory Comm.		
Flexible Utility Pricing	5	$0
Subtotal	1	$0
Dept. of Envir. Protection & Energy		
One Stop Permitting	3	$0
Urban Attainment Zones	23	$0
Publicize Urban Success	24	$0
Subtotal	3	$0
Port Authority of NY and NJ		
Dredge Reach A	8	$0
Subtotal	1	$0

Exhibit B

TEAM'S 29 FAST TRACK RECOMMENDATIONS: NUMBER AND COST BY SUGGESTED LEAD IMPLEMENTATION AGENCY

Agency/Recommendation(s)	Recommendation Number Per Executive Summary	Cost ($000)
NJ Dept. of Commerce & Economic Development		
Customer Service	9	$580
Retention/Expansion Office	10	$0
Expand Toll Free Access	11	$50
Survey NJ Businesses	12	$75
Comm. College Retention	13	$0
Seven field Offices	14	$100
Ambassadors Corps.	15	$75
Task Force Funding Plan	16	$0
Target Adv. Campaign	17	$50
Corp. Real Estate Meetings	18	$75
Location Consultants & Realtors	19	$15
Resource Center	20	$20
EDA International Financing	22	$0
Economic Dev. & Tourism Coop.	29	$0
Subtotal	14	$3,270
Dept. of International Trade		
International Trade Partnership	21	$0
Subtotal	1	$0
Comm. on Science & Technology		
Audit Adv. Tech. Center	25	$100
ATC & Incubator Relationship	26	$0
Subtotal	2	$100
Small Bus., Women & Minority		
Toll Free Sm. bus. Asst. Center	27	$60
Subtotal	1	$60
Div. of Travel & Tourism		
Increase Per Capita Spending	28	$0
Subtotal	1	$0
TOTALS	***29***	***$1,380***

Exhibit C:

STRATEGY TEAM'S 133 RECOMMENDATIONS: NUMBER OF ESTIMATED COST BY LEAD IMPLEMENTATION AGENCY

(A-M refers to the 13 action categories--See legend on page xxi)

Agency	Recommendation Category	A	B	C	D	E	F	G	H	I	J	K	L	M	Number of Recommendations	Cost
New Jersey Department Commerce and Economic Development																
	Immediate	11	10		7		1			2					31	$3,656,000
	Near Term	7	2	2	1					1					13	$4,905,000
	Medium Term		2						1	1					4	$1,125,000
	Total	18	14	2	8	0	1	0	1	4	0	0	0	0	48	$9,686,000
Division of International Trade																
	Immediate		5	8											13	$3,750,000
	Near Term		1	1											2	$2,500,000
	Medium Term			2											2	$350,000
	Total	0	6	11	0	0	0	0	0	0	0	0	0	0	17	$6,600,000
New Jersey International Trade Partnership																
	Immediate			1											1	$500,000
	Near Term			1											1	
	Medium Term			2											2	$80,000
	Total	0	0	4	0	0	0	0	0	0	0	0	0	0	4	$580,000

<u>***Exhibit C:***</u>

STRATEGY TEAM'S 133 RECOMMENDATIONS:
NUMBER OF ESTIMATED COST BY LEAD IMPLEMENTATION AGENCY

(A-M refers to the 13 action categories--See legend on page xxi)

Agency	Recommendation Category	A	B	C	D	E	F	G	H	I	J	K	L	M	Number of Recommendations	Cost
Resource Center Public Private Partnership																
	Immediate					4		1							5	$4,700,000
	Near Term					2									2	$60,000
	Medium Term					2									2	
	Total	0	0	0	0	8	0	1	0	0	0	0	0	0	9	$4,760,000
Secretary of State																
	Immediate						5	2							7	$300,000
	Near Term						1								1	
	Medium Term						1								1	
	Total	0	0	0	0	0	7	2	0	0	0	0	0	0	9	$300,000
Legislative																
	Immediate						2	1							3	
	Near Term						2		1						3	
	Medium Term						1								1	
	Total	0	0	0	0	0	5	1	1	0	0	0	0	0	7	$0
Broad of Regulatory Commissioners																
	Immediate						1								1	
	Near Term														0	
	Medium Term														0	
	Total	0	0	0	0	0	1	0	0	0	0	0	0	0	1	$0

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Exhibit C:
STRATEGY TEAM'S 133 RECOMMENDATIONS:
NUMBER OF ESTIMATED COST BY LEAD IMPLEMENTATION AGENCY

(A-M refers to the 13 action categories--See legend on page xxi)

Agency	Recommendation Category	A	B	C	D	E	F	G	H	I	J	K	L	M	Number of Recommendations	Cost
New Jersey Department of Environmental Protection and Energy																
	Immediate									1					1	
	Near Term						5								5	$250,000
	Medium Term						1								1	$200,000
	Total	0	0	0	0	0	6	0	0	1	0	0	0	0	7	$450,000
Port Authority NY/NJ																
	Immediate			1											1	
	Near Term							1							1	$1,150,000
	Medium Term														0	
	Total	0	0	1	0	0	0	1	0	0	0	0	0	0	2	$1,150,000
New Jersey Department of Transportation																
	Immediate														0	
	Near Term							1							1	
	Medium Term														0	
	Total	0	0	0	0	0	0	1	0	0	0	0	0	0	1	$0

Exhibit C:
STRATEGY TEAM'S 133 RECOMMENDATIONS:
NUMBER OF ESTIMATED COST BY LEAD IMPLEMENTATION AGENCY
(A-M refers to the 13 action categories--See legend on page xxi)

Agency	Recommendation Category	A	B	C	D	E	F	G	H	I	J	K	L	M	Number of Recommendations	Cost
New Jersey Economic Development Authority																
	Immediate														0	
	Near Term									1					1	
	Medium Term														0	
	Total	0	0	0	0	0	0	0	0	1	0	0	0	0	1	$0
Department of Labor																
	Immediate														0	
	Near Term									1					1	$4,000,000
	Medium Term														0	
	Total	0	0	0	0	0	0	0	0	1	0	0	0	0	1	$4,000,000
Small Women and Minority owned Business																
	Immediate										4				4	$260,000
	Near Term														0	
	Medium Term														0	
	Total	0	0	0	0	0	0	0	0	0	4	0	0	0	4	$260,000

Exhibit C:
STRATEGY TEAM'S 133 RECOMMENDATIONS:
NUMBER OF ESTIMATED COST BY LEAD IMPLEMENTATION AGENCY
(A-M refers to the 13 action categories--See legend on page xxi)

Agency	Recommendation Category	A	B	C	D	E	F	G	H	I	J	K	L	M	Number of Recommendations	Cost
Commission Science & Technology																
	Immediate											5	1		6	$350,000
	Near Term											5	4		9	$2,640,000
	Medium Term														0	
	Total	0	0	0	0	0	0	0	0	0	0	10	5	0	15	$2,990,000
Travel and Tourism																
	Immediate													3	3	$950,000
	Near Term													3	3	$1,350,000
	Medium Term													1	1	
	Total	0	0	0	0	0	0	0	0	0	0	0	0	7	7	$2,300,000
TOTAL		***18***	***20***	***18***	***8***	***8***	***20***	***6***	***2***	***7***	***4***	***10***	***5***	***7***	***133***	***$33,076,000***

NJSTAT.XLS

Legend For Appendix A

*A*Business Retention/Expansion*

B Business Attraction*

*C*International Trade*

*D*Customers Service*

*E*Resource Center*

*F*Business Regulation and Permits*

*G*Infrastructure*

*H*Incentives*

*I*Urban*

*J*Small Business*

*K*Advanced Technology*

*L*New Business Formation*

*M*Tourism*

Appendix A:

DIGEST OF RECOMMENDATIONS PRESENTED TO THE ECONOMIC MASTER PLAN COMMISSION BY THE ECONOMIC DEVELOPMENT STRATEGY TEAM

November 14, 1994

Appendix A:
Recommendations Overview

Business Retention/Expansion

Situation

New Jersey continues to hemorrhage manufacturing jobs. Other states are targeting NJ companies and courting their expansions and relocation. Additionally, states within our region (e.g. CT, NY, PA) and those outside it (e.g. NC, SC, VA) have established wide-ranging initiatives directed at better serving existing industry.

To protect and nurture New Jersey's corporate employment base, a retention/expansion campaign, second to none, is needed. We need to build upon current efforts while at the same time, introducing changes to upgrade the state's business climate relative to the first part of the challenge (i.e. retention/expansion). The Strategy Team has 18 specific recommendations (11 immediate and 7 near term).

1. Establish a dedicated Office of Business Retention and Expansion within NJDCED to better focus staff and resources.
2. Expand the Office of Business Advocacy's toll free services to include a retention/expansion customer service center staffed with knowledgeable experts, Monday - Saturday.
3. Mandate turn around times of no more than three days for toll free filed company complaints.
4. Ensure customer service follow-up to be certain that appropriate action is underway.
5. Do not play ping pong with customer inquiries or complaints. Refer to the right person the first time.
6. The proposed Office of Business Retention and Expansion should maximize the utilization of resources by coordinating with other economic development groups engaged in similar activities.
7. NJDCED should develop a single, comprehensive resource guide detailing business and assistance programs, permits, licenses, etc.
8. NJDCED should create a standardized format for counties and cities to create similar resource guides.

9. NJDCED should formally survey (via questionnaire and in-person calls) all manufacturing, distribution FIRE, and Business Services companies with over 20 employees, with results used for business climate improvement plans.

10. NJDCED should sponsor a series of annual events within an Industry Appreciation Week.

11. NJDCED should formally include the community colleges in the business retention and expansion effort.

Near Term Recommendations

1. Regionalize NJDCED's business retention and expansion services by establishing seven field offices (this is the centerpiece of our retention/expansion recommendations).

2. Each Office should be staffed with two retention/expansion professionals and a support person.

3. Field offices should address community preparedness, technical assistance, state agency interface, corporate visitations, targeted companies, NJ Ambassadors utilization, and harmonious working relationship with local/regional utility economic development groups.

4. NJDCED field offices should be housed in first class quarters that have ample meeting room and presentation space.

5. Each field office needs to be tied into the central office's database.

6. A uniform record of companies assisted must be kept on an electronic data base with updates sent to the central office on a daily basis.

7. A statewide master training coordinating council should be established to oversee programs in areas such as workforce preparedness, vocational/technical training, and basic skills training.

Business Retention/Expansion

COST/BENEFIT

Summary

	Incremental			
Recommendation Category	**Cost ($)**	**Jobs**	**State/Local Revenue ($mil.)**	**Prime Implementation Agencies**
Immediate	**$341,300**	*	**	**NJDCED**
Near Term	**$2,478,000**	**2,000**	**$20.0**	**NJDCED**
Medium Term	**-0-**	*	**	**NJDCED**
Total	**$2,819,300**	**2,000 +**	**$20.0 +**	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Business Attraction

Situation

Most states have embarked on funded, highly focused marketing comparisons to recruit new industry. These include Mid-Atlantic states (e.g. CT, PA, MD) and others (e.g. GA, NC, SC, VA) that New Jersey frequently competes against.

We operate at a severe competitive disadvantage for several reasons: (a) less than positive image, (b) other states recruit NJ companies and (c) our domestic and international business attraction programs have been grossly underfunded and understaffed.

To replenish lost jobs and employment growth from new companies, New Jersey must implement a competitive marketing initiative. While costly, this is an indispensable component of sound economic development.

The Strategy Team has prepared a detailed implementation plan for executing a fresh marketing strategy (see remainder of this section and Attachment D). General image building, target marketing, and other sales tactics are included in The Team's recommendations. Our suggested marketing programs also have domestic and international thrusts.

Our 20 recommendations (15 immediate, 3 near term and 2 medium term) are summarized below.

Immediate Recommendations

1. Launch an all out general image building effort both domestically and internationally, building upon the current NJ Open for Business campaign. This program should be **coordinated with tourism promotion**.

2. Initiate a target marketing program aimed at: food processing, metal fabrication, pharmaceuticals, and back offices.

3. Geographically, focus the target industry selling effort on those geographical areas that comprise the most fertile ground for NJ (areas indicated in the full report).

4. An integrated target marketing endeavor is called for, utilizing the following mix of sales tactics: direct mail, print and broadcast advertising, public relations, conferences, special events, participation at trade association meetings, exhibits at target industry trade shows, face to face meetings with key executives in target companies, and familiarization tours of NJ for executives in target companies.

5. NJDCED should implement a formal outreach program to real estate brokers and consultants.

6. NJDCED should attend national and local chapter meetings of NACORE and IDRC.

7. NJDCED should sponsor an annual red carpet tour for brokers, consultants, and developers.

8. NJDCED should conduct an aggressive, comprehensive reverse investment program.

9. NJDCED should institute a relationship building program with the international community in the US, concentrating in the New York to Washington corridor.

10. NJDCED should execute eight reverse investment missions per annum. The missions should include delegations composed of NJDCED staff, New Jersey Ambassadors, local and utility economic development groups, Port Authorities and the Governor.

11. NJDCED should exhibit, at a minimum, at four foreign trade fairs or shows per annum.

12. Sales literature should be printed in: English, German, Dutch, French, Spanish, Japanese, Korean, Chinese and other languages as appropriate.

13. A NJ Business Ambassadors Corps should be formed to sell NJ to US and international businesses. These senior level private sector executives would be on call to meet with prospects, make sales calls, attend trade shows, and participate in reverse investment missions. The Ambassadors should also have a contingent devoted exclusively to business retention/expansion.

14. NJDCED should coordinate with other economic development groups that have marketing initiatives in place, e.g. electric power companies, port authorities, county economic development agencies, etc.

15. A Marketing Coordinating Council should be established perhaps via the New Jersey Industrial Development Association to act as a forum for the interchange of marketplace intelligence and coordination of various sales campaigns.

Near Term Recommendations

1. Expand the target industry program to embrace approximately eight sectors. Candidate industries include: Industrial Electronics, Telecommunications Equipment, Scientific Instruments, Advanced Materials, Adhesives and Sealants, Industrial Machinery, Medical Equipment, Biotechnology, Software Development, Photonics, and Publishing.

2. Target specific distribution related operations, including pick and pack and order fulfillment centers, which have larger site search areas and represent good fits for center cities. Sales literature should be developed touting NJ's urban locational advantages for these job intensive distribution operations.

3. Launch a major advertising, public relations and direct mail campaign overseas. Simultaneously, increase the annual number of reverse investment missions from eight to ten.

Medium Term Recommendations

1. Continually review the total marketing program and make necessary adjustments to respond to marketplace realities.

2. Move NJDCED marketing, retention and research functions to Class A, commercial office space. Image is important in marketing. Realizing this perception, a number of states have moved similar operations to top of the line quarters.

Business Attraction

COST/BENEFIT

Summary

Recommendation Category	Incremental Cost ($)	Incremental Jobs	Incremental State/Local Revenue ($mil.)	Prime Implementation Agencies
Immediate	$4,000,000	6,000	$60.0	NJDCED
Near Term	$3,900,000	5,300	$53.0	NJDCED
Medium Term	$375,000	*	**	NJDCED
Total	$8,275,000	11,300+	$113.0	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

International Trade

Situation

New Jersey's vast international trade potential has not been fully tapped. The locational advantages NJ offers to exporters and foreign subsidiary operations are unparalleled. These assets have resulted in 7,000 exporters and 2,000 foreign subsidiaries generating well over 750,000 jobs in the state.

The Department of International Trade (DIT) has successfully executed a modest international trade program that needs to step up to the next level. Export ready companies require further assistance in expanding sales, and export willing companies need substantial assistance that can be effectively sourced from non-state initiatives, if better organized and financed.

Other states have well understood the relationship between export sales and trade development, financing and promotion. With 20,000 direct and 32,000 indirect jobs at stake for every $1 billion in export sales, New Jersey should devote more resources to trade development. We have already recommended an expanded reverse investment endeavor under business attraction. Below, the Strategy Team highlights 18 recommendations (10 immediate, 4 near term and 4 medium term) designed to both efficiently deploy current resources (DIT and others) and enhance export promotion activities.

Immediate Recommendations

1. Make existing export promotion programs more effective by convening the key players and develop consensus on goals, objectives, performance measures, coordination mechanism, and implementation strategy.

2. Set up a toll free hot line (Monday through Saturday), staffed with expert customer service representatives to respond to information and service inquiries by NJ businesses.

3. DIT should undertake more trade missions, fairs, matchmaker and gold key programs, and catalogue shows to promote NJ exports.

4. Six new foreign offices should be established by DIT in the following locations: Hong Kong, Mexico, Singapore, India, Canada and Chile. All professional staff should be cross trained in reverse investment, trade, port services, and tourism.

5. DIT needs to assemble a comprehensive, free standing NJ Exporters Directory.

6. A NJ International Business Services Directory/Resource Guide that lists export assistance programs and service providers should also be published. A concise, companion handbook which walks a prospective exporter through the export process should be produced as well.

7. The NJ International Trade Partnership (ITP), a 503c6 corporation, should be formed as the NJ World Trade Association. The partnership would coalesce private sector leadership and financial support to implement new program initiatives. Coordination of trade development activities would be a major role of ITP.

8. Create a trade networking program with majority representation from recent foreign national graduates from NJ public and private universities.

9. Support the Governor's task force that is dealing with finding appropriate disposal sites for dredge spoils at Port Newark-Elizabeth.

10. Publicize export opportunities and benefits to NJ businesses.

Near Term Recommendations

1. Introduce legislation to enact a dual tax rebate and revenue source to fund export development, promotion and financing programs for small and medium sized NJ businesses.

2. Revamp the NJ Economic Development Authority's international loan making and packaging policies. EDA should become an effective packager of export financing, especially for small to mid-size companies.

3. NJDCED regional field office representatives should make calls on companies to stimulate interest in exporting.

4. DIT should produce supplemental foreign country information reports, targeted to developing countries with above average export potential.

Medium Term Recommendations

1. A vigorous customized research program should be implemented to assist export ready companies.

2. Cross cultural training workshops should be offered as part of the training program to assist export willing companies.

3. Export willing companies should be able to receive business plan guidance and review. Here, the Small Business Development Centers and Community Colleges could be of major assistance.

4. NJ cities should establish sister city programs to foster social, educational and economic exchange.

International Trade

COST/BENEFIT

Summary

	Incremental			
Recommendation Category	**Cost ($)**	**Jobs**	**State/Local Revenue ($mil.)**	**Prime Implementation Agencies**
Immediate	$3,275,000	*	**	DIT
Near Term	$500,000	*	**	DIT
Medium Term	$330,000	2,400	$24.0	DIT
Total	$4,105,000	2,400	$24.0	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Customer Service

Situation

NJDCED needs to step up its customer service capabilities that have been constrained by funding and staff limitations. Competing states have dramatically improved customer service in recent years. NJDCED must become a comprehensive one stop shop for corporate location information requirements and excel in the care and feeding of corporate prospects.

Of all our recommendations, those involving responsive, efficient service to corporate clients (both for retention and recruitment) are the most essential. Without high quality service, objectives of major programs will not be fully realized. Implementation of our eight customer service recommendations appearing below can and should be started right now.

Immediate Recommendations

1. Mandate and integrate into the organization a superior standard for customer service.
2. NJDCED professionals in business retention, marketing, and research should attend training classes and seminars to hone skills of the trade.
3. Develop a new generation of locational related information on the state, counties and municipalities. It should be available quickly and efficiently in hard copy and on diskette. Specifics on requisite literature are contained in the main body of this report.
4. All inquiries received by NJDCED should be answered within 24 hours.
5. Marketing and retention personnel should establish a formal process to share the prospect handling burden with utility and local economic development groups.
6. Substantially increase staff and funding of NJDCED's research department.
7. A delegation composed of public and private economic developers and business leaders should visit several states with strong customer service reputations.

Near Term Recommendations

1. NJDCED needs to develop rapport with key companies to facilitate the arrangement of confidential interviews for prospective employers that are investigating the state as a possible location.

Customer Service

COST/BENEFIT

Summary

	Incremental			
Recommendation Category	**Cost ($)**	**Jobs**	**State/Local Revenue ($mil.)**	**Prime Implementation Agencies**
Immediate	$1,030,000	Necessary to reach stated objectives in Bus. Attraction and Retention	**	NJDCED
Near Term	-0-	*	**	
Medium Term	-0-	*	**	
Total	$1,030,000	*	Will be realized thru Bus. Attraction & Retention Objectives	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Resource Center

Situation

New Jersey's economic development program is at a competitive crossroads. The state is challenged by competitors that have invested heavily in state-of-the-art resource centers that serve as comprehensive one stop shops for economic development information. NJ must meet this challenge and design a state-of-the-art center that can process information requests, showcase dramatic visual presentations, and add value to site selection services.

Immediate Recommendations

1. Establish the NJ Economic Development Resource Center that would comprise the information nerve center for business attraction, retention and expansion. The Center should have a Board of Directors drawn from public and private leadership to ensure its full establishment and future viability.

2. The Center should offer a wide range of research capabilities including a comprehensive site and building inventory, GIS mapping, complete state locational information, and customized research services, etc.

3. The Strategy Team recommends that a three year financial commitment be secured to ensure the Center's full establishment.

4. The Center should be sited at Newark International Airport to afford the best possible access by domestic and international prospects.

Near Term Recommendations

1. A sophisticated in-house research capability must be developed at the Center.

2. Remote access to the Center and the NJDCED central office, the seven proposed field offices, local economic development groups, utility programs, etc. should become a second stage service.

Medium Term Recommendations

1. The Center should evolve into a statewide economic development repository that can assemble, synthesize, and present information on technology transfer, international trade, reverse investment, and conventions and tourism.

2. On line access to the Center probably for a fee, could be made available to others including real-estate brokers, developers, consultants, and corporations.

Resource Center

COST/BENEFIT

<u>*Summary*</u>

Recommendation Category	Incremental Cost ($)	Incremental Jobs	Incremental State/Local Revenue ($mil.)	Prime Implementation Agencies
Immediate	$3,700,000	*	**	Public/ Private Partnership
Near Term	$600,000	*	**	Public/Private Partnership
Medium Term	-0-	2,000	$20.0	Public/Private Partnership
Total ***	$4,300,000	Necessary to reach Bus. Attact./ Ret. Objectives (est. 2000+)	(est. $20.0)	

* New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.

** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.

*** Reflects start-up and 18 months operation.

Business Regulation and Permits

Situation

Excessive state and local regulations are flash points for government criticism throughout the state. Common complaints center on the following: state regulations that exceed federal, permitting which is cumbersome and time consuming, agency duplication, adversarial attitude by regulatory staff, excessive fees and fines, and inadequate technical assistance to small business. This state of affairs places NJ at a serious competitive disadvantage to many other states.

Regulatory and permit approval process reform should comprise the linchpin of state business climate improvement measures. To both prevent job loss and stimulate new business growth, New Jersey needs to follow the lead of many other states that have instituted major reform (e.g. CT, CA, MI, WI, etc.). The Strategy Team fully endorses previous recommendations made by groups such as NJIT (3/94 report). In addition, we have the following 20 recommendations (9 immediate, 8 near term, and 3 medium term).

Immediate Recommendations

1. Appoint a regulatory chief executive or czar at the Department of State to expedite the permit approval process for major expansion and relocation projects.

2. Set up permit approval SWAT teams composed of state and local agencies to both assist each company to submit requisite information and track permits to expeditiously move them through the system.

3. Initiate a formal review of New Jersey regulations that exceed federal statutes, including: Worker and Community Right to Know, Toxic Cleanup, Storage Tanks, and Family Leave.

4. Require all state agencies to justify any future regulations that are more stringent than federal.

5. Require all state agencies to assess the job impacts of proposed regulations.

6. Extend the Permit Extension Act for at least another two years.

7. Repeal the telecommunications and yellow pages sales taxes.

8. New Jersey should permit flexible pricing for electric power, in order to be competitive with other states.

9. Local elected officials must better understand the negative implication of lengthy permit approval processes, which will require more educational outreach on the subject of regulations and permits.

Near Term Recommendations

1. Establish genuine one stop service for all environmental permits.

2. Mandate that all environmental permits are issued within 90 days by DEPE.

3. DEPE permit issuance should be fully computerized to better expedite and track permits.

4. Mandate that most other state permits are issued within 30 to 90 days.

5. Fees and compliance penalties collected by state agencies should revert back to the general treasury.

6. The Strategy Team recommends fast track compliance for companies that are found in violation of environmental regulations (i.e. first time violators correct the deficiency within 30 days and avoid a financial penalty).

7. NJ should enhance its competitive posture by adopting the tort reforms that have already been introduced in the state legislature, including: Elimination of Joint and Several Liability, Seller's Liability, Punitive Damages, Medical Product Liability, and Medical Malpractice Reform.

8. Introduce customer satisfaction as a performance measure for state regulatory employees.

Medium Term Recommendations

1. The proposed regulatory/permit czar should recommend to the Governor elimination of duplicate agency regulation oversight in the areas of environmental, health, safety, transportation, and labor.

2. Within DEPE, the Industrial Pollution Prevention Technical Assistance program should be expanded to provide far more services to small business.

3. To encourage the adoption of the latest technologies for complying with environmental regulation, the sales tax on pollution control equipment should be phased out.

Near Term Recommendations

1. To remain competitive with other East Coast ports, channel depth at Port Elizabeth/Newark must be expanded from 40 to 45 feet.

2. Re-evaluate the New Jersey Highway access code to better balance the need for efficient and safe travel and property owners rights to earn a fair return on their investment.

Infrastructure

COST/BENEFIT

Summary

Recommendation Category	Incremental Cost ($)	Jobs	State/Local Revenue ($mil.)	Prime Implementation Agencies
Immediate	$1,150,000	*	**	Port Authority of NY & NJ
Near Term	-0-	*	**	Port Auth. of NY & NJ; NJ DOT
Medium Term	-0-	*	**	
Total	$1,150,000	New & Retained jobs difficult to quantify	New & Saved Revenue difficult to quantify	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Incentives

Situation

Economic development incentives have become increasingly popular among states across the country as expanding and relocating companies insist on financial packages that defray startup and operating costs. Incentives historically were targeted to distressed areas in urban and rural America. Many states today have lifted this restriction and require only that the project be somewhat capital and/or labor intensive and offer competitive wages.

New Jersey has assembled an extensive incentives package that makes it reasonably competitive with neighboring states. However, the Strategy Team believes that some fine tuning is needed to make NJ more competitive with states in our region and elsewhere.

The Strategy Team has recommended incentive programs but only two appear below. Others were listed in separate sections of the report. These included telecommunications tax repeal, electric power rate flexibility, sales tax exemption on pollution control equipment, export corporate income tax rebate, re-instituting EDA's urban industrial park program and expanding urban enterprise zones to cover the entire city. In addition, we recommend the two following major economic development incentives, (1 near term and 1 medium term).

Near Term Recommendations

1. Establish a new employment job tax credit available to office, manufacturing, and distribution employers. The credit would be used to offset corporate income tax liability. The credit would vary from $750 to $1,750 per job and would be awarded on a case by case basis. It would replace the relatively new, but overly complicated and restrictive job creation tax credit.

Medium Term Recommendations

1. The Strategy Team recommends that pre-employment training be provided at no cost to companies that expand or move to the state. This would provide NJ a competitive advantage over Connecticut (no program) and New York (company pays 50%) and match similar programs in other states.

Incentives

COST/BENEFIT

Summary

Recommendation Category	Incremental Cost ($)	Jobs	State/Local Revenue ($mil.)	Prime Implementation Agencies
Immediate	-0-		***	
Near Term	Intro. Jobs*** Tax Credit	*	**	NJDCED
Medium Term	$750,000	250	$2.5+	NJDCED
Total	$750,000	250+	$2.5+	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

***** Job tax credit should generate numerous new jobs and significant state & local revenue.**

Urban

Situation

New Jersey's urban challenges are particularly acute because of the tremendous number of manufacturing jobs the cities have lost in recent years. This predicament is compounded by high labor costs, high taxes, onerous government regulations, and siting problems in urban areas.

To effect a turn around, the regulatory process must be streamlined, and new public policy initiatives need to be developed to address worker training, new human and capital investment, and business climate issues.

The Strategy Team has considered urban issues throughout its recommendation development. Seven specific recommendations (3 immediate, 3 near term and 1 medium term) follow.

Immediate Recommendations

1. Establish environmental attainment zones in the industrial areas of urban centers. Within the zone, ECRA-ISRA site clean-up requirements would be suspended if two conditions are met: (a) contaminants "as is" pose minimal public health risk and (b) the developer adopts measures to guarantee that contamination will not worsen.

2. NJDCED must mount a more aggressive marketing campaign targeted to those industries that will find NJ's location and business climate advantageous. Several targets recommended in this report can be accommodated by urban locations, such as pick and pack distribution operations.

3. Encourage local economic development organizations to more widely publicize corporate expansion and neighborhood redevelopment success stories in the state's central cities.

Near Term Recommendations

1. At risk urban manufacturing employers need to be targeted and their employees provided additional basic skills and on the job technical training, to safeguard their investment and promote expansion.

2. The NJDCED should help guide and support urban areas in fostering new retail redevelopment and convention/meeting attraction strategies.

3. Suitable, competitively priced urban sites need to be developed to attract and retain industrial employers. NJEDA should reactivate its urban industrial park program to provide competitive, urban sites to employers at risk of relocation to suburban or out of state locations.

Medium Term Recommendations

1. The Strategy Team recommends that current and new enterprise zones cover the entire municipality. This will dramatically broaden the development arena and facilitate redevelopment throughout the entire jurisdiction.

Urban

COST/BENEFIT

Summary

	Incremental			
Recommendation Category	**Cost ($)**	**Jobs**	**State/Local Revenue ($mil.)**	**Prime Implementation Agencies**
Immediate	-0-	*	**	
Near Term	$4,500,000	Significant job Retention & generation would result	Revenue retained and increased	Dept of Labor/NJDCED, NJEDA
Medium Term	-0-	*	**	
Total	$4,500,000	*	**	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Small Business

Situation

New Jersey's small business population numbers 500,000 after factoring in sole proprietorships and family owned businesses. Since 75% of new jobs are expected to be provided by small business, the state must take steps to facilitate small business growth and prosperity.

The following four recommendations (all immediate) should enable NJDCED to provide even more effective service to small, women and minority businesses.

Immediate Recommendations

1. The state should enlarge the Selected Assistance Vendor Information program. Access to the program's database needs to be expanded to include private sector companies. The state should mount a promotional campaign to educate NJ corporations about the quality and availability of small business vendors.

2. Establish a toll free number staffed by qualified customer service personnel to inform small and start-up businesses of state agency services.

3. The Strategy Team recommends the formation of a one stop shop to assist companies in identifying state-funded assistance programs.

4. Small, women, and minority owned business would greatly benefit from a number of recommendations offered in this report, including the creation of resource guides, and lessening the regulatory and permit approval burden.

Small Business

COST/BENEFIT

Summary

	Incremental			
Recommendation Category	**Cost ($)**	**Jobs**	**State/Local Revenue ($mil.)**	**Prime Implementation Agencies**
Immediate	$260,000	Recommendations would accelerate job growth	Recommendations would increase revenue	DDSBWMB
Near Term	-0-	*	**	
Medium Term	-0-	*	**	
Total	$260,000	*	**	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Advanced Technology

Situation

New Jersey's high tech industrial base is at risk due to the state's comparatively steep operating costs and because of the recent decline in R&D spending by NJ companies. The Commission on Science and Technology is a valuable resource that essentially leverages federal funding awards and industry sponsored research to conduct specific, targeted research of interest to state high tech companies and institutions.

The Commission's programs are coming under increasing pressure due to recent funding and staffing cutbacks. To ensure that the state and NJ companies are receiving the most commercially relevant research and assistance possible, the Strategy Team offers the following ten recommendations to enhance the Commission's effectiveness (5 immediate and 5 near term).

Immediate Recommendations

1. Each of the Commission's twelve Advanced Technology Centers (ATCs) should undergo a complete audit to assess effectiveness of all projects.

2. Collaboration between ATCs and Technology Business Incubators should be expanded to provide a better conduit between the research centers and emerging businesses that could initiate commercialization.

3. Centralize ATC promotional activities to develop a single focal point for marketing outreach.

4. Develop a complete census of NJ high technology resources.

5. ATCs should be directed to assist in-state businesses only.

Near Term Recommendations

1. ATCs should monitor corporate research centers to identify and obtain specific research and technology opportunities that are no longer being pursued by their sponsor companies.

2. The Commission should arrange scientific symposia and technology transfer fairs (to be coordinated with the target industry effort).

3. The Commission's Technology Extension Center Program should be expanded with an emphasis on centers that are configured to service all manufacturing industry. A minimum of three new all purpose centers should be established around the state (one South, one Central, one North).

4. The Commission should accelerate the creation of incubators to facilitate small business formation. Biotechnology should receive high priority.

5. The Commission should develop a series of performance measures to gauge the effectiveness of ATCs and other sponsored programs and activities.

Advanced Technology

COST/BENEFIT

Summary

	Incremental			
Recommendation Category	**Cost ($)**	**Jobs**	**State/Local Revenue ($mil.)**	**Prime Implementation Agencies**
Immediate	$350,000	*	**	Commission on Science & Technology
Near Term	$1,790,000	*	**	Commission on Science & Technology
Medium Term	-0-	*	**	
Total	$2,140,000	Significant growth in high tech. jobs anticipated	Sustain growth in tax revenue from high. tech. industries	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

New Business Formation

Situation

The development of a business climate that is conducive to small company formation remains a critical issue facing government and corporate leaders. Many states have fostered small business formation and development through the establishment of incubators, seed and venture capital financing programs, and regulations that do not stifle emerging industries. The Strategy Team has five recommendations (1 immediate and 4 near term) that we believe would noticeably accelerate the rate of new business formation in New Jersey. These recommendations follow.

Immediate Recommendations

1. The biotechnology industry should not have to deal with a set of state regulations that supersede federal regulations. Many states have adopted the federal regulatory standards and have prohibited localities from adopting more stringent standards. NJ should do the same.

Near Term Recommendations

1. New business incubators to service basic and emerging industries should be established throughout the state. The Commission on Science and Technology's proposed biotechnology incubator should be set-up.

2. The Strategy Team believes that NJ must establish seed and venture capital financing programs to encourage and facilitate small business development and formation, and to remain competitive with other states (e.g. CT, KS, MI, MA, etc.).

3. State legislation should be modified to permit public pensions to invest a portion of funds into venture capital endeavors.

4. The proposed seed/venture capital groups should also be engaged in networking and referral for worthy entrepreneurs.

New Business Formation

COST/BENEFIT

Summary

	Incremental			
Recommendation Category	**Cost ($)**	**Jobs**	**State/Local Revenue ($mil.)**	**Prime Implementation Agencies**
Immediate	-0-	New high tech. jobs would result	**	Commission on Science & Technology
Near Term	$850,000	Proposed fund would increase numerous new jobs	State & local revenues would increase	Commission on Science & Technology
Medium Term	-0-	*	**	
Total	$850,000	*	**	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Tourism

Situation

Tourism has been characterized as the nation's largest industry. In NJ one of 12 dollars of the state's entire economic output are tourist related. One out of every ten jobs and seven percent of personal income are attributable to tourism in NJ.

Business and meeting travel comprise a major part of the tourism industry in the state with over $2 billion in annual revenue. NJ's share of this national market could increase significantly if the state promoted itself more vigorously and if our cities had better hotel and meeting facilities.

Many competing states have well financed, aggressive programs oriented toward promoting tourism. New Jersey needs to respond to these challenges in order to maximize job and revenue potential from the tourism sector. Toward this end, the Strategy Team has seven recommendations (3 immediate, 3 near term, and 1 medium term) as presented below.

Immediate Recommendations

1. Raise NJ's Travel and Tourism Advertising and Promotion budget to the US average of $1.07 per capita from its present rate of $0.85 per capita. This represents a $2.3 million increase over the FY 1995 budget of $6 million.

2. Execute cooperative advertising campaigns (with the private sector) and leverage local spending by reinstituting matching grants for the state's six tourism regions.

3. The state should develop a special marketing relationship with the Jersey Shore Communities and attractions.

Near Term Recommendations

1. Target business, travel, meeting, trade show, and investor relations business.
2. Develop a more effective distribution mechanism for dissemination of travel and tourism promotional brochures.
3. Plan expansion of the proposed NJ Economic Development Resource Center to accommodate the instillation of a central, information repository for all convention, cultural, recreational, sporting and entertainment programs, events, and facilities.

Medium Term Recommendations

1. Establish a NJ tourism service authority to promote travel and tourism. Finance authority activities through the collection of dues from travel and tourist related businesses. Use the Colorado authority as a model.

Tourism

COST/BENEFIT

Summary

Recommendation Category	Incremental Cost ($)	Jobs	State/Local Revenue ($mil.)	Prime Implementation Agencies
Immediate	$950,000	*	**	Travel and Tourism
Near Term	$1,350,000	*	**	Travel and Tourism
Medium Term	-0-	7,500	**	Travel and Tourism
Total	$2,300,000	7,500 +	**	

*** New and retained jobs will result if recommendations are implemented, but cannot be readily quantified.**

**** New state and local tax revenue will result if recommendations are implemented, but cannot be readily quantified.**

Appendix B:

THE TEAM'S 29 RECOMMENDATIONS

TO INITIATE THE LONG TERM ECONOMIC

DEVELOPMENT STRATEGY

November 14, 1994

Exhibit B

TEAM'S 29 FAST TRACK RECOMMENDATIONS: NUMBER AND COST BY SUGGESTED LEAD IMPLEMENTATION AGENCY

Agency/Recommendation(s)	Recommendation Number Per Executive Summary	Cost ($000)
Legislature		
Permit Extension	1	$0
Telecommunications Tax Repeal	6	$0
Reinstate Transp. fund	7	$0
Subtotal	3	$0
Secretary of State		
Regulatory Czar	2	$150
Fast Track Permitting	4	$0
Subtotal	2	$150
Board of Regulatory Comm.		
Flexible Utility Pricing	5	$0
Subtotal	1	$0
Dept. of Envir. Protection & Energy		
One Stop Permitting	3	$0
Urban Attainment Zones	23	$0
Publicize Urban Success	24	$0
Subtotal	3	$0
Port Authority of NY and NJ		
Dredge Reach A	8	$0
Subtotal	1	$0

Exhibit B

TEAM'S 29 FAST TRACK RECOMMENDATIONS: NUMBER AND COST BY SUGGESTED LEAD IMPLEMENTATION AGENCY

Agency/Recommendation(s)	Recommendation Number Per Executive Summary	Cost ($000)
NJ Dept. of Commerce & Economic Development		
Customer Service	9	$580
Retention/Expansion Office	10	$0
Expand Toll Free Access	11	$50
Survey NJ Businesses	12	$75
Comm. College Retention	13	$0
Seven field Offices	14	$100
Ambassadors Corps.	15	$75
Task Force Funding Plan	16	$0
Target Adv. Campaign	17	$50
Corp. Real Estate Meetings	18	$75
Location Consultants & Realtors	19	$15
Resource Center	20	$20
EDA International Financing	22	$0
Economic Dev. & Tourism Coop.	29	$0
Subtotal	14	$3,270
Dept. of International Trade		
International Trade Partnership	21	$0
Subtotal	1	$0
Comm. on Science & Technology		
Audit Adv. Tech. Center	25	$100
ATC & Incubator Relationship	26	$0
Subtotal	2	$100
Small Bus., Women & Minority		
Toll Free Sm. bus. Asst. Center	27	$60
Subtotal	1	$60
Div. of Travel & Tourism		
Increase Per Capita Spending	28	$0
Subtotal	1	$0
TOTALS	***29***	***$1,380***

Appendix B:

The Team's 29 Recommendations To Initiate The Long Term Economic Development Strategy

1. **Extend the Permit Extension Act**
   - Recommendation Category and Number
     - Business Regulation and Permits
     - Immediate # 6
   - Rationale
     - Approved projects which have not begun will need to be re-permitted
     - Such projects involve billions of dollars
   - Implementing Agency
     - Legislature
     - Active support from Governor
   - Cost
     - Minimal
   - Benefits
     - Thousands of construction jobs
     - Millions in property and sales tax revenue

2. **Establish a Regulatory Chief Executive or Czar, perhaps in the Secretary of State's Office, to Expedite the Permit Approval Process, Monitor Regulations, and Recommend Changes to the Governor on an Ongoing Basis**
   - Recommendation Category and Number
     - Business Regulation and Permits
     - Immediate # 1

- Rationale
  - Permit approvals constitute one of the biggest disincentives for locating or expanding within the state
  - Regulatory reform will need to be continuous process
  - A business watchdog and influential spokesperson is needed
- Implementing Agency
  - Secretary of State
- Cost
  - Up to $150,000
  - Lower cost if salary can be reduced (e.g., retired executive)
- Benefits
  - Immediate relief for locationally active companies
  - Eventual process where environmental and other key permits are issued with dispatch

3. Set a Target of no Later than Beginning 1996, for One Stop Environmental Permitting

- Recommendation Category and Number
  - Business Regulation and Permits
  - Near Term # 1
- Rationale
  - Many competing states (e.g., GA) have one stop permitting
  - Expedites and simplifies process for business
  - End result more companies expanding in or moving to NJ
  - Signifies a trend toward positive business climate change
- Implementing Agency
  - Regulatory Czar in Secretary of State Office in close cooperation with DEPE
- Cost
  - Minimal

- Benefits
  - Less costly and time consuming for business
  - Allows companies to better plan for expansion or establishing a new facility
  - Helps prevent a company's competitor in another state from grabbing market share as the competitor is able to bring new capacity on line sooner

4. Set-up Permit Approval SWAT Teams to Marshall the State and Local Permit Approval Process on Selected Projects

- Recommendation Category and Number
  - Business Regulation and Permits
  - Immediate # 2
- Implementing Agency
  - Secretary of State
- Cost
  - Minimal
- Benefits
  - Mandates that permits be approved within 30 to 90 days. This is probably the most effective way for enabling NJ to compete with other states
  - Will undoubtedly be a swing factor in the decision of some companies to expand in or move to New Jersey

5. Change State Regulation to Allow Flexible Rate Pricing for Electric Power

- Recommendation Category and Number
  - Business Regulation and Permits
  - Immediate # 8
- Rationale
  - Electric power costs are higher in NJ than in areas of several nearby states (e.g., NY, PA, DE) and significantly more expensive than in other states we frequently compete against for new industry (e.g., the Carolinas)
  - With the advent of retail wheeling, utilities from other states will be able to lure away large NJ customers by offering lower electric prices
  - The list of states permitting rate flexibility, now numbering 15 (e.g., LA, NY, PA) is growing. It thus is more difficult to compete with these states both for business retention and attraction

- States that allow rate flexibility have not witnessed significant rises in residential prices

- Implementing Agency
  - Board of Regulatory Commissioners
  - Strong support from Governor needed
- Cost
  - Minimal
- Benefits
  - Greater rate of business retention, expansion, and relocation (to the state)
  - Utilities are better prepared to compete when national retail wheeling becomes a reality (in probably less than 5 years)

6. Repeal the Telecommunications and Yellow Pages Sales Taxes

- Recommendation Category and Number
  - Business Regulation and Permits
  - Immediate # 7
- Rationale
  - Current taxes are a disincentive to the attraction/retention of telecommunications sensitive business. Competing states do not tax these companies
  - Small business is penalized by the yellow pages tax which inhibits small business growth
- Implementation Agency
  - Legislature
- Cost
  - Undetermined
- Benefits
  - Establish a better business climate for telecommunications oriented companies, helps lower operating costs so they are in line with out of state competitors.
  - Reduces overhead for small business thereby providing some growth stimulus

7. **Reinstitute the New Jersey Transportation Improvement Trust in 1995 Before the Current Legislation Expires**

- Recommendation Category and Number
  - Infrastructure
  - Immediate # 4
- Rationale
  - Stable, predictable financing source for highway improvements
  - Without Fund, there will be significantly less ability to meet the $35+ billion state and local highway improvements that are needed through the year 2,000
- Implementation Agency
  - Legislature
  - Strong support from Governor and NJDOT required
- Cost
  - Minimal
- Benefits
  - Matching funds for federal grants and monies for non federally funded projects
  - Important to try to keep pace with much needed road improvements which are key to economic growth

8. **Dredge Port Elizabeth/Newark Channel Berths (Reach A) to 40 feet from the current 35 to 38 feet**

- Recommendation Category and Implementation Number
  - Infrastructure
  - Immediate # 3
- Rationale
  - Vessels using the channel are requiring consistent berth depths
  - Other ports such as Hampton Roads have greater than 40 feet depths
  - Business is being lost to these ports
  - There seem to be reasonable interim solutions for disposal of dredged materials which is the prime hang-up

- Implementing Agency
  - Federal EPA is holding up requisite permits
  - Governor and New Jersey's federal legislators need to continue pushing for reasonable solutions which have already been identified
- Cost
  - Could cost the state up to $1 million but most of these funds have already been reserved
- Benefits
  - Allows Port Elizabeth/Newark to compete with most other East Coast ports (especially for break bulk cargo) who have sufficient berth and channel depth
  - Results in more business expanding or relocating to New Jersey

9. All Seven Customer Service Recommendations Should be Quickly Implemented by The New Jersey Department of Commerce and Economic Development (NJDCED) with the Cost Qualifications Listed Below

- Recommendations (from The Customer Service Category)
  - Excellent customer service must become a mandate and integrated into organizational culture, personnel performance evaluations, and remuneration (Immediate # 1). Cost: $70,000 (includes general business and sales training and customer surveys)
  - NJDCED professionals in business retention, marketing, and research should attend economic development training courses and seminars (Immediate # 2). Cost: $50,000
  - A new generation of sales material that contains relevant locational information presented in an attractive, user friendly format is needed. This includes state and local information which must be available in both hard copy and diskette. A complete and current site/building inventory is envisioned as well. Mapping capability is also included. Locational information should be stored in data base that readily allows for custom reports (Immediate # 3). Cost: $600,000
  - All inquiries by existing NJ companies or corporate prospects looking to build a new facility in the state should be answered within 24 hours (Immediate # 4). Cost: Minimal
  - NJDCED should establish a more formal process for sharing the prospect handling load (both retention and attraction) with other economic development groups such as the utilities (Immediate # 5). Cost: Minimal

- Resources need to be significantly boosted for **research** in support of business retention/expansion and marketing. The power of information should be utilized as a differentiating tool to increase the success rate on both retention/expansion and new location projects. (Immediate # 6). Cost $300,000 (all inclusive)

- NJDCED should establish closer working relations with selected corporations that would be willing to spend time with corporate prospects (i.e., share operating experiences in an interview setting). Near Term # 1. Cost: Minimal

- Selected government and business leaders visit states with successful economic development programs and excellent customer service reputations (Immediate #7). Cost: $10,000

• Rationale

  - Due to resource constraints, NJDCED has not been able to match competitor states in the breadth and depth of information, packaging of information, custom research capability, and speed of response to inquiries

  - Information is critical to corporate location decisionmaking. Economic development agencies that have the most pertinent data, package it smartly provide it expeditiously, follow though consistently, and display a thorough knowledge of the product being sold will enjoy comparatively greater success

  - Further enhancing success is the ability to quickly process custom research requests (comparisons with other states, personalized presentations, profiles of target companies or industries, etc.)

  - Other states, recognizing the value of research and information are expending considerable resources in these areas. It is important for NJ to keep pace

• Implementing Agency

  - New Jersey Department of Commerce and Economic Development

• Cost

  - Customer service training, surveys, et. al. $70,000

  - Economic development training $50,000

  - Sales and promotional material (year one) $300,000

  - Research support (year one) $150,000

  - 24 hour response $0

- Prospect sharing and coordination $0
- Visits to successful states $10,000
- Subtotal $580,000

- As noted above, cost of the new generation of literature and electronically stored information is spread over two years. So is the cost of upgrading research capacity. We also suggest that NJDCED seek private sector support to help offset information development costs

- Benefits
  - Outstanding customer service must be in place for any new or expanded program to yield maximum results
  - Excellent service will translate into more jobs created due to a higher success rate in corporate expansions and relocations
  - Word will spread solidifying the notion that New Jersey cares for the well being of its business community

10. Create a Separate Section in NJDCED Geared Exclusively to Business Retention/Expansion (perhaps called the Office of Business Retention and Expansion)

- Recommendation Category and Number
  - Business Retention/Expansion
  - Immediate # 1
- Rationale
  - A characteristic of the most successful programs in other states (e.g., CA, NY, NC, VA, etc.) is the division of labor between retention/expansion and attraction
  - Clear sense of purpose and direction should lead to better service
  - NJDCED would also be more focused in an effort to better support local economic development groups
- New Jersey Department of Commerce and Economic Development
- Cost
  - Minimal
  - Requires mostly reallocation

- Benefits
  - More comprehensive and responsive service to existing businesses
  - More effective relationships with local economic development entities

11. Expand upon the Office of Business Advocacy's toll free Number to Provide Six Day a Week Assistance by Knowledgeable Customer Service Representatives who Must Follow-up Until Successful Resolution of the Complaint is Reached

- Recommendation Category and Number
  - Business Retention/Expansion
  - Immediate # 2
- Rationale
  - A basic service for retention
  - Proper assistance and referrals maximize chances for a company to remain and expand
  - Critical to have a customer service representative that has working knowledge of taxes, permits, and agencies (with the right contact) that can help
- Cost
  - $50,000
  - Assumes no staff additions
  - Funds mostly to promote the service
- Benefits
  - If done correctly, a major asset for companies that are experiencing difficulties and need assistance
  - Reinforces a changed business climate in the state

12. **Formally Survey all New Jersey Companies over a Certain Size (perhaps 20 Employees) in the Four Business Sectors which Generate the Greatest Direct and Indirect Employment (i.e., Manufacturing, Distribution, Financial Services, and Business Services). Survey Results Should be Used to Both Assist Companies Experiencing Difficulties and as a Basis to Create Formal Business Climate (or product improvement) Plans.**

- Recommendation Category and Number
  - Business Retention/Expansion
  - Immediate # 9
- Rationale
  - Expands upon and coordinates current efforts (e.g., Business Enhance Program and the Municipal Business Retention and Expansion Program)
  - Would include surveys plus in person calls by New Jersey Ambassadors (business volunteers) to further demonstrate the state's commitment to business
  - Results indispensable for prioritizing remedial strategies
- Implementing Agency
  - New Jersey Department of Commerce and Economic Development
- Cost
  - $75,000
  - Could be partially offset by in kind service for processing and mailing
- Benefits
  - Early warning system for detecting problems before they become overwhelming (for a particular company)
  - Results indispensable for creating statewide product improvement plans
  - Results by county and city can allow those jurisdictions to build similar product improvement plans

13. **Formally Integrate the Community Colleges into the Delivery System for Business Retention and Expansion**

- Recommendation Number and Category
  - Business Retention/Expansion
  - Immediate # 11

- Rationale
  - The community colleges already have different forms of business outreach programs
  - Most are eager to become more active
- Cost
  - Minimal
  - The support infrastructure is already in place
- Benefits
  - More extensive network to reach local businesses
  - Extends resources of NJDCED

14. Develop the Most Feasible Scenario for Establishing Seven Regional Field Offices for Business Retention/Expansion in 1996 (Recommendation also Recently Tendered by an NJ Assembly Task Force)

- Recommendation Category and Number
  - Business Retention/Expansion
  - Near Term # 1
- Rationale
  - Most effective programs around the US (e.g., NC, VA, NY) employ this model
  - Critical in New Jersey as most local economic development agencies are grossly underfunded and understaffed
- Implementing Agency
  - NJDCED
- Cost
  - Feasibility analysis including funding strategy less than $100,000
  - Actual program implementation around $2.3 million

- Benefits

  - Feasibility study would indicate additional benefits over an enhanced current program

  - Likely to be 1,500 to 2,500 more jobs saved or expanded and $ 15 million to $25 million in state and local tax revenue (excluding effects of an employment multiplier)

15. **Establish a New Jersey Ambassadors Corps Composed of Private Sector Volunteers to Sell New Jersey to Outside Industry and to Participate in Business Retention/Expansion. The Corps would have Three Divisions: International, Domestic, Local Industry.**

- Recommendation Category and Number

  - Business Attraction

  - Immediate # 14

- Rationale

  - Involves the private sector

  - Provides enhanced service to prospects

  - Successfully employed in a few other states (e.g., Nebraska, Oklahoma, South Carolina)

- Implementing Agency

  - Part of the Governor's Office

  - Managed by New Jersey Department of Commerce and Economic Development

- Cost

  - $75,000

  - All or portion could perhaps be underwritten

- Benefits

  - Beginning of proactive support by business leaders

  - Business leader input to an overall strategy

  - Sales force without significant cost burden to NJDCED

  - Better service to the corporate customer

  - Selling advantage over other states in region who do not have similar programs

16. Assemble a Task Force to develop a plan to identify funding sources to allow implementation of Business Attraction (Domestic & International) Incentives

- Recommendation: Category and Numbers
  - Business Attraction
  - Immediate # 1-15
  - Near Term #1-3
  - Medium Term #1-2
- Rationale
  - Number, cost and complexity of recommendations require a Task Force to develop a funding and implementation plan. NJ must step forward and initiate a pro-active business attraction program to recruit domestic and foreign industry.
- Implementation Agency
  - NJDCED
- Cost
  - Minimal
- Benefits
  - Attracts new jobs and capital investment from targeted industries. Expands state and local tax base.

17. Begin a Limited Advertising Program Focusing on the Corporate Real Estate Journals

- Recommendation Category and Number
  - Business Attraction
  - Immediate # 4 c
- Rationale
  - Modest initial step for an eventual major marketing effort
  - Name recognition for NJ as other frequently advertise in these journals
- Implementing Agency
  - New Jersey Department of Commerce and Economic Development

- Cost
  - $50,000
- Benefits
  - Starts building a more favorable image among the corporate site selection executives
  - Should yield a few serious prospects a year

18. Full Participation Including Exhibit Booths and Hospitality Suites at the two Major Corporate Real Estate Organizations' National and Regional Conferences (International Association of Corporate Real Estate Executives and the International Development Research Council).

- Recommendation Category and Number
  - Business Attraction
  - Immediate # 6
- Rationale
  - Most other states active
  - NJ conspicuous by its absence
- Implementing Agency
  - New Jersey Department of Commerce and Economic Development
- Cost
  - $75,000
  - Proportion could be underwritten by other economic development groups and Ambassador companies
- Rationale
  - Key component of a name recognition effort
  - Helps promote the idea that New Jersey is indeed open for business

19. A Formal Outreach Program to the Location Consulting and Real Estate Brokerage Industries should Be Undertaken

- Recommendation Category and Number
  - Business Attraction
  - Immediate # 5

- Rationale

  - Direct access to a group that works with some 40% of locationally active companies

  - Most of the world's largest players have a presence in the New York to Philadelphia Corridor

- Implementing Agency

  - New Jersey Department of Commerce and Economic Development

- Cost

  - $15,000

- Benefits

  - Image building

  - More leads

  - More companies moving to New Jersey

20. Explore with the State's three Electric Power Companies the Viability of Establishing A New Jersey Economic Development Resource Center by mid 1996

- Recommendation Category and Number

  - NJ Economic Development Resource Center

  - Immediate # 1

- Rationale

  - Information, research, interactive video, visual tours of sites/buildings all from one site

  - Several other states have instituted similar operations

  - Very well received by corporate site seekers

- Implementing Agency

  - Public/private partnership

- Cost

  - Exploratory stage less than $50,000

  - Eventually over $2.5 million per annum

- Benefits
  - Excellent retention/expansion tool
  - Saves corporate prospect significant time
  - Higher closure rate for corporate expansions and relocations
  - Valuable service for local economic development agencies

21. Form the International Trade Partnership to Coordinate and Assist in Delivery of Trade Development Activities throughout the State

- Recommendation Category and Number
  - International Trade
  - Immediate # 7
- Rationale
  - Disparate export promotion and related programs need to be better coordinated and leveraged
  - Trade development ideal for a public/private partnership
- Implementing Agency
  - Governor's Office with active assistance from NJDCED's Division of International Trade
- Cost
  - Minimal as most funds would be from private sources or reallocation of existing resources
- Rationale
  - Extends resources of the Division of International Trade
  - Establishes a World Trade Center in NJ
  - Will lead to better service for pre-export and export ready companies

22. Revamp the NJ Economic Development Authority's Role in Export Financing to Become More of an Integrated Packager of Loan Assistance

- Recommendation Category and Number
  - International Trade
  - Near Term # 2

- Rationale

  - Bring together the various resources such as ExIm Bank, US Small Business Administration and Commercial Banks to maximize the ability of small to medium companies obtaining requisite financing for exporting

  - This packaging capability is not being adequately met at present

- Implementing Agency

  - NJ Economic Development Authority

- Cost

  - Minimal as reallocation of resources and other fees should cover additional expenses

- Benefits

  - Significant increase in small firms beginning or expanding exporting activities

23. Introduce Legislation that would Create Urban Attainment Zones so that Industrial Properties could be Redeveloped without Cleanup if there is no Health Danger and the Developer Agrees to Safeguards to Prevent Deterioration

- Recommendation Category and Number

  - Urban

  - Immediate # 1

- Rationale

  - One of the biggest obstacles to urban revitalization is unavailability of industrial land due to excessive environmental remediation cost

  - California and Michigan have pioneered the concept and early results are most encouraging

- Implementing Agency

  - NJ Department of Environment and Energy

  - Strong backing from the Governor's office

- Cost

  - Minimal

- Benefits

  - Could result in hundreds of jobs and millions in local property taxes each year as sites open for development

  - Would comprise a major weapon in the arsenal of cities for industry retention/expansion

24. Encourage Local Economic Development Groups to Better Publicize the Positive Stories Emanating from our Urban Areas

- Recommendation Category and Number

  - Urban

  - Immediate # 3

- Rationale

  - Success stories (e.g., small manufacturer staying and growing) not well publicized around the state

  - The urban areas are fine locations for a variety of businesses (e.g., pick and pack distribution centers) but these advantages are not adequately publicized

- Implementing Agency

  - New Jersey Department of Commerce and Economic Development

- Cost

  - Minimal to the Department

- Benefits

  - Better promotion within the state could lead more companies to either seriously expanding on moving to center city industrial sites

25. An Audit of the State's 12 Advanced Technology Centers is Needed to Gauge Effectiveness and Recommend Ways to Accelerate the Transfer of Technology to Private Companies

- Recommendation Category and Number

  - Advanced Technology

  - Immediate # 1

- Rationale
  - There is a general sense that the ATCs have not reached out to as many companies as desirable
  - With limited resources, highest and best roles need to be better defined
  - Steps to better market ATC services are also needed
  - Better measurements of program effectiveness also seem warranted
- Implementing Agency
  - New Jersey Commission on Science and Technology
- Cost
  - Approximately $100,000
- Benefits
  - Greater number of companies receiving key assistance in utilizing the best available technologies

26. **More Effective Relationships are Needed Between the ATCs and the Incubators that are Sponsored by the New Jersey Commission on Science and Technology**

- Recommendation Category and Number
  - Advanced Technology
  - Immediate # 2
- Rationale
  - Businesses in the Incubators could be generators of new technologies with wide commercial application
  - Also, technologies from companies served by the ATCs could be of value to incubator companies
  - Better communications to ascertain possible technology synergy's is required
- Implementing Agency
  - New Jersey Commission on Science and Technology
- Cost
  - Minimal

- Benefits

  – More companies assisted which will lead to a greater rate of small business success and expansion

27. Expand Toll free Service (Monday through Friday 12 hours and Saturday 8 hours) for Assisting Small Businesses. The Toll Free Center must be Staffed by a Knowledgeable Customer Service Representative who can provide Guidance and also Direct the Caller to the Proper Agency for Assistance.

- Recommendation Category and Number

  – Small Business

  – Immediate # 2

- Rationale

  – One of the drawbacks of small companies not utilizing referral services is the difficulty of gaining access and then being bounced around form one agency to another

  – There is a maze of small business assistance programs that makes it difficult for a company to determine where to seek help

- Implementing Agency

  – Division of Development for Small Business and Women and Minority Businesses (part of the Department of Commerce and Economic Development)

- Cost

  – $60,000 includes one staff addition and promotion

- Benefits

  – More companies calling and receiving excellent service

  – A component of the strategy to stimulate startup and growth of small, women, and minority businesses

28. Develop a Strategy for Bringing New Jersey's Per Capita Spending on Tourism up to the National Average

- Recommendation Category and Number

  – Tourism

  – Immediate # 1

- Rationale
  - The Team has recommended this spending plateau as part of the tourism development strategy.
  - Over the next couple of months a spending mechanism should be identified to reach this goal by 1996
- Implementing Agency
  - Division of Travel and Tourism (part of the New Jersey Department of Commerce and Economic Development)
- Cost
  - Minimal for exploring financing options
  - $2.3 million per annum for implementation
- Benefits
  - The $2.3 million expenditure would likely yield at least 7,500 jobs and $20 million in tax revenue for the state and localities
  - New Jersey would better capitalize on its many assets for the tourism industry

29. Foster Maximum Cooperation and Between Economic Development and Tourism Promotion

- Recommendation
  - Referenced several including Tourism
  - Near Term # 1
- Rationale
  - Audiences comprise many of the same targeted population
  - A consistent theme for projecting New Jersey's image will significantly affect both business and traveler audiences
  - Cost efficiencies in advertising can be realized
  - Tourism and business meetings can dovetail with target promotion to targeted industries
- Implementing Agency
  - New Jersey Department of Commerce and Economic Development

- Cost
  - Minimal
  - Should result in savings
- Benefits
  - More impact for total dollars expended
  - Acceleration in reversing the state's sometimes unfavorable image

Business Retention/Expansion

Situation

The Need

Business retention/expansion efforts need to be more comprehensive and coordinated. In addition, information and intelligence gained from local business outreach programs needs to be processed and utilized to create formal product improvement plans at the state and local levels. It is key that these business climate improvement plans be built from feedback obtained from the customer (i.e., New Jersey businesses).

Business **retention/expansion is crucial** to a state like New Jersey. Reasons include the following:

- Any state that is comparatively high cost and aggressive in business regulation is in risk of witnessing above average rates of companies deciding to place new capacity elsewhere, relocating, or closing.
- Historically, New Jersey's business climate has been less than hospitable compared with many other states. Moreover, the welcome mat even for existing businesses has been thin to nonexistent. While this is now changing, many NJ companies still hold a fairly negative view of the state as a place to do business.
- Other states are aggressively courting NJ companies to either move or site future expansion in their respective jurisdictions.
- Many states, including those that have enviable records for business attraction, have instituted far more extensive retention/expansion programs than has NJ.

Five State Examples

Regarding other states, consider the following five examples:

1. **Alabama.** The core component of the Alabama Development Office's (ADO) industry retention/expansion effort is the 12 regional centers that are jointly staffed by ADO and the Department of Economic and Community Affairs. Regional office representatives provide communities and businesses with information about state and federal training, grants, financing, and community development programs available to leverage local projects.

   Each regional office can steer a company or a community to the appropriate state or federal agency thereby enhancing efficiency. Also, the Office works with state agencies to avoid duplication of effort in the delivery of economic development related services.

   Each month the regional representatives call on approximately 350 companies (or 4,200 a year) to explain assistance programs and determine what the state or locality can do to help the company. Additionally, these representatives meet with about 80 local government officials per month to provide updates on federal and state programs oriented toward economic development. The estimated retention/expansion budget is $1.3 million.

2. **California.** Team California was created in 1993. It is led by the California Trade and Commerce Agency. Team California has both business retention and attraction components. In terms of retention, Team California consists of over 100 members drawn from state and local economic development agencies, educational institutions, and the private sector. All are volunteers.

   Under the Team California banner, Red Alert Teams have been created at the Regional level. From an economic development perspective, the state is divided into nine regions. When the Red Alert Team hears of a company having difficulty, it rapidly dispatches members to assess the situation and initiate remedial action. As the Governor has made retention a priority, state and local agencies seem to respond expeditiously to Red Team requests.

   Red Alert Teams receive the bulk of intelligence on companies experiencing operational difficulties from either local economic development officials or Trade and Commerce field personnel. Trade and Commerce operates four field offices throughout the state. Each is staffed by one or more professionals and support backup. Field office personnel call on companies as part of retention, assist local economic development agencies as needed, and handle prospects that might be looking at the region for a new facility. Team California has recorded major successes in keeping firms in California.

   Establishment of Team California coincided with significant business climate improvement measures such as dramatic reduction in permit approval time, workers' compensation reform, and manufacturing investment tax credits. Estimated retention/expansion budget: $2.9 million.

3. **New York.** Centerpiece of NYS Department of Economic Development's retention effort is the Regional Economic Development Program (REP). Through ten regional offices, DED professionals continuously call on companies, encourage companies to become export active, work closely with local economic development agencies, and guide central state agencies in effectively delivering economic development related services.

   Unlike California, the regional offices have minimal involvement in business attraction. Their prime responsibilities center on business retention/expansion. REP is a long running activity in NYS. Estimated budget (including the central office): $3.1 million (includes payroll for around 50 employees).

4. **North Carolina.** Here is another state that has for many years operated a highly regarded industry retention/expansion program. Local business outreach and assistance is implemented through nine regional offices. The regional offices include an economic development manager, at least one retention/expansion specialist, and a support person. These representatives of the NC Department of Commerce do not become actively involved in business recruitment. The regional offices work very closely with local economic development agencies. Estimated budget: $2.4 million.

5. **Virginia.** The Virginia Department of Economic Development operates a comprehensive and effective business retention/expansion program. This activity is housed under the Division of Industrial Development. It is called Community and Business Services and includes these components:

   - Community Services

     - Provides technical and consultative assistance to localities in preparing for economic growth

     - Holds forums (including quarterly seminars) to educate business and political leaders on economic development

     - Oversees the Virginia Community certification program. Standards are set that, when met, allow a community to become certified by the state as prepared for economic development.

   - Industrial services

     - Conducts annual surveys of VA industrial companies

     - Undertakes visitations to VA industrial companies

     - Ensures that any difficulties reported by companies are acted upon within a couple of days

- Regional service
  - Three offices
  - All with at least one retention/expansion professional
  - Work closely with local economic development agencies and existing businesses

Like many other states, separate staff are devoted to marketing and retention/expansion. Estimated budget for retention/expansion: $1.3 million.

New Jersey currently spends some **$550,000** a year on industry retention/expansion. Most NJDCED project managers work on both industry retention and attraction. There are no field offices. As best we can determine, staffing devoted to retention/expansion totals six persons (4 professional and two support).

New Jersey Activities

Current retention/expansion programs in New Jersey include those highlighted below.

1. **Business Enhancement Program (BEP).** NJDCED participates in this effort which is spearheaded by the state's three electric utilities. Utility marketing representatives while calling on businesses regarding electric power considerations, also conduct a formal interview with the appropriate business executive to ascertain any problems that could be resolved with local and/or state government assistance.

   Through BEP, a company will be directed to the appropriate agency(s). The agency will get in touch with the company within ten days. This guarantee is longer than in most states where the norm is two to three days.

   Approximately 450 calls a year are made by BEP representatives. Most of these reps are utility officials. Some county economic development agencies also make calls. But these are sporadic in most counties except for a few (e.g., Burlington and Union). It should be noted that 450 calls comprise less than 10% of New Jersey companies with more than 50 employees in the sectors of manufacturing, distribution, and financial services.

   BEP is under the Office of Business Advocacy. A toll free number is available (800) 223-5627.

2. **Municipal Business Retention and Expansion Program (MBREP).** This is a cooperative effort led by Bell Atlantic and Rutgers. Under the program, assistance is furnished to communities for upgrading local business climates. Also, detailed surveys are conducted of local businesses. At present, 9 communities participate in MBREP. An estimated 350 surveys of businesses are conducted under MBREP. This program is under the Office of Business Development.

3. Another **97 surveys** were conducted by NJDCED staff for retention/expansion purposes this year.

4. **NJDCED also has other programs** which are designed both for retention/expansion and attraction. These include one stop permit identification (not processing) within Business Advocacy, site selection within Business Development, and the Office of Financial and Management Assistance.

Against this background, the Economic Development Strategy Team believes that **New Jersey is less than competitive with other states in terms of proactive efforts to both preserve and expand our industrial job base.** While some worthwhile public/private sector initiatives have been launched, much more needs to be done.

The implementing agency for Strategy Team recommendations appearing below would be the New Jersey Department of Commerce and Economic Development (NJDCED). We believe that both immediate and near term recommendations must be implemented for the state to have a truly effective retention/expansion program. Furthermore, it is **essential that business climate improvement measures, particularly in the regulation arena, be undertaken concurrently with retention/expansion efforts.** Action on both fronts will maximize the potential for New Jersey firms to stay and grow in the state.

We should note that priority attention should be given to those economic sectors displaying the greatest employment spin-off potential. Thus, retention/expansion should focus on **manufacturing, distribution, financial services, and business services.**

The New Jersey Economic Development Strategy Team's recommendations for business retention/expansion follow.

Immediate Recommendations

1. **Combine existing and new programs into a separate office of business retention and expansion within the New Jersey Department of Commerce and Economic Development (NJDCED). Implicit in this recommendation is that staff of the Office would be devoted exclusively to retention/expansion**. The Commissioner can and should institute this change within the next couple of months.

   Estimated cost: minimal. Benefits: an organization totally dedicated to retention/expansion, which would establish a framework for building a world class program.

2. **Expand upon and better promote the Office of Business Advocacy's current toll free number**. The proposed Office of Business Retention and Expansion needs to have a toll free number that is operational **twelve hours a day (Monday through Friday) and eight hours on Saturday.**

   A knowledgeable customer service representative should be available to field calls during operating hours. It will be especially important for the representative to have **familiarity with the following:**

   - State regulations and permits especially environmental, labor, and transportation
   - Appropriate state agencies that can provide assistance in areas such as human relations, environmental, workplace safety, workers' compensation, unemployment insurance, product liability, transportation, taxation, etc. This must include contacts within each agency who will actually provide the assistance (i.e., action people)
   - Federal agencies that can provide assistance especially those with offices in NJ
   - Community colleges, Small Business Development Centers, university programs that can provide assistance to local businesses
   - County, state, regional, and utility economic development programs and contacts
   - Local and state chambers of commerce and business associations
   - Applicable incentives in NJ
   - Overall tax policy in NJ
   - Major state legislative changes influencing economic development (information can be obtained from groups such as the state Chamber and NJ Business and Industry Association)

   Estimated cost: **$50,000** (mostly for promotion, data base development, and computers). Assumes current staff assigned as customer service reps. Benefits: Much more effective and responsive service to New Jersey companies, which will result in a higher rate of companies staying and expanding within the state. It will also send a signal to the business community that a new attitude has dawned regarding state government's concern for the well being of its corporate citizens.

3. **Any company complaint directed at the call center or coming to the attention of the Office by another mode must have action taken within three business days**. This means that when the customer service rep (CSR) contacts an agency, close to immediate conversation with the appropriate contact person will be necessary. Both the immediate response to the CSR and the three day maximum turnaround time to respond to the respective company will require a mandate from the Governor.

4. The customer service representative needs to **follow-up with the company** and referred to agency(s) by early in the **fourth day** to be certain that appropriate action is underway. Thereafter, periodic follow-up is required until there is successful resolution of the problem.

5. **Under no circumstances should a company be subjected to the double or triple referral routine.** The agency and contact initially given by the customer service rep should be the right one.

6. **The proposed Office of Business Retention and Expansion needs** to coordinate the current efforts being made by BEP, MBREP, and other agencies. Formal progress briefings among these groups should be held once a month. Part of the discussion should focus on how to continuously improve both the speed and quality of responses to companies seeking assistance. Cost will be minimal and benefits would include greater efficiency among the key players.

7. **The NJDCED should create one resource guide that provides a clear roadmap on both the requirements for establishing a business in New Jersey and assistance programs available to expanding or relocating companies. This guide would integrate and expand upon existing directories (e.g., Economic Development Assistance Programs, Doing Business in New Jersey, BEP, etc.).**

   For the assistance portion of the resource guide, state, federal, nonprofit, and college/university programs need to be listed. County, large city, regional, and utility economic development groups should be included as well. For each, the following should be provided:

   - Agency
   - Mailing address
   - Contact persons (chief executive and others)
   - Telephone and fax numbers
   - Reasonably comprehensive description of the services offered

   Concerning the permit and licensing section, we advise the following to be included:

   - Agency name
   - Mailing address
   - Contact persons
   - Telephone and fax numbers
   - Description of the permit or license
   - Key requirements (including specific information required from the company) necessary to apply for the permit or license

- Typical approval time

- Typical cost for obtaining the permit or license

The guide should be available in **hard copy and diskette**.

Few states have complete, user friendly resource guides. Such a guide would help facilitate the decision implementation process for companies willing to invest in NJ. It would also further reinforce the perception that New Jersey is more friendly to business. Cost including printing should be **less than $50,000**.

8. NJDCED should create a **standardized format for county and city resource guides**. These guides would contain the following:

    - Requisite permits and licenses (including typical approval time and fees)

    - Zoning boards and approval processes (including rezoning)

    - Executive and legislative agencies and contact persons

    - Local economic development agencies and program descriptions

9. NJDCED should formally survey all companies over a selected size (preferably 20 or more employees) in four broad economic sectors and then develop a formal product improvement **plan based upon results**. Surveys should concentrate on the following sectors:

    - Manufacturing

    - Distribution

    - Finance/Insurance/Real Estate

    - Business services

Establishment counts for the entire state (20+, 50+, 100+ employee levels) are given in Exhibit I. Counts by county appear in Exhibits II-V.

A **standard form** should be used to seek information from companies surveyed. A sample questionnaire is include as Attachment E.

The survey would be intended to elicit input from companies on their operating experiences, opinions on key location factors, and any help they would desire from the state or a locality.

We would advise that at least **20% of the surveyed population be interviewed in person**. Here, NJDCED would rely upon internal staff, BEP reps, and New Jersey Ambassadors (or business volunteers).

Of course, any immediate problem that a company reports would be swiftly acted upon. The customer service rep at the toll free number would be alerted and start the wheels of assistance in motion.

The survey/call program would also have other tangible benefits (beyond problem resolution for certain companies). These benefits (e.g., product improvement plans) are discussed below. However, to fully capitalize on such benefits, **results must be tabulated for each county and statewide**. Also, where possible, results should be **cross tabulated** (e.g., by industry, company size, average wage level, etc.).

The survey and in-person calls should be undertaken every year. This will permit trend analysis.

Results should be utilized for **formal product improvement plans (i.e. upgrading the business climate) both at the state and local levels**. Also, results can be used as base material for the **Governor to deliver formal state of NJ business addresses**.

It is conceivable that NJDCED could enlist the aid of a college or university to administer the survey and process results. Once results are finalized, summaries should be sent to all firms who responded. Full results would be available upon request. Firms who didn't participate in the survey would be charged (perhaps $50) for copies of the report.

Both survey/call **results and the plan to improve the state's business climate, should be communicated** to corporate leaders, government officials, civic clubs, and other stakeholders. During the course of the year, quarterly updates on accomplishments, per the product improvement plan, to key stakeholders should be made. We suggest that this be done by NJDCED for the **state** and by the appropriate economic development group for **each county**.

Estimated cost of this effort would be around **$75,000.** Benefits would include obtaining feedback from the customer on what is right and wrong with the business climate so that continuous improvement can be made. Also, results will help agencies to better target their efforts aimed at meeting the needs of New Jersey businesses.

10. An **Industry Appreciation Week** should be established in the state. NJDCED would take the lead in arranging events. These would include:

    - Schools concentrating on the state's industrial history and future
    - Tours of NJ industries by schoolchildren
    - Displays and lectures by libraries and museums
    - Talks by business executives at local schools
    - Speakers at breakfasts and lunches addressing various aspects of economic development (statewide and each county)
    - Appreciation dinners for NJ businesses and the Ambassadors
    - Governor's state of the business address

- Announcement of retention survey/call results and product improvement plans (state and county)

- Print and broadcast media publicity for the Appreciation Week events

Each county should have an appreciation week as part of the state program. Hence, excellent coordination would be required.

Estimated cost would be in the **$150,000** range. Hopefully, much of this cost could be offset by in kind or cash contributions from businesses and not-for-profit organizations. Benefits would embrace an outward display that New Jersey values business and will continue efforts to strengthen the engine that drives economic vitality and better living standards.

11. New Jersey's 19 community colleges (with 38 campuses) comprise a valuable resource for economic development. Many have specific economic development programs. We recommend that the NJDCED **formally include the community colleges in the business retention and expansion effort**. Their input in the design and implementation of outreach programs for New Jersey businesses will be most valuable. The Director of the proposed Office of Business Retention and Expansion should meet once a month with the designated representative from the state's community college association.

Estimated cost of greater community college involvement will be minimal. The benefits will include far more direct and indirect assistance for helping NJ businesses to remain profitable and grow.

Near Term Recommendations

1. **Regionalize the New Jersey Department of Commerce and Economic Development's business retention and expansion services.** The Strategy Team endorses the recommendation made by the NJ Assembly's Task Force on Business Retention, Expansion, and Export Opportunities. This report called for the **creation of seven field offices.**

There would be one office within each of the current regions as defined by the NJ Department of Labor. A map of the seven regions appears as Exhibit VI.

Additional recommendations pertaining to the NJDCED field (or satellite) offices appear below. The estimated cost for instituting the field office strategy (near term recommendations 1 through 7) would approximate $2.3 million per annum (all inclusive estimate, viz., payroll, promotion, and overhead). Benefits would embrace the following:

- Better service to existing businesses

- Significantly greater number of NJ businesses receiving assistance relative to business operations.

- More companies deciding to stay and/ or grow in New Jersey

- More effective and efficient delivery of economic development related services by state government agencies to communities and businesses

- Support of and more productive working relationships with city and county economic development entities

- **Eventual co-location with regional offices of other state agencies, such as environmental permitting, to provide faster and better service to local businesses**

2. **Each office should be staffed with two retention/expansion professionals and a support person.**

3. **Prime responsibilities of the field offices should encompass the following:**

    - **Supporting local economic development** in areas of community preparedness, awareness of federal and state programs pertinent to economic development, technical guidance in applying for various state and federal assistance programs, reviewing retention survey/call results to provide input for design of local business climate improvement measures, ensuring that complaints aired by local businesses are promptly addressed (if state agencies are involved), coordinating the various outreach programs already in existence, addressing business and citizen groups both on the importance of economic development and accomplishments by NJDCED, **helping to arrange company interviews for prospects** that are looking at the region to establish a new operation, and participating on permit approval SWAT teams both for industry expansion and new facilities.

    - Working with various state agencies (e.g.,, Labor and Transportation) to ensure that available services are both readily understood by local government officials and delivered as efficiently as possible (with minimal overlap).

    - Conducting **visitations** to local companies on a regular basis. These would be in addition to the firms contacted as part of the annual survey/call program. Of course, duplication with firms participating in that effort must be avoided. Targeted companies (for visitation) need to be identified in collaboration with both the appropriate local economic development group and also the electric power company economic development representative.

    - Effectively and efficiently **utilize members of the New Jersey Ambassadors** who are devoted to business retention/expansion.

    - Formally communicate Office activities to local economic development agencies at least once a quarter.

    - Serving as mini "resource centers" for companies contemplating expansion within or relocation to New Jersey.

4. The field offices need to be housed in **first class quarters** that have ample meeting room and presentation space.

5. Each center needs to be **tied into the central office's database.**

6. **A uniform record of companies assisted must be kept on an electronic data base with updates sent to the central office on a daily basis.**

7. **A statewide master training coordinating council should be established**. We recommend that NJDCED's Office of Customized Training be the vehicle for creation of this council. The council would coordinate all training programs aimed at workforce preparedness and vocational/technical training. The idea is to foster greater efficiency, accountability, and effectiveness of diverse training programs.

   One critical area where coordination is needed embodies basic skills training. Myriad organizations are involved in literacy and basic skills remediation. But the efforts are scattered and vary greatly in effectiveness.

   The Council should include representatives from government training programs, private industry councils, community colleges, vo-tech high schools, literacy groups, and senior human resource executives from NJ businesses.

   We suggest an advisory board of directors approximating 40 people. An executive committee of some eight people would provide closer direction to staff. The board would be appointed by the Governor. At least one third of the board should be from the private sector.

   Estimated cost would be approximately $60,000 (assumes transfer of two existing staff -- one professional and one support). Thus, the budget is for promotion and overhead. Benefits would comprise responsive and efficient training programs for New Jersey businesses and better workforce preparedness particularly in basic skills attainment.

Medium Term Recommendations

None

Summary of Retention/Expansion Costs/Benefits

Current NJDCED resources devoted to retention/expansion include six employees (four professionals and two support) and an estimated $550,000 annual expenditure. Our recommendations call for an incremental 21 employees (strictly for the field as we believe the current central office contingent could then handle customer service), coordination of prime players, promotion of the program, and the master training coordination council. Incremental expenditures would be **$2.8 million** (bringing the total budget to about $3.6 million). Cost elements of the incremental expenses are:

Category	***Amount***
Toll Free Number	$ 50,000 *
Resource Guide	50,000 *
Survey/calls	75,000 *
Appreciation Week	150,000 *
Training Council	60,000 **
Regional Offices	2,300,000 **
Advertising (included under business attraction)	--}
Ambassadors (included under business attraction)	--}
Contingency (5%)	134,300
TOTAL	$2,819,300

Notes:
* Immediate
** Near Term

We believe that the program as described above would result in a minimum of 3,500 jobs a year either saved or expanded (vs. the current estimate of 1,500). At the 3,500 job plateau total state and local revenue would be around $35 million as opposed to $15 million from the present effort.

Therefore, it is our best estimate that the incremental $2.8 million expenditure would yield another 2,000 jobs and $20 million state and local tax revenue. This is a conservative estimate in that the effects of spin-off employment are not included.

Exhibit I

NUMBER OF ESTABLISHMENTS BY MAJOR INDUSTRY CATEGORY: NEW JERSEY

Source: American Business Information

STATE SUMMARY

	Number of Employees		
Sector	20 or more	50 or more	100 or more
Manufacturing	4,070	2,026	1,048
Wholesale Trade	3,709	1,451	632
Finance, Insurance & Real Estate	2,220	693	310
Business Services	1,386	532	256
Total	11,385	4,702	2,246

Exhibit II

COUNTY SUMMARY: ESTABLISHMENTS WITH 20 OR MORE EMPLOYEES

County	Manufacturing	Wholesale Trade	F.I.R.E.	Business Services	TOTAL
Atlantic	47	63	53	34	197
Bergen	683	626	293	212	1,814
Burlington	164	187	148	79	578
Camden	223	205	133	76	637
Cape May	16	22	21	9	68
Cumberland	71	85	27	11	194
Essex	441	347	202	143	1,133
Gloucester	86	86	21	22	215
Hudson	291	268	104	68	731
Hunterdon	47	36	28	11	122
Mercer	124	122	127	74	447
Middlesex	454	404	210	136	1,204
Monmouth	164	147	177	73	561
Morris	252	216	211	118	797
Ocean	56	76	59	48	239
Passaic	338	305	117	73	833
Salem	10	17	8	6	41
Somerset	151	122	108	63	444
Sussex	25	33	22	13	93
Union	381	312	141	110	944
Warren	46	30	10	7	93
TOTAL	4,070	3,709	2,220	1,386	11,385

Exhibit III

COUNTY SUMMARY: ESTABLISHMENTS WITH 50 OR MORE EMPLOYEES

County	Manufacturing	Wholesale Trade	F.I.R.E.	Business Services	TOTAL
Atlantic	24	19	19	13	75
Bergen	344	255	86	80	765
Burlington	77	58	40	35	210
Camden	116	78	39	25	258
Cape May	5	8	8	1	22
Cumberland	42	34	10	4	90
Essex	176	126	70	57	429
Gloucester	43	34	6	7	90
Hudson	138	123	50	30	341
Hunterdon	26	9	4	2	41
Mercer	66	47	43	32	188
Middlesex	257	166	63	48	534
Monmouth	69	45	38	23	175
Morris	142	89	78	60	369
Ocean	24	22	14	12	72
Passaic	171	128	43	36	378
Salem	4	8	2	2	16
Somerset	93	50	32	17	192
Sussex	10	9	8	3	30
Union	175	132	37	45	389
Warren	24	11	3	-	38
TOTAL	2,026	1,451	693	532	4,702

Exhibit IV

COUNTY SUMMARY: ESTABLISHMENTS WITH 100 OR MORE EMPLOYEES

County	Manufacturing	Wholesale Trade	F.I.R.E.	Business Services	TOTAL
Atlantic	8	6	13	8	35
Bergen	174	111	42	35	362
Burlington	42	34	12	18	106
Camden	56	26	11	11	104
Cape May	3	3	1	1	8
Cumberland	28	16	4	3	51
Essex	77	53	30	25	185
Gloucester	27	13	3	2	45
Hudson	59	53	26	16	154
Hunterdon	16	1	1	2	20
Mercer	35	17	24	16	92
Middlesex	134	77	33	21	265
Monmouth	33	14	14	11	72
Morris	82	49	32	25	188
Ocean	11	7	7	8	33
Passaic	88	52	19	21	180
Salem	3	6	-	1	10
Somerset	65	25	19	11	120
Sussex	3	3	3	1	10
Union	88	60	15	20	183
Warren	16	6	1	-	23
TOTAL	1,048	632	310	256	2,246

Exhibit V

SUMMARY OF TOTAL ESTABLISHMENTS
(In Four Business Sectors by County)

	Size of Employment			
County	**20+**	**50+**	**100+**	**Total**
Atlantic	197	75	35	307
Bergen	1,814	765	362	2,941
Burlington	578	210	106	894
Camden	637	258	104	999
Cape May	68	22	8	98
Cumberland	194	90	51	335
Essex	1,133	429	185	1,747
Gloucester	215	90	45	350
Hudson	731	341	154	1,226
Hunterdon	122	41	20	183
Mercer	447	188	92	727
Middlesex	1,204	534	265	2,003
Monmouth	561	175	72	808
Morris	797	369	188	1,354
Ocean	239	72	33	344
Passaic	833	378	180	1,391
Salem	41	16	10	67
Somerset	444	192	120	756
Sussex	93	30	10	133
Union	944	389	183	1516
Warren	93	38	23	154
Total	**11,385**	**4,702**	**2,246**	**18,333**

EXHIBIT VI

SEVEN REGIONS FOR NJDCED RETENTION/EXPANSION FIELD OFFICES

Northcentral Region (Region I)

- **approx. 31,000 businesses**
- **Essex County**
- **Passaic County**

Northeastern Region (Region II)

- **approx. 30,000 businesses**
- **Bergen County**

Northwestern Region (Region III)

- **approx. 22,000 businesses**
- **Morris County**
- **Hunterdon County**
- **Sussex County**
- **Warren County**

Eastern Region (Region IV)

- **approx. 26,000 businesses**
- **Hudson County**
- **Union County**

Central Region (Region V)

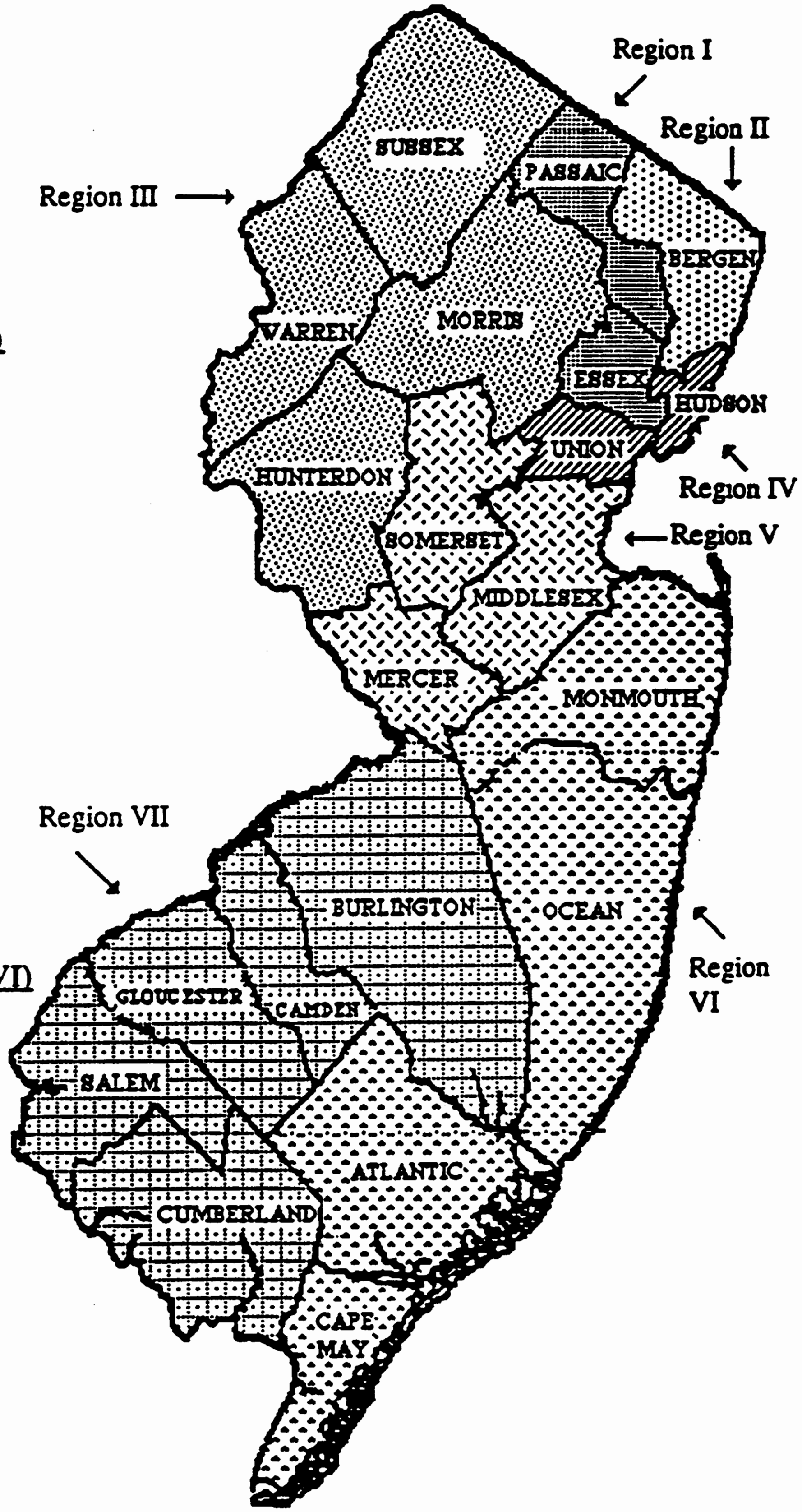
- **approx. 32,000 businesses**
- **Mercer County**
- **Middlesex County**
- **Somerset County**

Atlantic Coastal Region (Region VI)

- **approx. 34,000 businesses**
- **Atlantic County**
- **Cape May County**
- **Monmouth County**
- **Ocean County**

Southern Region (Region VII)

- **approx. 30,000 businesses**
- **Burlington County**
- **Camden County**
- **Cumberland County**
- **Gloucester County**
- **Salem County**



NOTE: The regional breakout is based on business distribution data as provided by the N.J. Department of Labor. Within this data the vast majority of businesses have fewer than ten employees.

Business Attraction

Situation

New Jersey's business attraction efforts pale in comparison with most other states, especially those we frequently compete against. Furthermore, New Jersey doesn't conjure up a favorable image to many firms unfamiliar with the state.

A dual focus marketing campaign to promote the state's impressive locational assets is urgently needed. One focus should be a general image building campaign designed to portray the state in a more favorable light. The second focus should be a marketing initiative oriented toward those industries that could most benefit from the key locational advantages New Jersey has to offer.

There are several powerful reasons why a proactive marketing program is needed. They are:

1. Manufacturing and selected service industries generate the greatest spin-off employment potential (ranging from 0.75 to 3 : 1) as they sell most of their products to regional, national, or international customers. Consequently, they generate the greatest demand for local services.

2. Approximately 25% of jobs created in any state can be attributed to companies in the aforementioned industries relocating to or establishing new operations in the respective state.

3. It is essential that this manufacturing and selected service industry base be continually replenished and expanded as New Jersey has sizable employment in mature industries (e.g., chemicals) where workforce downsizing is commonplace.

4. Due to a number of forces (e.g., high operating costs, lengthy permit approval time, response to overtures from other states, etc.) some companies based in New Jersey will either decide to place expansion elsewhere (e.g., Hoffman LaRoche based in Nutley, has established a major new plant in SC) or move to another state (e.g., Chase Home Mortgage from Bergen County to Tampa, FL).

5. Other states have established well funded and aggressive programs to recruit new businesses that could have located in New Jersey (e.g., NatWest's 1,500 person administrative support center recently established in Scranton, PA).

6. New Jersey has compelling locational pluses for international firms but our inward investment program is one of the most underfunded and understaffed of any populous state.

7. Between 1995 - 2000, the rate of job growth in New Jersey is projected to be roughly a third less than the US average.

Other states have long recognized the need for comprehensive marketing programs. This recognition has translated into substantial financial support for economic development marketing. Consider expenditures by some of the states that New Jersey often competes against.

State	***Annual Marketing Budget for Business Attraction ($ 000)***	***Population (000)***	***Per Capita Spending***
Florida	$10,403	13,679	$0.76
Iowa	5,876	2,814	2.09
Georgia	4,371	6,917	0.63
Maryland	7,952	4,965	1.60
New Jersey	**1,245**	**7,879**	**0.16**
North Carolina	4,679	6,945	0.67
Ohio	5,796	11, 091	0.52
Utah	5,100	1,860	2.74
Virginia	5,412	6,491	0.83

In order for New Jersey to effectively compete for new industry a major marketing effort is required. The Strategy Team calls for a significant program in 1995, to be expanded in the following year.

The program must have both domestic and international components. Recommendations for a competitive business attraction program follow. Please note that the **implementing agency for all recommendations appearing below is the New Jersey Department of Commerce and Economic Development (NJDCED).**

Immediate Recommendations

1. Launch an all out **general image building effort** both domestically and internationally. This should embrace print advertisements in the general business publications (e.g., Fortune, Business Week, Wall Street Journal, etc.). Public relations should also be a component of the endeavor. Radio and TV advertising in the Philadelphia and New York markets should be part of the program as well. Additionally, it will be important to publicize the state's new programs in New Jersey (e.g., newspaper ads, radio spots, speaking engagements, newsletters, etc.). A good beginning has already been made with the New Jersey Open For Business Campaign. The image building campaign should also be coordinated with tourism promotion.

   Estimated cost of recommendation: $1,500,000 per annum (incremental to present budget). Benefits: Image that encourages rather than discourages industry retention, expansion, and attraction. Also, a key ingredient for supporting the target industry plan outlined below. Without the general image building campaign, benefits quantified for target industry marketing would be less.

2. As soon as possible initiate a **target marketing program aimed at four industries**

   a. Food Processing

   b. Metal Fabrication

   c. Pharmaceuticals

   d. Back Offices

Attachment D presents an overview of each industry and the prime rationale for a New Jersey location. While other industries could have been chosen, the Team selected these four as holding the greatest promise for yielding impressive results over the near future.

The Team did not reinvent the wheel in recommending target industries. They were selected from a group that already exist as target markets by the state's three electric power utilities.

Attachment D presents an overview of each industry and the prime rationale for a New Jersey location. On balance, the industries met the most basic selection criteria which included the following:

- Each industry is both well represented and has flourished in New Jersey. Hence, the selections are in tune with marketplace realities.

- The four industries are locationally active. Reasons include one or more of the following: domestic demand, export growth, cost containment and efficiency, divestitures and acquisitions.

- New Jersey can accommodate the operational requirements of nearly all functions in each industry. These include R&D, manufacturing, assembly, and distribution.

- Several functions within each industry are well suited for an urban location (e.g., food products distribution, sheetmetal fabricating, and office support such as accounts payable).

- The industries have displayed a tendency to locate throughout the state (from north to south).

Estimated **costs of recommendations 2 - 4 (target marketing):** $900,000 (marketing only, excludes payroll and overhead). If added with the general image building campaign the marketing cost is $2.4 million. Currently, NJDCED spends about $350,000 on domestic marketing.

If payroll and overhead are included, current NJDCED budget for domestic business attraction is estimated at about $1.1 million. The recommended program (encompassing all immediate recommendations (i.e., except international) would cost approximately $4.3 million. **Thus, total incremental cost for domestic marketing (including payroll and overhead) is estimated at $3.2 million per annum.**

Benefits: incremental 4,300 jobs (above the current base of 7,200) and **$43 million tax revenue** (above the current base of $72 million) generated by NJDCED marketing efforts (assumes both general image building and target marketing are undertaken together).

This would bring the totals from: (a) 7,200 to 11,500 jobs and (b) $72 million to $115 million state and local tax revenue. These are conservative estimates in that they only account for direct jobs created via target marketing and general image building promotion.

Effects of spin-off employment are not included. We have assumed the national average on $1 million in state and local tax revenue for every 100 new industrial jobs created. Lastly, the benefits listed immediately above assume that all near term domestic marketing recommendations are adopted (i.e., recommendations 1 to 7 and 13 - 15).

3. **The best geographic areas to target are as follows:**

a. Food processing

- Metro NYC (the five boroughs, Long Island, and Westchester County)
- Metro Philadelphia
- The 11 western states (for either a regional plant or warehouse)
- Selected foreign countries (e.g., Italy, France, Spain, Portugal, United Kingdom, Switzerland, Mexico, Canada)

b. Metal Fabrication

- Metro NYC
- Southwestern CT
- Metro Philadelphia
- California (for regional production facilities)
- Selected foreign countries (e.g., Germany, Holland, United Kingdom, Finland, Sweden, Denmark, Canada)

c. Pharmaceuticals

- The entire US
- Selected foreign countries (e.g., United Kingdom, Germany, France, Switzerland)

d. Back Office

- New York City
- Philadelphia

4. **The target marketing campaign should encompass the following sales tactics:**

a. Direct mail (at least three times a year) to the following:

- Companies over a certain size in the aforementioned domestic markets for each industry (company counts by geography are contained in the Target Industry Profiles comprising Attachment D).
- The international campaign must focus on US subsidiaries, embassies and consulates, and business service firms with large international practices (e.g., attorneys, accountants, architects/engineers, etc.).
- In Exhibit D-I (of Attachment D) mailing list sources for both domestic and international marketing are given.

b. Advertising in two or three real estate industry trade journals (e.g., Site Selection, NACORE, Area Development, Plants/Sites/Parks, etc.). Ads should be at least one half page and run a minimum of four times a year. Exhibit D-II depicts advertising rates for each journal.

c. Advertising in one or more trade industry journals. Black and white ads at least one-quarter page, a minimum of four times a year. Recommended journals and ad rates are highlighted in the target industry profiles (Attachment D).

d. Selected broadcast advertising on Philadelphia and New York radio and TV stations. Spots-ads on public TV and radio in New Jersey should also be considered. This would actually be multiple purpose advertising (i.e., part of general image building, retention/expansion, and target marketing) designed to:

- Promote New Jersey's business assistance programs
- Portray a more favorable image of New Jersey, both as a place to operate a business and live
- Stress the importance of economic development and highlight successes of NJDCED
- Publicize the state's advantages for the target industries

Where practical, these ads should dovetail with tourism advertisements.

We believe that the campaign should have at least six radio spots and one TV spot (15 seconds each) in each market (Philadelphia, New York, and New Jersey) a week. Advertising rates for selected radio and TV stations are supplied in Exhibit D-III.

e. Print advertising in selected New Jersey business publications and newspapers (see Exhibit D-IV). This advertising would again be multiple purpose, including:

- Promoting the importance of economic development
- Promoting the importance of a strong manufacturing sector
- Promoting NJDCED's services especially the retention programs
- Building a more positive self image of NJ among businesses and residents
- Encouraging companies in the target industries to expand in New Jersey

f. Public relations aimed at getting coverage in general business journals, trade publications, wire services for distribution to local media, etc. Again, public relations should be oriented toward both general image building and target industries.

g. Conferences and special seminars applicable to target industries. NJDCED, higher education Commission, Science and Technology, and business volunteers should attempt to have national and regional conferences of trade groups held in NJ. The colleges/universities should also offer periodic seminars that would attract executives from the target industries.

h. Keeping abreast of industry trends through trade associations. Some industry associations limit membership to corporations. In such instances, NJDCED should have a volunteer company supply appropriate information from the respective group. Trade associations pertinent to each target industry are listed in the target industry profiles (Attachment D).

i. Exhibits at both domestic and international trade industry shows. Applicable shows, with display booth costs, are supplied for each industry in the Profiles (Attachment D).

j. Sales prospecting calls on target industry companies within the prime geographic markets. **This includes calling on companies in New York City and Philadelphia. The Team strongly believes that this is an essential sales tactic.** Competitor areas (including representatives from Philadelphia, State of Pennsylvania, and certain communities in New York State) routinely call on New Jersey companies. Also, economic development groups from around the US call on firms in Philadelphia. and New York.

To effectively compete, NJDCED **must have the same capability**. These calls can be positioned as saving jobs for the region rather than raiding. We advocate at least four formal trips (each about 3 days) per annum to the New York and Philadelphia areas. One to two trips should be scheduled for other geographic markets.

NJDCED should seek the assistance of other economic development groups in the state and business volunteers in terms of companies and persons to contact. But calls should not be limited to these firms. Other companies should be targeted as well. For larger corporations, the head of real estate or administration would be a logical contact. In smaller companies the chairman, president, or chief financial officer would be the most appropriate contact.

Each contact should be sent a letter in advance. Then a telephone call should be made to schedule an appointment. Unless requested by the contact, appointments should be less than 20 minutes.

During the meeting, the NJ sales representative should introduce services of NJDCED, discuss recent economic development advances, briefly state some of the state's prime advantages, and demonstrate that NJDCED would be a trusted resource should the firm ever consider a NJ location. Leave behind literature should be brief unless the company is actively searching for a location that could involve NJ.

k. One or **two familiarization tours** a year for top executives in target companies. The "fam tour" should be held around a special event such as a professional golf tournament. Executives and their spouses would be invited for up to two days. New Jersey Ambassadors would host the executive and guests. Sales pitches should be kept to a minimum. An appearance by the Governor would be desirable. All expenses would be paid for participants.

   Fam tours can go a long way toward helping an area reforge its business climate image. Many areas (including states) use this effective sales tactic. Among such areas are Philadelphia, Cleveland, Atlanta, Maryland, Utah, and West Virginia.

5. **NJDCED should have a formal outreach program to real estate brokers and consultants.** This should include direct mail and occasional in person sales calls. On a national basis, the larger players would be targeted. In NJ, NYC, and Philadelphia, small to mid size firms would also be singled out. Most of the companies that should be contacted would be members of either the International Association of Corporate Real Estate Executives (NACORE) or the International Development Research Council (IDRC).

6. NJDCED should attend national and local chapter meetings of **NACORE and IDRC**. Furthermore, New Jersey should have a hospitality suite for two nights at both IDRC World Congress. At NACORE, New Jersey should have a major display booth. Other economic development entities in the state could participate in these activities as well.

7. NJDCED should sponsor a yearly **red carpet** tour for brokers, consultants, and developers. The day would include briefings, questions and answers, and a tour of an exciting development(s). An appearance by the Governor is recommended.

8. Regarding **international,** we recommend an aggressive and comprehensive reverse (or inward) investment program. Concerning international marketing strategy, we have already cited direct mail under recommendation 4a. Additional reverse investment sales tactics are outlined in recommendations 9-12.

   Estimated **cost of reverse investment**: incremental $348,000 (marketing only) over a current base of less than $30,000 . If personnel is considered, the cost will go from about $160,000 to $960,000 **(incremental $800,000)**. We should note that cost estimates assume that portions of marketing expenses will be borne by other economic development agencies who participate with NJDCED in reverse investment marketing.

   Benefits: incremental 1,700 jobs (from current 800) and $17 million state and local tax revenue (from current $8 million). Here again, the benefits do not include effects of spin-off employment. If implemented, the full cost will be $960,300 a year that generates 2,500 new jobs and $25 million state and local tax revenue.

9. Institute a **relationship building program with the international community in the U.S.,** concentrating in the New York to Washington corridor. At least one professional should be assigned full-time responsibility for this effort. The effort must include:

   a. Periodic calls on international bankers, lawyers, architects, import/export brokers, etc.

   b. Periodic calls on foreign embassies, consulates, and chambers of commerce

   c. Attendance at seminars, workshops, conferences, receptions, etc.

   d. Periodic calls on foreign subsidiary companies (in target industries) with a presence in the New York or Philadelphia areas

10. NJDCED should conduct at least **eight reverse investment missions per annum**. These should be oriented toward target industries and countries. The countries listed under recommendation 3 (above) are suggested. Among characteristics of successful reverse investment missions are:

    a. Participation of three to nine salespersons which could include economic development officials (state, local, and utility), seaport and airport representatives, and business volunteers

    b. Targeting two to three cities per country

    c. Spending approximately two to three days per city

    d. Holding briefings for trade promotion groups such as industry associations, chambers, consultants, etc.

    e. Briefings must be in first class quarters (hotels or offices of a NJ company with a presence in the city)

f. Personal calls (no more than two people per call) on:

- Companies with a presence in NJ (whether or not in a target industry)
- Peer and supplier firms identified by foreign companies currently operating in New Jersey
- Companies in target industries

g. Calls and briefings arranged by staff from NJDCED's overseas offices (do not expect help from US embassies in destination countries as they are instructed to assist in exports not inward investment)

h. Governor participation in briefings and sales calls

i. Cross cultural training for salespersons

11. NJDCED should **exhibit** at a minimum of **four foreign trade fairs** or shows per annum. Recommended shows and exhibition costs appear in Exhibit D-V (in Attachment D). It would make sense to conduct missions immediately before or after a couple of these shows.

12. Sales literature should be translated and printed in **several languages** including:

a. German
b. Dutch
c. French
d. Spanish
e. Japanese
f. Korean
g. Chinese
h. Language of any country targeted for a reverse investment mission

13. A **New Jersey Business Ambassadors Corps** should be formed. The Corps should be composed **of business volunteers** who would help sell NJ to US and international businesses. A contingent of Ambassadors would also be utilized in NJDCED's industry retention program.

Many states have Ambassadors programs but only a few are regarded as effective. Among them are Kansas, Nebraska, Oklahoma, and South Carolina. The Strategy Team has evaluated these programs in developing our recommendations for NJ. We believe that the proposed program for NJ would be among the most productive of any in the nation.

Specific recommendations for creating the New Jersey Business Ambassadors Corps follow:

a. Initially, there would be 90 ambassadors divided as follows:

- 20 domestic marketing
- 20 international marketing
- 50 industry retention (one to three per county)

b. The Ambassadors would be appointed and report directly to the Governor

c. The Ambassadors program should be organized as a 501(c)3 organization

d. A senior NJDCED professional would be assigned to coordinate the program

e. The 501(c)3. would not have a staff. Rather administrative functions would be handled by NJDCED

f. A small governing board would oversee the program. Board members would be composed of the following:

- One NJDCED representative
- One utility economic development representative
- Three county economic development representatives
- Six Ambassadors (at least one from each contingent, viz., retention, international, domestic marketing)
- Except for NJDCED, each Board member would serve two year terms
- Initially Board members would be appointed by the Governor
- Thereafter, they would be elected by the existing Board, subject to the Governor's approval

g. Ambassadors would be nominated by county and utility economic development groups (balanced geographic coverage is important)

h. The ambassadors would come exclusively from the private sector

i. Ambassadors should be senior executives within their corporations

k. Appointments would be for one year

l. Reappointments would be based primarily on participation. Inactive ambassadors should not be reappointed

m. Appointments and reappointments must be approved by the Board and confirmed by the Governor

n. Ambassadors should undergo formal training by the NJDCED

o. Ambassadors should meet quarterly, where they would be briefed on economic development related matters

p. The Ambassadors should be formally recognized at an annual dinner hosted by the Governor

Domestic and international ambassadors would be on call to meet with prospects as needed. They would also serve as a resource to help make connections for the prospective company.

Also, each ambassador would be occasionally asked to make direct sales calls at the home office of a corporate prospect. Most often, these calls would be made with NJDCED personnel. However, on occasion, solo calls would be required. Ambassadors would also be asked to attend trade shows with NJDCED staff and participate on reverse investment missions.

The **industry retention ambassadors** would be requested to call on NJ companies to both uncover any operational difficulties and encourage their expansion within the state. These calls would be orchestrated by NJDCED in consultation with city and county economic development agencies.

Estimated cost: $75,000 per annum. Benefits: Prime ingredient for successful marketing and retention. Ensures active participation and insights from the business community.

14. The **NJDCED is strongly urged to coordinate marketing activities with those organizations who already have programs in place**. These include the electric power companies, port authorities, Regional Plan Association, and several county economic development entities. Cooperation would be most obvious in the areas of:

    a. Shared advertising

    b. Participation in trade shows and reverse investment missions

    c. Sales calls on prospect development trips

    d. Development of sales literature

    e. Prospect handling (especially in overload situations)

    f. Customized research for prospect presentations

    Estimated cost: $15,000 (meeting space mailings, travel, entertainment, materials, etc.). **Benefits:** maximum efficiency and cost savings for all involved parties. Better service to corporate prospects.

15. **A Marketing Coordinating Council** should be established. This would act as a forum for the interchange of marketplace intelligence and coordination of various sales campaigns. The Strategy Team suggests that the New Jersey Industrial Development Association (NJIDA) be chosen as the vehicle for this Council. In effect, the **Council would be a standing Committee of NJIDA.**

    Estimated Cost: $25,000 (mostly for meeting room space, speakers, materials, etc.). **Benefits:** more effective programs as organizations learn from the successes and shortcomings of respective efforts. Greater efficiency and cost savings as duplication of effort is held to a minimum.

Near Term Recommendations

1. **Expand the target industry program** to embrace approximately eight sectors. Possibilities include the following:

    a. Industrial Electronics

    b. Telecommunications Equipment

    c. Scientific Instruments

    d. Advanced Materials

    e. Adhesives and Sealants

    f. Industrial Machinery

    g. Medical Equipment

    h. Biotechnology

    i. Software Development

    j. Photonics

    k. Publishing

    Estimated cost: Another $1.0 million. Benefits: Incremental 2,800 jobs and $28 million state and local tax revenue.

    Distribution was not mentioned as a separate target for three reasons. First, most warehouse location projects involve a narrowly defined geographic area based on logistics. Second, many of the target industries will include warehouse functions. Third, other organizations such as the Port Authority of NY/NJ actively pursue distribution operations.

    While we **do not recommend distribution** for proactive marketing by NJDCED, The Strategy Team suggests that special literature highlighting the state's advantages for distribution be prepared. This in turn would be given to appropriate prospects.

2. The **exception** to the above commentary on distribution involves pick and pack and order fulfillment distribution centers. Typically, the site search area will be larger for such operations. Also, there are many examples of such businesses that operate successfully in center cities.

    The Team therefore recommends that NJDCED launch a target industry campaign aimed at the pick and pack and order fulfillment distribution industries. Special brochures should be developed, with emphasis on the advantages of our center cities.

    A direct mail and advertising campaign would also be appropriate. This would include trade industry advertising.

Estimated cost: $175,000 per annum. Estimated benefits: 500 jobs and $5 million state and local tax revenue. Hopefully, most of the jobs would be created in the state's center cities.

3. **Expand the reverse investment program to include advertising in overseas business publications** (e.g., Asian Wall Street Journal, international edition of Business Week, the Economist, etc.). Public relations and direct mail would also be expanded to include foreign countries. Additionally, the number of **reverse investment missions would be increased from 8 to 10.**

Estimated cost: Another $2.2 million per annum ($200,000 for the missions and miscellaneous and $2 million for advertising). Benefits: incremental 2,000 jobs and $20 million in state and local revenue.

Medium Term Recommendations

1. **Review the Total Marketing Program and Adjust Accordingly**. Estimated cost should be minimal. Benefit is assuredness that the program remains fresh and reflective of marketplace realities.

2. **NJDCED should be housed in Class A, commercial office space**. The Strategy Team recommends that the marketing, retention, and research units move to new quarters. One-time cost could be in the $125,000 range. Annual rent (assuming 13,000 SF) would likely approximate $250,000. Office space should have ample room for prospect meetings and presentations.

   The benefits would include making a favorable impression about the quality of the organization and the state it represents. Other states have followed similar approaches including Connecticut, Delaware, Indiana, and Virginia. This appears to be a growing trend and we suggest that New Jersey be ahead of the curve.

Summation of Costs and Benefits

The Team has prepared a fairly detailed budget for implementation of our business attraction recommendations. Line by line estimates (e.g., advertising, direct mail, payroll, etc.) are presented in Exhibit VII. Program costs are given for each set of recommendations (i.e., immediate, near term, and medium term).

Currently, NJDCED spends about $1.2 million (roughly $377,000 promotion and $842,000 payroll and overhead) on business attraction (domestic and international). The Team's immediate recommendations call for an expenditure of $5.3 million (including the current $1.2 million outlay). Net cost would therefore amount to around $4.1 million per annum.

The annual return on this $4.1 million expenditure for immediate recommendations is projected at 6,000 jobs and $60 million state and local tax revenue. This does not incorporate the effects of spin-off employment and associated tax receipts.

A summation of the **costs and benefits for immediate recommendations follows.**

	Current	***Proposed***	***Incremental***
Annual Cost			
Payroll/Overhead	$ 841,700	$1,768,800	$ 927,100
Marketing	377,000	3,109,000	2,732000
Contingency	-0-	338,300	338,300
Total	**$1,218,700**	**$5,216,100**	**$3,997,400**
Employment Generated By Program	8,000	14,000	6,000
State/Local Tax Revenue Generated By Program	$80,000,000	$140,000,000	$60,000,000

Near term and medium term recommendations would cost another $4.2 million as shown below:

Near or Medium Term Recommendations	***Cost***
Four Additional Target Industries	$1,000,000
Special Distribution Target Industry For Urban Areas	175,000
International Advertising and PR	2,000,000
Two Additional Reverse Investment Missions	200,000
Payroll/Overhead	355,900
Miscellaneous	150,000
New Office Quarters	375,000
Total	**$4,255,900**

The bottom line return on investment from incremental marketing expenditures is as follows:

Recommendation Grouping	***Incremental Cost***	***Incremental Direct Jobs***	***Incremental State & Local Tax Revenue***
Immediate	$4,000,000	6,000	$ 60,000,000
Near and Medium	4,300,000	5,300	53,000,000
Total	**$8,300,000**	**11,300**	**$113,000,000**

EXHIBIT VII

ESTIMATED BUSINESS ATTRACTION BUDGET (1)

Category	Annual Expenditures
Immediate Recommendations	
General image building (2)	$1,500,000
Target marketing	
Direct mail (3)	90,000
Advertising (4)	400,000
Public relations (5)	150,000
Seminars/events (6)	40,000
Association dues (7)	20,000
Publications (8)	25,000
Trade industry shows (9)	110,000
FAM Tours (10)	55,000
Prospect sales calls (11)	24,000
Subtotal	$914,000

Category	Annual Expenditures
Immediate Recommendations (cont'd.)	
Consultant/broker outreach (12)	$15,000
NACORE/IDRC (13)	$75,000
Red carpet tour (14)	$20,000
International	
Direct mail (international) (15)	$40,000
Reverse investment missions (16)	200,000
Trade fairs/shows (17)	100,000
Relationship building (in US)	35,000
Subtotal	$375,000
Sales literature/materials (18)	$70,000
Custom presentations (19)	$25,000
Ambassadors (20)	$75,000
Coordination (21)	$15,000
Marketing Council (22)	$25,000
Payroll	
Domestic (23)	1,021,800
International (24)	440,200
Subtotal	$1,462,000

Category	Annual Expenditures
Immediate Recommendations (cont.)	
Overhead (25)	
Domestic	$196,600
International	110,200
Subtotal	$306,800
Contingency (7.0%) (26)	$338,300
TOTAL	$5,216,100
Near Term Recommendations (all costs incremental to above)	
	$1,000,000
Expanded target marketing (27)	
Distribution (Pick Pack)	
Target marketing (for urban centers) (28)	$175,000
Additional reverse investment missions (29)	$200,000
Overseas advertising, public relations and direct mail (30)	$2,000,000
Subtotal	$3,375,000

Category	Annual Expenditures
Near Term Recommendations (cont.)	
Additional payroll (33)	$284,700
Additional overhead (31)	$71,200
Miscellaneous (32)	$150,000
Total (incremental to immediate) (34)	$3,880,900
Medium Term Recommendations	
Review/Adjust	$0
Office Quarters (35)	$375,000
Total (incremental to near term)	$375,000
TOTAL IMMEDIATE TERM RECOMMENDATIONS	$5,216,000
TOTAL NEAR TERM RECOMMENDATIONS	$3,880,900
TOTAL MEDIUM TERM RECOMMENDATIONS	$375,000
Subtotal	$9,472,000
CURRENT PROGRAM FUNDING	($1,218,700)
TOTAL INCREMENTAL COST (36)	$8,253,300

Notes:

1 Current budget approximately $1.2 million including payroll.
2 Includes: (a) advertising in general business journals, (b) broadcast (TV and ratio) advertising in New York, Philadelphia and New Jersey; and (c) advertising in New Jersey newspapers and business journals.
3 Mailings three times a year to prime geographic areas for the target industries. Also includes mailings to international subsidiaries (based in US), consultants/brokers, and others on NJDCED's permanent mailing list (e.g. past prospects).
4 Embraces real estate and trade industry journals.
5 Embodies a campaign for placement in target industry and general business publications. It is also likely that another $50,000-$100,000 would be required for PR under general image building. We have accounted for that amount in the $1.5 million general image building estimate.
6 Financial report for either NJDCED or other groups (e.g. universities) to sponsor educational symposia geared toward target industries.
7 Annual dues for trade industry groups and other professional associations.
8 Specialized publication subscriptions and assoc. memberships for target industries. Broad based publications (e.g. WSJ) would be included in overhead.
9 Encompasses all expenses (e.g. exhibition, travel, entertainment) for attending approximately 6 trade shows per annum.
10 Cost for inviting approximately 25 executives and spouses for a major event (e.g. golf tournament).
11 Travel and entertainment for at least 8 trips per year (e.g. 3 in greater New York, 3 in greater Philadelphia, and 2 elsewhere).
12 Entertainment (e.g. breakfast, lunch, cocktail reception, etc.) for consultants/brokers.
13 Attendance at the IDRC national (2 a year), NACORE national (1 a year), IDRC New Jersey Chapter (3 a year), and NACORE local chapters (in Philadelphia, New Jersey and New York, 9 a year for each area), hospitality suite at both IDRC World Congress, and display booth at national NACORE. Also includes travel and entertainment.
14 One day presentation and tour for developers, brokers, consultants, etc. Includes breakfast and lunch.
15 Direct mail to the international community in the U.S. (e.g. attorneys, accountants, architects, embassies, etc.).
16 All costs (travel, entertainment, space, etc.) for annual reverse investment missions to foreign countries.
17 Net costs to attend and display at 4 shows (e.g. Hanover Fair).
18 Internal preparation of promotional literature on desktop publishing system. Includes printing. Also incorporate translation.
19 Cost to prepare special presentations to major corporate prospects.
20 Reflects mostly out-of-pocket and publicity costs. Also includes an annual recognition dinner. Comparable budgets in other states are $50,000-$60,000. Because New Jersey will have a retention component as well, we projected a somewhat higher cost.
21 Includes mostly out-of-pocket expenses (e.g. printing the meeting announcements).
22 Cost for meeting space, printing announcements, travel and entertainment, guest speakers, etc.
23 Assumptions: Current staffing - 7 professionals at $385,000 combined salary, 3 support persons at $72,000 combined salary. New hires - 5 professionals at $275,000 combined salary, 2 support persons at $54,000 combined salary. Benefits for all employees at 30% of base salary.

24 Assumptions: Current staffing - 1 professional at $70,000 salary, 0.5 support person at $12,000 salary. New Hires - 5 professionals at $300,000 salary, 1.5 support persons at combined $39,000 salary. Benefits for all employees at 30% of base salary.

25 Assumes 25% base salary for all employees (existing and new hires).

26 Contingency at 7.0% of total marketing program expenditure.

27 Sales related costs (excluding payroll) for adding another 4 target industries. Cost embodies direct mail, advertising, trade industry shows, etc.

28 Sales-related costs (excluding brochures) for launching a separate campaign aimed at this industry.

29 Cost for undertaking two additional missions.

30 Comprehensive image and awareness campaign directed at foreign corporations particularly in Western Europe, Japan, Korea, Taiwan, Mexico and Canada.

31 Approximately 25% of base salary (for the 5 new hires).

32 Reserved for unforeseen needs. Estimated at $150,000.

33 Incremental as follows: 3 professionals at combined salary of $165,000, 2 support persons at combined salary of $54,000. Benefit level at 30% of base salary.

34 Cost of $3,880,900 including the international advertising, et.al. Excluding advertising, incremental cost would be $1,880,900.

35 Assumes 13,000 of Class A, office space. Approximately $125,000 for upfit of space. Roughly, $250,000 recurring rent (inclusive of all costs).

36 Total recommended program expenses less current business attraction budget.

International Trade

Situation

New Jersey's International Stature

New Jersey's international trade program is reasonably competitive with most other states (see Digest of International Economic Development Programs In Nine States -- Attachment C). Considering the Division of International Trade's (DIT) modest budget and staff, it is utilizing available resources in a reasonably efficient and productive manner.

Recognizing, however, that New Jersey is a gateway state, strategically located with excellent international infrastructure, its potential as an international trade powerhouse has not been fully realized. With well over 7,000 exporters and 2,000 foreign subsidiary operations, NJ enjoys one of the highest concentrations of foreign investment of any state. And with annual export sales approaching $15 billion, NJ ranks ninth nationally and second in its region behind New York. NJ enjoys a premier platform for import and export activity:

- Superb geographic location in the heart of the densely populated and industrialized Northeast corridor.
- Easy access to major deep-water ports and international airports.
- Superb surface and intermodal transportation systems.
- Proximity to the nation's premier international banking center.
- Availability of Foreign Trade Zones to facilitate specialized import and export activities.
- Availability of a productive and highly skilled work force.
- Excellent secondary and higher education systems.
- Cultural diversity and quality of life second to none.

For all of these reasons, NJ has become an international manufacturing and distribution center. The same reasons for which it has become a magnet for reverse investment, provide the ground and distinct business advantages for its native companies to become increasingly export driven.

Export Promotion Activities

With over 750,000 export driven jobs, international trade is a primary employment engine. Rather then increasing investment in export related programs to accelerate export sales, NJ has witnessed a significant decline in State supported initiatives. The Department of Commerce and Economic Development's Division of International Trade (DIT) has been especially hard hit. While responsibility has begun to shift in part to private sector supported programs, e.g., Chambers of Commerce, Small Business Development Centers, TradeLink NJ, Economic Development Authorities, etc., it remains DIT's responsibility to husband and coordinate these diverse initiatives.

This situation is especially critical because NJ companies are competing in a global marketplace where export sales will become essential to economic survival. The State has a vast population of businesses with exportable goods and services but **without the expertise** to successfully launch foreign target marketing initiatives. Hence, DIT must help identify export willing companies. It then must expand efforts to get export willing companies to become export ready. In addition, assistance to export ready firms must be broadened. A sense of urgency must be communicated because the State's economic vitality hinges on the growth of its small and medium business base. And there is tremendous opportunity for such firms to grow via exporting.

Other states have well understood the relationship between export sales and trade development, financing, and promotion programming. New Jersey must not only catch up to its competition, but also plan for an accelerated campaign that will sustain its growth and preserve its competitive position in the Northeast. With 20,000 direct new jobs and 32,000 indirect new jobs created for every $1 billion in export sales, New Jersey cannot afford to allow its support for international trade programming to continue to decline.

Results of a nine-state survey conducted by the Strategy Team illustrate the competitive disadvantage New Jersey faces in marketing to the global marketplace (see Attachment C). States surveyed were:

- Georgia
- Maryland
- Mississippi
- New Jersey
- New York
- North Carolina
- Pennsylvania
- Tennessee
- Virginia

As survey results indicate, state international budgets range from a low of $600,000 (TN) to a high of $4,200,000 (NY). New Jersey falls on the low side with a $1,500,000 budget. Staffing is similarly spread with 4 in TN and up to 27 in NY; NJ currently has a staff of 12.

Because of its **budget** shortfall, DIT has had to make some **hard choices**. Current resources are targeted to export ready companies. But little effort is devoted to pre-export. Also, assistance to export willing firms is limited. With the advent of the Whitman Administration, DIT has taken a more aggressive posture and reinitiated reverse investment missions, added new trade missions and shows, and is planning to use the Governor as the State's key salesperson.

DIT's export promotion activities include joint sponsorship of seminars and workshops, a newly re-established newsletter published in conjunction with the US Department of Commerce's field office, country information, guidebooks, several service provider directories, export willing company referrals to Small Business Development Centers and community colleges, a competitive export financing program through the NJ Economic Development Authority, participation in Commercial Foreign Service programs, and trade mission and trade show participation.

After a careful review of competing state international trade development, promotion, and financing programs, and a thorough evaluation of programs and services provided by local and regional agencies, the following recommendations are offered for review by the NJ Economic Development Master Plan Commission. Note that recommendations are grouped into three categories: Immediate (Now), Near Term (within 18 months), and Medium Term (more than 18 months). Recommendations presented below cover all relevant aspects of international trade **except reverse (or inward) investment**. Those recommendations (for reverse investment) were elucidated under Business Attraction.

Immediate Recommendations

1. There are multiple organizations within the State that promote international trade (including DIT). A consensus needs to be reached on goals, objectives, performance measures, coordination mechanism, and implementation responsibilities. Consequently, as quickly as possible, we recommend that the key players hold an all day **conference to resolve these challenges**. Groups that should attend this session include NJDCED's Commissioner, DIT, the two major Port Authorities, the three electric power utilities, and several representatives from the Commission's International Task Force. We suggest that Commissioner Medina convene the conference before year's end.

   Estimated cost: Minimal. Benefits: Beginning of a process to make existing programs more effective, ensure that new initiatives reach their potential, and reduce overlap and inefficiency.

2. **Set-up a toll free hot-line** to expedite information and service inquiries by NJ businesses. Three of our survey states, NY, TN, and VA have hot-lines in place to service their customer bases. The utility of this service appears to offer great potential and could encompass service to third party service providers including community colleges, SBDCs, local chambers, etc. The toll free number would not only provide access to State trade specialists to answer questions, but could also be configured to tap into a fax on demand database. The caller could receive by fax an extensive listing of resource information including data on how to export, sample import/export documents, incoming trade missions, international promotional events, export financing, external trade missions, state and federal programs, targeted trade shows, key contacts in foreign countries, export trading companies, etc.

   Access to this system should be at least 12 hours a day Monday-Friday and 8 hours on Saturday. DIT staff could track inquiries and follow up to determine level of satisfaction, and the need for personalized service. Before establishing this service, DIT needs to confer with PSE&G and JCP&L relative to their capabilities so that overlaps are minimized.

   Estimated cost: $100,000 for computer hardware, software, programming and data entry. We assume that current staff could undertake hot-line responsibilities. Anticipated **benefits** would be the **ability to service a large stream of inquiries** from export interested and export ready companies at minimal cost.

3. **More trade missions, fairs, gold key and matchmaker programs, and catalogue shows** need to be planned to promote exports and to provide additional platforms for NJ companies to showcase their goods and services to selected importers, export trading companies, and potential customers. A total of **eight trade missions** (up from 6) should be conducted annually. New missions could be directed toward developing countries, including Mexico which should be a primary target. **Four trade fairs** (up from 2) should be scheduled with booth space subsidized by business participants; shows sponsored by the US Department of Commerce should be given priority and space leased at the US pavilions. At least **twelve catalogue shows** (up from 7) should be scheduled each year. Company representatives could join the State delegation or provide catalogues.

   Participation in **US Department of Commerce Matchmaker and Gold Key programs should also be increased by at least one third**. Estimated cost would be approximately $10,000 per mission, $30,000 per trade fair, $5,000 per catalogue show and $20,000 per Gold Key and Matchmaker Program covering a one week period. Participating exporters and development professionals would pay their own way.

   Total annual cost for an expanded trade development program is **estimated at $300,000.** This represents an incremental cost of approximately $165,000. **Anticipated benefits** would include **increased State visibility** and exposure to prospective buyers of NJ goods and services, and most importantly finalization of more export orders for NJ companies.

2. **Revamp the NJEDA international loan making and packaging policies.** The intent is to carefully examine how EDA efforts can be made more effective in servicing the export willing market and small export ready companies. Other state EDAs have become proactive in facilitating the loan packaging process so that loan applications for both commercial bank consideration and the Export-Import Bank, Small Business Administration and venture capital firms review can be processed according to their standards and procedures. **NJEDA should provide referral, credit analysis, and loan servicing functions.**

   NJEDA offers a one-year revolving line of credit for up to $1 million for the purchase of raw materials, components, labor costs, and shipping expenses. EDA also offers an Export Working Capital Loan program to assist businesses unable to get financing on their own or other EDA programs. A one year revolving line of credit for up to $250,000 can be established to purchase materials and for production costs. Both of these loan programs could be expanded to service a larger number of exporters if **NJEDA revised its lending credit policies to provide for a "reasonable assurance of repayment" for export loans.**

   In effect, we are recommending that **NJEDA become an integrated packager** of export loan assistance. EDA would stay with a company until sufficient financing is arranged. In certain cases, direct financing, up to $250,000, would also be provided.

   Additional staffing and resources required to implement these changes could be sourced from the proposed export tax credit discussed above. An export loan fund could also be supported to expand EDA loan programs. New export financing education seminars could also be conducted to better communicate and promote new loan packaging and making policies.

3. If NJDCED enlarges its business retention program to include field offices, **calls should be made on companies to stimulate interest in exporting.** When conducting interviews for business retention, the issue of exporting should be brought forward. Also, during the course of a year, other special company calls (in-person) should be made for the purpose of getting firms to the export willing stage.

   To avoid duplication, this effort needs to be coordinated with the utilities and local economic development agencies. Additionally, if a utility or local agency plans on conducting a survey relating to exporting, NJDCED could lend support and expertise.

   The field office personnel would of course work closely with DIT staff on all matters relating to international trade.

   Cost of this export ready effort would be minimal if NJDCED establishes regional offices. Benefits should include more companies willing to export and faster problem resolution for those firms that currently sell goods or services overseas.

4. **Supplemental foreign country information reports** are becoming increasingly popular among competing states. These are in addition to those produced by the US Department of Commerce. They can be targeted to specific industries where a state enjoys export concentrations or a technological edge. These reports may become increasingly important as current and future exporters look to expand their market by targeting developing countries.

DIT should develop a series of reports and update them at least every two years. **Estimated cost** for developing the reports are **$10,000 a piece**. Hence, the cost for 50 reports would be $500,000. **Expected benefits include the identification of target markets, industries, and customers. This information should enhance the competitive position of NJ exporters.**

Medium Term Recommendations

1. A **vigorous customized research program** should be planned to assist industry. While most states provide some customized research, analysis is limited. If DIT cannot secure funding to expand research capabilities, they should put in place a referral service to place export willing and export ready companies in touch with organizations, e.g. SBDCs, who will perform customized research to evaluate the exportability of products, identify target industries, companies and markets, and obtain commercial intelligence.

   Estimated cost is a function of how large a research capability is established. At least two professionals and one support staff should be dedicated to export related research projects. A $150,000 annual budget should be adequate. The provision of quality commercial intelligence is invaluable and would provide a competitive edge to present and future exporters.

2. **Cross cultural training workshops** should be offered as part of the training program to assist export willing companies. This type of programming can be sponsored by the ITP through SBDCs, community colleges, chambers of commerce, etc. Estimated cost is minimal since existing organizations can conduct these and collect fees. However, we suggest reserving $30,000. Anticipated benefits include the provision of appropriate knowledge and skills to enable exporters to identify, develop, and close deals.

3. Additional **training for export willing companies** should include business plan guidance and review. This need not be provided by DIT, who can refer prospects to suitable organizations including community colleges and SBDCs. Funding for this assistance should come through the ITP. Cost could approach $50,000.

4. Many cities and states have established **sister city programs**. In addition to the obvious benefits of social, educational, and cultural exchange, these relationships afford a platform for personal interaction among business and civic leaders. Delegation exchanges would enable participation by businessmen interested in exporting or importing. Possible cost for 2-3 programs would be in the $100,000 range.

Summary of International Trade

Development Costs/Benefits

The Strategy Team estimates that the above trade development recommendations would cost an incremental $4.1 million per annum (up from $900,000). Exhibit VIII depicts cost estimate by recommended action.

Cost by recommendation category would be:

Recommendation Category	***Cost***
Immediate	$3,275,000
Near Term (Excluding tax rebate and EDA repackaging)	500,000
Medium Term	330,000
Total	**$4,105,000**

We estimate the economic benefit to be 2,400 new direct jobs a year. This represents a 7.5% increase over current levels. Translated into state and local tax revenue, the $4.1 million investment would yield $24 million a year.

These job and revenue estimates are conservative for two reasons. First, they exclude indirect employment. Second, it is likely that the tax rebate and EDA packaging activity would appreciably increase the incremental direct job total.

Exhibit VIII

INCREMENTAL INTERNATIONAL TRADE DEVELOPMENT COSTS

Immediate Recommendations

Toll Free No.	$100,000
Trade Missions	$165,000
Foreign Trade Offices (6)	$2,100,000
Export Directory	$40,000
Business Services Directory	
Resource & How To Handbook	$45,000
ITP	$500,000
Trade Networking Program	$25,000
Support Port Elizabeth/Newark Dredging	$0
Publicize Export Opportunities in NJ	$300,000
Subtotal	$3,275,000

Near Term Recommendations

Dual Tax Rebate for Export Development	N/A
Revamp NJEDA Int'l. Loan and	
Packaging Policies	N/A
Eventually conduct more company calls	
to stimulate export willingness from	
NJDCED field offices	N/A
Supplemental Foreign Country Reports	$500,000
Subtotal	$500,000

Medium Term Recommendations

Customized Research	$150,000
Cross Culture Training	$30,000
Additional training for Export	
willing companies	$50,000
Sister-Cities Efforts	$100,000
Subtotal	$330,000

Customer Service

Situation

The lifeblood of effective economic development is to provide the most responsive and highest quality service to companies considering expansion within or relocation to an agency's particular jurisdiction. Historically, funding and staff limitations have hindered NJDCED from offering the level of service available in many other states. Standard-bearers of fine service include Georgia, Delaware, Maryland, Iowa, Kentucky, Mississippi, Missouri, Nebraska, North Carolina, South Carolina, Tennessee, Virginia, and Utah. Other states a notch below include Colorado, Connecticut, Indiana, Maine, New Mexico, New Hampshire, Pennsylvania, and Wisconsin.

There are other states that have historically furnished relatively poor service. These include California, Illinois, Massachusetts, Michigan, New Jersey, New York, and Ohio. It is our belief and hope that New Jersey will move from the bottom to the first tier.

From the perspective of a locationally active company, customer service embraces the following:

- Providing relevant locational information (including sites and buildings) on the state and individual communities
- Providing such information expeditiously and in a user friendly format
- Furnishing customized data in late stages of a location selection project
- Arranging for field visitations on a location selection project, including scheduling appointments and involving local economic development groups
- Scheduling interviews with comparable employers for a corporate prospect when visiting an area
- Clearly presenting available incentives
- Pointing out major or impending legislation that could affect business
- Displaying thorough knowledge of the state's locational resources (from workers' compensation policy to environmental regulation)
- Displaying working knowledge of each county and municipalities where office and industrial development is likely
- Indicating the requisite permits and licenses for establishing a business within a state
- Coordinating permit approvals, both state and local

- Maintaining client confidentiality as needed

- Following up with clients on a timely basis

In some of the above customer service areas, the state has done well such as indicating requisite permits. In other areas, service has been less effective. These include both locational and site/building information, custom research, ability to quickly and completely satisfy information requests, arranging field visits, and setting up employer interviews.

Customer service must become the equal of any in the country for New Jersey to have a world class economic development strategy. As such, the Team proffers the following recommendations for NJDCED.

Immediate Recommendations

1. **Excellent customer service must become both a mandate and integrated** into organizational culture, personnel performance evaluations, and remuneration. This will require a gameplan that needs to be communicated to retention, marketing, and research personnel as quickly as possible. Elements of the plan should include:

    a. Formal program to obtain feedback from corporate customers once projects are completed

    b. At least a yearly survey of local and utility economic development groups to ascertain their satisfaction with requisite services

    c. Integration of specific customer service goals and objectives in annual business plans

    d. Training to include general management, sales, and economic development

    e. Customer service standards in compensation and promotion policies

    Cost of such a program will be minimal except for training. The latter might cost an incremental $50,000 a year. Other activities such as surveys could cost up to $20,000. **Hence total cost could approach $70,000 per annum. Benefits would include an essential and preliminary step in providing the best possible service** to companies and other stakeholders.

2. NJDCED professionals in business retention, marketing, and research should **attend training classes and seminars** to hone skills of the trade. Courses offered through the American Economic Development Council (both Basic Economic Development and the Economic Development Institute) should be attended. Also, professionals should be encouraged to receive the Certified Economic Developer (CED) designation (awarded by AEDC).

Furthermore, professionals should be directed to attend regular meetings of the New Jersey Industrial Development Association (NJIDA) and periodic sessions held by the Northeast Industrial Development Association. Lastly, attendance at the national AEDC conference should be encouraged.

Cost has been estimated at some $50,000 over current expenditures. **Benefits would include providing the necessary educational support** for employees to better service customers.

3. **A new generation of locational related information on New Jersey is needed.** This information should be available in both hard copy and diskette. The ability for NJDCED personnel to query a data base and quickly provide information of most relevance to a prospect is also necessary. Among the most pressing informational needs, as seen by The Strategy Team, are the following:

   a. **Locational Factbook.** A master statistical presentation of major locational factors and attendant information on New Jersey. Would incorporate hundreds of data fields aggregated into broad categories such as demographics, labor market, utilities, transportation, taxes, incentives, quality of life, etc. Verbiage should be kept to a minimum. Graphs, charts, tables, and maps should predominate. Most information should be statewide with only brief statistics on counties and major cities. For hard copy, tabs should be provided to separate sections of the factbook.

      Factbook information should be stored on an electronic data base that allows for custom report preparation by combining data fields. Numerous software packages could be used including Approach, Access, AlphaV, dBaseV, FoxPro, and Paradox.

      The Factbook should be sent only to serious prospects. Initial inquiries could be satisfied by sending either a custom factual report generated from the data base or a brief factual overview. The ability to generate an automatic fax from the data base to the customer should be present.

   b. **Locational Facts Highlights.** This would be a 2 - 4 page statistical brochure (printing both sides) featuring a digest of key facts on NJ. Regional and state map inserts should be part of the brochure.

   c. **Standardized County Locational Profiles.** These would also be 2 - 4 page (printing on both sides) brochures containing the same data fields for each county. Key locational information such as demographics, major employers, average salaries by occupation would be given.

   d. **Standardized Locational Briefs for Municipalities.** These would be 1 - 2 page fliers depicting basic statistics (population, public education indicators, property tax rates, etc.) on each community. In preparing these statistical briefs, priority should be given to the largest cities and those localities with sizable inventories of available sites and/or buildings.

e. **Quality of Life Brochure**. Glossy 6 - 12 page brochure designed to highlight the state's many unique livability characteristics. This should be light on statistics, embodying more text and photographs.

f. **Open for Business Pamphlet**. A brief (2 - 4 page, printing on both sides) brochure that illuminates the new administration's philosophy and spotlights examples of actions taken to upgrade the state's business climate.

g. **Target Industry Brochures**. Four to six page (printing on both sides) brochures succinctly demonstrating New Jersey's most powerful locational resources for the four industries singled-out under the business attraction section. Information and commentary provided in Attachment D should be valuable in putting together these brochures.

h. **Business Climate Video**. A five to six minute glimpse of New Jersey's many attractions for both domestic and international businesses. This should be distributed only to serious prospects.

i. **Site/Building Database**. The current listings must be expanded and updated. Rather than reinventing the wheel, listings supplied by utilities and selected local groups should be used. Original research would then be directed at filling in the gaps.

All of the above should be available in foreign languages including French, German, Chinese, Japanese, Korean, and Spanish. **Estimated cost** of preparing the new generation of literature and the video **should be less than $600,000** (including graphic art advice, translation services, printing, and production). **Benefits will include** having the power of information to both **generate more prospects** and convince a greater number of them to expand or move to New Jersey. Also, the **information** will be most **helpful to local economic development groups** in their **business retention** and **expansion** efforts.

4. All inquiries received by NJDCED should be answered **within 24 hours**.

5. NJDCED marketing and retention personnel should establish a more **formal process for sharing the prospect handling burden with utility and local economic development groups, where appropriate**. This will enhance more effective service to the universe of prospects that come in over the transom or respond to a marketing program.

6. **People and financial resources devoted to research need to be substantially increased within NJDCED**. At present, the research budget is $474,000 which includes planning. At a minimum, this should be **increased by $300,000**. This adjustment would include hiring another two professionals and one support person (bringing total staff from 4 to 7), procuring requisite data, and conducting customized research. The primary **benefit is that customer service improvement cannot be realized unless this investment is made**.

7. Selected NJDCED officials, one or two representatives from the Governor's office, one or two legislators, and a couple of business executives should **visit several states that have long provided excellent customer service**. Suggestions include

Organization	***Contact***	***Tel No.***
GA Dep't. of Industry & Trade	Ron Robinson	404 656-9306
MS Dep't. of Econ. Dev.	Jimmy Heidel	601 359-3449
NC Dep't. of Commerce	Doug Bird	919 733-4979
VA Dep't. of Econ. Dev.	Wayne Sterling	804 371-8108
UT Governor's Office	Alan Rindlisbacher	801-538-8800

Estimated Cost: Less than $10,000. Benefits would include an education for top decsionmakers on best practices of state economic development agencies.

Near Term Recommendations

1. NJDCED must develop closer ties with both small and large businesses throughout the state so that **confidential interviews can be arranged** for corporate prospects. This is an indispensable component of assessing any area's locational suitability for an office or industrial operation. Today, New Jersey is one of the most difficult states in the country to secure these interviews on corporate location projects.

Certainly, the Ambassadors could comprise a resource. But they could quickly become over utilized. County, large city, and utility economic development groups should be asked to submit lists of companies that have agreed to partake in this process. NJDCED should also secure the cooperation of many firms. The list of companies willing to participate should also be continuously expanded.

Estimated cost: Minimal. Benefits will include the capacity for meeting the competition on this key element of corporate location decisionmaking.

Medium Term Recommendations

NONE.

Summary of Customer Service Costs

Category	*Cost*
Customer Surveys & Training	$ 70,000
Economic Development Training	50,000
Locational Information	600,000
Research	300,000
Visits To Other States	10,000
Total	**$1,030,000**

Estimated incremental cost would be $1 million in the first year. Thereafter, cost would probably be around $0.7 million as literature production and printing would be less.

The Strategy Team believes that customer service comprises the most essential of our recommendations. Reaching employment and revenue targets from retention expansion and attraction would be unachievable without implementing customer service recommendations.

New Jersey Economic Development Resource Center

Situation

Economic Development in the State of New Jersey is at a **competitive crossroads**. Emerging state , regional, and public/private partnership programs are establishing **cutting edge customer service centers** geared to present their state and region in an efficient, professional, complete, and technologically sophisticated manner. Expanding and relocating companies, as well as the legion of location consultants they employ, are demanding increasingly detailed data that address an ever expanding list of location factors for evaluation and comparison. The ability to respond quickly and completely and to add value through the provision of site location services is essential to the success of economic development in the nineties and beyond.

This section will detail a series of recommendations surrounding the establishment of **a single informational resource center for New Jersey**. Services would be made available to companies considering expansion within the state, domestic and foreign companies looking to site new operations, and local economic development agencies. Similar centers have been successfully established in **Alabama, Georgia, Mississippi, Oklahoma, Iowa,** and **Connecticut** and recently in **California.**

The intent behind resource centers is to provide the client with a one stop shop where all informational requests can be processed in a quick and efficient fashion. Prospects will be able to query an extensive electronic database that maintains real time information on virtually all location variables. They will be able to visually tour, in some cases this is now being done in 3-D, existing buildings and sites throughout the state. If the project calls for new, specially configured space to be constructed on a greenfield or urban site, the resident software and staff can craft a visual rendering and site plan on the spot. Multi-media and GIS software reside at the heart of the presentation concept. The intent is to fully utilize the limited time prospects allocate to present and showcase as many realistic community and site alternative as possible.

We believe that a Resource Center in New Jersey would dramatically strengthen the state's competitiveness for business retention, expansion, and relocation. It would also visibly demonstrate New Jersey's commitment to economic development and business climate improvement. The Strategy Team's recommendations pertaining to a resource center follow.

Immediate Recommendations

1. **Establish a New Jersey Economic Development Resource Center that would comprise the information nerve center for business attraction, retention and expansion.** Given experiences in other states with successful Centers, a public/private partnership would seem to be the most viable implementation vehicle. Private sector funds could be channeled through a 501(c)3 foundation. In other states (e.g. Alabama, Connecticut, Georgia, etc.), major financial backers include larger utilities (i.e. electric power, gas, water, sewer, telephone). This arrangement (i.e., public/private partnership led by utilities) has proven to be effective in establishing other Centers and creating a supporting research and informational foundation for state economic development programs.

   We urge the Governor to appoint a nominating committee for electing a Board of Directors. The Committee should be chaired by NJDCED's Commissioner. Nominating committee members should be drawn from the utilities, state data center, local economic development groups, and private businesses that have recently expanded in the state. The committee should be composed of 8-12 members.

   Based on experience of other states, it would appear that ultimate board size of 15 would be appropriate. Standing board seats should be reserved for NJDCED's Commissioner and major financial backers. Other board seats would be for 3 years. These seats should be divided among businesses, universities, and local economic development entities. Geographic balance among board members must be ensured.

   The Board should have an operating committee that provides oversight and guidance to staff. This committee should have roughly six members.

   It is important to stress that the proposed Resource Center should have a strong obligation to serve both local economic development groups and New Jersey businesses seeking assistance to either remain or expand in the state. Too often, the exclusive focus of Resource Centers in other states is on business recruitment.

2. **Initially, the Resource Center should have the following research information capabilities:**

   - Complete and up to date available site and building inventory
     - Information
     - Photographs
     - Video Display
   - GIS Mapping for all sites/buildings
   - Comprehensive locational information on New Jersey (e.g. labor, transportation, taxes, etc.)
     - Hard copy
     - Diskette
   - Standardized locational briefs (perhaps 2-4 pages) on each county
     - Hard copy
     - Diskette

- Standardized locational snapshots of each municipality (perhaps 1 or 2 pages)
  - Hard copy
  - Diskette
- Resource guide for business assistance, permits, regulations
  - Hard copy
  - Diskette
- List of incentives that apply for each municipality
- Names and contacts of local, regional, and utility economic development groups

3. We recommend that a three year financial commitment be secured. This would necessitate up to an $8.8 million outlay. A breakdown of major one-time and recurring cost components is given below:

Estimated Cost

Cost Category	***Outlay($000)***
One Time Expenses	
Software & Hardware	$1,250
Collateral (e.g. brochures)	600
Misc.(e.g. office fit-up)	150
Subtotal	$2,000
Annual Operating Expenses	
(5% increase in years two & three)	
Payroll	$1,100
Research & Literature	300
Overhead	250
Subtotal	$1,650

Benefits of the Resource Center would include: Superior service to expanding and relocating companies, higher prospect closure rate, lower research budget for NJDCED, ability of local economic development entities to provide better service at lower cost, and a statement to both New Jersey companies and outside corporations that the state is truly open for business.

4. The Center should be sited at **Newark International Airport**. This location would offer the best access to the customer. The majority of business attraction prospects fly into candidate states to tour locations and meet with service providers. Newark International represents the best site to intercept domestic and international prospects. It also offers reasonable proximity to the entire state, especially densely populated industrial corridors. Since the Port Authority of New York and New Jersey controls the airport property, they should be approached as a key sponsor for funding the Partnership. The prime **benefit accruing** to a Newark Airport location is the ability to efficiently service the greatest number of prospects from a single site.

Near Term Recommendations

1. A sophisticated **in-house research capability** must be developed at the Center. This would include detailed responses to a prospect's information requests at late stages of site selection. It should also embrace gathering competitive intelligence on other states and furnishing information on target industries. Performing comparative assessments of New Jersey and other states would also be a service.

2. **Remote access to the Resource Center of the NJDCED central office, the six proposed field offices, local economic development groups, regional economic development groups, and utility economic development departments should become a second stage service.** At the very least, each NJDCED field office should have dedicated line access to the Center's computer server. At each field office, information display and interactive video should be available.

   Estimated cost for providing remote access and interactive video from field offices would be approximately $525,000 (or $75,000 an office). Another $75,000 should be allocated for providing remote access by other groups. Hence, total annual remote access costs would be in the $600,000 neighborhood.

   Benefits would include a higher rate of retention and expansion of existing businesses. Additionally, local economic development groups and the utilities could handle more relocation prospects, thereby lightening the staff and financial burden on NJDCED.

Medium Term Recommendations

1. The Center can evolve into a statewide **economic development repository** that can assemble, synthesize and present information on state sponsored **research and technology transfer** opportunities at the twelve ATC's and technology extension centers; **present international trade opportunities** to export ready companies and foreign buying delegations flying into Newark International; prepare orientations for **reverse investment** prospects; and craft presentations for major **convention** and **tourism** prospects.

2. Eventually, the Center could provide **on-line services to real estate brokers, developers, consultants and perhaps, corporations**. Such a service should probably be supplied at a profitable fee level. There are many issues that need to be addressed prior to initiating this service (e.g. prospect control). But we believe that some on-line service to extend beyond the economic development community is warranted. At this time, cost is indeterminable.

Summary of Resource Center Costs

Estimated year one outlay would be $3.7 million ($2.0 million one-time and $1.7 million recurring). Second year cost would be around $2.4 million if remote access was adopted. Third year expense would be some $2.6 million. Therefore, a three year commitment would require approximately $8.8 million.

We have not estimated the cost offset due to shifting existing resources. Nor have we measured increased jobs that would emanate from this service. But certainly an incremental 2,000 jobs and $20 million annual tax revenue would not be unreasonable. This would involve only retention/expansion and attraction.

Business Regulation and Permits

Situation

One of the most consistent and vociferous complaints pertaining to New Jersey's business climate is excessive state and local regulation, especially in the environmental and real estate arenas. Regulation remains a major roadblock for business retention/expansion and attraction. **Common problems** expressed by New Jersey companies include the following:

1. State regulations that exceed federal.
2. Cumbersome and time consuming permit approval processes.
3. Duplication among agencies.
4. Hostile attitude by staff of regulatory bodies toward business.
5. Excessive fees and fines.
6. Inadequate technical assistance for small businesses.

Poor regulatory climates have contributed to the pace of business migration from states such as California, Connecticut, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Washington. These states have historically been at a competitive disadvantage with states where business regulations and permit approval processes are far more reasonable. Such states include Georgia, Missouri, North Carolina, South Carolina, Tennessee, Virginia, and Utah.

Realizing that regulation was a serious impediment to economic development, **many states** have **recently initiated major reforms**. Such states include California, Connecticut, Maine, Michigan, Oregon, and Washington. These **reforms** tend to be characterized by the following:

1. Setting stringent criteria, including cost/benefit analysis before any new regulation is adopted.
2. Insisting that for any new regulation to exceed federal a major public need must exist.
3. Changing a portion of existing regulations to conform with federal (where such a change would not pose any serious risk to the public or workers).
4. Streamlining the permit approval process.

5. Eliminating duplication of regulation among state agencies
6. Introducing the notion of customer service and satisfaction in performance evaluations of regulatory agency personnel

New Jersey **has yet to institute any major overhaul**. For example, state environmental permits can take over two years. In many other states (e.g., Connecticut, Delaware, Georgia, Maryland, Missouri, North Carolina, South Carolina, Tennessee, Utah, Virginia), these permits are issued in less than 90 days (often under 30 days). Obtaining local permits to construct a building on a properly zoned site can take months in many NJ communities. In many other areas (e.g., Baltimore, Cincinnati, Hartford, Kansas City, Nashville, Norfolk, Pittsburgh, Raleigh, Salt Lake City) local permits can easily be secured in less than 30 days (seven days is not unusual).

Today, New Jersey is at a competitive disadvantage when compared to selected states in the mid Atlantic region and many other states around the US in terms of regulations and permits. As the country's economic expansion continues, this **locational disadvantage** for New Jersey will become more pronounced.

Coming out of a recession, many firms wait until the last possible moment to establish new capacity. Once a decision is made, pressure becomes intense to bring fresh capacity on line as quickly as possible. If regulation holds up the introduction of additional capacity, a company can witness lost market share and revenue to competitors who can satisfy customer demands on a timely basis. So regulation is not just about cost and paperwork. It can also impact a company's sales volume.

An illustration of New Jersey's uncompetitiveness on the regulatory front is evidenced by a publication called the Green Index (by Island Press out of Baltimore). When measuring 77 different environmental regulatory policies, New Jersey was judged to be the **third worst** state from a businesses perspective.

In addition, this publication shows that New Jersey **spends more per capita on environmental regulation** than 46 other states. The only states that outspend NJ on a per capita basis are Alaska, Montana, Oregon, and Wyoming. All are much less populated than NJ. Parenthetically, we spend an average of $67.86 per capita on environmental programs vs. the national average of $29.89.

The Economic Development Strategy Team believes that **regulatory reform, to include more efficient permitting, is imperative for New Jersey** to effectively compete with other states regarding industrial expansion and relocation. Past studies and papers (e.g., NJIT's 3/94 report on environmental regulations and Jim Wallwork's 9/10/93 memo to then gubernatorial candidate Whitman on regulatory reform and government waste) have already addressed many important aspects of regulatory overhaul. **These documents contain many excellent recommendations that should be reviewed by the Commission.**

Our Team has extracted several recommendations from these reports that we believe deserve overriding attention. We have also added several of our own recommendations. The Team's set of recommendations for improving the regulatory climate in New Jersey follow.

Immediate Recommendations

1. Establish a **permit/regulatory chief executive (or czar),** perhaps in the Department of State. The primary goal of this position would be to expedite the permit approval process for major expansion and relocation projects in New Jersey. In addition, the chief executive would monitor regulations and permits and suggest changes to the Governor.

   This permit/ regulatory executive would report directly to the Governor. Also, the office would be able to guide and hand hold a company through the state's permit approval process.

   Deadlines for permit approvals by various agencies would be set on each project. The chief permit executive or a designate would have the Governor's backing to encourage each agency to meet agreed to deadlines.

   Estimated cost: Up to $150,000 depending on whether existing staff can be redeployed or new hires are needed. **Benefits: more companies deciding to expand or move to NJ due to quicker permit approval times.**

2. Set up **permit approval SWAT teams composed of state and local agencies.** SWAT teams would be established for each project deemed necessary by either a local economic development agency or the New Jersey Department of Commerce and Economic Development (NJDCED).

   These teams would be arranged by the Governor's permit approval czar. They would consist of the key regulatory agencies for a project, a state and local economic development representative, and perhaps one or two local elected officials. SWAT teams would be geared toward preparing each company to submit requisite information, setting time limits for each agency, and tracking each permit to ensure that agreed upon timeframes are met.

   Estimated cost: minimal. Benefits: major assistance to locationally active companies which should result in proportionately more of them choosing NJ.

3. **Initiate a formal review of New Jersey regulations that exceed federal statutes. Prioritize those that should be changed to parallel federal regulations.** Suggestions include the following:

   - **Worker and Community Right to Know**

     - OSHA hazardous Communication Standard at the federal level is 10,000 pounds. In New Jersey the starting point is 1 pound.

     - Right to Know labeling in NJ is much more restrictive than federal OSHA or Transportation requires. For instance, certain food flavorings or a can of spray paint must be separately labeled.

     - Currently, the NJ Department of Environmental Protection and Energy (NJDEPE) and the NJ Department of Health administer Right to Know regulations. This adds confusion to businesses.

- **Toxic Cleanup**

  - NJ Spill Act embraces the joint and several liable concept.

  - New Jersey's Discharge Prevention, Containment, and Countermeasures (DPCC) rules extend to substances beyond oil (which is what the federal rule covers).

  - NJ Environmental Cleanup Responsibility ACT (ECRA). Nearly all provisions are over and above federal Superfund legislation. NJ ECRA makes it difficult and often prohibitively expensive to transfer industrial property from one owner to another.

  - NJ Industrial Site Recovery Act (ISRA). This law passed in 1993 overhauls ECRA. But there are still too many restrictive provisions such as the cleanup standard of one in a million cancer risk. Urban redevelopment is especially hindered due to state environmental law.

- **Storage Tanks**. Upgrading underground storage tanks in NJ must be done 5 years earlier than what is mandated by Federal law.

- **Family Leave**. Federal law allows for 12 weeks unpaid leave. New Jersey permits 24 weeks. Also, out of state workers are counted in determining the 50 employee threshold that compels NJ companies to comply with family leave legislation.

The Secretary of State is conducting hearings on regulatory reform. This would seem to be the logical vehicle for implementing the above recommendation.

4. Require all state agencies to **justify any future regulations that are more stringent than Federal**. The permit/regulatory chief executive could oversee this effort. But the legislature would have to pass a law to this effect.

5. Require all state agencies to **assess the job impacts of proposed regulations**. The NJ legislature would have to pass such a law. The regulatory/permit czar could help shepherd such legislation.

6. **Pass the Permit Extension Act for at least another two years**. If allowed to lapse, billions of dollars of approved construction projects, that were not undertaken in part due the recession, would fail to materialize. Cost would be millions of dollars in property tax revenue and thousands of construction jobs. The Governor must champion this legislation.

7. **Repeal the telecommunications and yellow pages sales taxes**. New Jersey is a ripe location for telecommunications sensitive businesses. We have a large base of such businesses in the state. Moreover, the state possesses many compelling advantages for office and high tech manufacturing, which are heavy telecommunications users. Thus, NJ can attract more of these businesses.

   However, due to telecommunications tax policy in other states, New Jersey stands to lose many jobs in the aforementioned sectors. Companies can opt for states where telecommunications is not taxed.

For instance, long distance telephone calls (including incoming 1 800 and outgoing WATS) are not subject to sales tax in New York. Telecommunications is also exempt from sales tax in other states such as North Carolina and Virginia.

The Yellow Pages tax is particularly burdensome to small businesses. It should be eliminated as part of the state's strategy to stimulate small business expansion.

We urge the Governor to support legislation that has already been introduced in the Assembly regarding elimination of these taxes.

8. New Jersey should **permit flexible pricing for electric power**. At least 15 other states allow electric power companies to negotiate reduced rates for industrial and commercial customers, on a project by project basis. Most of these states view flexible pricing as an economic development tool.

Electric power costs in New Jersey are comparatively high. They exceed comparable rates in areas such as upstate New York, most of Pennsylvania, Delaware, Maryland, and nearly the entire Southeast. **There must be a mechanism to help level the playing field.**

Among the states that allow flexible pricing are Pennsylvania and New York. We are frequently in competition with these states for new or expanding industry.

At present, the Board of Regulatory Commissioners allows for a degree of rate reduction, mostly if the project is in a depressed area. **We urge that the power companies be given the latitude** anywhere in the state **to negotiate reduced rates** with a particular customer. The project would, however, have to involve: retaining a business, expanding a business, or locating a new business. In other words, rate flexibility would be used as an economic development tool.

The Governor should encourage the BRC to adopt the rate flexibility concept. Benefits will be a greater pace of industry expansion and relocation as New Jersey becomes more competitive with higher cost power states in the region and lower power cost states in the Sunbelt and western US.

9. Local elected officials must better understand the implications of lengthy permit approval processes. We encourage NJDCED to lead a **major educational effort to convince local officials that expeditious permitting is critical for job retention and expansion.**

NJDCED should work with local economic development entities to sponsor a series of workshops in all 21 counties. The workshops must include corporate executives who have attempted to expand in New Jersey and also have familiarity with permit approvals in municipalities in other states.

Near Term Recommendations

1. Establish genuine **one stop service for all environmental permits**. Other states where such one stop service is available include Georgia, South Carolina, Utah, Kansas, and Indiana. California will soon have such a service throughout the state. The Governor's office needs to work with DEPE to make this a reality.

   Estimated cost will be minimal. The benefit will be a more competitive state for doing business. Both expansion and relocation would be positively affected by such a service.

2. **Mandate that all environmental permits are issued within 90 days** by DEPE. Most states have such mandates (e.g., Connecticut, Pennsylvania, North Carolina, South Carolina, Indiana, etc.). This requires DEPE to be specific about information requirements a company needs to apply for a permit. Once the proper information is submitted, the 90 day approval time limit begins. New Jersey will not be fully competitive until environmental permitting is greatly expedited.

3. **DEPE permit issuance should be fully computerized**. This might cost some $250,000 but would be justified by more companies deciding to stay or move to New Jersey.

4. **Mandate that most other state permits are issued within 30 to 90 days**. The Strategy Team believes that these mandates can be issued by executive order.

5. The current regulatory financial support system is inherently flawed. Many agencies are largely financed by fees and fines. As an example, financing for DEPE is 83% off budget. This is a disincentive to encouraging prevention and fosters an adversarial relationship between the regulatory agency and business. The Strategy Team therefore recommends that **fees and non compliance penalties collected by all state agencies revert back to the general treasury**. Governor Whitman should actively support legislation to this effect.

6. **We recommend fast track compliance for companies that are found in violation of environmental regulations**. DEPE should allow a company 30 days to correct a violation before a citation is issued. This would place greater emphasis on compliance rather than fines. The Governor should support this legislation which has already been introduced in the Senate.

7. Tort reform is a major challenge in most states. New Jersey could markedly enhance its competitive posture by adopting the reforms that have already been introduced in the state legislature. **These recommended tort reforms include**:

   - **Elimination of Joint and Several Liability**. This is the legal doctrine by which a party responsible for only part of an incident can be held responsible for the entire incident. Such a system is unfair to the party forced to pay for others' misdeeds and should thus be eliminated.

   - **Sellers' Liability**. Product sellers should be insulated from liability if they play no role in the manufacture of a product.

- **Punitive Damages**. These should be limited with specific criteria for a jury to consider in rendering an award. Punitive damages should be no more than three times the amount of compensatory damages. In some cases, punitive damages have been 100 times greater than compensatory damages.

- **Medical Product Liability**. Medical professionals should be relieved from responsibility in product liability actions for using devices that they did not know were defective.

- **Medical Malpractice Reform.** A certificate of merit should be required in medical malpractice cases. This would help to control the rate of awards for questionable cases.

The above tort reform recommendations would comprise a major step toward lowering insurance costs for New Jersey companies. We urge the Governor to actively support these measures.

8. **Introduce customer satisfaction as a performance measure for state regulatory employees**. Eventually, all agencies should adopt this principle. But we suggest starting with DEPE, Labor, and Transportation.

Medium Term Recommendations

1. **The proposed regulatory/permit czar should recommend to the Governor elimination of duplicate agency regulation oversight in the areas of environmental health, safety, transportation, and labor**. Specific recommendations for one agency per regulatory consideration should be made. This would greatly simplify compliance for NJ businesses. It would also reduce cost and permit approval time.

2. Within DEPE, the Industrial Pollution Prevention Technical Assistance Program (IPP TAP) should be **expanded to provide far more services to small business**. This assistance should be composed of technical advice on pollution prevention strategies and techniques. Cost could approach $200,000 per annum.

3. To encourage the adoption of the latest technologies for complying with environmental regulation the **sales tax on pollution control equipment should be phased out.** Before sponsoring this legislation, the estimated cost to the state should be quantified.

Estimated Regulation/Permit Improvement Costs/Benefits

Most of the aforementioned recommendations will not be costly. Rather, they require procedural, administrative, attitudinal, and, in some cases, legislative change. Results would be a vastly improved business climate serving to maximize job generation potential.

We were able to quantify several recommendations, but others still require further cost estimation as shown below.

Category	***Immediate, Near Term and Medium Term***	***Cost***
Regulatory Czar	Immediate	$150,000
Repeal Telecom Tax	Immediate	N/A
DEPE Computerization	Near Term	250,000
IPP TAP Expansion	Medium Term	200,000
Pollution Control Equipment Sales Tax Exemption	Medium Term	N/A

Infrastructure

Situation

As with most states, especially the more populous, maintaining an infrastructure (e.g., roads, water, sewer, waste disposal, etc.) that can support current economic activity is a daunting challenge. Ensuring that there is excess infrastructural capacity is an even more formidable challenge. The two primary hurdles are usually money and inefficiency due to lack of regional cooperation.

New Jersey is no exception. While New Jersey annually spends an estimated $4 billion on public works, there is still a large gap between financial resources committed vs. those needed. According to a 1991 **study by the Foundation of the New Jersey Alliance for Action,** an estimated $74.3 billion will be required for public infrastructure improvements over an eight year period (1992 - 2000). Assuming we continue spending $4 billion a year, the projected **shortfall will be $42.3 billion.**

Given the "home rule" doctrine, there are many duplicative services at the municipal level throughout the state. Regionalization of public services and infrastructure has been slow to materialize in New Jersey. Moreover, there is not clear prioritization of requisite infrastructural improvement throughout the state.

Infrastructure is an essential building block of economic development. Unless adequately addressed, New Jersey will not realize its economic growth potential. Moreover, the quality of life for the state's citizens will suffer.

The Strategy Team does not profess to have strong expertise in the design of an infrastructural improvement strategy. But we are aware of the potentially serious consequences associated with a failing infrastructure.

We believe that the general blueprint laid out in the aforementioned Alliance for Action report should be adopted. Several of the Alliances and a couple of additional recommendations developed by The Strategy Team are given below for the Commission's consideration.

Immediate Recommendations

1. **An oversight body for identifying, prioritization, and monitoring progress regarding infrastructural improvements should be established.** This group would also gather intelligence from other states for possible application in New Jersey. Furthermore, the entity would strongly encourage regional solutions to infrastructural challenges.

   This infrastructure oversight group should be composed of senior representatives from selected state agencies (such as Commerce, Transportation, Environmental, Planning etc.), public authorities, foundations and nonprofit groups, (e.g., Alliance for Action), and corporations.

   The organization should report directly to the Governor. Perhaps the Secretary of State could take the lead in assembling this group. Early on, input should be obtained from the Foundation of the New Jersey Alliance for Action which undertook the 1991 study.

   Estimated cost: Approximately $150,000 per annum which would include funds for special studies. **Benefits would be a more rational, creative, and efficient approach toward meeting the state's infrastructural needs.**

2. State government needs to more actively **encourage regional partnerships for infrastructural development.** This will include demonstration programs, incentive grants, and technical assistance. Perhaps the Secretary of State could spearhead a formal initiative which would involve various state agencies depending on the project. This effort should be undertaken in close cooperation with the NJ state Chamber of Commerce, which has long supported regional cooperation.

3. **Dredging of the Port Newark Channel Berths (Reach A) is urgently needed.** Berth depth must be increased to at least 40 feet (which currently ranges from 35 to 38 feet). We fully support the Governor's effort to marshal our federal representatives to intercede so that the appropriate permits can be obtained by the State.

   Most of the break bulk cargo currently shipped into and out of Port Elizabeth/Newark is in vessels that use Reach A (or the Port Newark Channel). The Berths on Reach A have not been dredged in over four years. The Federal EPA will not issue permits to dump dredged material due to fear of contamination.

   New Jersey is placed at a major disadvantage versus other deepwater ports that have sufficient berthing depth (e.g., Halifax, Baltimore, Norfolk, etc.). The rate of business lost to these competitive ports will accelerate until action is taken.

   New Jersey must be allowed to dispose of dredged material at the current MUD Dump site. Further, there should be no capping for clean dredged material. Future disposal of dredged material in undersea burrow pits should be given serious consideration. These actions must be adopted with dispatch.

   Estimated cost is less than $1 million.

4. **The NJ Transportation Trust Fund must be renewed in 1995.** This Fund, set to expire in June, comprises a stable financing source for transportation improvements.

State dollars are required to supply the local match for federal funds. Additionally, state dollars are needed to fund programs ineligible for federal aid.

New Jersey does not have a funding source dedicated solely to transportation. Without the Trust Fund, the State's transportation needs will have to compete with other state needs for funding. This would undoubtedly result in needed transportation improvements being delayed or indefinitely postponed.

An adequate transportation infrastructure is imperative for industrial growth. The Trust Fund has been a solid, predictable financing source for upgrading New Jersey's transportation infrastructure. **Therefore, The Strategy Team strongly recommends that the NJ Legislature renew the Trust Fund in 1995.**

Estimated cost will be minimal. Benefits will include continuance of vital funding for a fundamental building block of economic development.

Near Term Recommendations

1. To remain competitive with other East Coast ports, **channel depth at Port Elizabeth/Newark must be expanded from 40 to 45 feet**. Increasingly, ocean vessels are requiring such depth. We believe that Port Elizabeth/Newark should be dredged to 45 feet channel depth no later than 1997.

   Estimated cost would be $400 million (paid for mostly with federal money). **Benefits would involve keeping our port from losing business to other ports** (e.g., Baltimore, Halifax, and Hampton Roads), **preventing** New Jersey **businesses** who use the port **from relocating to other areas**, and **ensuring** that locationally active **businesses** engaged in ocean shipping **continue locating in New Jersey**.

2. The new State Highway Access Code drastically changed the way site access was achieved via the State highway network. Many property owners have indicated that access regulations impair development potential and lower land values.

   Consequently, **The Strategy Team believes that it is time for NJDOT to reassess the Code and highway segment designation.** This should include an evaluation of the code's effectiveness and impact. An objective should be to achieve balance between the need for efficient and safe highway travel (on state roads) and the ability of property owners to develop land, in compliance with local regulations, that permits a reasonable financial return.

Medium Term Recommendations

NONE

Estimated Infrastructure Cost/Benefits

As indicated earlier, NJ is deficient by over $42 billion through the year 2000 in infrastructure. In terms of incremental cost to any state agency, our oversight body recommendation would probably require a yearly expenditure of $150,000. It would be well justified to establish priorities, suggest creative financing mechanisms, and encourage regional solutions.

Incentives

Situation

Economic Development Incentives are becoming increasingly important in corporate site location decisions. The primary reason for the elevation of this location factor is the unrelenting pressure that companies face to reduce operating costs. As a result, it is likely that incentives will continue to assume a prominent role in corporate location decisionmaking.

New Jersey can be rated somewhat competitive with other states concerning incentives. There are myriad programs available to companies either expanding within or moving to New Jersey. Most of the meaningful incentives are targeted to economically distressed areas.

Many other states also sweeten incentive packages for locating in comparatively depressed areas. But, increasingly, some incentives are available to firms locating or expanding anywhere within a state (even in relatively affluent communities).

New York offers job and capital investment tax credits for manufacturing, which can be awarded anywhere in the state. Also, any municipality can offer up to 10 years property tax abatement.

In Pennsylvania, the key incentives are property tax abatement (optional for any city), low interest loans (from 2% to 6%), and possible site development grants from a Sunny Day fund. Loans are available anywhere in the state. The higher end of the interest rate range applies in more affluent areas. Sunny Day funds are usually directed at high unemployment areas but have been applied in more prosperous locations.

Several states have enacted programs where direct payment is made to companies that increase employment. Often, the funding comes out of incremental payroll taxes. Net incentive amounts to some 5% of payroll for up to 10 years. States with this relatively new incentive include Kentucky, Mississippi, Ohio, and Oklahoma. There are no geographic restrictions in the awarding of these incentives. They have proven to be a major lure for attracting businesses to the respective state.

Other states that have historically offered little in the way of incentives have now established such programs. Most involve corporate income tax credits for job creation. In North Carolina, the credit is $2,800 but available only in selected counties. Also, North Carolina will provide up to $200,000 from the Governor's discretionary incentive fund for new industry anywhere in the state.

In Virginia the credit is $1,000 per new job (one time credit). There are no geographic restrictions. In Florida there is a one time credit up to $5,000 per incremental job. The key requirement is that the company must pay above the average salary in the particular county. Georgia offers a credit varying from $500 to $1,500 a job for five years. All areas in the state participate in the program but the highest credit ($1,500) is limited to economically depressed areas.

New Jersey does have an enterprise zone program. The majority of states in the US also have similar programs.

A compilation of New Jersey's incentive packages appears as Attachment F. Below is a brief summary.

1. Up to a 30 year partial abatement on property taxes. Typically the abatement is for 15 years and results in a 20% to 35% reduction over life of the program. Available in one of 58 urban aid communities.

2. Up to a five year property tax abatement (on a sliding scale) in any municipality that chooses to have such a program.

3. Electric power rate reductions which can cut bills up to 25% for several years (but separate pricing packages are not allowed).

4. Financing from the Economic Development Authority which is primarily geared toward small businesses.

5. Research and Development tax credits (up to 10% of R&D costs).

6. Investment tax credit (up to $1 million) on the purchase of production machinery and equipment by manufacturers.

7. A recently enacted job creation tax credit that appears so overly complicated and restrictive that it will probably be rarely used.

8. Personal property sales tax exemptions and employment tax credits for hiring residents living within the respective city for companies expanding or locating in one of the state's 16 urban enterprise zones.

The Economic Development Strategy Team believes that some fine tuning is needed to make New Jersey more competitive with other states, including those in our region. These recommendations follow.

Immediate Recommendations

NONE

Near Term Recommendations

1. **Establish a new employment job tax credit available to office, manufacturing, and distribution employers**. The credit would be used to offset corporate income tax liability.

   Amount of the credit would **vary from $750 to $1,750** depending on the economic vitality of the designated area. The credit would recur for three years. It would be available to new and expanding companies.

   Maximum credit would be equal to the company's state income tax liability. Carry forward provision would be for five years.

   Companies moving within the state could be awarded the incentive but only on a case by case basis. There would be no other major restrictions.

   To help offset cost of this program we suggest **eliminating the current program** which is exceptionally intricate. A manufacturer could opt for either the job tax credit or the production machinery investment credit but not both. The R&D tax credit could be used in tandem with the new job tax credit. Similarly, urban enterprise zone incentives could be combined with the new program.

   We have not been able to determine a cost for the proposed job tax credit. Benefits would be higher rates of business retention, expansion, and relocation as New Jersey emerges as much more competitive in the incentives arena. The New Jersey Department of Commerce and Economic Development could administer this program.

Medium Term Recommendations

1. Many states offer customized, pre-employment training free of charge to new and expanding firms. This training is conducted before a new facility becomes operational. In New Jersey, the company pays for half of the total cost. **We recommend that pre-employment training be provided at no cost to companies that expand or move to the state.**

   This would put New Jersey in an advantageous position vis-a-vis Connecticut (no program) and New York (company pays 50%). It would enable New Jersey to match what most other states offer such as Delaware, Georgia, Florida, Maryland, North Carolina, Ohio, Pennsylvania, South Carolina, and Virginia.

Estimated cost: $750,000 per annum. Benefits: more companies moving to or expanding within the state. If only another 250 jobs are created a year because of this program, the return to the state would be an estimated $2.5 million. We believe that more than 250 jobs would ensue as a result of this incentive.

Estimated Incentives Cost/Benefits

We did not estimate cost and return for the job tax credit. The pre-employment training recommendation would cost less than $1 million and would be quickly paid back via more companies expanding or moving to the state.

We should also reiterate that other incentive related recommendations appear in other report sections. Again, costs and benefits for these incentives were not quantified. These incentives and the ones specified in this section are highlighted below.

Additional Incentive Recommended	***Report Section***	***Immediate, Near Term & Medium Term***
Pollution Control Equipment Sales Tax Exemption	Regulation/Permits	Medium Term
Electric Power Rate Flexibility	Regulation/Permits	Immediate
Telecommunications Tax Repeal	Regulation/Permits	Immediate
Urban Site Attainment Zones	Urban	Immediate
NJEDA Industrial Park Program	Urban	Near Term
Urban Enterprise Zones Extended To Entire City	Urban	Medium Term
Seed Capital Fund	New Business Formation	Immediate
New Business Incubators	New Business Formation	Immediate
Job Tax Credit	Incentives	Near Term
Free Pre-Employment Training	Incentives	Medium Term

Urban

Situation

The urban challenges facing New Jersey cities are not unique and are being confronted by large and small metropolitan centers across the country. New Jersey's situation is particularly acute because the state has lost so many urban based manufacturing jobs. This obtains because New Jersey is a high cost state from virtually every standpoint. Manufacturers are confronted with high labor costs, high taxes, government regulations and siting problems. Labor costs are 134% of the national average, ranking second nationally.

To effect a turnaround of NJ urban centers requires streamlining the regulatory process, and directing public policy attention to worker training, human and physical capital investment , and state business climate issues. Recent analyses point up that NJ's urban deindustrialization is linked to declining manufacturing employment. With a drop off in goods producing manufacturing jobs, disadvantaged workers have fewer adequately paying job opportunities. Factories and industrial plants that once provided an avenue for upward mobility to city residents are relocating to out of state and suburban locations.

Urban production jobs have been partially replaced by front and back office positions. However, the new office intensive jobs in center cities require educational and technical skills and training that many urban residents lack. A host of business climate issues need to be addressed to turn the cities around. Many are addressed in various sections of this report. Key issues include: state tax policy, infrastructure quality, regulatory climate, land use controls , etc. Most of these issues boil down to not placing NJ companies at a competitive disadvantage to competitors in other states. Most NJ industries, especially industrial machinery, fabricated metals, printing and publishing, are at risk and could relocate to states with lower operating costs and more favorable business climates.

There are at hand partial solutions to this urban employment dilemma as defined by the NJ Economic Development Strategy Team. These include the following:

Immediate Recommendations

1. Establish **environmental attainment zones** in urban centers. These would be primarily industrial areas in each city. Within the zone, ECRA-ISRA site clean-up requirements would be suspended if two conditions are met: (a) contaminants as is pose minimal public health risk and (b) the developer and/or owner adopts measures to guarantee that contamination will not worsen.

   This exception to ECRA-ISRA clean-up rules would represent a major step forward in resolving one of the most formidable hurdles to urban economic development, that is lack of industrial sites due to the excessive cost of environmental conformance.

   A pilot program employing the urban attainment zone concept has been initiated in California. Early indicators suggest that the program will be quite successful. A similar program has been implemented in Michigan and it has also been effective in enhancing the revitalization of contaminated sites.

   The Governor should work with NJDEPE to draft enabling legislation for the attainment zone program . **Estimated cost to the state will be minimal. Benefits would most likely include thousands of new jobs and millions of dollars in local tax revenue.**

2. Urban economic development can be effectively promoted through a more aggressive approach to business attraction and retention by the state. **The New Jersey Department of Commerce and Economic Development must mount a more aggressive marketing campaign targeted to those industries that will find NJ's location and business climate advantageous.** Several targets recommended in this report, e.g., **distribution centered fulfillment and pick and pack operations**, represent industries that could operate successfully in an urban environment, provided the state establishes an incentive program, e.g., an expanded urban enterprise program, that makes urban sites and labor costs competitive.

   Refer to the Business Attraction section for a detailed breakout of targeted industries and the estimated cost for implementing proactive statewide attraction and retention programs. The anticipated benefits from such a campaign include new jobs, lower urban unemployment rates, new capital investment, and an expanded urban tax base.

3. NJDCED should encourage local economic development groups to better publicize urban success stories. These include corporate expansions, redevelopments, crime reduction, etc. **Cost will be minimal. Benefits include greater awareness in corporate circles of the city's unique locational assets.**

Near Term Recommendations

1. Federal and State job training programs including state pre-employment training, federal on the job training, and community literacy and special pre-employment training initiatives targeting the disadvantaged, should focus more on manufacturing and urban employment requirements. A significant portion of at risk urban manufacturing **operations are cost-sensitive businesses that often rely on low wage, less skilled labor.**

   These companies need to be identified and counseled to determine if assistance can be provided by the state including on the job and basic skills remediation training, retraining, youth apprenticeship grants, technology transfer, productivity improvement, and capital to finance new equipment and facility expansion. The **incremental costs** for these kinds of programs **could approximate $4 million per year. Anticipated benefits include the stabilization of urban manufacturing, new jobs, new capital investment and an expanded local and state tax base**. The most appropriate agency to lead this effort would be the **Department of Labor.**

2. **The NJDCED should assist urban areas in developing new retail redevelopment and convention/meeting attraction strategies**. Urban centers must stem the migration of retail to the suburbs and foster an environment that makes it attractive for the suburban shopper to come downtown. Lost sales tax income, jobs, and real estate taxes have forced cities to raise taxes on remaining businesses and residents, thereby making the retail business climate increasingly unattractive.

   Many of NJ's urban centers no longer offer suitable hotel and meeting space to companies in their spheres of influence let alone out of state companies, societies and associations that would entertain bids from NJ cities to hold their meetings and conventions. The state needs to develop a master urban redevelopment strategy that addresses retail and hotel redevelopment, conventions and tourism.

   Estimated cost for developing a comprehensive plan focusing on major NJ urban centers would be $500,000. Anticipated benefits include the possibility of fostering an urban renaissance.

3. A common factor contributing to the relocation of urban manufacturing plants is the lack of suitable, competitively priced urban sites. Urban relocations often stem from the need for a factory to retool or expand production operations. Many firms have production operations housed in antiquated, low ceilinged, land locked buildings. When these companies survey available buildings and sites, few viable alternatives surface in their neighborhoods. They are not motivated to stay in the city limits due to a lack of sufficiently attractive incentives. And when comparing the tax differential between their current location and suburban, rural, and out of state alternatives, they are further motivated to relocate.

   One possible solution employed by many cities across the country includes an **aggressive land assembly program**. Local, federal (USEDA), and state funds are combined to acquire contiguous sites, tear down antiquated buildings, and make necessary infrastructure improvements in order to assemble in town industrial parks that can offer comparable buildings and acreage at competitive prices.

Small Business

Situation

New Jersey's small business base is significant no matter what measure is used to gauge its size. One count puts the population of small NJ businesses (employing 100 or less) at 170,000. Another sets the number at 500,000, once sole proprietorships and family owned businesses are factored into the total.

Both federal and state agencies have programs geared to assisting small business. It is estimated that 75% of new job growth comes from small business. New Jersey's Department of Commerce has its Division of Development for Small Businesses and Women and Minority Businesses (SBWMB) which assists small business growth and formation in NJ. It serves as a clearinghouse of information and provides a wide range of services to small and emerging businesses.

Currently, the SBWMB seems to be performing admirably well. The Strategy Team has several recommendations that could further the effectiveness of the Division's activities.

Immediate Recommendations

1. **Expand the Selected Assistance Vendor Information (SAVI-II) program**. At present, purchasing agents from government agencies, colleges, boards of education, casinos, etc. may access a database of small, women, and minority business. We recommend that this database be made by available to **private sector firms** as well. Perhaps as a starting point, send the information in directory form or diskette (ASCII file) to purchasing agents in companies with over $50 million annual sales.

   A promotional campaign should then be undertaken to educate NJ corporations on the many fine small, women, and minority business suppliers there are in the state. Promotion should include direct mail, advertising in NJ business publications, and frequent referral in MENTOR.

   Estimated Cost: $75,000 a year. Benefits would likely include significantly more contracts being awarded to NJ small, women, and minority businesses.

2. Create a toll free number and one-stop referral service for small, women, and minority businesses. This service should be staffed by a qualified customer service representative. It should be available 12 hours a day Monday through Friday and 8 hours on Saturday. The main purpose of the service would be to direct small and start-up businesses to the proper agency for assistance.

   Incremental cost could be $60,000 a year.

3. The Strategy Team also recommends the formation of a "**one-stop-shop**" to assist companies in identifying state-funded assistance programs. The investigation revealed that business leaders found NJ government programs complicated, difficult to implement and only marginally valuable. Most small business executives do not have the time, knowledge or drive to navigate among the requirements and paper work of various and sundry state programs.

   One reasonable solution offered by the Whitman Administration centers on the creation of a business "Ombudsman" through which the Secretary of State's office can assist in cutting through the red tape of state bureaucracy. This proposal could be effective if **sufficient resources** are committed.

   Estimated cost for this program is $125,000. Anticipated benefits include expediency, better utilization of small business assistance programs, a more competitive and faster growing business base.

4. We have already addressed creation of resource guides (in business retention) and lessening the regulatory and permit approval burden on business (see business regulation). These are consistently mentioned by small companies as major obstacles to growth in New Jersey. Implementation of these recommendations would greatly benefit small, women, and minority companies.

Near Term Recommendations

NONE

Medium Term Recommendations

NONE

Estimated Small Business Cost/Benefits

The annual cost for our recommendations would approximate $260,000 as shown below.

Category	***Cost***
SAVI-II Expansion	$ 75,000
Toll Free No./Customer Service	60,000
One-Stop Shop	125,000
Total	**$260,000**

It is difficult to project employment and tax revenue gains from these actions, but we are confident that the number of businesses successfully served would be noticeably higher than present.

Advanced Technology

Situation

New Jersey enjoys one of the highest concentrations of scientists in the US with over 145,000 research and development scientists and technicians. The state boasts 700 laboratories and 85% of all US pharmaceutical operations. Approximately 20% of total R&D spending and 10% of R&D output are centered in the State. In 1984 Governor Kean appointed a Blue Ribbon panel which recommended the establishment of the Commission on Science and Technology (the Commission) to secure and improve New Jersey's reputation as an attractive place to establish and operate science and technology oriented businesses.

As the State's principal vehicle for technology promotion and investment, the Commission is uniquely positioned to develop the State's academic R&D infrastructure and to effect academic-industrial interaction and technology transfer. The Commission essentially leverages federal funding awards and industry sponsored research. A list of the Commission's advanced technology centers, technology extension centers, and incubators is presented in Exhibit IX.

The role of the Commission today has become increasingly critical to the State's high technology industrial base, which has witnessed a recent disturbing decline in R&D spending. For almost twenty years, NJ's high tech industries realized a 10% annual growth rate in R&D spending. In 1992 R&D spending dropped 4%, in 1993 it fell again 3.2% and in 1994 R&D expenditures will increase only slightly. Although this pattern reflects a national trend, NJ is especially vulnerable since a disproportionately large segment of its industrial base is driven by high tech companies.

For fiscal 1995 the Commission's budget has been reassigned to the jobs creation policy and initiatives section of the Governor's budget. This underscores Governor Whitman's intent to accelerate job formation within technology intensive companies. Between 1980 and 1994 New Jersey lost 273,000 manufacturing jobs. New technology development and effective transfer can serve as increasingly viable tools in stemming manufacturing job losses, stabilizing maturing industries, and creating new industries of the future.

Fresh initiatives like the R&D tax credit which took effect January 1, 1994 will help stimulate R&D spending. An enhanced technology transfer program should be developed to assist small and medium sized NJ companies develop and manufacture new products that can compete successfully in an increasingly competitive global marketplace.

For these reasons, a **careful analysis of the Commission's programs is both timely and essential** to preserving the State's leadership position in technology driven industries. The Commission is being asked to do more with less. Its 1995 budget will be trimmed to $17.8 million and staff will be reduced to five.

The Economic Development Strategy Team has reviewed New Jersey's technology transfer and assistance programs. We have the following recommendations to improve the effectiveness of such endeavors.

Immediate Recommendations

1. **Each of the Commission's twelve Advanced Technology Centers (ATCs) should undergo a complete audit to assess effectiveness of all projects.** New product, process, and technology commercialization benchmarks need to be developed to measure project efficacy.

   Estimated cost would be $100,000 to conduct the audit and develop performance benchmarks and standards. Anticipated **benefits** will derive from a **better utilization of limited resources** to be concentrated **on projects offering the greatest** and most immediate **commercial potential**, and to identify for marketing purposes all projects with near term commercial applications. This would be of particular help to small and medium sized businesses who often require outside assistance in the areas of process improvement, new product development , and existing product improvement.

2. **Collaboration between ATCs and Commission funded Small Business Incubators should be expanded** to provide a better conduit between the research centers and emerging businesses that could initiate commercialization. Estimated cost of implementing this recommendation is minimal since current staff need only develop better channels of communication. Anticipated benefits are significant since the majority of new jobs are created by small business.

3. **Centralize ATC Promotional activities** to develop a single focal point for marketing outreach. This would also create a single point of contact for NJ businesses interested in sponsored research, mentoring, technology commercialization opportunities, information on federal grant programs, etc. Many NJ companies are not familiar with the ATCs' capabilities, how to access new technology under development at ATCs, and what new technologies and transfer opportunities are available.

   Estimated cost is $250,000 (including a 2 person staff) to consolidate marketing functions, develop and implement a campaign to publicize the ATCs. Anticipated **benefits** include more **efficient and extensive communication, wider publicity of** Commission activities, and **more companies assisted by the ATCs**.

4. Develop a complete **census of NJ high technology resources** including : university research centers, advanced technology centers affiliated with technical universities, corporate research and development facilities, not-for-profit research organizations, professional societies, capital sources, human resources, etc. Estimated cost is minimal since this work can be performed as an extension of the ACTs' audit. Also, the Economic Development **Strategy Team will be publishing an inventory** of research installations in December, 1994. This inventory can be augmented by results of the Audit. Anticipated benefits would be realized within the context of business expansion and attraction marketing programs.

5. ATCs should be directed to **assist in-state businesses only.** This issue has surfaced in other states' high technology programs. Besides the clear rationale that ATCs' limited resources should be focused on NJ companies and institutions only, many states have discovered that it provides an added lure to their business recruitment efforts. This policy change has no associated cost and provides an added incentive to attract technology intensive out-of-state companies.

Near Term Recommendations

1. **ATCs should be directed to monitor and interface with corporate research entities to identify specific research and technology opportunities that are no longer being pursued by their sponsor companies.** ATCs should be prepared to evaluate these opportunities and **pick up those that still have utility and can be transferred to new or existing commercial applications.**

   Estimated cost will probably be less than $150,000 a year. Anticipated benefits include the potential for recycling old technology and identifying new commercial applications. ATC and Commission staff should be directed to keep close tabs on research under phase out where practicable.

2. The Commission should conduct scientific **symposia** covering specific research and technology of interest to companies within each of the ATCs fields. Associated **technology transfer fairs** should be co-sponsored with leading NJ industries to benefit existing and emerging companies. This represents another tool which the ATCs can utilize to promote commercialization of new discoveries.

   Estimated cost is minimal since expenses can be covered by registration fees, corporate sponsorships, and exhibit space rentals. We suggest reserving $40,000 per annum for this service. Anticipated **benefits** include the **development of new vehicles to facilitate technology and information exchange among New Jersey businesses.**

3. The Commission currently funds three standalone technology extension centers: New Jersey Polymer Extension Center, Technology Extension Center in Information Services, and Fisheries and Aquaculture Technology Extension Center. The Commission has embarked on a new sectoral service center approach to develop inter-firm cooperation and partnerships among industry. Sponsored by the Center for Manufacturing Systems (CMS) this new statewide technology extension program exhibits significant potential to revitalize NJ manufacturing industries. The Paterson Textile Center (PATEX) was recently established to service the textile printing and dying firms and associated labor unions. CMS plans to extend the PATEX model of industry led service centers to the apparel, metalworking, plastics, and defense-electronics industries. Metalworking should hold priority status because of the large number of metal fabricating companies in the state.

   Additional TEX centers which are configured to service all industry should also be given serious attention. These could be co-located with NJDCED field offices and provide a scope and breadth of coverage not available in centers with a specific industry focus. A minimum of **three all purpose centers should be established (one each in north, central, and south New Jersey).**

As the Commission evaluates ATC efforts for commercial potential, the extension center programs should recapture financial support cut by the Commission in recent years. TEX programming has declined 58% from FY 1991 to FY 1994. The Commission's total budget has seen a modest decline of 9.3% over the same period. TEX programs offer excellent value to the myriad small and medium size manufacturers which represent the future of manufacturing in the state. Estimated cost for extension service center growth is $1.5 million per year (i.e. 3 general purpose centers). Anticipated benefits include a renewed emphasis on technology transfer and development of new commercial applications for maturing industries. This in turn would strengthen profitability of small firms and lead to increased employment.

4. The Commission currently sponsors three incubators and is planning a fourth to be sited in South Jersey. The Commission should **accelerate the creation of incubators to facilitate small business formation.** Estimated cost for start up is $100,000 per incubator. Anticipated benefits include new job formation and development of new technology businesses.

5. Recognizing that the Governor and the Commission will have to make some hard choices regarding program funding, it seems prudent to **develop a series of performance measures to** gauge the effectiveness of Commission activities. The following are offered as potential measures for future consideration:

   - Number of companies assisted.
   - Number of jobs created.
   - Number of jobs retained.
   - Amount of new capital investment generated.
   - Increase in client company sales.
   - Operating or production cost savings.
   - Number of start-ups assisted.
   - Number of site visits per year.
   - Number of lab problems handled.
   - Number of successful technology transfers.
   - Number of new commercial applications.

- Amount of corporate R&D sponsorships.

- Amount of federal grants secured for Commission programs and client companies.

- Establish a benchmark ratio for internal versus externally sponsored research (e.g. $1 invested by the Commission generates $4 additional sponsored research funding from sources such as federal, university, or private).

Medium Term Recommendations

NONE

Estimated Advanced Technology Cost/Benefits

The Team has not quantified the positive effects of our recommendations on capital investment, jobs, tax revenue, etc. We do, however, believe that our recommendations will greatly strengthen the focus and effectiveness of the state's technology assistance programs.

Our recommendations would likely cost some $2.04 million per annum. The Audit cost of $100,000 is in effect a one-time expenditure. Estimated cost for each recommendation follows:

IMMEDIATE	
Category	***Cost***
ATCs Audit	$ 100,000
Collaboration between ATCs & Incubators	0
Centralized marketing for ATCs	250,000
High-tech Census	0
ATC assist only NJ companies	0
Subtotal	***$ 350,000***
NEAR TERM	
Category	***Cost***
Pick-up older but useful technologies	$ 150,000
Symposia	40,000
Three branches of a general purpose TEX Center	1,500,000
One new incubator	100,000
Benchmarks	0
Subtotal	***$2,140,000***

Exhibit IX

Advanced Technology Centers

- Center for Advanced Biotechnology and Medicine
- Center for Advanced Food Technology
- Center for Agricultural Molecular Biology
- Center for Ceramic Research
- Fiber Optic Materials Research Program
- Center for Photonics and Optoelectronic Materials
- Center for Surface Engineered Materials
- Center for Computer Aids for Industrial Productivity
- Center for Manufacturing Systems
- Hazardous Substance Management Research Center
- Center for Plastics Recycling Research
- Discrete Mathematics and Theoretical Computer Science

Technology Extension Centers

- New Jersey Polymer Extension Center
- Technology Extension Center in Information Services
- Fisheries and Aquaculture Technology Extension Center
- Center for Manufacturing Systems Technology Extension Program

Exhibit IX (Cont'd.)

Technology Business Incubators

- NJIT Enterprise Development Center
- Stevens Technology Ventures Business Incubator
- Rutgers Business Innovation Center

New Business Formation

Situation

The development of a business climate that is conducive to small business formation remains a critical issue facing government and business leaders in our state. Several issues converge to focus attention on issues impacting the creation of new business ventures. Seed and venture capital financing have been successfully addressed by states in our region. NJ has not yet put in place either types of small business financing programs.

The advent of small business incubators reflects progressive thinking by local and state government in business development programming at the grass roots level. As new industries emerge they often require an incubator environment to provide the support to enable them to become fiscally stable. Developing effective channels of communication between service providers and small business is also a pressing priority. Many companies are unaware of the numerous assistance programs sponsored by NJ and the federal government. Taken together these issues represent challenges that NJ needs to address in its struggle to preserve and cultivate its economic base.

The Economic Development Strategy Team has several recommendations which, if implemented, should help New Jersey realize the immense potential for start-up of entrepreneurial enterprises. These recommendations follow.

Immediate Recommendations

1. The **biotechnology sector** has recently emerged as a pivotal new industry with tremendous promise for growth. As a relatively new industry that is not well understood, it requires a **supportive regulatory environment** that will allow it to grow without undue interference from well meaning local and state bureaucrats. Federal regulations have been established which provide guidelines for environmental, workplace, safety and (bio)hazards.

   Rather than develop another layer of state regulations, **NJ should adopt federal standards** and establish them as the one and only set to be followed, thereby precluding individual jurisdictions from enacting a separate set of onerous and redundant regulations. North Carolina and Virginia have taken this path and it has been well received by the industry.

   Estimated cost is minimal since the federal standards have already been enacted. **Anticipated benefits** from passing legislation adopting the federal regulations **would be realized as biotech companies recognize the state's business climate as supportive** to their relatively unique industry. This would both **encourage formation of new firms** and **stimulate growth of existing biotech companies**.

Near Term Recommendations

1. New **business incubators** to service basic and emerging industries should be established throughout the state. The Commission for Advanced Technology has proposed the creation of a **biotechnology incubator**. State ownership of a biotechnology and other incubators would provide a subsidy unavailable through private sector sponsorship and simplify the ability to recover state owned facility improvements when tenants graduate to free standing locations.

   In addition, it is critical that any biotech incubator have a **pilot plant** capability to process appropriate quantities of material for federal testing and inspection. It is typically well beyond the means of start ups to finance construction of pilot plant facilities. Estimated cost of a biotech incubator with pilot plant would be **$15 million.** This front end investment would position NJ as a leader in the industry and set the stage for the emergence of a strong biotech industry base.

2. **Critical to the development of new companies is financing**. Start-up and first stage financing are particularly difficult to secure. Second stage, mezzanine, and leveraged buyout financing are more manageable . Concept based financing which provides funding that is not asset based is generally unavailable. Since most industrial start-ups have few, if any, hard assets to collateralize, obtaining seed capital and first stage funds are extremely difficult. The situation is compounded since there are few, if any, investment banking firms based in the state.

   Many states have enacted seed/venture capital programs to stimulate creation of new industrial enterprises. These states include Connecticut, Kansas, Massachusetts, Michigan, and New York. A digest of these programs appears in Attachment G.

   The Strategy Team believes that New Jersey must establish comparable programs if we are to capitalize on potential business start-up opportunities. **We therefore, recommend the formation of a $50 million seed/venture capital fund.**

   The Commission on Science and Technology could serve as the appropriate vehicle to administer the program. Seed funding should be reasonably flexible so that there is no clear expectation for recapturing all of the fund's initial outlay. The fund can negotiate for royalty, licensing, and sales income.

   The Massachusetts Technology Development Corporation (MTDC) could serve as a model for NJ to emulate. It is structured as an independent public agency that provides venture capital financing to early stage, high risk, technology based companies. Capitalization of its funds is provided in part by the state, the US Department of Commerce, and by earnings on its investment portfolio. MTDC funds mostly on a co-venture basis with compatible private sector investors Typical initial investments range from $100 - 300,000. MTDC also invests $2 million of the Massachusetts Pension Reserves Investment Trust under a management agreement with the Pension Reserves Investment Management Board. These funds are invested in companies at later rounds of financing where there are opportunities for substantial capital gains.

Funds should be earmarked only for NJ companies. A variety of sources could be tapped to raise the $50 million pool. These include private sector, foundations, state government, public sector pension funds (currently forbidden in NJ), and a bond issue.

Performance measures need to be adopted to determine acceptable levels of risk and guidelines for loan applications analysis and due diligence. It should be kept in mind that a state sponsored venture and seed capital fund represents an incentives approach to business development. There should be no overriding expectation that the fund will perform as well as traditional or more conservative investment vehicles.

The estimated cost for this program is pegged at **$50 million** fund capitalization representing a public/private mix, and **$500,000** to provide supplemental funding to the Commission to staff and start up the program. Anticipated benefits reflect a commitment to the development of technology based and other manufacturing companies and a return including new job formation, capital investment, new technology development and transfer, and an increase in state and local tax revenue.

3. We further recommend the enactment of **legislation that will allow the fund to use state pension monies** at a capped level for the general support of new manufacturing and selected service businesses in NJ only. These funds could be reserved for late level financing of companies with reasonable expectations of success, thereby affording a low risk to the pension trust.

Cost is likely to be minimal for the **pension funds involved**. The **benefit** would be a **key funding source** for the proposed venture capital pool. This would also allow New Jersey to be competitive with most other states who tap this source to help finance seed/venture capital programs.

4. The proposed seed/venture capital organization should also act as an intermediary between entrepreneurs and established venture capital sources. This would involve a matchmaking and referral service. It would also include bringing venture capitalists to our state to meet with companies who have prepared business plans judged to be reasonable by the seed capital agency.

Estimated cost of this referral service would be $250,000 per annum. Benefits would include more financing of start-up companies in the state.

Medium Term Recommendations

NONE

Estimated New Business Formation Cost/Benefits

We did not quantify the number of new companies, jobs, or capital investment that might result from our recommendations. Based on experience of other states, however, we are aware that such programs do pay handsome dividends.

The seed capital fund will cost an estimated $500,000 a year to run. State investment in the fund has not been estimated. It could very well be zero.

Cost for establishing one new incubator a year is $100,000. Annual cost for venture capital networking and referrals could be $250,000.

Hence, total cost of the Team's recommendations would be $850,000 per annum ($100,000 immediate and $750,000 near-term).

Tourism

Situation

New Jersey boasts one of the nation's largest convention and tourism industries. Recent studies indicate that one of 12 dollars of the state's entire economic output are tourist related. The industry is responsible for one out of every ten jobs, and seven percent of personal income is attributable to tourism.

Yet tourism's importance is often overlooked. In 1991 visitors to the state spent $17.8 billion on hotels, campgrounds, meals, recreation fees, car rentals, gasoline, and souvenirs. There are 353,000 tourism-dependent jobs in NJ. These generate $7.5 billion in direct and indirect wages. As an employment generator, tourism related jobs grew twice as fast as the total number of jobs in the economy. Much of this income is sourced from dollars flowing into New Jersey from out of state visitors.

Tourism is a basic industry because it attracts money from outside New Jersey and provides a fresh infusion of dollars into the state's economy. Equally important, tourists require a significantly lower expenditure in state and local supporting services since they do not send their children to NJ schools, and do not require other community services to the same degree as state residents.

Business and meeting travel comprise a major part of the tourism industry. NJ enjoys a $2 billion share of the nation's $55 billion meeting and convention business. The State's strategic geographic location fuels the industry. With 20 million people in New York and New Jersey alone and 60 million within a five hour drive of the state, NJ has direct access to 28 percent of the nation's consumer buying power.

State hotels, however, have lost market share of the travel and tourism business, in part because New Jersey has reduced expenditures for out of state promotion. Although the state's tourism advertising and promotion budget has increased $1.15 million this fiscal year, the total still represents a decline over 1992 spending of $700,000. More importantly, when compared to other states on a per capita expenditure basis, NJ spent $0.85 in 1992 versus a weighted average among the top 36 states of $1.07. Pennsylvania spent $1.10 per capita and Virginia spent $1.53.

The travel and tourism industry is becoming increasingly competitive. If New Jersey is to retain and grow market share it must do so in the face of stiff competition. Other states well recognize the economic impact of this industry. NJ must rise to meet the challenge other states pose from highly aggressive promotional campaigns.

Immediate Recommendations

1. **Increase NJ's Travel and Tourism's Advertising and Promotion budget to the US average of $1.07 per capita. In terms of 1992 dollars and population, NJ's budget should be $8.3 million.** This represents a $2.3 million increase over the FY 1995 budget of $6.0 million. These funds are essential to effectively mount aggressive campaigns to attract tourist, convention, and meeting business. Anticipated benefits include new tourist related jobs, an expanded tourist industry payroll, and additional state and local revenues generated by increased sales, property, hotel room, and income taxes. Our best estimate is that this **$2.3 million expenditure would create around 7,500 direct jobs and $20 million in state and local revenue.**

2. Execute national, regional and cooperative advertising campaigns utilizing a central theme (e.g. NJ, What A Difference A State Makes). Bring in regional tourism groups, major hotels, other tourist attractions, cultural, recreational, sporting, entertainment, and other key convention and tourism advertisers to leverage the state's campaign. NJ has effectively implemented cooperative programs with McDonalds, Marriott, and Getty. Competing states are cooperating with airlines, key attractions, and local and regional convention and tourism bureaus in print and broadcast media advertising campaigns. Incremental cost could be $450,000 a year (which is included in our $2.3 incremental funding estimate).

   The state should specifically **reinstitute matching grant funding for the six regional council** districts that had been cut from the budget. We advocate **$50,000 a year for each region.**

   Estimated cost (i.e. $50,000 a year for each region) is included in the expanded tourism budget of $8.3 million.

   Anticipated benefits from the above include the leveraging effect where the state would be a 50% participant with cooperative advertisers. Additional impressions, extended reach and more frequent communications would result, thereby increasing the number of visitors, their length of stay, and the amount of dollars they spend. Also, the regions could utilize the grant capital to refine and upgrade their own promotional strategies.

3. **The state should develop a special marketing relationship with the Jersey Shore communities and attractions**. The Shore represents one of the few destination resorts that has broad and diverse appeal. Recognizing that tourism represents a major component of South Jersey's economy, the aggressive development and marketing of the area is critical to its future economic well being.

   Estimated cost of $250,000 is included in the $2.3 million incremental budget increase. Anticipated benefits are significant. Since tourism payrolls normally grow faster than the overall economy, a vigorous South Jersey tourism industry can help close the income gap with North Jersey. It would also demonstrate to South Jersey citizens that state government is equally concerned about their economic well being.

Near Term Recommendations

1. **Target business travel, meeting, trade show, and investor relations business. Coordinate this effort with economic development marketing.**

   With an oversupply of hotel rooms, underutilized meeting space, excellent transportation infrastructure, and proximity to bi-state markets, NJ is poised to recruit significant new travel and meeting business. Staff should be dedicated to soliciting trade show exhibitions of **target industries** identified by the business development unit of NJDCED. Staff should also aggressively recruit annual shareholders and sales meetings of selected companies, particularly those headquartered in New York and Connecticut.

   Estimated cost of mounting aggressive business travel marketing **is $500,000** of the enhanced $8.3 million total travel and tourism budget. Anticipated benefits include better marketing synergy between travel and economic development marketing efforts. By extension, targets can be set to include international trade events, technology fairs, professional (scientific) associations, and other selected groups whose exposure to the state, its institutions, and companies would generate added value, networking opportunities, and prestige.

   This latter attribute is important since a key element within the state's overall marketing project should be the crafting and projection of the state as a dynamic business center, destination resort, and preferred place to live. The state, historically, has been saddled with a negative image. Tourism and economic development advertising should redress this misperception within the context of their respective campaigns. This may serve as the central theme that could tie together diverse campaigns targeted to distinct audiences.

2. **Develop a more effective distribution mechanism for dissemination of travel and tourism promotional brochures**. Distribution points could include welcome centers, attractions, hotels, chambers of commerce, and resorts. The state should conduct more frequent direct mail campaigns to the travel industry, convention and meeting planners, bus tour operators, and others identified through the development of a comprehensive direct mail database.

   Estimated cost for producing and distributing promotional brochures is $250,000. Anticipated benefits include placing sales literature directly into the hands of potential visitors. An effective campaign should increase NJ's travel and tourism market share.

3. Plan expansion of the NJ Economic Development Resource Center to accommodate the instillation of a **central, information repository** for all cultural, recreational, sporting and entertainment programs, events, and facilities. Convention and meeting prospects could be thoroughly briefed and visually tour sites, facilities, resorts, and other attractions at the Center. All appropriate cost, calendar and demographic information could be assembled on the spot for clients. Video presentations marketing NJ resorts and attractions could be produced and distributed from the Center.

The Center's video, information and design expertise could also be utilized in the development and siting of **electronic kiosks** at key travel points around the state. The kiosks could present general information and also access the Center's database for specific information , e.g. calendar of events, travel trip routing, hotel reservation information, etc.

Estimated cost is **$500,000** if done within the next two years. Anticipated benefits include development of a comprehensive travel and tourism database and access to a state of the art sales center.

Medium Term Recommendations

1. NJ's ideal location from a travel and tourism proximity standpoint needs to be fully capitalized upon. State resort destinations are located within 5-6 hours of 60 million potential visitors. Recent studies indicate that the tourism industry will continue to expand. Growth was not appreciably slowed down during the last recession. People continue to vacation when times are bad, they simply do so closer to home, and take less expensive trips. NJ fits this destination profile.

   To ensure that the state's promotional budget remains on a growth trend, insulated from fluctuations in state tax revenues, a **mechanism needs to be developed to ensure a constant flow of dollars to the Department of Travel and Tourism**. One such model has recently been designed in Colorado. The Colorado General Assembly recently approved a bill that allows formation of a state tourism service authority. The authority would collect $5.7 million in dues from businesses dependent on the tourism industry. Businesses will be assessed $10 for every $10,000 in sales. Bars and restaurants will pay $3.50 per $10,000. A business can file for a refund if owners believe that the authority's promotional activities are not helping their business.

   Estimated cost to the state for creating a similar authority is minimal since funding is sourced privately. Anticipated benefits are promotional continuity, fiscal independence, and improved accountability since the authority financiers are the state's travel and tourism industry.

Estimated Tourism Cost/Benefits

Our overall recommendation regarding funding is to bring New Jersey's tourism spending up to national norms, on a per capita basis. This would necessitate an additional outlay of $2.3 million a year. Our research conservatively indicates this would stimulate 7,500 direct jobs and $20 million per annum state and local tax revenue.

Elements of the additional $2.3 million expenditure include the following:

Category	***Immediate, Near Term & Medium Term***	***Cost***
Matching Grants To Six Regions	Immediate	$300,000
Cooperative Marketing	Immediate	450,000
Jersey Shore Communities	Immediate	200,000
Business Travel, Meeting Trade Shows, et al.	Near Term	500,000
Literature Distribution	Near Term	250,000
Kiosks, Central Database	Near Term	600,000
Total		***$2,300,000***

NEW JERSEY ECONOMIC MASTER PLAN COMMISSION

BEST PRACTICES REPORT

FINAL DRAFT

DECEMBER 2, 1994

Submitted by

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RGN Best Practice Standards

Each of the "Best Practices" presented in this report to the New Jersey Economic Master Plan Commission illustrates one or more of the following standards:

1) Scale: To make a difference, a "best practice" must achieve a scale necessary to impact the mainstream economy, rather than operate as a good pilot effort on the margin.

2) Market Driven: A "best practice" economic development initiative aims to improve the effectiveness of the market place, rather than simply creating public services. The goal is to impact thousands of private sector decisions.

3) Leverage: A primary means to achieve scale and change the market is to use public dollars, incentives or requirements to leverage vastly greater private investments or actions.

4) Self-Sustainability: A "best practice" must demonstrate the ability to endure through political and fiscal changes. Its governance and financial structures must therefore balance independence with accountability.

5) Private "Ownership": When private organizations (businesses, unions, universities, etc.) control an economic development initiative, they take it far more seriously then if it is publicly owned and controlled. The most effective "programs" are often those run by the private sector.

6) Flexibility/Adaptability: Markets change. "Best practices" are those which are structured to allow change as the market place changes (e.g., no legislative micro-management).

7) Performance Driven: In exchange for flexibility comes accountability. Outputs and outcomes, not inputs, must be measured, and management must be held accountable.

8) Private Management Standards: Best practices succeed, in part, because they are managed by the best. Good management requires incentive-driven pay on a par with other similar private sector opportunities.

9) Customer-Driven: "Best practices" carefully identify who their customers are, focus on delivering services that meet the needs of that customer base, offer choices, and distinguish customers from constituencies.

10) Regionally and Sectorally Focused: State economies are made up of multiple regional economies and business sectors. "Best Practices" often allow for ownership and implementation at the regional and sectoral levels, so initiatives can be tailored to the different needs of different regions and industries.

THE GOVERNOR AS LEADER: MARKETING NEW JERSEY AGGRESSIVELY

[Note to readers: This recommendation is not a programmatic initiative. Rather, it proposes a framework for leadership that would be important to emphasize early in the Commission's report.]

Summary:

We propose that the Governor take on the primary leadership role in forging New Jersey's economic growth and development. We urge that, with the support of key aides and departments, she tackle several highly visible roles: marketer of the state, convenor of required public-private partnerships, advocate for needed legislative and regulatory changes, and manager of strategic public investments to improve the economic climate in the state.

The tone of this recommendation is as important as the specifics. The Governor can send an unambiguous signal to employers, whether now based in New Jersey or making location decisions, that the public and private leadership of the state is collaborating effectively to improve the state's position as a good place to do business.

This recommendation is not limited to the current Governor. In fact, in most successful states, the concept that the Governor lead the charge for economic development is assumed, regardless of person or party.

Nor does this recommendation mean that the state should do, fund or manage every economic growth strategy. In fact, our experience suggests that many such actions are much more effectively done outside state government, through devices such as the recommended Opportunity New Jersey. What it DOES mean is that the state would be well served if the Governor provided leadership and direction, creating a context in which public and private sector actors understand how their actions can fit into a coherent state strategy.

History:

The RGN recommendations offer an array of strategic actions that leverage a blend of public and private investment to achieve large scale improvement in the economic competitiveness of New Jersey. The individual actions are important in their own right, as is the governance structure of Opportunity New Jersey that we propose.

But as valuable as these steps are, they run the risk of falling short of the mark without aggressive leadership on economic development from the Governor, supported by key departments and aides. While the specific mechanisms used differ somewhat, states that are winning in the economic marketplace typically have highly visible executive leadership on economic issues.

A Governor is uniquely positioned to tackle several missions for his or her state. No other individual brings the visibility and singularity of interest to the task that a Governor does. Examples of what a Governor can do include:

- Marketing the state: No one is better positioned to sell New Jersey to employers, whether for retention or recruitment, than is the Governor. She can be an advocate for the interests of the entire state without been suspected of having a hidden agenda. She brings the power to solve public investment barriers faced by those firms, whether infrastructure, workforce preparation or regulation.

- Convenor of public-private partnerships: The Governor can effectively reach out to the state's business leadership to engage them in shared strategic planning and investment. Few responsible employers will reject a persuasive invitation to public service issued by a Governor. Once the partnership is convened, it is equally important that the Governor step back and allow it to work. Doing so puts far more accountability on the private sector leadership, which has resulted in ventures that run like businesses and achieve sustained success.

- Advocate for legislative and regulatory changes: The Governor can actively encourage important legislative and regulatory changes that improve the business climate in New Jersey.

- Manager of strategic public investments: While we urge that most economic development initiatives be undertaken with substantial private funding, the state is and will remain a major investor in the state's economic climate. Public funds pay for education, job training, research, highways and other infrastructure, just for starters. The Governor can reshape these state investments to maximize their impact and leverage both private investments and the strategies that emerge from Opportunity New Jersey.

This recommendation is drawn from many examples in other states across decades: Governor Thornburgh in Pennsylvania; Governor Rhodes in Ohio; both Governors Blanchard and Engler in Michigan; Governor Wilson in California; and nearly every Governor in recent years in North or South Carolina. Each of these Governors had his own style and emphasis, but what all had in common was their aggressiveness and visibility on economic strategy.

States evolve different political cultures. Several Commission members commented privately that New Jersey has a bipartisan history of being relatively laissez-faire on economic development, particularly when compared with the more aggressive states cited above. That was adequate during years in which New Jersey ranked among the most prosperous states in the nation. But the level of competition has ratcheted upward as every state -- and nation -- has confronted the turbulence of economies in transition. To compete credibly for good jobs, New Jersey must adopt a more active posture.

Investment:

This recommendation does not carry large-scale cost implications. The state can redeploy existing economic development resources -- and/or augment them slightly -- to carry out the new agenda we have recommended in our other recommendations.

Management:

RGN recommends that the Governor convene and chair Opportunity New Jersey, a public-private partnership to create and execute a strategic economic plan. (See Opportunity New Jersey recommendation for more details.)

The Governor's ability to play a leadership role is dependent upon high quality staff support that is focused without distraction upon management of the issue. The Commissioner of Commerce and Economic Development can play an essential role in developing and managing the agenda outlined above. In the most effective states, the Governor typically has a single lead agent inside state government -- usually the Commerce Director -- with whom the Governor works closely to steer the agenda.

Undertaking the role of leadership requires a fundamental change of mindset from the traditional state government approach of running publicly funded programs. In the partnerships and market-based strategies we envision, the state's program management responsibility is likely to decrease, while state incentives for private investment will increase. The new roles are market-supporting ones, not bureaucratic ones: linking customers, stimulating private investment, and identifying and fixing market gaps.

As Opportunity New Jersey is created, the role of the Department of Commerce and Economic Development should change, not shrink. We envision the Commerce Department being responsible for ensuring that public investments leverage strategically with private ones as strategies emerge from the public-private partnership. Staffing the Governor and her key lieutenants as they work with private sector leaders is plainly another role that a repositioned Commerce Department could tackle with great success. A range of other roles, from marketing to economic research to tax-exempt bond issuance, are also best conducted by the Department and its affiliates.

Impacts:

The Governor can play the crucial role in catalyzing both private sector participation and public sector attitude changes to support the mission of strategic economic growth. The Governor is uniquely positioned to motivate, launch, and steer shifts in the role of both sectors required to achieve lasting success.

The Governor can also have an enormous impact upon the attitudes of employers and workers about the future of their state. Changes in perception won't happen overnight, but more than anyone, a Governor can deliver persuasive message that New Jersey is once again an exciting place in which to do business.

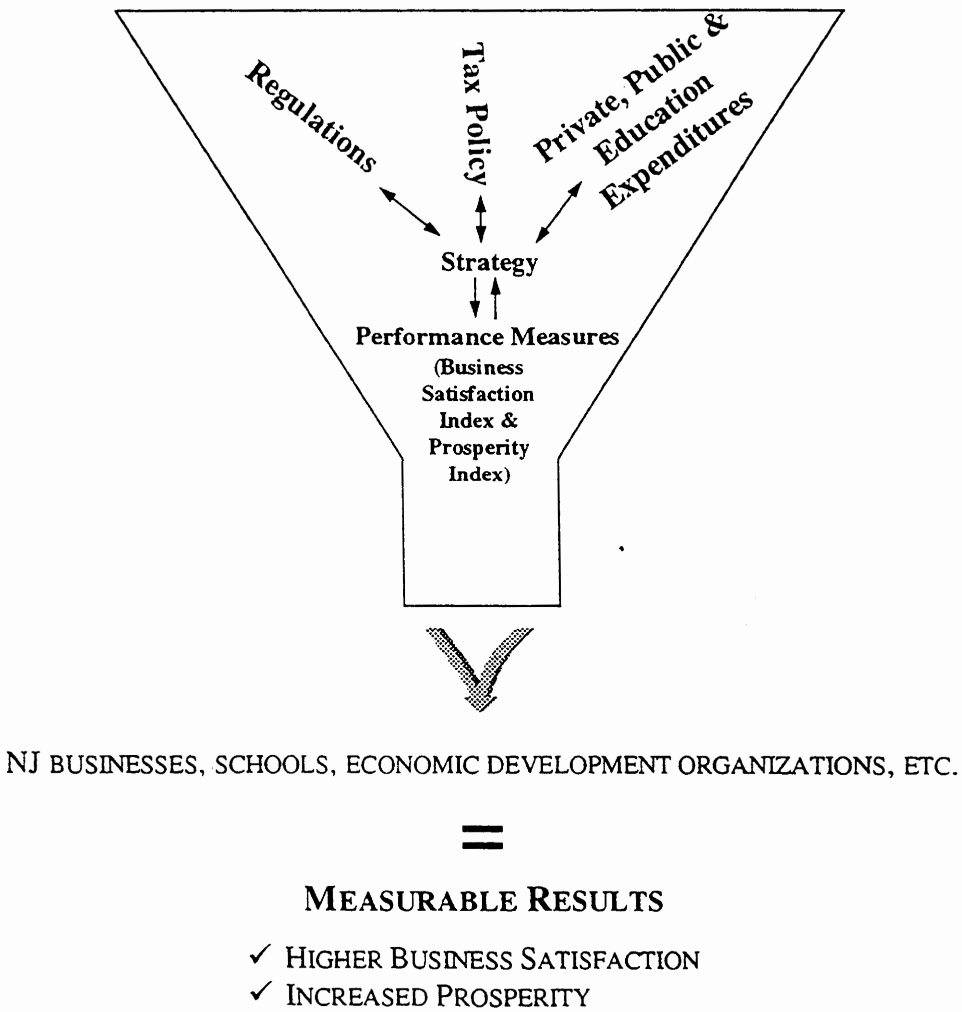
Summary:

We propose that the Governor create Opportunity New Jersey, a statewide strategic economic development partnership of the private, public, education and civic sectors. Opportunity New Jersey will build on the work initiated by the New Jersey Economic Master Plan Commission. It will create and execute a strategic vision for the state's economy that survives electoral terms and looks beyond industry cycles to ensure that New Jersey is a place where every business and worker can compete in the world marketplace at their maximum potential.

Opportunity New Jersey, with a small, highly qualified staff, will serve as a "funnel". It will infuse regulatory, tax and expenditure actions of government -- as well as the private sector -- with a single, shared economic development strategy with measurable economic development results.

Exhibit 1

OPPORTUNITY NEW JERSEY



History:

Across the midwest, state economies collapsed in the 1980s. Unemployment soared to double digits, banks closed, and state budgets went into deficit. Out of these crises, business and government leaders were forced to the conclusion that the standard, programmatic approach to economic development was insufficient. The collapse led them to recognize:

- Economic development is impacted by public agencies far outside the control of a department of commerce. Schools and universities, transportation and communications systems, financial services and other key resources critical to competitiveness are developed, regulated, owned or taxed by a wide range of public agencies and educational institutions at the national and local levels as well as the state level.

- Economic development, to be timely and achieve real scale, depends on the applied, day-to-day intelligence of the private sector. Private enterprises have the up-to-the-minute pulse of the market place. They know what is needed of schools, roads, telecommunications, technological support, and so on. The private sector bears the cost when these resources are not up to par, and profits to everyone's benefit when they are.

- Economic development requires long-term strategies that must smoothly span administrations. Some governors and legislatures are more committed to economic development than others. A private/public/education/civic partnership can maintain continuity and focus across electoral terms.

Thus, out of crisis, market-driven private/public/education/civic partnerships emerged across the country that now share the responsibility for expanding economic opportunity with their government counterparts. Examples include:

- Indiana Economic Development Council (1985)
- Kansas, Inc. (1986)
- Oklahoma Futures (1987)
- Kentucky Science & Technology Council, Inc. (1989)
- Enterprise Florida (1992)
- Los Angeles (1993)
- Alabama Economic Development Partnership (1993)
- Kentucky Economic Development Partnership (1993)
- Tennessee Tomorrow, Inc. (1994)

Like these predecessors, Opportunity New Jersey will perform dual functions:

- First, Opportunity New Jersey will be responsible for building and communicating a strategic vision for economic competitiveness that continues the work completed by the New Jersey Economic Master Plan Commission.

  As in other states, the actual research work can be conducted by outside vendors. This strategic planning function therefore requires minimal in-house staff.

- Second, Opportunity New Jersey will be responsible for ensuring that the vision is achieved, either through its own direct activities or by catalyzing change in government or the private sector.

  Experience in other states suggests that when new or expanded services are required, partnerships such as Opportunity New Jersey operate best at the "wholesale" level. That is, they do not work directly with businesses to provide economic development services, but work through local, industry or resource-specific "retailers". The Partnership expands financial resources, disperses resources according to a tight strategic plan, measures performance, and shifts retailers if they do not perform.

Although these partnerships are still to a certain extent experimental, a number of lessons have been learned.

First, from a political stand point, it is much easier to create such a partnership at a time of crisis. But from an economic stand point, it is much better to create such a partnership while the economy is in a position of strength.

Only two states acted at a time when they were not in crisis. The Kentucky Science & Technology Council was created while Kentucky was relatively prosperous. A number of business leaders, based on their own knowledge of change in world markets, formed the Council to prepare their state for the Information Age because government seemed unable to move. Tennessee Tomorrow, Inc. was created at a time of 4% unemployment by forward thinking leaders who believed they could head off future crises by capitalizing on their current growth. New Jersey, like Tennessee, has the opportunity to act at a time of relative economic strength to capture a small, brief window of opportunity in a number of its key sectors.

Second, the people and organization responsible for developing the state's strategic plan must be linked closely to the actions taken to implement that plan. If strategy is linked closely to action, it is more likely to be realistic. Moreover, if strategy is linked closely to action, it will be more likely to succeed. Kansas, Inc., for instance, is charged solely with strategic planning. Related affiliate organizations carry out the strategy in areas from finance to technological development to export trade development. Over time, credibility has shifted from Kansas, Inc. to the affiliates that are closer to the market place. This is in contrast to Kentucky and Tennessee in which a single staff and organization are responsible for both strategy and implementation.

Third, action needs to be demonstrated quickly. Stakeholders will quickly tire of strategic plans unless they see tangible progress against goals as a direct result of their actions.

Fourth, information needs to be managed. Legislatures are not patient with typical start-up schedules associated with major initiatives. Unless very carefully briefed, the press may focus solely on the self-interest that brings major industry to the economic development table, and will not have the background to understand or communicate complicated business initiatives. At the very least, major undertakings that require substantial lead time must be given cover by other initiatives that are visible immediately. Ideally, little should be communicated to the press and public until tangible results can be shown through example.

Investment:

Opportunity New Jersey will operate like a private business, seeking to cover all costs through fees, investment income and other sources of revenue generated from services provided. These other sources of income are likely to include performance-based contracts with the federal or state government as well as foundations or other institutions that contribute to or invest in particular initiatives. When funds from such sources are supplied to Opportunity New Jersey, they will be in the form of performance-based contracts.

The following are financial principles adopted from Tennessee Tomorrow, Inc.:

#1 Financial structure reflects board structure.
Private dollars must be invested first for match by the public sector. The state can match the private sector effort through a wide variety of financing tools, including direct appropriations, and changes to tax and regulatory structure.

#2 Any funds from the State of New Jersey are received as an annual lump sum.
State funds, like private sector funds, will be disbursed to Opportunity New Jersey as an annual lump sum for expenditure at the judgment of the board, and subject to performance measurement by the state.

#3 No activity will be undertaken if underfunded.
Opportunity New Jersey, and each of its actions, must not be funded with just enough money to fail. Threshold funding levels will be identified for all activities, below which Opportunity New Jersey shall not proceed.

#4 Require leverage on all Opportunity New Jersey activities.
No activity will be undertaken by Opportunity New Jersey without demonstrated participation by other private, federal, state or local organizations.

#5 Charge fees for services wherever possible, and require market-based returns on investment wherever appropriate.

#6 Move to financial self-sufficiency for general operations (i.e., grants and contributions only for specific initiatives) within five years.
Other states are accomplishing this goal in a wide variety of ways.

- The Kentucky Science & Technology Council has shifted from state start-up appropriations to serving as a contracting agent for major federal technology modernization, education and work force training programs.

- Enterprise Florida is pursuing a range of strategies, from profit-generating venture pools, to contractual activities with the federal government, to board oversight over government-managed programs.

- Tennessee Tomorrow, Inc. secured $3 million in commitments from the private and public sectors ($500,000 from state government) for its first three years of operating costs. Thereafter, the organization is expected to shift to financial self-sufficiency. Hence, it is aggressively pursuing fee and revenue-generating activities that are consistent with its mission.

The budget for the first full year of basic Opportunity New Jersey operations will be less than $250,000. The overall budget, including implementation of particular initiatives, will be based on those actions which the board chooses to pursue. For example, were the board to develop a Seed Venture Fund as described in this Best Practices Report, an additional $200,000 will be required that might later be recouped when the fund is closed. Wherever possible, Opportunity New Jersey should seek to accomplish its goals by making better use of existing expenditures and investments in the private, public and education sectors, rather than seeking new funds.

Management/Organizational Structure:

Organization: Opportunity New Jersey must be a private, not-for-profit corporation independent of state government to allow it maximum independence in all of its decision-making processes. Given the expected immediate roles for Opportunity New Jersey, legislation should be sought. Recent experience suggests that strong, well-informed legislative relationships are critical to continuity and success.

Board of Directors: The board will be composed of top CEO-level leadership from across the state, with a majority of private sector members. This board must be structured according to the following rules:

- membership must be strongly bi-partisan, representing all major industry sectors, all regions, all universities, all major government resources, labor, as well as top legislative leadership;

- no token seats by virtue of position (the intellectual commitment of board members will far exceed the value of any financial commitment their companies make);

- no delegates or representatives to board meetings (use video conferencing instead);

- if a private member misses three consecutive meetings, they are removed from the board. If a public member misses three consecutive meetings, a public notice is made.

The Governor shall be the Chairman of Opportunity New Jersey. The private sector members shall elect from among themselves a Vice Chairman and CEO. The term of office of the Vice Chairman must extend over gubernatorial terms to maintain the vision and continuity of Opportunity New Jersey.

Once established, new board members will be nominated by a nominating committee of the existing members and appointed by the Chairman and Vice Chairman. Members should be confirmed by the Senate. In its first year, a number of processes may be used to develop the membership, ranging from informal development of the board seeking particularly active members to a formal nomination process led by one or more industry associations or other appropriate organizations.

Board members will be fully vested with the power and responsibility to establish and implement a strategic vision for New Jersey's economy, continuing the work of the New Jersey Economic Master Plan Commission.

To facilitate execution of these duties, committees of the board will be created as appropriate. Based on recommendations elsewhere in this Report, these will include an Executive Committee of the Board, as well as a Regulatory Council, a Work Force Committee, a Business Development Partnership Committee, and an Urban Committee (see Exhibit 2).

Exhibit 2: Opportunity New Jersey Committee Functions

Committee	Charge
Executive Committee	Up-date strategic plan. Evaluate performance. Hire management. Oversee budget. Administrative matters (i.e., by-laws, etc.)
Regulatory Council	Ensure consistency of state regulatory policy with overall economic development strategy. (i.e., one-stop shopping, up-down vote on legislation)
Business Development Partnership Committee	Implement actions to support expansion of existing industry through private, independent networks focused on industrial and regional clusters. Develop key resources (i.e., early stage venture capital, telecities).
Urban Committee	Implement an urban investment strategy that is the national state-of-the art, and is consistent with the overall Opportunity New Jersey strategy (i.e., Community Development Trust, Human Investment Strategy, Enterprise Investment Strategy)
Work Force Council	Create a market for skills training in New Jersey.

Operating affiliates may be created only if a distinct legal structure is required. In such instances, a majority of members of each affiliate board will also be members of the Opportunity New Jersey board. Although the affiliates would have separate boards and legal structures, they would be financially part of the overall Opportunity New Jersey structure.

Staff: The staff of Opportunity New Jersey will be a small, highly qualified professional team. It is likely to include a President, responsible for overall strategic direction and communications, as well as for moving Opportunity New Jersey to financial self-sufficiency. Two to four additional senior professionals will be required to manage the activities of the Committees described above. Based on the track records of other similar organizations, total professional internal staff should not exceed four to six individuals at full operations (excluding the existing staff associated with the Work Force Development recommendation presented elsewhere in this report).

Performance Measurements:

The success of Opportunity New Jersey must be measured by the success of the New Jersey economy. The organization's strategic plan will build on the vision established by the New Jersey Economic Master Plan Commission, and, on an annual basis, translate the vision into specific tasks, link each task to output oriented performance measures, and translate these into a bottom-line measurements.

In Florida, the bottom-line is 200,000 new high wage jobs by 2005 (with "high wage jobs" and the means of measurement carefully defined). In Tennessee, the bottom-line is to achieve per capita income at 100% of the national average by 2005 for the first time since the Civil War.

Opportunity New Jersey must develop similar performance measures that are long-term, measurable and aggressive. The indexes proposed by the New Jersey Economic Master Plan Commission are very appropriate, including a short-term "business satisfaction" index and a long term "prosperity" index.

Impacts:

Stronger Economy and More Good Jobs -- Properly focused and properly managed, a strategic private/public partnership can, indeed, significantly impact economic performance. For example, two years after Oklahoma Futures was established, DRI-McGraw Hill wrote in its evaluation of the top 100 metropolitan areas that Oklahoma City and Tulsa were in a steady gradual recovery, in part attributable to the actions taken by Oklahoma Futures.

Better Use of Limited State and Other Economic Development Dollars -- With a public/private strategic economic development board, high impact initiatives that require a five, seven or even ten year time perspective can be more effectively accomplished. Economic development resources can be better invested in a performance-oriented environment that encourages quality.

Informed Electorate -- A strategic economic vision that is properly developed and well-communicated can be a powerful tool for focusing a state's businesses and workers on critical issues that require action. Oklahoma Futures, for instance, used its strategic planning process to create an environment that recognized the economic value of a high quality education system, laying the groundwork for fundamental change in school funding. Enterprise Florida is gradually building awareness in the state legislature of the importance of investment in the state's economic resources as a means to economic development, providing a positive alternative to the current strategy-by-default -- growth through immigration.

Who Benefits:

Small and Medium-Sized Companies -- through creation of a better business environment.

Large Companies -- through expansion of their local client base, and by sharing the cost with their peers for taking on "public good" business challenges, such as improved work force training or regulatory issues that cut across industries.

Workers -- through the availability of more high quality jobs in a more stable economic environment.

The Department of Commerce & Economic Development -- through a partner that is positioned to address multi-agency issues and that can catalyze and focus the knowledge and resources of major industries in the state.

State Government -- through better use of limited tax dollars, and a happier "customer base".

Implementation Plans:

By January, 1995: A Committee of the New Jersey Economic Master Plan Commission should draft legislation to create Opportunity New Jersey. This legislation should benefit from the experience of other states, including Kansas, Inc. and Oklahoma Futures. Legislation creating these organizations is explicit on mission, performance goals, performance evaluation and accountability, but provides broad flexibility and independence in terms of day-to-day actions, organizational structure and so on. This legislation must be developed in close partnership with the Governor and key legislative leadership.

Incorporate minimum base start-up funds for Opportunity New Jersey in the Governor's budget, estimated at approximately $250,000.

By March, 1995: The Governor and key legislative leadership should seek passage of Opportunity New Jersey enabling legislation. This legislation should include:

(a) action to reposition the Employment & Training Commission as a Work Force Council under Opportunity New Jersey, as described in the Work Force Development section of this Report.

(b) action to absorb the Regulatory Council, and all of its duties and powers, into Opportunity New Jersey upon its activation.

(c) the power to create a Community Development Trust, into which state and other funds would be deposited, consistent with the recommendations as proposed later in this Report.

By May, 1995: Appoint Board members to Opportunity New Jersey.

Incorporate Opportunity New Jersey as a private, not-for-profit corporation.

Develop by-laws, borrowing on the experience of Tennessee Tomorrow, Inc. and Enterprise Florida.

By June, 1995: Review, revise and gain the commitment of board members to the mission, strategy and performance goals of Opportunity New Jersey, building on the work of the New Jersey Economic Master Plan Commission.

Develop an estimated budget, including core operations and likely near-term actions to determine funds required beyond those secured from state government.

Develop and implement a detailed funding plan.

By September, 1995: Create the Business Development Partnership Committee. Charge it with development of Business Development Networks, an early stage venture capital strategy, and review of the Telecities strategy.

(NOTE: See other initiatives identified below for details, and follow-on steps).

DEREGULATING NEW JERSEY

Summary:

No issue emerged more ardently or more universally across commission task forces than the burdens imposed on employers by the state's current regulatory maze. Horror stories abounded. One task force pointed out that it takes years to obtain permits for construction in New Jersey, months elsewhere. Another identified a state regulatory office that takes calls from those it regulates for only one hour a day.

The intensity of this concern was striking. Indeed, it is far more intense in New Jersey than in most other states. While the specifics varied somewhat from task force to task force, several major themes emerged.

- Processes that involve hundreds of regulations and dozens of agencies, at all levels of government, must be simplified and streamlined.
- Permitting processes must be sped up.
- And the commission seeks not to weaken environmental protection but to streamline the mechanisms used to achieve it.

These themes apply to many forms of regulation, but the most pervasive problems appear to be in the area of environmental protection. They involve all levels of government: federal, state, county, and local. Hence we have chosen to focus first upon reinventing the multi-level environmental regulatory system. However, we believe that the models developed and tested in this arena could be applied to other regulatory fields, both state and local.

History and Models:

The New Jersey experience matches that of other states in at least one respect: it reflects an adversarial history in which regulators see the public as their only customers and businesses as those to be policed. Environmental protection has been constructed as a "win-lose" dynamic, with polarized advocates locked into extreme positions.

Like many states, New Jersey also administers a wide and fragmented array of environmental protection programs, each of which operates as its own "stovepipe" -- water, air, hazardous waste, etc. Further, a quarter century of regulations have been layered atop one another, resulting in complexity and an overwhelming number of required permits.

This is a system that cries out for reengineering: for the application of quality management principles to improve operational processes. The outcome can be savings in time, money and staffing -- *without sacrificing results.*

The Massachusetts Department of Environmental Protection offers an excellent model. In recent years Massachusetts has accomplished sweeping reform of its permitting systems, including dramatic reductions in the time required, one-stop shopping for most permits, reduction of the number of permits required, and elimination of many pre-approvals in favor of an audit-based system. Fundamental changes were instituted in months, not years. Today, the department is creating a culture and process of continuous improvement.

The crucial ingredient in the Massachusetts success story was the recognition that two legitimate stakeholders existed in environmental regulation -- advocates of environmental protection and businesses. The DEP repeatedly convened stakeholder groups, made up of highly credible business leaders and environmentalists, to attack problems and redesign systems. This step was essential; it helped the resulting proposals gain credibility among interest groups on both sides, transforming the dynamic from win-lose to win-win.

The first stakeholder group began by doing an inventory of all 137 permits required by the state and describing the processes associated with each. This not only opened participants' eyes, it established a common information base among them. It also pinpointed where backlogs were occurring, where too many steps were required, and where other key problems lay.

The inventory triggered several successful initiatives. First, the stakeholder group recommended firm time limits within which permits had to be issued and refunds of permitting fees if deadlines were missed. The legislature passed the necessary legislation, which forced a revolution in DEP's permitting processes. For the first time, the department instituted a system to track the progress of permits. Meanwhile, the commissioner began to measure performance by how many fees had to be refunded. The staff predicted it would take hundreds of new permitting officers to meet the deadlines. Yet without any increase, the department has had to refund only about 20 fees out of 4,000 paid each year.

Second, DEP began moving toward one-stop shopping. First, it invited businesses planning large projects requiring multiple permits -- and businesses with a history of difficulty getting permits -- to come in early in their planning process. They would map out what they intended, and the department would help them design the project to minimize the number of permits required. This worked so well that the department decided to establish four regional service centers. It hired new staff to act as lead contact, to shepherd businesses through the process. Staff used TQM analytical techniques to find where the most permitting problems occurred, then reached out to businesses, municipalities, and consultants that had frequent difficulties -- inviting them to come in early in the planning process. These steps yielded dramatic results.

Third, DEP began exempting small sources of pollution from the need for permits, if they met certain criteria. (In the trade, this is called "permit-by-rule.") For example, the state was still requiring air permits for every small boiler a business put in. This had once made sense, but today all new boilers are built to fairly high standards. The department found that boilers were eating up 35-40 percent of its air permitting time but accounting for only five percent of air pollution, at most, so it waived the permit requirement for all boilers that met certain specifications. Similarly, it delegated permitting of small water discharges to localities, thus avoiding duplicative permits. It also amended the state superfund legislation to create two tiers of superfund sites. On sites below a certain pollution level, developers need only get the approval of a "licensing site professional" (licensed by a new state board) to move ahead. It also set up differential standards for industrial areas: they no longer have to meet the drinking water standard. In many of these cases, the state does spot-checks and audits, to detect abuse of the permit-by-rule approach.

The permit-by-rule approach has dramatically streamlined both agency operations and the development process. For instance, 80-90 percent of superfund sites can now go ahead with clean-up without prior state approval -- thus hastening the process of urban redevelopment.

Recommendations:

New Jersey's effort to reinvent environmental protection should be designed to meet all three objectives cited above: simplicity, speed, and protection of environmental quality. We recommend seven steps to reach these objectives. New Jersey should:

- reengineer permitting processes at the Department of Environmental Protection;
- create time deadlines for permits and a money-back guarantee for permitting fees when deadlines are missed;
- establish one-stop permitting centers that combine state, county, and local permitting;
- create regulatory swat teams under the state ombudsman;
- create a Regulatory Council to drive the entire regulatory reinvention process, and give it veto power over all new regulations;
- empower the Regulatory Council to develop a list of unnecessary and duplicative regulations, which the legislature would vote to eliminate as a package, with one up-or-down vote per house; and
- empower the Regulatory Council to repeat this process of environmental review, leading to up-or-down votes in the legislature, every four years.

1. The Department of Environmental Protection should reengineer permitting processes to simplify and speed up permitting.

DEP has already worked with the plastics industry to reengineer the regulatory process, with significant success. We recommend that it continue this process in other areas and with other industries. The first step should be an inventory of all state environmental permits, including descriptions of the process required to secure each one.

The goal is to make permitting processes more user-friendly. This should involve eliminating steps, eliminating forms, redesigning work processes so they move much faster, introducing new information technologies to facilitate these work processes, and moving to "permit-by-rule" for some minor sources of pollution.

2. **DEP should create time deadlines for permits and a money-back guarantee for permitting fees when deadlines are missed.**

The reengineering process can best be driven by the imposition of time deadlines for each permitting process, as in Massachusetts. The department should create a system to track the progress of all permits in process, and it should refund all fees when deadlines are missed. A performance evaluation system should measure each team's record of deadlines met as part of its evaluation.

3. **Establish one-stop permitting centers that combine all state, county, and local permitting, including permits dealing with environmental protection, infrastructure capacity, economic development, and shelter needs..**

Expediting DEP permits, while an important step, is not enough. DEP is not the only permitting body in the state. The second crucial ingredient is one-stop shopping, across multiple disciplines (air, water, etc.) and levels of government.

According to the Real Estate Task Force, the average construction project in New Jersey requires 158 permits -- compared to 51 in Florida, 27 in North Carolina, and nine in Texas. A New Jersey firm must begin the planning process years before they want to break ground, if they are serious about building.

Why are there so many permits? The problem has two dimensions: the existence of many content-specialized "stovepipes," each with its own permitting requirements; and the existence of permitting at several levels of government, including state, county, and local. Both are reinforced by a tangle of laws -- many of them federal -- that prescribe the exact regulatory processes to be followed. For the customer, the result is a maze, whose navigation requires several years and many dollars for consultants and lawyers.

RGN proposes that New Jersey untangle the maze by implementing one-stop permitting. The system should allow:

- application for all needed permits in a single visit to one local location;
- integrated handling of state, regional, county, and local permits, so the customer need not even know which government requires the permit; and
- front-end review of projects encompassing all regulatory stovepipes simultaneously, so one-stop officials can help businesses design projects to reduce

the number and type of permits required.

Not all localities will choose to participate in one-stop permitting. Residents of some localities prefer little or no growth in their communities; hence they want as many obstacles to development as possible. We do not recommend that the state impose a mandate to participate in one-stop permitting on localities--particularly given the antipathy to unfunded mandates from state and federal agencies felt by local governments today. Instead, we suggest that the governor, Opportunity New Jersey, and the DEP work hard to convince all localities to participate. Over time, the problem of non-participation should not be large. Most localities that do not participate will be those that do not want growth--precisely those in which businesses would be unwise to try to expand. Hence those that do participate will be sending a clear signal to developers that they welcome growth. This should help business channel development into areas that welcome it, minimizing the amount of wasted time that goes into battles to build in communities that do not welcome growth.

We suggest that New Jersey first pilot one-stop shopping in a limited number of locales that are interested in serving as change agents. It is important to begin with the most willing communities, because only they will have the staying power to work through the inevitable obstacles. Opportunity New Jersey's Regulatory Council (see below) could hold a competition to select the first sites.

Experience with one-stop shopping in other states and policy arenas argues strongly against an abrupt change without piloting and phase-in. One-stop centers will, for instance, have to cross-train staff, resolve jurisdictional overlaps, and integrate varying requirements and systems of paperwork. If forced to adopt one-stop shopping, not all localities will achieve expected improvements in customer service and satisfaction. Once a new model has been demonstrated and is successful, however, businesses throughout the state will clamor for its wide-scale adoption, and localities will be more likely to embrace the change.

Once the Regulatory Council has set its criteria and goals, different pilot sites can test a variety of methods to meet them. For example, one site might empower a single state licensing official to issue all permits; another might use cross-disciplinary, state-county-local teams of reviewers; another might empower one local licensing official to issue virtually all permits. Because the capacities and relationships of agencies will vary across locations, we urge that the division of responsibility be determined by the pilot sites themselves.

(We believe it will be impossible to empower a *local* licensing official to issue all permits, for several reasons. First, the Environmental Protection Agency rarely authorizes local jurisdictions to handle permits required by federal law. Second, neighboring localities will not trust local officials to handle permits on construction projects so large they impact other localities. And third, neighboring localities will have the same problem with projects located on the edge of one locality that create pollution or congestion across town or county lines.)

Massachusetts' experience shows that one-stop shopping yields many benefits. Fewer permitting officials are needed, reducing staffing costs. Businesses like the streamlined processes and the ability to get all issues handled by one person or one team, at one location. Integrated permitting reviews, which are by their nature more comprehensive, catch far more problems than individual reviews done by each functional stovepipe and level of government -- thus minimizing problems later in the permitting process. Finally, these more comprehensive reviews increase the predictability of outcomes for firms.

4. Create regulatory swat teams under the state ombudsman.

The Governor has already appointed an ombudsman to help businesses deal with governmental bureaucracy and red tape. We suggest that she import Governor Wilson's notion of "Red Teams" from California. These teams are assigned to help businesses get quick resolutions to problems of all kinds, from permitting difficulties to training for their work forces.

We suggest that New Jersey's ombudsman put these teams together and assign them to projects. He should draw members from multiple state agencies, on short-term (eg. one year) assignments. This will not only minimize the cost of swat teams, it will sensitize state personnel to businesses' problems and create informal networks across agency boundaries.

We further recommend that the ombudsman report to the Regulatory Council described above. He or she should be hired, evaluated, rewarded, and if necessary fired by the Council. This will ensure that the ombudsman balances the needs of all key stakeholders -- including businesses and environmentalists -- not just those of state government.

5. Create a Regulatory Council, made up of key stakeholders and operating as a standing committee of Opportunity New Jersey, to drive the regulatory reinvention process. Give it power to veto proposed new regulations.

One key to Massachusetts' success was that it secured legislation to "charter" its stakeholder panels -- thus giving them significant authority and credibility. To create a stakeholder panel with such authority in New Jersey, we recommend that Opportunity New Jersey create a Regulatory Council made up of key stakeholders from business, labor, the environmental community, and state, county, and local government. Its members must be highly respected, credible leaders within their constituencies.

The Council's mission would be to drive the ongoing improvement of regulatory processes in the state. The Department of Environmental Protection and other state regulatory agencies would have seats on the Council, would be guided by the Council, and would be accountable to the Council. The Council would set timelines and criteria for the initiatives described above, as well as performance measures and incentives for the agencies involved. In this way, the Council would drive not just the improvements recommended here, but an ongoing process of continuous improvement.

In addition, the Council should have the power to veto any proposed regulations that are not legislated. Council staff should review all new regulations proposed by agencies and forward those that are controversial to the Council for review. If a majority of Council members vote against a new regulation, it would not go into effect. Agencies should be able to overrule the Council only by convincing the legislature to pass the regulation into law. When it reviews regulations, the Council should also ask agencies to eliminate obsolete or duplicate regulations dealing with the same problem.

Council members should be appointed by the governor and confirmed by the Senate. The first members should be divided into four groups: one with one year terms, a second with two year terms, and a third with three year terms, and a fourth with four year terms. From then on, all terms should be for four years, and all nominations to the governor should be made by Opportunity New Jersey. Members should be able to be reappointed, and should be allowed to serve a maximum of two terms. The Council should meet monthly, and should have a staff of its own.

In order to free up funding for the Regulatory Council, the state should eliminate a series of existing advisory commissions. For example, X, Y, and Z have outlived their usefulness and could be eliminated with no harm to the environment. The governor should ask her staff to come up with a list of advisory commission to be eliminated. She should eliminate those under her power by executive order and submit legislation to eliminate those created by the legislature.

6. **Empower the Regulatory Council to develop a list of unnecessary and duplicative regulations, which the legislature would approve or disapprove as a package, with one up-or-down vote in each house.**

Although most regulations are put on the books for sensible, often compelling reasons, the accretion of thousands of individual regulations over time creates enormous problems. Even the Reagan administration, whose anti-regulatory rhetoric was passionate, added 9,000 pages to the list of federal environmental regulations. And while new regulations pile up, few are ever eliminated. After several decades of this, the ship of state becomes so encrusted that it can barely move. It is time to scrape off the barnacles and get back to the two or three layers of protection that we actually need.

This can not be done by repealing regulations one by one. Like programs, all regulations have their supporters. When a legislature considers eliminating one regulation, those who support that regulation rally. Yet few businesses consider it important enough to mobilize to defeat only one regulation. Hence the supporters' voices are louder than those of the deregulators.

If hundreds of obsolete or duplicative regulations are up for a vote, however, the equation changes. This is precisely the logic that has led Congress to use a Base Closure Commission and an up-or-down vote to close military bases. New Jersey would be wise to adopt this approach to environmental deregulation. The Regulatory Commission would be the perfect body to develop the package of proposed regulations to be eliminated, on which the legislature would vote.

7. **Empower the Regulatory Council to repeat this process of environmental review, leading to up-or-down votes in the legislature, every four years.**

After the legislature has taken its up-or-down vote, the process of regulatory accretion will continue anew. One way to stop this is to repeat the process described in recommendation six every four years. We recommend that the legislation creating the Regulatory Council call for such a process, complete with requirements of up-or-down votes on the proposed package in each house, every four years.

Management/Organizational Structure:

See numbers 3, 4, and 5 above.

Investment:

The seven steps recommended above should not be costly. A few, such as reengineering at the DEP, creating one-stop permitting centers, and creating a Regulatory Council, will require modest investments. But the payoff -- in leaner staffs and less duplication in the public sector and more rapid growth in the private sector -- should far outweigh the costs.

Some of the initial costs, particularly for reengineering and one-stop centers, could be financed by a state "innovation fund," from which agencies could borrow to finance investments that promise to save them or make them money. The federal government has long had funds such as this, and Philadelphia now operates what it calls a "Productivity Bank." In Philadelphia, agencies must pay back twice the amount they borrow, over five years. The loan payments are automatically subtracted from budget appropriations. We recommend in our "Reinventing Government" report creation of such a fund.

Impacts:

It is impossible to quantify the impact of the recommendations outlined above on the state's economy. Judging from the testimony at commission hearings, however, few actions would yield greater or more immediate economic benefits.

Benefits:

1. To the public: greater economic growth with no diminution of environmental protection or quality of life.

2. To business: lower costs for regulatory processes, more rapid development of new projects, more predictability of outcomes, and less frustration with permitting.

3. To government: lower costs for permitting, due to streamlined processes and elimination of overlap and duplication between levels of government; more meaningful work and

higher morale for employees; better relations with business; and a better reputation in the business community.

4. To localities: lower permitting costs, fewer obstacles to developments the localities want built, and more rapid growth in communities that want it.

5. To environmentalists: more direct say in state environmental policy, through the Regulatory Council, and less adversarial relations with business and government.

Performance Measurements:

1. The key measure of the success of reengineering at DEP should be the percentage of permit fees refunded because deadlines were missed. The money-back guarantee should kick in for any permit not acted upon within 120 days during the first year and 90 days thereafter. DEP's record should improve each year for at least the first three years.

2. The Governor and Opportunity New Jersey should establish a goal of four localities operating one-stop systems within 18 months and expansion statewide within two years thereafter.

3. The performance of DEP, one-stop centers, swat teams, the ombudsman, and the Regulatory Council should all be measured in part through separate customer surveys of businesses and environmental organizations. The goal should be year-to-year improvements in customer satisfaction among both groups. The surveys should be targeted at individuals who interact with the institutions in question, such as corporate environmental managers, environmental consultants, and government liaison staff at environmental organizations.

4. The performance of DEP, one-stop centers, and the Regulatory Council should also be measured by a) the average number of permits required by construction projects in New Jersey (currently 158), and b) the average length of time required to secure all necessary permits. Both numbers should go down each year.

5. Total administrative costs for state, county, and local permitting should decline over the period of time in which one-stop shopping is phased in statewide.

Implementation Plans:

Recommendations 1 & 2: Reengineering and Permitting Deadlines

By March, 1995: The Department of Environmental Protection should create an inventory of all state environmental permits, with descriptions of the process required to secure each one.

By April, 1995: DEP should launch its reengineering effort. This should involve eliminating steps, eliminating forms, redesigning work processes so they move much faster, introducing new information technologies to facilitate these work processes, and moving to "permit-by-rule" for some minor sources of pollution.

By July, 1995: DEP should announce a 120-day deadline for issuance of all permits and a money-back guarantee on fees paid by the permittee if the deadline is missed. DEP should establish a tracking system to support that guarantee.

Recommendation 3: One-Stop Permitting Centers

By March, 1995: DEP should begin the process of creating one-stop permitting centers. It should complete a rough concept paper, distribute it to local, county, and regional governments and permitting agencies, business groups, and environmental groups, and open a dialogue about it.

By June, 1995: DEP should select four localities for the first four centers, through a competitive process.

When it comes into being, the Regulatory Council should review DEP plans and offer any advice. The Regulatory Council should function as an oversight committee for the one-stop process.

By June, 1996: The first four centers should be operational.

By June 1998: One-stop permitting centers should be operational statewide.

Recommendation 4: Swat Teams

By March, 1995: The Ombudsman should create the first inter-agency swat teams.

Recommendations 5, 6 & 7: The Regulatory Council

Before March, 1995: The governor should nominate members of the Regulatory Council, ensuring that credible representatives of all major stakeholders are included.

Before March, 1995: The governor should introduce legislation creating the council and giving it the powers described above. She should make this a high legislative priority and push for rapid adoption.

By March, 1995: The governor should ask all regulatory agencies to prepare inventories of all regulations in their policy area.

By March, 1995: The governor should eliminate unnecessary and obsolete advisory commissions, seeking legislation to do so when necessary.

When legislation passes, the governor should establish the Regulatory Council and empower it to hire a staff. The Council should immediately undertake several tasks:

- Review the inventories of all regulations prepared by agencies, choosing those to be recommended for elimination.
- Submit a legislative package of regulations to be eliminated for an up-or-down vote.
- Propose amendments to regulations that should not be eliminated but need modification to the governor--who should, after review, order changes in non-legislative regulations and introduce legislation amending regulations established in law.
- Review the one-stop permitting center process and begin to play an oversight role to help DEP guide the process.
- Review DEP reengineering and set time lines for specific improvements.
- Ensure that customer surveys are done to measure the performance of DEP, one-stop centers, swat teams, the ombudsman, and the Regulatory Council. Separate customer surveys of businesses and environmental organizations should be done, targeted at individuals who interact with the institutions in question, such as corporate environmental managers, environmental consultants, and government liaison staff at environmental organizations.
- Establish performance measures for DEP, one-stop centers, and the Regulatory Council. At minimum, measure a) the average number of permits required by construction projects in New Jersey (currently 158), and b) the average length of time required to secure all necessary permits.
- Begin reviewing all new proposed regulations.

THE BUSINESS DEVELOPMENT PARTNERSHIP

Summary:

Past patterns suggest that New Jersey's future growth will depend not on how many businesses it attracts from other states, but on how fast existing businesses grow and how many New Jersey residents start successful new businesses. The headlines may go to successful *recruitment* efforts, but 80-95 percent of the new jobs will come from the *retention* and *development* of existing and new businesses.

To promote business retention and development, we recommend that New Jersey create a Business Development Partnership. (We have chosen to use a generic name, assuming the Commission will choose something more distinctive. Pennsylvania and Ohio have named similar efforts after historic entrepreneurs: the Ben Franklin Partnership and the Thomas Edison Program. Perhaps New Jersey should call its effort the Alexander Graham Bell Partnership?)

The Business Development Partnership would use a financial carrot to catalyze the formation of private business service networks, based either in industries (telecommunications, plastics, etc.), in regions (the greater Newark region, the greater Trenton region), or in regional industrial clusters (industries concentrated in one region, such as gaming in Atlantic City). These private, independent networks, which would have their own boards and staffs, would provide those services their members felt were important. The options would be almost infinite: export assistance, manufacturing modernization, business start-up assistance, space in small business incubators, product development financing, research financing, work force training, access to venture capitalists or bankers, assistance with resolving regulatory problems.... Because they would be owned and primarily financed by an industry or region, the Business Development Networks would be free to tailor their work to the needs of their members and/or customers. (Some might be membership organizations, like trade associations; others might not.) In addition, they would avoid the most common problem of government programs: the adverse reaction business people have to the "I'm from the government and I'm here to help you" approach.

History:

Although the Partnership would be open to all comers, industries made up of small and midsize firms would be more likely to sponsor networks than those dominated by large firms. Expertise and services taken for granted by large companies, such as in-house engineering capacity or expert financial advice, are often difficult for small companies to find. Few small firms can hire the full range of talent they need in-house, and private consultants are often too expensive for small firms or start-ups. Yet without access to critical expertise, small businesses perform far below their potential.

An array of existing state, local and university-based programs exist to meet these needs, but they are difficult to find and use. Normally they operate separately from one another, with little coordination. There is no central place to go to learn about all of them. Many exist only in the state capitol. Business people have to visit them one by one, hoping to stumble across what they need. And few existing programs have any means of addressing new, emerging business needs, or filling gaps between existing services. The result is a whole that is much less than the sum of its parts.

This is the norm in most states. Surveys of small and midsize enterprises in states from Florida to Nebraska to Kentucky have found that 10 percent or fewer of all companies in the target market for programs even knew they existed. Luckily, several states -- and foreign nations -- have solved this problem, offering valuable models. Perhaps the most relevant are Pennsylvania's Ben Franklin Partnership, Florida's True Value Outlets, and Italy's Emilia-Romagna region.

Models:

The Ben Franklin Partnership consists of a state board and four regional centers, each of which have their own boards and staffs (normally numbering 10 to 20). Each center has a different focus, determined by the needs of its region. Centers fund modernization assistance for manufacturers, small business incubators, management assistance, early stage venture capital, joint business-academic research projects, product development work, venture forums, business networks (such as the Pittsburgh High Technology Council), new education and training programs, and more.

More importantly, center staffs act as the nerve centers for information networks designed to support business development and technological innovation. Because they are involved in so many activities, staff members know virtually all the actors in the regional economy: bankers, venture capitalists, management assistance specialists, lawyers, academic researchers, businesses, and public programs. When an entrepreneur approaches a center for information, assistance, or a grant, the staff often puts him or her in touch with others who can help. One firm might begin by looking for seed capital, then sign up for space in an incubator, receive management assistance, and apply for grants to fund product development research at a local university. Later, the center staff might introduce the entrepreneur to venture capitalists or bankers who could provide financing. This role as a broker, facilitator, and catalyst is the Ben Franklin centers' most important function.

All these services are available locally -- not in the state capitol. In fact, business people are hardly aware they are dealing with a state program. Few of the services funded are provided by state programs. The state simply offers a carrot -- normally a matching grant -- to encourage business people to hire academic researchers, create a seed fund, finance an incubator, provide technical assistance, or the like. Once those resources are in place, the centers operate sophisticated referral services.

The state board measures the performance of each center, looking at indicators such as past job creation, corporate matching funds, and subsequent attraction of venture capital by firms that have received grants. It awards funds in part based on that performance, in part on certain quality criteria (size of businesses involved, potential commercial application of projects, etc.).

Similarly, Enterprise Florida's True Value Outlets provide access to everything from work force training to financing options to manufacturing modernization services. The Outlets' Innovation and Commercialization Corporations even take equity in small advanced technology companies in exchange for providing management expertise -- essentially operating as temporary chief operating officers for small, emerging companies.

Each Outlet builds locally or industrially owned service delivery mechanisms that broker or deliver critical services to their customers. Outlets are selected through competitive RFPs, given performance-based contracts, and expected to move toward financial self-sufficiency. In this way Enterprise Florida creates the discipline necessary to ensure quality in outlet services.

Perhaps the most renowned effort to support regional industrial clusters has taken place in northern Italy, in a region called Emilia-Romagna. In 1970, Emilia-Romagna was the fourth poorest of Italy's 21 regions. By 1985, it was the second wealthiest. The growth came from networks of 90,000 small, flexible manufacturing firms that constantly collaborated to produce high-quality, technologically sophisticated products.

Part of the secret was the work of several trade associations, which have collectivized many of the non production aspects of their members businesses. They offer industrial parks, affordable factory space, job training, bulk purchasing, joint export marketing, and management training, particularly for start-ups. They also handle virtually all of their members' payroll, billing, inventory control, general accounting, legal, and insurance services. With all this taken care of, owner/operators can concentrate on what they know best: production.

The regional government has also played a role, providing seed funding for six service centers, each of which specializes in a specific industrial sector. These are membership organizations, with most funding and management taken over by member firms after the first few years. They provide information on new technologies and markets, sponsor demonstrations of new technologies, make consultants available, and otherwise help their member firms keep up with a changing world. They often reach out to engineers at research universities and national laboratories to provide the technical expertise or research their members need.

Finally, a national small-business organization called the National Confederation of Artisans (CNA) has played a major role. It provides everything from help with labor negotiations to equipment lease financing to export marketing assistance. For instance, CNA hired an international marketing export from Fiat tractors that no small firm could individually afford to employ. It has also helped created a series of loan-guarantee consortia, which guarantee up to 50 percent of members' bank loans. In return for the guarantee, local banks offer low interest rates -- and the regional government offers subsidies to bring rates down even further.

New Jersey's Business Development Networks will create their own unique set of services, designed to fit their members' needs. Some may be very active in manufacturing modernization;

others may focus more on support for new product development; still others may focus primarily on export finance and development. The point is to help the *private sector* create organizations that meet its members' needs.

For example, imagine that the plastics industry trade association decided to create a Business Development Network. It might poll its members to find out what their biggest problems were and what they felt they needed help on. It might then meet with plastics firms that were not members of the trade association and find out if they had the same concerns. Out of these surveys it might learn that member companies had three big problems they wanted on help on: providing training to their existing workers and finding new employees with appropriate skills; getting access to the loans they needed to expand; and increasing their exports.

The trade association might then propose that the industry create a Plastics Industry Business Development Network. The trade association might contract to staff it, or propose that it hire its own staff. The trade association would help develop a business plan for the new operation, and members would pay an annual fee to provide initial operating money. At this point, the new Network would approach Opportunity New Jersey's Business Development Partnership for a matching grant. This funding might be for several years, contingent upon the Network reaching performance targets specified in a contract with the Partnership.

Once underway, the Network would look to the Partnership staff to steer it to other resources: export services, EDA loan guarantees, state training programs, and the like. The Department of Commerce and Economic Development might decide to co-locate one of its regional service centers with the network office, to give them one-stop shopping for state services right on their premises. At some point the Network might decide to create an incubator for spin-off companies; to do so, it might approach the Partnership or the Commission on Science and Technology for a matching grant. Later its members might decide they needed intensive export development advice, so they might hire a staff member to provide that.

In a larger industry such as telecommunications, dominated by a smaller number of very large firms, the dynamic might be very different. Imagine that the telecommunications industry created a Business Development Network. They might decide that they needed help with research on cutting edge communications technologies, so they might create a partnership with one of the Science and Technology Commission's Advanced Technology Centers, to engage academic researchers on industry projects. They might also decide to work together to promote the use of advanced telecommunications in New Jersey, through the "Telecities" idea we have proposed elsewhere. In both cases, they would put together a plan, generate resources from their members, and then approach the Business Development Partnership for a matching grant.

Finally, imagine a network organized not by a business sector, but by a region. Imagine that a business organization in Newark approached a number of community organizations, local governments, and foundations in the area, and together they decided to create a Greater Newark Development Network. They would develop a plan, raise money, and then approach the Business Development Partnership for a matching grant. Their plan could include many different things: creation of a private sector development bank; an incubator program; a community policing initiative; a public-private job training initiative; perhaps even a citizen input process to create shared long-term goals for the community. The Partnership might give them a three-year grant, with annual performance targets. In addition, it might put them in touch with the new Community Development Trust, to get an investment in their development bank; with the Employment and Training Commission, to get funding for their job training initiative; and with a national foundation, to get funding for their citizen input process. The Partnership would not only be a place to go for matching money, in other words, but a network through which one could find all kinds of other resources, both public and private.

The point of all these examples is simple. Needs vary around New Jersey, from industry to industry and region to region. The Business Development Partnership would be designed to catalyze action by industries and regions to solve their own problems. The solutions would vary from region to region and industry to industry. They would be "owned" by private industry and regional public-private partnerships. Any staff employed by the networks would be private employees, not state or Opportunity New Jersey employees. Opportunity New Jersey, through the Business Development Partnership, would simply be a catalyst, broker and partner, using its resources to leverage far greater investment and activity by the private sector.

Investment:

The start-up operating budget for the first full year of operations of the Partnership would be roughly $1.5 million. Over time, most of the funding for Business Development Networks would come from the private sector. The Partnership's role would be to catalyze their formation with matching money, help them got off the ground by providing technical assistance, provide matching grants for specific initiatives down the road, and help them access other state and private programs to fund specific initiatives, from incubators to development banks to advanced research.

Over the past decade, the Ben Franklin Partnership has spent roughly $25 million a year in state funds -- roughly equivalent to New Jersey's spending on the Science and Technology Foundation. Pennsylvania's money has stimulated roughly three to four times that amount in private matching investment, however. New Jersey should spend less than Pennsylvania, because it should require networks to gradually move toward self-sufficiency, through members' dues, fee-for-service operations, federal grants, and other sources of revenue.

Management/Organizational Structure:

The Partnership would be run by a committee of Opportunity New Jersey. It's central staff would be very lean -- perhaps three or four professionals who would assist the private Business Development Networks, apply for and manage federal grants and contracts, measure network performance, and recommend funding levels. The Partnership committee would be accountable to Opportunity New Jersey for the program's performance.

Funding for networks could be through matching grants, as in Pennsylvania; through contracts, as in Florida; or through a combination of both. Either way, funding should be competitive -- i.e., networks should compete with one another for funding, with better performance triggering higher funding levels. The funding formula should include both performance (see suggested measures below) and consistency with certain quality criteria (see the RGN Best Practices Selection Standards for an example).

Each Business Development Network would have its own board, drawn from its industry, region, or both, and its own staff. The size of staff would depend entirely on the network. These staffs would be employees of the particular Business Development Network, not of Opportunity New Jersey or the state.

The Partnership should be developed in coordination with two existing initiatives: the Commission on Science and Technology and PSE&G's Industry Specialization Program. Both have complementary or overlapping missions and at least nascent networks already in place, through their Network New Jersey initiative. Opportunity New Jersey should work with these programs to ensure that Business Development Networks are built on these existing networks and integrated closely with these existing programs. For example, the Commission on Science and Technology funds incubators, technical extension centers, technology transfer grants, joint academic-business research projects, and product development grants. These would be most effective if they were driven by business' needs. At a minimum, they should be targeted at Business Development Networks, so the networks sponsor many of them. Ideally, these programs might even by combined with the Business Development Partnership.

In other words, such services should whenever possible be provided through private networks grounded in industries or regions, not in academia or government. The easiest way to do this would be to combine many Commission on Science and Technology programs with the Business Development Partnership. Opportunity New Jersey should initiate a dialogue with the Commission and other stake holders about the best way to combine or coordinate these activities.

Impacts:

If successful, the Business Development Partnership would:

- strengthen traditional and newly emerging industry clusters of critical importance to New Jersey's future growth;
- increase the use, efficiency and effectiveness of existing public, academic, and private economic development services in the state; and
- leverage far greater investment by the federal government and the private sector in New Jersey.

Performance Measures:

The success of the Partnership and its networks could be measured by:

- number of firms assisted by networks;
- customer surveys of firms assisted by networks, and of all firms in regions and industries which sponsor networks;
- quantity of private investment stimulated by networks;
- amount of venture capital attracted by firms participating in network activities;
- job growth in firms participating in network activities;
- size of firm assisted by networks (the goal would be to help smaller firms, which have greater needs and fewer resources); and
- qualitative evaluation by Partnership staff.

Implementation Plans:

By August, 1995: After creation of Opportunity New Jersey, the Business Development Partnership Committee of the board should be formed. The Committee will consist of a majority of Opportunity New Jersey board members, but should also include members representing other organizations and enterprises relevant to the purpose and goals of the Business Development Partnership. Funds should be sought from the state and other existing organizations for start-up operations.

Beginning in September, 1995: Vital to the success of the Business Development Partnership and the independent Business Development Networks through which the Partnership works is a thorough and documented understanding of its market. Thus, a strategic audit of existing providers of services contemplated under the Business Development Partnership should be conducted, documenting their range of activities, their sources and amount of funds, and customer awareness and satisfaction. A strategic audit should also be conducted of potential business customers (i.e., a customer survey) to ensure that the Partnership has a detailed understanding of the particular services most useful to them. Existing providers in the state should participate in this audit process to ensure their confidence in its results. This information should be used immediately to shape the strategy of the Business Development Partnership, and should also be made available to the Networks upon their selection to ensure they benefit from this same market information. (It should also be noted that many likely funding sources for the Partnership require this information as a prerequisite).

During this same time, Opportunity New Jersey must work closely with PSE&G, the Commission on Science & Technology and other relevant organizations to determine how best to collaborate to achieve common goals and serve common target markets.

Finally, the President and Board of Opportunity New Jersey may determine at this time that a Vice President must be hired to manage the Business Development Partnership. This Vice President should be on board prior to selection of the first pilot Business Development Networks.

By December, 1995: Based on the results of the above-described audit, the Business Development Partnership must next develop detailed objectives and performance goals as well as Business Development Network selection criteria. The Partnership should also seek to formalize collaboration with relevant organizations.

By January, 1996: The Business Development Partnership will issue an RFP to select pilot Business Development Networks. The Partnership must be prepared to provide technical assistance to potential applicants during this process.

By March, 1996: The Business Development Partnership can select pilot Business Development Networks using a selection team composed of industry and education leaders, as well as out-of-state experts. The staff of the Partnership will negotiate performance-oriented contracts with each Network selected, and work with them to commence delivery of pilot services.

By January, 1996: The Business Development Partnership will Issue an RFP to select pilot Business Development Networks. The Partnership must be prepared to provide technical assistance to potential applicants during this process.

By March, 1996: The Business Development Partnership can select pilot Business Development Networks using a selection team composed of industry and education leaders, as well as out-of-state experts. The staff of the Partnership will negotiate performance-oriented contracts with each Network selected, and work with them to commence delivery of pilot services.

TELECITIES

Summary:

New Jersey holds the power of the Information Age -- the telecommunications industry -- right in its own backyard. To ensure that New Jersey firms, workers and communities benefit early and extensively from this tool, Opportunity New Jersey will foster creation of the nation's first telecities. Telecities will highlight New Jersey as the brain center of the National Information Infrastructure, and as a place where people, in their day-to-day lives, are profiting enormously from the freedom, access and flexibility of telecommunications. The goal is to get large numbers of New Jersey companies and workers on-line rapidly and extensively in ways that help to achieve the strategic mission and goals of Opportunity New Jersey.

History:

As the Economic Master Plan's Telecommunications Task Force Report states:

> "Information and communications have merged to become New Jersey's key strategic industry, as important to society and commerce as we approach the next century as canals, railroads and highways have been in the last three."

With Bellcore, the David Sarnoff Research Center and AT&T Bell Labs, New Jersey possesses the world-class research facilities required to develop new products and services to meet the needs of 21st century customers -- from consumers to students to health care providers to manufacturers. Indeed, by all indications, New Jersey businesses, workers and communities should lead the world in profiting from the enormous potential of the telecommunications technology exploding in their own back yard.

To ensure that the New Jersey economy does indeed profit first and fastest from telecommunications, and to ensure that it is recognized nationwide for doing so, Opportunity New Jersey will create the nation's first telecities. By leading the nation in the day-to-day application of computers, modems, fax machines, voice and electronic mail, cellular telephones, video conferencing and other advances, New Jersey telecities will demonstrate the power of telecommunications to lead an economy into higher levels of productivity, greater international market activity, and a higher quality of life.

Each Telecity will be, in essence, a local board representing all major potential users of telecommunications, including business, government, health care and education. Their mission will be to use education, information, hardware and, where necessary, direct services to facilitate practical telecommunications applications. These boards should by-and-large serve as catalysts, working through existing private companies engaged in the particular applications. Examples of particular outcomes might include:

- Enhanced communication between clusters of small companies and entrepreneurs engaged in serving the same market, forming marketing and sales alliances or even "virtual" companies.

- Strategies to address Clean Air Act transportation requirements at least cost and greatest benefit to major employers in the region.

- Communication between schools within and outside the region to expand the curriculum base and quality available to students. A high school student could study Japanese, for instance, even if she were the only student in the school requesting Japanese.

- Worker training available on-line for use at home on evenings and weekends for workers with young families.

A telecity may determine that a central public facility is required for demonstration purposes or shared facilities. Major urban centers may, however, determine that such a facility is not necessary, but that broad publicity through newspapers and other local means is critical.

The telecity concept is an urban application of the Rural Televillage concept, developed in Kentucky. This effort, funded by South Central Bell, GTE, AT&T, Herman Miller and the Kentucky Economic Development Cabinet, selected two rural communities to demonstrate the role of telecommunications in a rural economy. Through extensive interaction with potential users, and careful business planning, each rural community has identified major immediate roles for telecommunications. These communities are now removing any technological impediments to these applications, investing in appropriate public equipment for shared use where appropriate, and providing training to potential users. The enthusiasm generated has attracted worldwide interest by other communities that might take similar actions.

In Kentucky, Tennessee, Nebraska and elsewhere a number of televillages are now being fostered -- small towns in geographically isolated locations far removed from the economic mainstream. In Los Angeles and other major metro areas, isolated experiments have been conducted in Telecommuting and other uses of telecommunications. No state, however, has yet sought to combine the comprehensive, broad-based televillage concept with the economic potential of major metropolitan areas.

Management/Organization:

The New Jersey Telecity project can be managed by Opportunity New Jersey with leadership from within the Business Development Partnership Committee (particularly if a Telecommunications Network is formed within the Partnerships, as discussed elsewhere in this report) and the Urban Committee. All of the state's major telecommunications companies should be represented.

One to two telecities should be created initially. The locations selected must be represented by a board of committed leaders representing all major potential users, including business, education, health care, government and consumers. Following the example of Kentucky, the first location(s) should be selected through a competitive process. In Kentucky, 47 communities initially applied through full, formal proposals, out of which two were eventually selected.

The local Telecity Board will be responsible for developing a business plan for their Telecity, and for working with Opportunity New Jersey to fund and implement the plan.

Investment:

The initial cost of selecting the first telecity(ies) and developing the first business plan(s) will be modest -- less than $500,000. These funds could be potentially raised from foundations, the federal government and companies.

Thereafter, the costs are difficult to estimate. In Kentucky, each of the communities raised base funds from their own local tax base and significantly leveraged this commitment through investments by telecommunications and other companies.

Impacts:

- Increased Service Demand -- If properly organized, the Telecity initiative will increase the understanding and accessibility of a wide variety of telecommunications tools, leading to increased demand for a highly diverse span of applications.

- Work Force Improvement -- New Jersey can lead the nation in a work force skilled in the use and application of information technologies.

- Increased Productivity -- Information is a key production tool. Its widespread use holds the potential to dramatically increase worker productivity, and in turn, standards of living.

- Business Attraction -- As New Jersey establishes itself as the telecommunications capital of the 21st century, it will create an environment attractive to information-driven companies who want to profit from this environment.

Benefits:

- The telecommunications industry, in the form of increased demand.

- Small users, in the form of increased access and understanding, as well as potentially lower costs.

- The state, in the form of an improved business climate and ability to compete for business investment.

- Workers, in the form of productivity, skills, marketability and earnings.

Performance Measures:

- Increase in application of telecommunications, i.e., number of schools using distance learning through video, Internet, etc.

- Demonstration of increased value from telecommunications documented through an annual survey of local businesses, schools, governments, and not-for-profit organizations.

Implementation Plan:

In March, 1996: After formation of the Opportunity New Jersey board, its Business Development Partnership Committee, and identification of the first Business Development Networks, the Partnership must be charged with development of an overall telecommunications strategy consistent with the work of the Telecommunications Committee of the New Jersey Economic Master Plan Commission.

An individual from within the Business Development Partnership who represents the telecommunications industry should be charged with implementation of the telecities initiative. Alternatively, if a Telecommunications Business Development Network is formed, the Network should be asked to consider the telecities concept.

NOTE: This time line could begin as early as September, 1995 if the board chooses to begin immediately through the Business Development Partnership Committee, rather than waiting for creation of a Telecommunications Business Development Network.

By April, 1996: Opportunity New Jersey must raise preliminary funds for development of telecity business plans and initial implementation.

Opportunity New Jersey must determine the staffing requirements for the telecommunications initiative. Management of the telecommunications initiative will constitute a part-time commitment on the part of one highly qualified professional. Thus, this function may be carried out by the individual charged with management of the overall Business Partnership, or an additional staff person may need to be hired, depending on the other activities taken on immediately by the Partnership.

By July, 1997: Opportunity New Jersey will issue an RFP to local New Jersey economic development organizations . Each city's response should come from a local board that represents all major potential users, including business, government, health care and education.

Meetings should be held across the state to provide technical assistance to cities as they consider how best to respond to the RFP.

By October, 1997: Opportunity New Jersey selects one to two locations for a pilot telecity. Criteria for the chosen site should include:

- Demonstration that the community is prepared to commit some of its own financial resources to the success of the telecity.

- Demonstration that the community can build an effective cross-sector team to develop the telecity.

- Demonstration that the board has considered how the telecity will be a tool to achieve the state's economic development goals. For instance, what direct applications has the board defined that will contribute to a competitive, diversified New Jersey economy characterized by a well-trained work force with quality, high-paying jobs?

  The board should hold meetings prior to submitting their applications with representatives from business, education (i.e., school principles, university professors, etc.), health (hospital administrators, doctors), and local government. The purpose of these meetings is to engage members of the community -- the customers -- in defining specific applications for the telecity. This process, in itself, has proven to yield immediate economic development pay-offs.

- Demonstration that the board will develop the concept of the telecity as an access point to information and services that should be available to all, including strategies to target groups traditionally cut-off from the main stream, such as the elderly or urban poor.

By November, 1997: The first telecities are announced. The local telecity board, under contract to Opportunity New Jersey, refines their proposal into a full business plan that includes the overall telecity concept and implementation of immediate applications.

By March, 1998: The local telecity board in partnership with Opportunity New Jersey seeks funds for implementation of the business plan.

EARLY STAGE VENTURE CAPITAL

Summary:

To spotlight and seize entrepreneurial, early stage venture capital opportunities in New Jersey, two complementary strategies can be pursued.

First, Opportunity New Jersey can support expansion of individual investor activities through associations such as the New Jersey Private Investor Network and the New Jersey Venture Forum, building on models such as the Texas Capital Network and Access in California.

Second, Opportunity New Jersey can create one or more New Jersey-based early-stage oriented venture capital funds. These funds will be focused on the unique comparative advantages of the state such as communications and health services, and will be equipped to invest in early stage as well as follow-on financings. They will aggressively interact with the Opportunity New Jersey Business Development Partnership and with other market-based activities that foster entrepreneurship in the state. They will also be used to create press in the northeast and across the nation, highlighting entrepreneurial activity in New Jersey in telecommunications, health care and other industries.

Building on the experience of InnoCal in California and the Mayflower Fund in Massachusetts, fund managers of the New Jersey funds will be selected based on their ability to demonstrate track records of financial returns in the upper quartile of the venture capital industry. These managers will be resident of New Jersey. They can be expected to spawn second, third and fourth generation early stage-oriented fund managers in the years to follow, further strengthening the entrepreneurial environment of New Jersey.

As a vehicle to enable pension fund investors new to venture capital and other private equity investment activities to participate in these venture capital partnerships, one option is to pursue them within a much broader "funds-of-funds" structure. Through this structure, pension investors could achieve immediate diversification, and be able to benefit from the expertise of investment advisors with extensive experience in the selection of high quality venture capital partnerships.

History:

Early stage venture capital is typically a relatively small amount of capital that is invested at very high risk, for which venture capitalists expect to earn very high returns -- 40% compounded annual rates of return or more. A typical company in which early stage venture capital is invested has very minimal, if any, product revenues, the management team is very incomplete, and the balance sheet is unlevered (i.e., carries no debt).

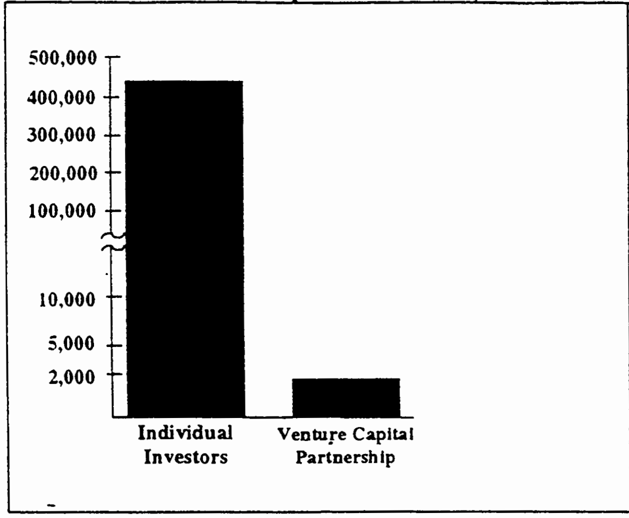
Early stage venture capital is among the most difficult forms of capital to find in the United States. In 1991, for instance, the venture capital industry hit a cyclical low in seed stage financing, investing 50% of the amount invested in 1989, and one-third of the amount invested in the early 1980s. Early stage investments have begun to rebound. Unlike previous cycles, however, early stage investment activity is structurally changed. These investments in 1993 and 1994 tend to be larger than the 1980s. They also tend to be made by established, larger partnerships (i.e., in excess of $30 million) that invest from seed to early stage to expansion stage financing. These larger, established partnerships have sufficient capital to finance a company through to an initial public offering, and thus avoid poor prices on their investments caused by being in a poor negotiating position when relying on other venture capitalists for follow-on investments. According to at least two major private equity investment managers, there are no more than two or three partnerships nationally dedicated exclusively to seed and start-up stage investment to which these managers would commit investor funds.

Within this climate, New Jersey fares better than most. The state ranked 5th among the 50 states by share of total venture capital invested in 1993. Among the partnerships headquartered in either New Jersey or New York, at least a dozen are large established firms that include early stage activity in their portfolios. Nevertheless, investment activity is not as great on a per capita basis as states such as New York or Massachusetts. It appears, moreover, that most of New Jersey's investments are larger and later stage.

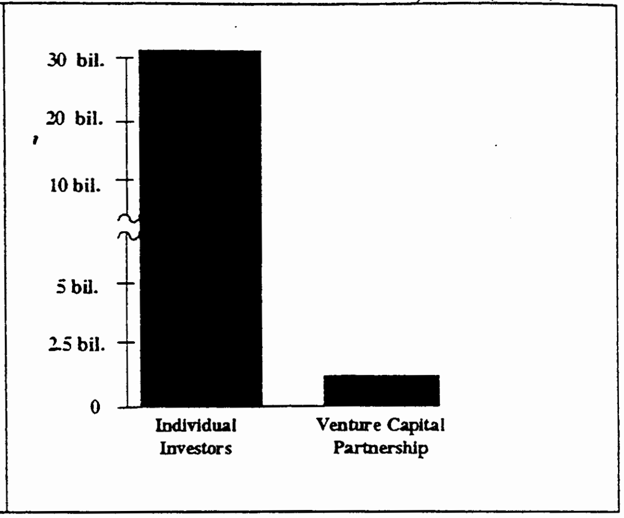
Massachusetts has created numerous funds, including the Massachusetts Technology Development Corporation, the Mayflower Fund, and a new $50 million pool now under development by the venture capital industry and the State Treasurer, specifically to focus aggressive marketing attention on smaller early stage investments and on other potentially overlooked opportunities. Aggressive marketing not only uncovers missed opportunities, but stimulates new opportunities. Supply can, in fact, help foster demand. As noted in Pratt's Guide to Venture Capital Resources, "in 1981 and 1982 venture capitalists disbursed...more than double the annual disbursements of the prior five years. As a classic example of greater supply producing greater demand, the entire business development process has become healthy and vibrant."

Nationwide, the venture capital industry is, in fact, not the primary nor the most reliable source of early stage venture capital. Individual investors are a far more significant source, particularly for entrepreneurs requiring smaller financings below $1 million. These investors include friends, relatives, or successful individuals who make their own capital available to entrepreneurs or enterprises. This sector of the financial services industry is very informal and very inefficient.

Number of Companies Financed, U.S. (1993)



$ Value of Investment, U.S. (1993)



Source: SBA, Venture Economics

Opportunity New Jersey, through its Business Development Partnership, could add substantial energy to the entrepreneurial base of the state at very low cost by taking actions that foster a larger, more efficient individual investor market in the state. Accountants, lawyers, private consultants, as well as local venture capital networks across New Jersey now make a business of connecting these individuals to entrepreneurs. Opportunity New Jersey could add value by enhancing the services of these existing venture capital associations and individual investor networks. Elsewhere, for instance, similar organizations as Opportunity New Jersey serve in a marketing function, helping to publicize across the state and nation the successes achieved within individual investor associations, thereby reinforcing entrepreneurial activity within the state.

Investment:

Each New Jersey early stage venture capital fund must be capitalized with at least $30 million. Funds with less than $20 million can not generate sufficient revenue to attract and retain high quality venture capital managers. Atlanta Technology Partners, a Georgia-focused fund, has $43 million in total capital; the Massachusetts Mayflower Fund has $50 million; and Innocal has $75 million.

Capital can be raised from corporate investors and pension funds with minimum investments of approximately $3 million, and preferably $5 million. Public pension investors will be approached early, to find out their requirements for such an investment. All efforts will then be made to structure the fund to meet their requirements. Preliminary formal fundraising would, however, begin with private corporate and pension investors. Only after private investors have committed to a majority of a Fund would public pension funds be invited to invest.

It should be noted that the most likely private and public pension investors are those that already invest in venture capital and other equity investments that are not publicly traded because these pensions investors are able to treat the investment as part of their diversification strategy. Both Innocal and the Mayflower Fund were capitalized by a single large public pension investor, already active in the private equities asset class, while Atlanta Technology Partners and the Oklahoma funds were capitalized by primarily corporate investors.

To enable pension investors who are new to the asset class to participate, a fund-of-funds could be created as a vehicle through which pension funds could achieve immediate "one-stop" diversification. A fund-of-funds is akin to a mutual fund, representing a pool of investments in a broad range of investment partnerships spanning geographic location, stage and industry focuses. Were a fund-of-funds created, this pool should be managed by an investment advisor that is nationally regarded as preeminent in the private equities asset class (which includes venture capital as well as other later stage private investment activities).

To capitalize the individual New Jersey early stage venture capital partnerships, no tax credit should be required. A number of states have experimented with the use of tax credits to incent fundraising, including features such as salability of the tax credit for investors who are tax-exempt or tax-deferred. Experience would suggest that these are only effective when the risks associated with a certain class of investment or geographic region are so extraordinarily high that investors must be given some assurance of minimal returns (such as a recently closed Israeli fund and an Oklahoma fund initiated at the peak of the oil crisis).

In a strong economy such as New Jersey, no tax credit should be necessary if the fund is properly structured. The key to proper structuring is sufficient market. Numerous states and even cities, including Virginia, Kansas, North Carolina, Michigan and Chicago, have experimented with geographically restricted venture capital funds. The experience resulting from these funds suggests that geographic focus should be achieved through goals and incentives, not through quotas or restrictions. The Mayflower Fund, for instance, is successfully invested in state, even though it is not legally required to do so.

The cost of raising a fund, including structuring, marketing, legal documentation and selecting venture capital management will be $200,000 or more, depending on how rapidly the fund is raised and how well the fund is pre-marketed before attorneys and others are retained. A significant portion of these costs may be recouped out of initial capital at the completion of the fundraising process (depending on legal structure and investors). If a fund-of-funds approach is applied, the cost is similar.

Opportunity New Jersey individual investor activities, by contrast, can be very low cost to initiate, relying primarily upon staff or board members to move to start-up. These activities should be able to move to financial self-sufficiency within approximately three to four years, based on fees for services. In the interim, modest financial support (i.e., $75,000 per year or less) would be required.

Management/Organizational Structure:

Each New Jersey venture capital fund will require an independent board and management. The board should be small, with approximately five to seven highly experienced members, whose appointments are made completely outside of politics or the public sector.

Legal requirements will dictate the composition of this board (i.e., bank holding companies may be required to be passive investors; pension beneficiaries may not be able to sit on the board if their fund is an investor). One of the board members should be an experienced venture capitalist who has no conflict of interest with the fund. Other similar funds with no true venture capital experience on the board have found that they are not able to strongly redirect activities without their own detailed knowledge of the industry.

Fund managers must be selected through a national search. This search should be conducted by an investment management or consulting firm, such as Cambridge Associates, that has extensive knowledge of the industry and of individual fund manager's track records. It should not be conducted by an executive search firm. Moreover, the process for selecting the manager (or venture capital management firm) should begin early, prior to marketing so that the fund manager can help market the fund, so that investors know what they are buying, and so that the manager can ensure that the fund is structured to his or her satisfaction. As it happens, this is a good time in the industry to be conducting such a search, with many established funds with good track records restructuring and dividing up into new partnerships.

On the one hand, the New Jersey fund must be legally, managerially, and financially separate from the individual investor association and all other economic development activities. On the other hand, to ensure that the fund does indeed succeed in expanding the entrepreneurial environment in the state, there should be extensive and aggressive interaction between the fund, Opportunity New Jersey board members and staff, and other existing efforts such as the New Jersey Commission on Science & Technology.

Performance Measurements:

Each New Jersey early stage venture fund will be judged, first and foremost, by its return on investment. It is important to note that if the ROI for the fund is average, it has not succeeded. The only funds to have achieved returns commensurate with the risk associated with venture capital over the last decade are those which have performed in the upper quartile.

The fund also will be judged by its ability to create successful companies, its ability to foster an expanded entrepreneurial environment that multiplies long after the fund has been fully invested, and its ability to communicate nationally that New Jersey is major world center of entrepreneurial activity.

Other indirect measures of success include:

- the percentage of the fund that is invested in New Jersey early stage companies
- measurable increase in New Jersey's share of start-up stage financings
- measurable increase in individual investor activity
- additional dollars invested as a result of the fund's investments.
- number of successful companies created.
- number of jobs created.

Impacts:

Impacts to be expected include:

- expansion of New Jersey's early stage venture capital industry expertise, with venture capital managers and firms whose future prosperity depends upon successful investment in New Jersey.

- a more entrepreneurial environment, in which early stage investment opportunities in New Jersey gain national attention, in which individual investors are eager to participate, and in which would-be entrepreneurs are more likely to start their own companies.

- creation and expansion of high growth companies that create high quality jobs.

Who Benefits:

Investors -- through strong financial returns as well as the secondary benefit of a stronger local market.

Entrepreneurs -- through expanded access to venture capital in a more competitive market.

Workers -- through more new, high quality jobs.

The State -- through an expanded, more resilient tax base.

Implementation Plan:

A. Early Stage Venture Capital Fund

By September, 1995 -- After formation of the Opportunity New Jersey board and its Business Development Partnership Committee, the Partnership must be charged with refinement of an overall early stage venture capital strategy in partnership with potential initial investors, the existing venture capital industry, and representatives of the state's entrepreneurial base. Three decisions must be reached.

First, the Committee must determine clearly its priority goals, i.e., increased early stage investment in New Jersey, increased entrepreneurial activity, increased national attention on New Jersey successes, increased pension fund investment in venture capital, financial performance of the early stage venture capital fund, or other goals. It can then determine whether to pursue a fund-of-funds strategy, to simply create one or more New Jersey focused early stage venture funds, or to pursue combination of these two strategies.

Second, a member of the Business Development Partnership Committee should be asked to chair implementation of the early stage venture capital strategy, and to do so with a small team likely to represent potential, initial investors in the Fund.

Third, internal staff requirements must be determined depending on the strategy selected. This decision will depend on the complexity of fundraising, permanent staff requirements after closing, and the ability of board members to participate in the fundraising process.

<u>By November, 1995</u> -- Develop a basic term sheet and marketing strategy for the early stage venture capital fund, or the fund-of-funds. The term sheet and marketing strategy should be carefully tested and refined with a number of private corporate and pension investors, as well as public pension investors. This should be conducted as a pre-marketing strategy, asking investors whether they philosophically would be willing to consider such an investment, but seeking no commitment.

<u>By January, 1996</u> -- Conduct a search to identify a highly qualified fund manager or a venture capital management company that is currently, or would be willing, to be based in New Jersey. Under the fund-of-funds approach, a top quality investment advisor able to work with Opportunity New Jersey to achieve its goals must be selected.

<u>By March, 1996</u> -- Develop legal documents, and commence fundraising. Seek preliminary commitments from private corporate and pension investors first, followed by public pension investors.

<u>By September, 1996</u> -- Target first closing.

<u>By December, 1996</u> -- Target final closing and begin operations.

B. Individual Investor Activity

<u>By September, 1995</u> -- After formation of the Opportunity New Jersey board and its Business Development Partnership Committee, the Partnership must be charged with refinement of the individual investor strategy as one component of an overall early stage venture capital strategy.

A member of the Partnership should be asked to chair implementation of the individual investor component of the Partnership's venture capital strategy.

By November, 1995 -- Preliminary informational meetings should be conducted with major individual investors in New Jersey as well as with existing locally-oriented individual investor associations, venture capital clubs, and accountants, lawyers and consultants active with individual investors. Through formal and informal means, information should be gathered on those particular individual investor services that would be most useful immediately to these individuals and organizations.

By January, 1996 -- Develop a plan to work through existing venture capital forums to provide these services on a break-even basis over time.

By March, 1996 -- Begin delivery of "flag-ship" basic services.

Note:

The New Jersey early stage venture fund strategy described above presumes that there are unmet opportunities for early stage venture capital consistent with the types of investments venture capitalists now undertake, and that expanded access to venture capital can stimulate greater demand in key sectors.

Another strategy is to focus on a lower risk range of early stage investments, and structure a portfolio accordingly. Investments would be less likely to reach an initial public offering, would be more likely to be cashed out through the retained earnings of the entrepreneurs, and would generate lower returns. The Massachusetts Technology Development Corporation has structured such a portfolio, and now generates an internal rate of return of approximately 15-17%. It is important to note, however, that MTDC received significant operating subsidies in its early years, a portion of which were later reimbursed to the state. Such a strategy would be highly complementary to an individual investor association, and would, in many respects, address a portion of the same target investments.

URBAN ECONOMIC DEVELOPMENT

History:

Policymakers generally agree that malfunctioning capital and labor market are responsible for much inner-city poverty and unemployment. Labor market barriers make it difficult for low-income people to find suitable employment and for employers to find suitable workers. Capital market problems make it difficult for job-creating inner-city and minority firms to obtain capital, worsening already difficult unemployment problems. Markets generally malfunction because of risk, information and cost problems. Employers may be afraid that inner-city workers may not perform. Lenders fear than loans to unfamiliar inner-city firms may not be repaid. Information about employment and training opportunities may be unavailable to jobless inner-city residents. The cost of making small loans may make extending credit to inner-city firms unprofitable. Search costs may discourage workers for looking for employment.

Increasingly, states are using their tax, spending and regulatory powers to establish market-based solutions to these problems. For example, the state of Michigan's Strategic Fund has successfully invested in a number of financial institutions, such as Business and Industrial Development Corporations and seed capital programs, intended to reduce the risks and costs of financing small and minority firms.

America Works, a unique employment agency for welfare recipients, is a private, for-profit that serves as a vital link between welfare recipients and permanent private sector employment. Operating in several states, America Works reduces the risks and costs that employers face in hiring workers without significant training or work experience. The PennCard experiment, recently launched in Reading, Pennsylvania, is testing the use of an innovative "individual training account" that would allow dislocated workers purchase training from a variety of competing suppliers.

The proposed **Urban Investment Plan** is based on the experience of the Michigan Strategic Fund, America Works and the PennCard experiment. It outlines a market-based approach for addressing the capital and labor market problems that account for high rates of poverty and unemployment in the state's inner-city communities.

The **Urban Investment Plan** would consist of:

- <u>An Enterprise Investment Strategy</u> designed to increase investment and business formation in inner-city areas. It is designed to create more employment opportunities by increasing the flow of capital to the small and minority firms that create most new jobs and to residential, commercial and industrial development ventures in these areas.

- <u>A Human Investment Strategy</u> designed to make it easier for workers to obtain job-related training and to take advantage of employment opportunities wherever they exist.

- A Community Development Trust to invest in community development finance institutions and other programs designed to deal with capital and labor market problems in a comprehensive and "holistic" fashion. The Trust will build on the Community Development Loan Fund, other appropriate funds in other state agencies and any other appropriate private pools to create a single, significant source of community investment funds with a common strategy.

THE ENTERPRISE INVESTMENT STRATEGY

Summary:

The Enterprise Investment Strategy would have two elements.

- A Linked Deposit Program. Currently, 15 states operate "incentive" or "linked" deposit programs under which low-interest certificates of deposit are purchased from banks that agree to use the proceeds to make affordable small business and community development loans. Under Ohio's program, for example, banks have received $200 million in such deposits at three points under market interest rates.

  We propose that New Jersey establish a similar program with deposits used to finance eligible "community development investments." Community development investments would include small and minority business loans, as well as investments in and loans to financial institutions that make such loans. These would include community development finance institutions, microenterprise loan programs, minority business investment companies, and purchases of loans under the Enterprise Loan Marketing Program (described below). In addition, the state would, as a general practice, make incentive or linked deposits only in banks with acceptable CRA ratings.

- The Enterprise Loan Marketing Program. The existence of Federal National Mortgage Corporation (FNMA) is a key reason that mortgage credit is affordable and widely available. FNMA raises money for new home lending by purchasing loans from mortgage lenders and selling them to private investors. By functioning in a similar fashion, the Enterprise Loan Marketing Program would be designed to increase the availability of capital from corporate and institutional sources of funds to ventures and enterprises in urban communities. We believe the idea is both timely and feasible.

  For one thing, the NJEDA is currently exploring the sale of a small business loan portfolio funded with grants from the U.S. Economic Development Administration. For another, a state development finance authority in South Carolina, the Job-Economic Development Authority, was recently successful in selling securities backed by an $11 million small business loan portfolio to a large institutional investor. Building on these efforts, NJEDA would package, guarantee and resell loans made by banks, CDCs, microenterprise lending organizations, SSBICs and other organizations that provide development credit. Specifically, under the ELMP program, NJEDA would perform the following functions.

First, it would establish loan origination, underwriting and servicing standards to which development lenders would have to adhere in order to sell their loans. These standards will be developed in partnership with one or more institutional investors interested in participating in the program. Standards would be designed to preserve lending flexibility while at the same time setting minimum standards for the management of development lending programs.

Second, it would pool loans and package them into securities to be purchased by institutional investors, such as pension funds, corporations, commercials banks and other institutions. Generally, small business loans are too risky and costly for large institutions to make. Securities backed by pools of loans with uniform credit standards would help to solve this problem. It may also be necessary to secure a guarantee to these loan pools, to further simplify credit review for purchasers of these loans, representing financing to companies in a wide range of business activities.

Third, it would provide technical assistance and consulting services to development finance organizations in order to help them improve their loan origination, underwriting and servicing performance.

Investment:

The Strategy could be financed with relatively minor increases in state spending.

- Linked Deposit Program. A program under which CRA ratings guide the award of state deposit and financial service contracts would entail no appreciable increase in state spending. Accepting below market interest rates would create same costs, however. Accepting three percent less interest on $100 million in deposits would, for example, cost the state $3 million. However, interest losses would be partially offset by new tax revenues.

- Enterprise Loan Marketing Program. The Program's costs could be financed primarily from fees on secondary market transactions and from contributions to NJEDA from commercial banks and financial services companies. For example, NJEDA might charge a two percent packaging fee to all development finance organizations from which it buys loans for resale to private investors. Should a guarantee prove necessary, a stream of revenues, such as interest on a trust fund of the state, would be identified, against which the Enterprise Loan Marketing Program would have first call in the event of default.

Management/Organizational Structure:

Though the Enterprise Investment Plan would involve little new state spending, it would require both regulatory and statutory change.

- Linked Deposit Program. The linked deposit program can probably be instituted by Executive Order. If not, legislation authorizing such a program should have significant economic and political appeal. The program would be managed by existing staff of the State Treasury Department, the Department of Community Affairs, or another agency designated by the Governor.

- Enterprise Loan Marketing Program. In all probability new legislation would not be required to establish a program to provide liquidity to community development (and other designated) lenders, unless a guarantee proves necessary. In such instance, legislation may be required to make available necessary funds. As suggested earlier, the program would be managed by the New Jersey Economic Development Authority.

Impacts:

Together, the Linked Deposit Program and the Enterprise Loan Marketing Program Loan should lead to:

- Increased community investment. Linking deposit relationships with CRA performance should increase community investment by banks and community development finance institutions. For example, in Chicago, Shorebank's Development Deposit program has helped to finance more than $170 million in outstanding development loans. In Ohio, low-interest rate deposits made with state funds have been used to generate $190 million in small business loans.

- Increased investment by institutional investors in small and minority business. Many pension funds, insurance companies and endowment funds have "social" or "economically-targeted" investment programs. However, small size and high risk make individual small business loans unattractive investments. By selling securities backed by pools of small business loans, the Enterprise Loan Marketing Program can overcome these risk and size problems, thereby increasing institutional "social investment" in New Jersey's inner-cities.

- Improved community lending performance. By rewarding sound lending practices, a market for community development will provide development lenders improved performance incentives. That is, the ability to sell loans to private investors depends on sound lending practices. Thus, lenders who want access to private funds will tend to improve these practices.

Benefits:

The Enterprise Investment Strategy should have the following group of beneficiaries:

- Development lenders. The Linked Deposit and Enterprise Loan Programs should both improve their performance and give them increased access to private capital. Performance should improve as a result of the incentives and services provided under the ELMP. Capital access should increase as commercial banks, seeking to avoid the high transaction expenses associated with small business loans, extend lines of credit to development lenders to make these loans.

- Small businesses. More liquidity for development lenders and lending incentives provided by linked deposits should mean increased access to capital and credit.
- Employees. More new and expanding firms mean more jobs.
- Neighborhoods and localities. More investment and business activity will mean a broader economic base and increased tax revenue.
- Institutional investors. The packaging and selling of community development loans will make it easier for them to meet their social investment targets.

Performance measurements:

Yardsticks for measuring the success of the plan include:

- Improved CRA ratings. Banks participating in the Linked Deposit Program or purchasing loans under the Enterprise Loan Marketing Program should be eligible for CRA credit.
- Increase in aggregate level of community development investment. Commercial banks (and other financial institutions) should report an increase in inner-city loans as well as in grants and investments involving other types of community development activities.
- Increase in transaction volume and quality among community development lenders and investors. Community development loan funds, SSBICs and other specialized intermediaries should make more loans and investments and these assets should perform better than they have historically.
- Increase in number of small business starts. Small business formation tends to be correlated with the availability of entrepreneurial support resources. An improvement in the quality and quantity of financial and technical assistance arrangements should result in more small business starts.
- New job creation. More investment, more business formation should result in more new jobs for inner-city residents.

Implementation Plans:

The Linked Deposit Program:

In many states, linked or incentive deposit programs have been instituted without legislation.

- By January, 1995: The governor should ask the State Treasurer to develop New Jersey's program proposal based on a review of efforts in other states. The proposal should include the language of an executive order to be issued by Governor Whitman (or, if appropriate, the State Treasurer). In the event that legislation is required, the proposal should include draft language.

- By February, 1995: The Treasurer should complete consultations with commercial banks and other "stakeholders" affected by the proposed executive order. He should then revise it in accordance with comments and criticisms.

- By March, 1995: The Governor should issue an executive order establishing the program.

Enterprise Loan Management Program

- In January, 1995: The Governor should ask NJEDA to develop an ELMP plan under which standards would be developed for loan to be purchased, and potential initial purchasers of loans would be identified. A deadline of May 31, 1995 should be set for completion of the plan.

- By June, 1995: NJEDA should submit the ELMP plan, developed in consultation with prospective participating lenders, to the Governor. This document should include language for legislative proposals, if any.

- By July, 1995: Based on the NJEDA plan, the Governor should secure the informal support from key legislators and the private sector (including, if necessary, oral commitments to provide funding to cover ELMP start-up and initial operating costs).

- By August, 1995: The Governor should announce ELMP in conjunction with NJEDA, legislative leaders (if appropriate) and participating lenders.

THE HUMAN INVESTMENT STRATEGY

Most people obtain their jobs through a set of formal and informal arrangements generally referred to as the "labor market". As economists Roger Vaughan and Peter Bearse put it in Federal Economic Development Programs: A Framework for Design and Evaluation,

> "The purpose of a [labor] market is to send signals to the participants to indicate when they need to change their behavior and to indicate the direction of the appropriate change. The employer who fails to fill vacant slots is receiving a signal to raise wages. A job seeker who fails to find employment is receiving a signal either to seek elsewhere or to reduce expectations."

When markets work well, the right signals are sent out and people respond according to the signals they receive. The firm that finds itself unable to attract more skilled workers reappraises its wage and salary structure, invests more in training the workers it has or tries to make do with fewer employees. The frustrated job applicant goes back to school, changes careers or reduces her salary demands. Conversely, when markets work poorly, they transmit garbled or incorrect information and firms and workers make incorrect decisions.

For many unemployed workers, labor markets fail not because jobs or training are in scarce supply, but because they are inaccessible. They are not scarce; they are simply unreachable.

Employee placement and support services such as those provided by America Works may well be a large part of answer. America Works is a for-profit company that functions as a unique kind of employment agency. Through its relationships with local firms, it identifies and places welfare recipients in jobs that they would be unlikely to find on their own. The employer pays America Works which, in turn, pays the workers (the minimum wage). (In some states a reduced welfare grant continues for a few months as a wage subsidy). During this time -- and sometimes longer -- America Works' staff provides on-site support to both employer and employee, helping with concerns or problems ranging from workplace attitudes to child care. At the end of the four months, companies hire candidates into permanent positions with benefits. If the business decides to hire the person on a permanent basis, the state pays a fee, in the neighborhood of $4,000 to $5,400, to America Works. For employers, workers and the state, America Works is a "win-win-win" proposition. The state saves money because the "success" fees it pays are generally a fraction of the cost of keeping the person on welfare. Employers receive quality applicants without advertising and can work with them on a trial basis. Employers are also eligible for the Federal Targeted Job Tax Credit and they have no unemployment insurance or workers' compensation liability during the trial period. Workers obtain valuable assistance in finding and keeping jobs the jobs they want.

America Works is already operating in New York City, Albany, Hartford and Indianapolis, and will add as many as six new sites over the next two years. The company has successfully placed almost 2,200 former welfare recipients. Some 85 percent of these employees who made it through the four-month trial period were still on the job at the end of the year.

Gaining access to the right training and related services is also a problem for workers. Once again, the difficulty is not scarcity. Training programs to meet almost every conceivable need exist; the problem is finding them and purchasing them.

In almost every state, there are literally scores of job training and education programs with different, and sometimes conflicting eligibility criteria, funding requirements and program objectives. Even highly sophisticated "customers" of these employment services are generally incapable of determining which mix of training and education is best suited to their needs and for which programs they are eligible. This would not be so bad if those needing training and related services had both the information and purchasing power to choose among providers. Were this the case, consumer demand would stimulate competition, innovation and increased attention to customer concerns. At least then more variety would also mean more higher quality.

One way of giving inner-city workers increased choice and consumer power would be to create a system of Individual Training Accounts. The Accounts would be the employment training equivalent of an IRA (Individual Retirement Account). In the case of IRAs, contributions are made for the purpose of financing retirement. In the case of ITA's, public and private funds could be used to make contributions to finance training and related services. What we're proposing is similar to experiments started in Michigan and now being conducted in Pennsylvania.

Summary:

As we envision it, a market-based Human Investment Strategy for New Jersey's inner-city would have three elements.

- New Jersey Works. New Jersey Works (NJW) would be modeled on America Works. It would be a state program, which would certify or contract with multiple employment agencies such as America Works. These private (or public) agencies would hire unemployed inner-city residents, place them with private companies and provide whatever support services (e.g., day care and transportation) were required for newly placed employees to retain their jobs. Employee wages, financed by a combination of employer and state funds, would be remitted to the employment agencies, which would in turn pay each worker. New Jersey Works would also pay the employment agencies for each temporary worker hired on a permanent basis -- roughly half after four months on the job, the rest after seven months. Because payments would only be made after proven performance, there would be little financial risk for the state.

- Individual Training Accounts. An Individual Training Account would be established for all workers placed through New Jersey Works. After six months on the job, such employees could use amounts in the account to pay for any job-related training (and associated expenses) agreed to by the employer. For workers, the ITA would be a means of acquiring skills that would make them more valuable to their current employers and more marketable to other companies. For employers, the availability of ITA-financed training would provide an additional reason to hire and retain workers through New Jersey Works.

- New Jersey Works Trust Fund. New Jersey Works should produce significant reductions in welfare costs. Nevertheless, because placement fees and ITAs representing a percentage of these savings must be appropriated, many legislatures are loathe to move in this direction. To make the funding of placement fees and ITAs less subject to the vagaries of the state budget process, a state-chartered authority called the New Jersey Worker Trust Fund should issue notes and bonds to finance required placement fees and ITA contributions. State and federal transfer payment savings and tax revenue increases achieved by placing previously jobless inner-city residents in permanent jobs would be used as a dedicated revenue stream to repay the Fund's obligations. At the beginning the Fund would be financed with general obligation bonds. Later, with the accumulation of data on the cost-savings and revenue-enhancing effects of New Jersey Works (and the associated ITA), contributions to the Fund might be financed with revenue bonds.

Investment:

Neither New Jersey Works nor the Individual Training Account would necessitate significant new spending.

- New Jersey Works. The costs associated with starting up and operating New Jersey Works would be minimal. Placement, or "success", fees, representing a percentage of state savings, would be paid through the New Jersey Employment Trust Fund. Ideally, the costs of creating New Jersey Works would also be paid by the Trust Fund.

- Individual Training Accounts. OJT and JTPA funds, as well as money obtained by diverting Federal welfare (and, perhaps, other transfer payments), would be sought to finance ITAs. In addition, the Trust Fund could finance ITAs. No new state spending would be required.

- New Jersey Works Trust Fund. The cost of operating the Fund should be covered by fees and interest spreads. Its design and start-up costs should be borne by the state.

Management/Organization Structure:

- New Jersey Works. New Jersey Works would be a public program which would contract with multiple providers, public or private. America Works, commercial employment agencies, non-profit and JTPA funded providers would all be possible candidates. In order to qualify as an eligible contractor, a competing employment agency would be required to meet certain state standards. The program would be overseen by the New Jersey Employment and Training Commission, which would contract its operation to a public or private organization of its choice, on a performance contract.

- New Jersey Works Trust Fund. The Fund, which would be organized under the New Jersey Employment and Training Commission, should probably be governed by a small board of directors representing employers, and community interests.

Impacts:

The principal effects of the Human Investment Strategy should be:

- Improved rates of job placement among previously unemployed workers. As a proxy for the networks through which middle class workers obtain and keep their jobs, New Jersey Works should make it easier for members of low-income communities to find and maintain jobs.

- Higher rates of job retention. The ITA should provide an incentive for employees, on the one hand, to accept employment and stay on the job and for employers, on the other, to keep them. Support services provided by New Jersey Works should also help boost retention rates.

- Higher long-term earnings. Increased skills acquired through ITA-financed training should enable workers placed by New Jersey Works to move into higher-wage jobs.

Benefits:

The Human Investment Strategy would have the following groups of beneficiaries.

- Unemployed workers, who would find it easier to identify, obtain and retain decent jobs.

- Welfare recipients, who would be freed from continuing dependency.

- Employers, for whom the risks and costs of hiring disadvantaged workers would be reduced.

- Training providers, for some of whom the ITA would mean increased business.

- The state, for whom the success of the strategy would mean less social spending and more tax revenues.

- Poor communities, whose economic viability would be improved by an increase in the number of employed, tax-paying residents.

Performance Measures :

- Job placement rates: the percentage of people placed in permanent employment by New Jersey Works.

- Wage rates: the increase in earnings enjoyed by workers placed by New Jersey Works. Wage level information should be collected at regular intervals to determine the rate of improvement over time.

- Customer satisfaction: the number of employees and employers expressing approval of New Jersey Works' performance.

- State fiscal impact: the amount of reduced expenditure or increased tax revenue produced by the strategy.

- Job retention rates: the percentage of workers remaining on the job after six months, one year, two years and three years.

Implementation Plans:

This trio of market mechanisms would link unemployed and underemployed workers with employers (New Jersey Works), provide publicly-funded accounts for purchasing training and related services (Individual Training Accounts), and provide an off-budget means of financing both the job placement service and training accounts (the New Jersey Works Trust Fund). The New Jersey Employment and Training Commission would oversee (but not manage) each element of the system.

- In January, 1995: The Governor should identify funds -- approximately $200,000 -- to finance a series of "visioning" exercises designed to produce a specific plan for each element of the three-part Human Investment Strategy: ITAs, New Jersey Works and New Jersey Works Trust Fund. This money should be given to the New Jersey Employment and Training Commission which, in turn, would develop specifications for each "visioning" contract and select one or more organizations to carry out the required work. Both public agencies and private firms would be eligible to compete.

- In February, 1995: The New Jersey Employment and Training Commission, with advice from members of the state's employment training system and the Governor's staff, should have completed contract specifications and be prepared to accept proposals from prospective contractors.

  At a minimum, these "visioning" contract(s), which should be completed in 90 to 120 days, should address the following issues:

  -- The organization, management and compensation system for New Jersey Works (including performance yardsticks and recommended formulae for "success" fees). To the extent that the plan envisions New Jersey Works as a program involving multiple providers, it would specify the means of identifying and certifying (or otherwise qualifying) competing contractors.

  -- The size, uses and eligibility requirements for ITA's. The plan would also set forth a system for financing ITA contributions with both public and private contributions and make recommendations for securing Federal waivers, where appropriate.

  -- The organization, management and method of financing for the New Jersey Works Trust Fund. Among other tasks, the contractor would be required to develop an actuarial model for the Trust Fund that forecasts its ability to meet its obligations under different assumptions regarding New Jersey Works' employee placement performance and the impact of this performance on state revenues and expenditures.

  -- The core principles that would govern the operation of the three strategic elements.

- The arrangements by which the elements of the tripartite Human Investment System should be overseen and governed, including staff and other resource requirements associated with these recommendations.

- Policy changes for each initiative, accompanying legislative and budgetary proposals and steps to be taken by the Governor.

- Financial commitments from participating "stakeholders", both public and private.

- By July, 1995: The "visioning" exercise should be completed, a consensus report should be ready for publication and distribution, and legislative proposals should be ready for introduction in the state legislature.

THE COMMUNITY DEVELOPMENT TRUST

The Michigan Strategic Fund, created by statute in the mid-80s, was a pioneer in the use of public funds and private management to fill gaps in private capital markets. In carrying out this mission, it stressed three principles. The first was leverage: employing, small amounts of state money to produce much larger flows of private investment. For example, each dollar invested by the Fund in Michigan's innovative Capital Access Program generated almost $40 in private lending, primarily to small business. (The Capital Access Program, described more fully in the Capital Access section of this report is an innovative loan portfolio insurance program which, to date, has generated more than 3,000 loans totaling more than $157 million.) Second, the Fund stressed institution-building, fostering the creation of independent, financial institutions specifically designed to fill market gaps. For example, the 11 privately-managed Business and Industrial Development Corporations created with MSF as an investment partner have provided more than $65 million in long-term financing for Michigan-based businesses. Finally, the Fund emphasized private decision-making, creating arrangements and incentives designed to shape--not replace--the private market

Summary:

Modeled on Michigan's highly successful Strategic Fund, the Community Development Trust would be a special purpose affiliate of Opportunity New Jersey established to make strategic investments in community development finance institutions, Specialized Small Business Investment Companies, small business incubators, technical assistance and other market-oriented local business development and investment programs. In carrying out its mission, the Trust would give priority to investments that meet four standards. First, as with the Michigan Strategic Fund's investments, they should produce significant leverage. Second, they should be capable of achieving scale. (Put simply, programs and initiatives supported by the Trust should have the capacity to make a difference.) Third, the response should be market-driven: the Trust should energize, and shape private decisions, not substitute public judgment for private action. Finally, the Trust should give preference to organizations and programs designed to attack inner-city investment barriers in a comprehensive manner. Among its other services, the Trust would also assist banks, utilities and other companies to design and implement community investment programs.

Investment:

The Trust would employ a variety of funding sources to finance its activities -- corporate donations, federal and state contracts, Community Development Block Grant funds, foundation grants and individual contributions. As seed money, to be matched at least one-for-one by the sector, the state should appropriate $10 million to finance investments by the Trust, over five years, and should consider folding in other related existing pools, such as the Community Development Loan Fund managed by EDA and other similar funds.

Management/Organization:

The New Jersey Community Development Trust would be an affiliate of Opportunity New Jersey and accordingly would not require separate state legislation. Its board would include a mix of neighborhood representatives, public officials, business leaders, bankers and community development practitioners. Its management would be selected for skill and experience in developing market-oriented approaches to development.

Impacts:

The Community Development Trust should have two principal impacts:

- <u>More varied approaches to community investment.</u> Financial and technical assistance from the Trust would increase the range and quality of arrangements for channeling private investment into urban areas. That is, just as the availability of risk capital tends to fuel new businesses growth, the Trust's investments should stimulate the development of new ways of financing investment in low-income areas.

- <u>More productive technical assistance arrangements.</u> The Trust should also stimulate local community development "entrepreneurs" to produce not just better ways of supplying capital and credit but also new ways to improve the number of creditworthy borrowers.

Benefits:

The beneficiaries of the Trust's investments would include:

- <u>Inner-city entrepreneurs,</u> for whom the Trust's investments would mean improved arrangements for financial and technical assistance.

- Commercial banks which should realize improved CRA ratings from investments in, or assistance from, the Trust.

- Neighborhood groups, whose activities would be complemented by the Trust's investments.

- Development lenders, some of whom would receive direct investments and loans from the Trust.

Performance Measurements:

Principal success indicators would be:

- Increased number and size of community development finance institutions. If effective in carrying out its mission, the Trust should stimulate the formation and expansion of new financial institutions to invest in community development.

- Increased transaction volume among community development lenders and investors. Community development loan funds, SSBICs and other specialized intermediaries should make more loans and investments and these assets should perform better than they have historically.

- Increased small business starts. Small business formation tends to be correlated with availability of entrepreneurial support resources. An improvement in the quality and quantity of financial and technical assistance should result in more small business starts.

Implementation Plan:

- In January, 1995. The Governor should announce her intention to create the Community Development Trust to cabinet-level agencies and departments. She should request comments by February, 1995.

  The Governor should also seek commitments for financial support for the Trust from private sector leaders, especially commercial banks and other financial institutions with strategic or regulatory interest in inner-city investing.

  Using agency comments and private sector commitments as a framework for her message, the Governor should announce her plan to create the Community Development Trust, perhaps during the annual State-of-the State address. At minimum her plan should call for state funding of not less than $2 million annually for five years, contingent on matching commitments (not necessarily 1:1) from the private sector.

- By May, 1995: The Department of Commerce and Economic Development (working in tandem with sponsors of Opportunity New Jersey and other private sector leaders) should complete an organization plan for the Trust along with legislative and budget proposals needed to implement the plan. The business plan should outline the Trust's goals, strategies, management, governance and financial structure.

Discussions should be held with "stakeholders" in The Trust (including legislators, private sector sponsors and urban interest groups) should be held and final revisions made in the organizational/business plan and accompanying legislative and budgetary proposals.

- By July, 1995: Necessary refinements should have been made in the basic plan and legislative proposals should be introduced.

BUILDING A WORLD-CLASS WORKFORCE

Summary:

In today's global economy, in which the only factor of production that cannot be moved overseas is the workforce, the most important factor in New Jersey's competitiveness is the skill level and productivity of its employees. To create an environment in which workers and firms constantly invest in upgrading their skills, New Jersey must move in a new direction. We recommend that it focus not on creating programs, but on creating a *marketplace* in which workers and employers find it easier to obtain the information and resources necessary to invest in upgrading their skills. New Jersey can create that marketplace by doing four big things well. It should:

- reposition the state's current Employment & Training Commission under Opportunity New Jersey as the vehicle for revolutionizing the state's approach to workforce development;
- establish a state system of Individual Training Accounts through which people and companies can save for investments in lifelong skill improvements;
- create competing one-stop career centers, through which both employers and individuals can get the information, advice, and -- in some cases -- resources they need to make intelligent choices in the labor marketplace; and
- construct a performance information system that can measure the outcomes (e.g. job placement rates) of and customer satisfaction with training and education programs and providers.

History and Models:

This recommendation grows out of the last decade of state experience. As states have faced recessions and distress, many have turned to workforce development as part of the solution. A growing number have begun to shift from *funding more programs* to *making markets function better*. Two states in particular have advanced this concept: Michigan, particularly under Governor Blanchard, and Massachusetts, under Governor Weld. But most of the ideas outlined in this recommendation are now supported by workforce development leaders across many states. Indeed, they and are beginning to show up in the position papers of national organizations such as the National Governors' Association, in bi-partisan Congressional legislation, and in federal demonstration projects.

In New Jersey, as in the rest of the nation, we have organized our public investment in job training through categorical programs, in which government grants administered by bureaucracies are used to help people in targeted categories (dislocated workers, welfare recipients, minorities, the disadvantaged). During the last several years, this approach has come under increasing fire. It has several problems:

- Bureaucratically run programs aren't very effective. Despite good faith efforts by dedicated staff in most instances, government-operated programs involve bureaucracy, red tape, categorical procedures and reporting requirements, and legislative restrictions that combine to ensure that change doesn't happen swiftly -- a fatal flaw when we face a turbulent, rapidly-shifting worldwide jobs and skills market. New Jersey under both Governors Kean and Florio has taken a leading role in improving program management and simplifying the maze that now exists, but the basic model remains flawed.

- A brief example from rural Alleghany County, New York, illustrates the point. This area has worked hard to bring all its workforce development services into a single employment center, so citizens have one-stop shopping. Staff attempt to make this seamless for customers, so it feels like one, easy-to-use resource. But at the end of every day, the staff must enter information on each customer four times -- each time at a different computer terminal -- to accommodate different program reporting requirements.

- Grant-based solutions will never reach scale. Programs were designed to reach a small percentage of the population. As soon as we recognize that lifelong skill building and career management are essential for every citizen, the concept of paying for all of that with government grants quickly breaks down.

- The current incentives are perverse. Programs don't die if customers are dissatisfied; nor do they grow if customers are happy. So money continues to flow to categorical programs that don't work, while better programs have far more demand than they can meet. The system, in other words, does not respond to market needs.

- Most important, program-driven solutions only work as long as the program is funded by the federal or state government. If the program goes away, so does the activity.

A second, related problem is important to underscore. In general, the public -- both workers and employers -- doesn't believe that a skilled workforce is an urgent issue. This is a point that is easy to miss. Nearly every task force recommended to the Commission some form of a workforce improvement objective, making it a strong cross-cutting theme. When national leaders from both sectors have considered the issue, they have concluded unanimously that a highly skilled, flexible workforce is among our most essential assets.

The gap between the elite and the general citizenry on this issue is large and dangerous. The only workable path for creating a skilled workforce capable of adapting to rapid change is for employers and workers to make skill building a priority. Beneath the rhetoric, however, this is not happening at most firms. Nor are most individuals making such investments.

Therefore, one of the most powerful steps that New Jersey can take toward ensuring a highly skilled workforce is to provide the leadership required to make this a burning issue for employers and workers.

We recommend a paradigm shift: from target group-oriented, supply-driven employment and training programs offering a disjointed patchwork of services to well-functioning markets that link all workers and employers.

General market principles apply well to the acquisition of skills and jobs. To function well, a market needs clearly-articulated demand, supply that responds dynamically to changing demand, and accurate information for customers about the quality of available services, so they can make informed choices. In many markets (think of real estate and financial markets), customers need brokers to help them sort out the options. When these four characteristics are present, markets are generally self-sustaining. New Jersey should work to create these four characteristics in its labor markets.

Several principles should guide the state's strategy:

- Virtually all public investments should be structured to leverage private investments, by both employers and workers.

- Markets work best for customers when service providers compete and customers have choices. Hence the quality of education and training providers will improve fastest if customers can define their requirements and choose where they purchase services, and providers compete to meet their needs.

Recommendations:

The four actions we propose can propel New Jersey away from program-based solutions and into a market creation and management strategy.

1. **Reposition the state's current Employment & Training Commission under Opportunity New Jersey as the vehicle for revolutionizing the state's approach to building a skilled workforce.**

New Jersey has created a national model for a powerful, cross-cutting state commission to guide public investments in job training. That commission is noted for its efforts in reframing how to manage programs better. We propose to build on that success.

We believe the Commission should become the workforce policy arm of Opportunity New Jersey, with its focus shifting from incrementally improving program management to making the workforce marketplace function efficiently. It should also focusing on the needs of all employers and all workers, not just those involved with traditional government programs.

The Commission can be a vehicle for at least two important market-management functions: raising awareness and defining employer skill requirements. The Commission can play a leading role in engaging employers and workers in a dialogue about the relationship between skills and good jobs. By helping workers and employers comprehend the urgency of the issue, the Commission can stimulate increased commitment to and investment in a skill-based economic strategy.

The other important function that the Commission can take on is to act as a vehicle through which employers define their skill requirements. The Commission can ensure that those needs are clearly communicated to suppliers.

2. Establish a state system of Individual Training Accounts through people and firms can save for investments in lifelong skill improvements.

ITAs bear a strong resemblance to Individual Retirement Accounts. They are portable accounts through which workers (and/or their employers) can deposit funds to be spent on education or training. A system of ITAs both helps with the short-term cost obstacle and offers a continuing reminder to account holders that they should be making investments in education or training.

The ITAs should be available for all adults in New Jersey, with a tax credit offered to encourage deposits. Low income people and others with special needs would have public funds deposited into their ITA, rather than channeled to a specific categorical program. We recommend beginning by shifting only a few of categorical programs into ITA mode, then gradually bringing in other programs. A third source of deposits into ITAs would be employers who saw them as good investments. Matching programs could also be created, as is done with retirement savings at many firms.

Experiments with ITAs are now underway, in several states, including Pennsylvania and Iowa. They focus on dislocated workers and welfare recipients. New Jersey has some relevant experience with voucher-style solutions through a component of the Workforce Development Partnership program, funded through a portion of the Unemployment Insurance payments made by employers. Across the nation, many local job training program administrators are using vouchers as a tool for giving customers choices about their retraining. And the U.S. Labor Department is expected to pilot career management accounts early in 1995.

3. Create competing one-stop career centers, through which both employers and individuals can get the information, advice, and -- in some cases -- resources they need to make intelligent choices in the labor marketplace.

If we shift some categorical funds into ITAs, encourage employers and individuals to buy more training, and help individuals organize funds to pay for it, the missing link remains good information about what to purchase. No element of our labor market system today is weaker.

Employers and individuals today find it virtually impossible to get the kind of reliable information they need to make informed choices about education and training. The quality of public Employment Service offices throughout the country is poor, as judged by customer satisfaction studies. Private firms, such as employment agencies and outplacement companies, serve relatively few customers in narrow niches within which they can make money. Most people simply don't know where to go for help, because visible locations, databases and tools don't exist in most communities.

In 1993, Vice President Gore's National Performance Review recommended that the federal government and states work together to solve the information shortfall by creating an array of one-stop career centers. As brokers for labor market information -- akin to real estate or stock brokers -- these centers would offer employers and individuals high quality information about a wide range of subjects connected to employment and skill building. These would include listings of services, assessments of needs, career planning, and a kind of consumer guide, which would contain information about results obtained (eg. job placement rates, retention rates, and wage rates) by and customer satisfaction with each education and training provider. Such information is rarely available today.

The U.S. Department of Labor is already funding states to develop such career centers. It just issued the first round of implementation grants to six states. New Jersey did not receive an implementation grant, but did obtain a $400,000 planning grant to be used in 1995 to develop a strategy for implementation. As a result, New Jersey has an excellent chance to win a three-year, $10 million implementation grant a year from now.

We recommend strongly that New Jersey take this opportunity to built a market-oriented system, not just to incrementally improve existing programs. Massachusetts, one of the six winners of implementation funding, offers a model for how to tackle this challenge.

Without strong encouragement to the contrary, the risk is that existing institutions will award one-stop career center funds only to existing public program administrators, such as Employment Service offices, Job Training Partnership Act administrators, and community colleges. The Massachusetts approach is to make no one a presumed provider entitled to this funding. Instead, the state is constructing a competition in which multiple vendors, both public and private, will compete to do the best job of operating one-stop career centers.

The plan in Massachusetts is to open the competition as widely as possible, and to ensure that in every region of the state, customers have choices of where to go for assistance. Funding will then flow to the organizations that provide the best customer service and achieve results. We believe this approach will stimulate tremendous improvements in the information services offered, with the pressure of a competitive marketplace accelerating those improvements.

4. **Construct a performance information system that can measure the outcomes (e.g. job placement rates) of and customer satisfaction with training and education programs and providers.**

For the market model to be successful, customers must be able to obtain reliable information as to the quality of services available. In today's bureaucratic world of 150 federally-funded employment and training programs, each with its own rules, regulations, and structures, no common databases exist from which a customer can figure out performance. And while individual educational organizations may provide potential enrollees with some data about their placement rates or other measures, no one offers comparative information across providers and funding sources.

To correct that, an important element of creating the one-stop career centers must be to invest in building an information system that collects and analyzes data about the results achieved by those who use the various education, training and career management services they need. This is a "consumer reports" function, to support customers in their decision making.

Two primary types of information are necessary. First, quantitative outcome data from education and training providers must be collected, organized and put into a reliable comparative format. Second, a system for collecting and distributing customer satisfaction feedback must be established.

In both instances, the one-stop career center grants can help support the development of the needed tools.

Investment:

Two types of investment are needed to make a system of ITAs work. First, the state needs to redeploy some of its public job training investments from programs to individual accounts. This would probably work best if phased in over time. Second, the state should provide a state income tax credit for deposits into ITAs, whether made by individuals or employers.

Building competing one-stop career centers will also require a redeployment of public resources. New Jersey should seek a federal implementation grant, but in addition existing program funds should be used to support the centers. We envision the centers operating on a combination of these two source of public funds, which would support a core of basic services available to all customers, and fees for services that go beyond that core.

The development of a performance information system can be supported by a combination of one-stop center implementation grant funding and existing state labor market information funds.

Management/Organization Structure:

As noted above, the Commission on Employment & Training should become the state's driver of the workforce skills agenda. To accomplish that, we recommend moving it under the wing of Opportunity New Jersey. This will ensure that its vision is broader than just public programs and that it connects integrally with the rest of the state's economic development agenda.

Establishing a system of ITAs will require a collaboration between the state and its financial institutions. The goal is to structure a framework within which financial institutions -- rather than a public bureaucracy -- will hold the ITA deposits. This could be done as part of legislation establishing ITAs.

The creation of the one-stop career centers should be driven by the Employment & Training Commission. The Massachusetts experience suggests that using a chartering model for deciding who can operate centers will be effective. In Massachusetts, the chartering will be done by labor market-based Regional Employment Boards -- local policy tables that cannot operate career centers themselves. New Jersey should look at how to reposition its existing Private Industry Councils into similar policy tables.

Impacts:

The impact of these initiatives, taken together, would be powerful. With limited new state investment, New Jersey can create an infrastructure that will tremendously expand the engagement of employers and workers in skill building and maintenance. Shifting to a market-based approach will allow public dollars to leverage private investments. As a result, the impact of public training dollars will soar -- perhaps even doubling the state's return on investment.

Implementation Plans:

1. <u>In January, 1995</u>: Issue an Executive Order moving the Council and defining its enlarged charge. The Governor, either through executive order or legislation, should reposition the state's current Employment & Training Commission as a Workforce Council under Opportunity New Jersey. The Council should receive a broad charge: to focus on making the workforce marketplace function efficiently for all workers and employers in New Jersey.

The Council should, during the next 18 months, undertake at least two major missions: launch a public communication process across the state, engaging employers and workers in a dialogue about the relationship of skills to good jobs and economic prosperity. This should be a highly visible activity, designed to reach as many people as possible in a sustained way.

<u>From February - May, 1995</u>: Plan communications activity. Identify clusters for initial focus.

<u>By April, 1995</u>: Begin meetings to identify skills with those clusters.

<u>By June, 1995</u>: Launch the project. Begin with several industry clusters a process of defining their skill requirements and translating them to education providers.

<u>By September, 1995</u>: Begin communicating identified skills to education providers

2. <u>In January, 1995</u>. Begin establishment of a state system of Individual Training Accounts.

Drafting and adopting legislation to establish a statewide system of Individual Training Accounts, into which deposits can be made by individuals, their families, employers, or with public retraining funds for those in need.

Launching experiments in managing public program funds through individual accounts. Two likely targets for early conversion: dislocated worker funding (Title III of the Job Training Partnership Act) and welfare funding. The U.S. Labor Department will also soon issue a request for proposals for pilots with ITAs that should be applied for.

From February -April, 1995: Design ITA system and structure. Set priorities as to which programs to convert to ITAs.

From April - June, 1995: Prepare to implement ITA system with program funds.

By October, 1995: Launch ITAs.

From January - April, 1995: Meet with bankers and brokers to design the accounts system

Define the costs of offering residents a tax credit for making deposits into ITAs.

Define with New Jersey financial institutions the operational details of managing ITAs. We assume the accounts should be managed by banks and brokerages, and not administered by the state directly. This will require negotiating the exact nature of the accounts with those who will market and operate them to ensure that the vehicle is attractive to all parties.

3. In January, 1995: One-Stop Career Centers should be designed as a competitive set of information sources among which customers can choose.

New Jersey should apply again in 1995 for a three-year federal implementation grant. This year's proposal should be for a market-oriented system. The Council and Executive branch officials should steer it in that direction. In fall, 1995 the US Department of Labor will issue an RFP. Preparatory activities should be undertaken to design the New Jersey model and plan for implementation, using this existing grant. New Jersey should use its recently awarded $400,000 planning grant to design a market-oriented workforce system.

4. From January - April, 1995 -- Define information system requirements and priorities, as well as available funding for acquisition and/or development.

Initial versions of information systems regarding performance of workforce programs should be developed. Two major elements should be focused upon at the outset: Outcome data across programs and providers should be gathered, organized and put into a reliable comparative format. A system for collecting and disseminating customer satisfaction feedback should be established.

Funding received by the state from the U.S. Department of Labor for labor market information development can support some of this development. Appropriations may be required to develop the remainder.

The state should consider seriously whether it wants to own these databases or to encourage their development and operation by private vendors.

May, 1995 -May, 1996 -- Roll out initial priority tools.

ACCESS TO CAPITAL

History

The growth and formation of young, small firms that create a significant number of new jobs is often hindered by capital access problems. There are two principal causes. The first is **risk**. To take one example, commercial banks consider small, relatively new firms to be more risky than larger, better established companies because they lack established financial track records, or because their financial ratios are not within standard commercial banking limits. The second is **cost**. Extending credit requires investors and lenders to incur the expenses associated with evaluating the borrower, negotiating loan terms, structuring the credit transaction and administering the loan after it is made. Because these expenses do not vary directly with the size of the loan -- the costs of making a $5,000,000 loan may be identical to those associated with a $500,000 or even $50,000 loan -- loans to, and investments in, smaller firms tend to be less profitable than those to larger companies. To address these risk and cost problems, we recommend two new market mechanisms to make, guarantee and create liquidity for small business loans.

Summary

- A New Jersey Capital Access Program. Pioneered in Michigan, Capital Access Programs (CAPs) now operate in 19 states and localities. In Michigan, the program has generated $157 million in bank loans to more than 3,000 borrowers, mainly for small businesses. CAP is a loan portfolio insurance program which establishes loan loss reserve accounts in the name of participating banks. For each loan made under the program, the bank and the borrower contribute 5 to 7.5 percent of the principal amount. The state matches these contributions, creating reserve protection equaling 10 to 15 percent of the loan. The total balance in the loan loss reserve account is then available to pay any combination of losses incurred in the bank's special loan portfolio. As conservative lenders, banks typically experience a default rate on a portfolio of commercial and industrial loans of about 1.5 percent. By providing protection against loss levels 7 to 10 times greater than normal, CAP enables participating banks to make somewhat riskier loans than they would normally extend. In addition, because the bank still assumes most of the default risk with each loan, CAP requires no state underwriting and minimal oversight.

  Though both the Small Business Administration and the New Jersey Economic Development Authority offer loan guarantee programs, only the CAP program rewards banks for increasing the volume of their small business lending. Thus it should prove a useful addition to the state's small business credit support arsenal.

- Business and Industrial Development Companies. Small business capital access problems persist despite evidence that financial markets consistently underallocate capital to young, growing firms. In other words, companies specializing in small business financing that go beyond standard commercial lending activity have been slow to develop. For example, while mezzanine, or near-equity, capital is widely available to large companies, it remains a highly difficult form of finance for small and mid-sized companies to find nationwide. Junior debt and mezzanine finance activities are, by definition, higher risk financings that should generate higher rates of return. However, the information and transaction costs of managing these financings for small and middle market companies drive investors toward larger scale opportunities. In our experience, commercial lenders are eager for such financing to be made available to their stronger customers that are undergoing ownership transitions, restructuring or unusual growth spurts, but can not justify providing this service through their own bank holding companies.

We presume based on our experience in other similar highly industrialized economies in which manufacturing firms are undergoing significant restructuring and repositioning that such financing is similarly difficult to secure in New Jersey. The precise size and nature of these missed market opportunities should be carefully understood and documented.

Based on a careful evaluation of market opportunities in New Jersey, Business and Industrial Development Companies (BIDCOs) could be designed. BIDCOs would be publicly chartered, but privately capitalized and managed lenders organized to provide a combination of financial and management assistance to small businesses located within the state. They would be organized to finance promising firms that need financing but that cannot offer the high returns demanded by venture capitalists and are in appropriate for commercial banks to finance. In Michigan, 11 BIDCO's have made $65 million in loans to 150 companies. As a way of inducing private investors to create BIDCOs, some states match private capital contributions with public funds.

A BIDCO might specialize in relatively large (i.e., $750,000 or larger) equity-oriented loans to a small number of portfolio companies. Such a BIDCO would earn returns much as a venture capitalist would -- by selling stock back to owners or another investor at a later date, after a period of successful growth or restructuring. A BIDCO might also function more as a finance company, making large numbers of relatively small loans. For these BIDCOs, participation in the proposed Capital Access Program and Enterprise Loan Marketing Program would be a way of reducing the risk and increasing the profitability of their lending activities.

Investment

The New Jersey Capital Access and BIDCO programs could be established with limited additional state spending.

- New Jersey CAP. The recently enacted Federal Community Development Finance Institutions (CDFI) legislation included matching grants for state CAP programs. These grants could substantially increase the leverage of state dollars. Under the Act, a state must appropriate $1 dollar for every two people in the state in order to receive Federal matching funds. For New Jersey, this would translate into a requirement of approximately $4 million. We suggest that 50 percent of the amount be provided in the form of soft loans and donations from industrial concerns, commercial banks and financial institutions within the state. These private sector loans would be matched by state appropriations that would assume the "first loss" position with respect to default losses. That is, all default losses would first be charged to the state portion of the account, then to the "soft loans". CDFI matching grants would be used to recover 50 percent of these outlays. Only then would losses be charged to contributions made by the borrower and lender.

- BIDCOs. Depending on the strategy pursued, BIDCOs could be capitalized with purely private funds or with a combination of state and private funds. To make this arrangement attractive, the state and private investors might share losses equally, but private investors would be entitled to a specified rate of return before any distributions to the state. Alternatively, the state might simply assist with start-up operating costs.

  The financing focus of the BIDCO will define its capital requirements. A BIDCO focused on junior debt might require as little as $4 or 5 million in total capital, while a BIDCO focused on mezzanine financing should have a minimum of $7 to 10 million in capital with access to lines of credit through the U.S. SBA Preferred Securities SBIC license or some other appropriate method.

Management/Organization

- New Jersey CAP. Either the state Department of Commerce or the New Jersey Economic Development Authority would be appropriate places to lodge responsibility for managing the program.

- BIDCO. Under contract with the state, Opportunity New Jersey (or an approved affiliate) would be given responsibility for marketing the program to investors and for securing necessary state investments for BIDCOs.

Impacts

The CAP and BIDCO initiatives should have the following impacts.

- Increased capital access. The creation of a New Jersey Capital Access Program and a system of BIDCOs should significantly increase the flow of private capital to the state's small and emerging firms. In Michigan alone, BIDCO's and CAP have accounted for more than $200 million in loans to small business.

- Expanded participation in small business lending. The enactment of the state CAP and BIDCO programs should increase the number of active small business lenders. Some of these BIDCOs should be owned by minority investors, providing them an additional opportunity to accumulate business assets. In the five states of Arkansas, Indiana, Michigan, New Hampshire and Oregon, CAP has 169 participating banks, an average of 34 banks in each state.

- Small and emerging business growth. Arrangements that increase the availability of financial and technical assistance to small and emerging companies should significantly strengthen this sector of the state's economy.

- New jobs. An increase in the flow of capital to small firms within the state should stimulate new job creation.

Benefits

The principal beneficiaries of the proposed initiatives would be:

- Small and emerging firms, who would find it easier to secure capital and credit.

- Commercial banks, who, because of the CAP program, would find the risks associated with making small business loans significantly reduced.

- Private investors, for whom the BIDCOs and the emergence of a market for small business loans would create new investment opportunities.

Performance Measures

Key performance measures for the BIDCO and CAP programs would be:

- Level of increase in small business lending by commercial banks. The proposed initiatives can only be considered successful if the aggregate level of small business lending by banks increases significantly.

- BIDCO capital and performance The amount of private investment in BIDCOs and their lending volume is an important indicator of the program's success.

- Distribution of loans by size, location and ownership of businesses. Ideally, the CAP and BIDCO programs should increase the flow of credit not just to suburban firms, but companies in inner-city areas and owned by minorities.

Implementation Plans

The Capital Access Program:

- By May, 1995. The New Jersey Economic Development Authority, which would manage the effort, should develop a program plan based on consultations with New Jersey banks and program managers in other states. Among other requirements, the plan should be designed to qualify the New Jersey Capital Access Program for funding under the Federal Community Development Finance Institutions program.

- By August, 1995: NJEDA, with assistance and support from the Governor and the Department of Commerce and Economic Development, should obtain commitments for matching soft loans and donations equaling $2 million.

- By September, 1995: CAP legislation authorizing state contributions to match private sector commitments should be submitted to the state legislature.

BIDCOs:

- By September, 1995: The Opportunity New Jersey Business Development Partnership Committee should be asked to undertake a careful market evaluation of the need for near-equity and junior debt financing for small and middle market companies in New Jersey. A business plan should be developed to address this market, as well as any necessary legislative proposals. These efforts should be organized to reflect experience in other states and to make BIDCOs as attractive as possible to potential investors.

- By January, 1996: With the consensus of all relevant parties, including lenders, investors, representatives of potential customers, as well as the Executive and Legislative branches of New Jersey, Opportunity New Jersey would begin marketing BIDCOs it to investors.

REINVENTING STATE GOVERNMENT

Summary:

One important factor in the economic competitiveness of any state is the productivity of its government. If state government is inefficient, it soaks up resources that could better be invested by the private sector. If it is ineffective, it burdens state businesses with many problems: underachieving work forces, inadequate infrastructure, regulatory impediments that slow developments and drive up their costs, and the like.

Many states, including New Jersey, are working to restructure, redesign, and reinvent the way their governments do business. Driven by fiscal pressures and public anger at government, they are seeking to streamline, to deregulate internally, to reengineer work processes, to measure performance, and to deliver greater value for the dollar to their customers.

The most important reforms New Jersey can make, to enable the process of reinvention to succeed, are those in its basic systems: budget, personnel, and procurement. These are the systems that give every agency and every employee their most powerful marching orders. They dictate how they will receive money and how they can use it; how they can hire, promote, reward, manage, train, and fire employees; and how they can purchase the goods and services they need to accomplish their missions.

These systems, which date from the industrial era, are built on a hierarchical, command-and-control model which no longer works well in today's information age. They are slow, rigid, and immensely wasteful. If New Jersey wants state agencies that respond quickly to the needs of their customers, constantly improve their performance, and adjust rapidly to changing circumstances, it must dramatically alter these core systems.

1. Budget Reform:

History and Models:

In an age of chronic budget deficits, most governments in America still use budget systems that give *every manager* an incentive to waste money. This simple fact, startling as it may be to people outside government, explains why budget reform is the single most important management reform available to most governments today.

Most public budgets fence agency money into dozens of line items. A manager may have 30 different line items for every program or division. Theoretically, a manager can request permission to move funds across the fences. But this is risky, because more often than not the answer is: "We're glad to take back the surplus, but we can't afford to let you move it to the other account."

Hence managers rarely try to shift funds. Most managers stick with yesterday's priorities, even if today's needs have changed.

But it gets worse. If managers don't spend their entire budgets by the end of the fiscal year, they lose the money they have saved, and they often get less in the next budget cycle. Not surprisingly, smart public managers spend every penny of every line item, whether they need to or not. Many public managers know where they could trim 10 percent of their budget, but why go through the pain, if they can't use the money for something more important?

It doesn't have to be this way. Many state, county and local governments -- and several federal agencies -- have eliminated most line items and allowed departments to keep all or part of what they don't spend in a fiscal year. This encourages managers to make spending decisions not because of line item restrictions or the fact that they must "spend-it-or-lose-it," but because those decisions will help their organizations accomplish their missions. We call this *mission driven budgeting*. (In state government circles, budgets with a minimum of line items are often known as "program budgeting.")

This approach gives *every employee* an incentive to save money. It radically simplifies the budget process. And it saves millions of dollars on auditors and budget officers. Perhaps most important, it frees legislatures to focus on the real issues. Rather than debating the minutiae of thousands of line items, they can spend their time on the real problems they were elected to solve.

New Jersey's Governor has already committed to biennial budgets, which cut in half the number of times the "spend-it-or-lose it" incentive arises and give managers a longer planning horizon. This is an excellent idea, which works well in many other states. We also recommend that New Jersey begin to project the fiscal impact of every spending decision it makes over six years, rather than only one budget cycle. Too often, governors and legislatures make fiscal decisions which look good in the short term but create enormous costs in the long term. (For example, they cut spending on job training, child care or health care for welfare recipients who go to work, saving money in one account but driving up welfare case loads and costs in another.) By projecting the fiscal impact of decisions out six years -- across programs and accounts -- decision makers (and watchdogs, such as the media) will begin to see the long-term consequences of their actions. It is impossible to make accurate projections of spending over six years, but it is easy to see basic trends, if current conditions prevail. Both Minnesota and North Carolina now do this, as a way to help themselves avoid long-term fiscal mistakes.

Once governments have given their agencies the flexibility they need through mission-driven budgeting, they often take the next logical step: they hold them accountable for the results. This is the next major budget reform necessary in New Jersey: the creation of a performance-based budget system. Oregon and Texas have already created such systems, and Florida, North Carolina, Minnesota and other states have begun the process.

Traditional public budget systems focus on <u>inputs</u>, not <u>outcomes</u>. They fund schools based on how many children enroll; welfare based on how many poor people are eligible; prisons based on how much space they need for convicted criminals and how much money is available. In budgeting, they generally disregard how well the children do in one school vs. another, how many poor people get off welfare into stable jobs, or what the recidivism rate is from each prison. In fact, schools, welfare departments and corrections systems typically get *more money* when they fail: when children do poorly, welfare rolls grow, or the crime rate rises.

New Jersey needs to change these incentives. It needs to begin measuring outcomes and rewarding success.

The first step is to set overall goals for the state: targets for where the state's citizens want to be by the year 2000, 2010, and 2020. Perhaps the best model here is Oregon Benchmarks, a set of 18 "core" targets, 27 other "urgent" targets, and roughly 30 key targets, plus another 225 secondary targets, developed through an extensive citizen input process. In Oregon, a public-private partnership called the Oregon Progress Board -- a kind of strategic planning board for the entire state -- has managed the process of developing and refining the benchmarks. The process has become so central to decision making in state government that Oregon's largest city and its counties are now developing their own benchmarks. In New Jersey, the governor should launch a year-long, statewide citizen input process to set long term goals for the state.

The second step, after these goals are set, is for departments and agencies to set performance targets that tie into the statewide goals. This will require reorientation of the mission of some agencies, to bring them into line with the key state priorities articulated by the goals. Once this has been done, performance targets should be developed within each agency by teams that represent three groups: agency customers; service or regulatory providers (from both inside and outside government, where appropriate); and neutral experts on performance measurement.

The third step should be a period of refinement in agency and departmental performance targets. It takes roughly three years, at a minimum, for most public organizations to develop adequate targets and measures. The normal instinct is to begin by measuring what the agency is already doing: how many permits it issues; how many loans it makes; how many forms it processes. This information may be useful, but it has little to do with *results*. It measures inputs and outputs, not *outcomes*. It normally takes several rounds to push public organizations through the process of measuring inputs, then outputs, before they learn how to measure outcomes. Hence the development of performance targets and measures should be a three-year process.

Fourth, the new performance measurement system should be integrated into the budget process. When agencies prepare budget requests, they should specify what outcomes they propose to produce with the dollars they receive. When the legislature passed the budget and appropriates funds, it should include key performance targets in its legislation. And agencies should be held accountable for producing specific outcomes at specific prices.

Finally, clear financial incentives should be created for agency success and failure. There are a number of ways to do this, depending upon executive and legislative branch preferences. One would reward agencies; another managers; a third all employees. Our preference would be financial bonuses for agencies that exceeded their performance targets. Each agency would be allowed to decide how to use the money itself. Some might choose to give all employees performance bonuses; others might choose to reward only high-performing employees; others might choose to reward only managers; and still others might choose to use the money for investments that would improve performance further, such as training or new technologies. We prefer this option because every agency is different. In some, individual performance can be clearly measured; in others, only group performance can be measured. In some, individual rewards create enormous jealousy and dissension; in others, individual rewards more closely fit the organization's culture. In some, financial incentives have great leverage; in others they do not.

Whatever the incentive chosen, one rule should be followed: Whenever an agency exceeds its performance target, the new level it has achieved should become its expected target for next year. (The model here is Sunnyvale, California, the national leader in performance measurement and budgeting and the model for the federal Government Performance and Results Act of 1993.) Combined with the financial rewards discussed above, this will give agencies a powerful incentive to ratchet up their performance, year after year. To secure a financial reward, they would have to exceed their targets; when they did so, their expected performance level would rise; and to secure a financial reward the next year, they would have to exceed the new level.

Finally, New Jersey should attack one more problem with its budget system. Often managers know that if they could invest a certain amount of money up front -- in new technology, in consulting fees, in training, etc. -- they could save (or earn) far more money down the road. The only way to get that up front investment, however, is to convince the budget office and the legislature to appropriate it. And that is often very difficult. What should be a rational investment decision quickly turns into a political decision, in the context of many competing demands. Hence government managers rarely get permission to "spend money to save money."

A number of public organizations use a simple solution, often called an Innovation Fund. They create a loan fund from which agencies can borrow to finance up-front investments. The federal government has a number of funds like this; the city of Philadelphia created what it calls a Productivity Bank last year; the University of Minnesota has an Innovation Fund. In Philadelphia's case, loan payments are automatically deducted from an agency's budget over the five years after it takes the loan.

We recommend that New Jersey state government create an Innovation Fund of $50 million. It could be capitalized by a one-time appropriation and run as a revolving loan fund, or by a general obligation bond, to be repaid by the loan repayments from the Innovation Fund. A third alternative is to use a general obligation bond, but set interest rates for Innovation Fund loans high enough so that the fund gradually builds up a balance, even as the bond is repaid. By the time the bond is fully repaid, the loan could be fully capitalized through these interest payments.

Recommendations:

In sum, we recommend that New Jersey reinvent its budget system by:

- minimizing agency line items;

- allowing agencies to roll over 50 percent of all money they have not spent in a fiscal year;
- projecting the fiscal impact of every spending decision out six years;
- creating a year-long citizen input process to set long term goals for the state;
- requiring departments and agencies to set performance targets that tie into these goals, and to refine those targets over three years;
- integrating those performance targets into the state budget;
- creating financial rewards for agencies that exceed their performance targets;
- and creating an Innovation Fund against which agencies can borrow to finance investments that will save or earn money.

Implementation Plans

The Innovation Fund:

By March, 1995: The governor's task force that focuses on reinventing government should develop a proposal for an Innovation Fund, specifying the amount of the fund, the source of the money, the loan terms (years and interest rates), the application procedure, the loan committee that should decide which loans are approved, and the repayment procedure.

By April, 1995: The task force should circulate this proposal and get feedback from key stake holders.

By May, 1995: The task force should rewrite the proposal and the governor should submit legislation based on it.

Mission-driven Budgeting:

By April, 1995: The governor's task force and the office of management and budget should study other state budget systems that use "program budgeting" -- i.e. one budget number for each program that has a distinct mission, rather than many line items per program. They should also examine systems, at both the state and local levels, that allow departments to keep all or part of what they do not spend in a fiscal year.

By May, 1995: The governor's task force and budget office should begin discussions with appropriate legislative leaders about shifting to mission-driven budgeting.

When she judges that the idea has appropriate support in the legislature, the governor should submit legislation shifting the budget system to mission-driven budgeting, including agency carry-over of 50 percent of unspent funds to the next fiscal cycle.

Financial forecasting:

By April, 1995: The governor's task force and budget office should study other state financial systems that forecast spending decisions beyond the current budget cycle, including Minnesota, Nebraska and North Carolina.

By June, 1995: The governor's task force and budget office should develop a proposal to forecast spending decisions out six years.

By June, 1996: This proposal should be implemented and the system developed.

Performance-based budgeting:

By May, 1995: The governor should begin a year-long, statewide citizen input process to set goals for New Jersey. These should include goals for the year 2000, 2010, and 2020.

By May, 1996: This process should be complete and the goals should be published.

By November, 1996: Agencies should have developed their own performance targets, aligned with these goals.

By November, 1997: Agencies should have refined their performance targets, based on the first year's experience.

By November, 1997: The governor's task force and budget office should begin to develop, in collaboration with the legislature, a performance-based budget. Discussions should begin about the best format and process for such a budget.

By November, 1998: Agencies should have refined their performance targets again. At this point, the targets should be integrated into budget submissions, and the governor should submit a performance-based budget to the legislature.

By November, 1999: The governor and legislature should agree on a system of financial incentives for agencies and employees, tied to their performance.

2. Civil Service Reform:

History and Models:

States from Florida to California are trying, with varying degrees of success, to reinvent their civil service systems. A surprising degree of consensus has developed around several simple propositions.

First, we do need a civil service system, to protect public employees against political manipulation--particularly hiring and firing for patronage reasons.

Second, we don't need the kind of civil service system most states use today. Hopelessly antiquated and rigid, such systems make efficient, effective government impossible, while sapping the creativity of public employees.

Third, a few common sense changes, already proven in practice, would help immeasurably--both in creating more efficient, effective governments and in enriching the lives of employees.

Consider job classifications. Over the years, most governments have developed several thousand job classifications. New Jersey has 6,400; New York 7,300; Michigan 2,700. The federal government has 459 job series, 15 grades, and 10 steps within each grade. This approach not only hamstrings public managers, it wastes millions of dollars on personnel officers whose job it is to classify each employee.

The National Academy of Public Administration (NAPA) recently spent several years studying federal job classifications. It concluded that the federal system is expensive, cumbersome, time-consuming, and intensely frustrating to managers. All of these conclusions apply with equal weight to state systems.

It often takes months to get positions classified and filled, for example. Classification standards are "too complex, inflexible, outdated, and inaccurate"--making it difficult to move people around as needs and funding change. Excessive classifications create rigid job hierarchies that cannot be changed as organizational structure changes and managers need to move people around. They make it impossible to pay for performance. They drive high performers out of their fields of expertise into supervisory positions, to get higher pay, and they make it difficult to recruit quality employees.

The federal Civil Service Reform Act of 1978 authorized a number of demonstration projects, which have become models for reform at all levels. Several experimented with a different classification system, using only a handful of career paths (e.g. professional, technical, specialist, administrative, and clerical) and only four to six broad pay bands within each path. They worked so well that NAPA recommended a classification system with 10 paths and only three pay bands within each career path. When hiring, managers could set an individual's pay anywhere within the broad band. Last year the National Performance Review recommended that agencies be allowed to move to such systems when they are ready.

link pay and performance. If agencies--in cooperation with employees--design their own systems, managers and employees alike should feel more ownership of them.

- Eliminate bumping by seniority, switching to a system in which managers consider both seniority and performance during lay-offs, but give more weight to performance.
- Streamline the process of firing an employee for poor performance.
- Decentralize the hiring process, so departments and agencies can recruit, interview and hire their own candidates.
- Increase the state's investment in employee training.

Implementation Plans:

By April, 1995: The governor should submit a bill sunsetting the civil service system.

By April, 1995: The governor should convene a civil service reform task force, with members from the administration, the legislature, the public sector unions, the business community, and the public.

By October, 1995: This task force should recommend a civil service reform plan to the governor.

By January, 1996: The governor should submit legislation reforming the civil service system -- even if the sunset bill has not passed.

By June, 1995: The governor's task force on reinventing government should develop a plan to increase the state's investment in employee training.

3. Procurement Reform:

History and Models:

The third major system that gets in the way of performance in state government is the procurement system: the rules by which managers and employees buy products and services they need to do their jobs.

Traditional government procurement systems are characterized by rigid procedures, extensive paperwork, detailed design specifications, and multiple inspections and audits. Like the budget and personnel systems, they were designed with the best of intentions. To prevent fraud and abuse, they adopted rigid safeguards. To take advantage of bulk discounts, they centralized purchasing decisions.

In reality, however, the government wrote its procurement rules when retailing was very different, with many companies standing between the manufacturer and his ultimate customer. Today retail giants like Wal-Mart, Office Depot and Price Club have eliminated the markups of intermediaries by bypassing them. Agencies can buy much of what they need from discount mail-order houses, with a simple phone call. Occasionally bulk purchasing still provides significant discounts, but often a manager can get the same price at a discount house down the street.

The main problem with our centralized purchasing system is simple: it takes decisions away from managers who know what they need, and allows strangers in procurement offices to make those decisions for them. Too often, those procurement officers pick low-quality items that arrive too late. Occasionally they pick the *wrong* item.

In addition, centralized procurement makes it difficult to discipline vendors who sell to government. When procurement officers make decisions based more on bulk discounts than on line managers' needs, they rarely reward vendors with histories of providing quality goods and service or punish those with track records. As a result, vendors can get away with poor performance, year after year.

Many vendors learn how to game government contracts. For example, computer systems vendors have been known to exploit loopholes in contact specifications by providing systems that lack the necessary power, then charging exorbitant amounts for system upgrades. In the private sector, a manager could use the incentive of future contracts to prevent such gaming; in centralized procurement government systems, managers have no such leverage.

Finally, current procurement systems generally demand that procurement officers by the "lowest price" item, not the "best value." The result is that agencies often get low-quality goods and services that fail to do the job they need done. Last year, for example, the state of North Carolina decided to contract with a private firm to conduct a study of its personnel system, as the first step toward fundamental personnel reform. Unfortunately, the procurement system forced the personnel agency to choose the lowest bidder -- even though the agency felt it could not get the quality of work it needed from that bidder. As a result, the agency is skeptical that the study will lead to significant reform.

Recommendations:

To solve problems such as these, New Jersey must radically decentralize authority to line managers, letting them buy much of what they need themselves. It must also simplify procurement regulations and processes. And it must shift from a philosophy of "lowest cost" to one of "best value." Finally, it would be wise to end most government service monopolies -- making the procurement system competitive by allowing managers to use any procurement office that meets their needs.

The Governor's Procurement Task Force is already investigating the possibility of 1) shifting from a system that creates extensive inventories to a just-in-time purchasing system; 2) allowing managers to purchase many items with a state-issued credit card, thus avoiding the cumbersome procurement process; and 3) renegotiating maintenance and service contracts to achieve more economies of scale.

As it moves into other areas, we recommend that the task force develop a process to listen to its "customers." We believe it should consult with line managers, government procurement officers and vendors who do business with state government about their needs. This process should involve both customer surveys and focus groups, to get in-depth input. Guided by this input, we recommend that the task force investigate:

- elimination of many procurement rules, to be replaced by broad principles stressing a "best value" approach to procurement;
- decentralization of authority over many purchasing decisions to the lowest possible level;
- creation of a competitive procurement system by allowing managers to use any procurement office they choose for large purchases that must go through a central system;
- testing an "electronic marketplace," in which vendors would list products and prices on a state-maintained database and agencies would electronically order the lowest-priced item that met their needs.

Finally, we recommend that the Governor ask all agency directors to revise their internal procedures and rules to allow their agencies to buy commercial products whenever practical. As in budget and personnel policy, many impediments to good performance are created by agencies themselves. As the Task Force develops statewide reforms, each agency should develop its own set of internal reforms, instructed by the same philosophy of decentralization, deregulation, and "best-value" procurement.

Implementation Plan:

By June 1995: The Procurement Task Force should do a survey of line managers, government procurement officers and vendors who do business with state government, about how the system could be changed to better serve their needs.

By September 1995: The Procurement Task Force should conduct focus groups with line managers, government procurement officers and vendors who do business with state government, to get in-depth input.

By January 1996: The Procurement Task Force should develop a procurement reform bill for submission to the legislature, dealing with problems uncovered by the survey and focus group, as well as those raised above.

By February 1996: The governor should order all agencies to revise their internal procedures and rules, instructed by the same philosophy of decentralization, deregulation, and "best-value" procurement evident in the procurement reform bill.

Investment:

Several elements of this agenda will require significant investment. In budget reform, they include:

1) the citizen input process used to set long term goals for the state;

2) the "neutral experts" needed to help agencies develop and refine their performance targets and measures (whether they are state employees or outside consultants); and

3) the financial rewards for agencies that exceed their performance targets.

In civil service reform, they include increased investments in employee training.

And in procurement reform, they include

1) customer surveys and focus groups held by the Procurement Task Force;

2) and creation of "electronic marketplace."

In reality, however, these will not be the only investments necessary to reinvent state government. They are just the beginning. In general, we believe that public organizations that are serious about reinvention should stand ready to spend three percent of their annual budgets on investments in new expertise, training, professional development, technology, customer feedback mechanisms, and related innovations.

We recommend that such investments be paid for in two ways. First, in exchange for the new flexibilities agencies have to manage their money, free of excessive line items, we recommend that agency administrative costs (i.e., all spending, excluding entitlements, grants, and other forms of spending not consumed by agency employees or contractors) be reduced by three percent a year for the next three years. These funds should be set aside to finance the recommended investments.

Second, we believe that allowing agencies to keep 50 percent of what they do not spend in a fiscal year will entice many of them to return funds -- the other 50 percent of their savings -- to the state treasury. These funds should also be set aside to finance investments in reinvention.

Management/Organizational Structure:

These initiatives should be driven by the Governor's office, working with the legislature. They should not be left to agencies that already own the processes, such as the personnel agency or the office of management and budget. Such agencies are virtually always wedded to their centralized controls; their grip can only be pried loose by creating a countervailing power center, close to the Governor, which is driving the reinvention process.

Impacts:

Reinvention of the budget, personnel, and procurement processes would remove the most fundamental obstacles that stand in the way of heightened performance in state government. The budget and personnel reforms would also create powerful incentives rewarding improved performance. There are many other things that need to be done to reinvent state government, but by creating basic systems with the right incentives, we would unlock the door to many other innovations. Unless we change these basic systems, however, many promising initiatives -- from Total Quality Management to customer surveys to business process reengineering -- will tend to die on the vine. Managers who push innovation will constantly find themselves frustrated by the powerful negative incentives built into the budget, personnel, and procurement systems.

Performance Measures:

In this arena, the milestones are fairly obvious: are the proposed reforms enacted? Are the steps described above taken?

Beyond that scorecard, however, the Governor's office would be wise to develop an annual instrument to survey employees, to gauge the actual impact of the reforms. Such a survey would measure employee attitudes, job satisfaction, work climate and the like. In addition, it would survey attitudes towards the budget, personnel, and procurement systems, to see if they are better serving employees.

Finally, the ultimate measure of whether these reforms work is the performance of state agencies. As performance is measured, trend lines should improve over time.