Committee Meeting

of

SENATE SELECT COMMITTEE ON ECONOMIC GROWTH STRATEGIES

"The Select Committee will take testimony from invited guests concerning the Grow NJ program and the Economic Redevelopment and Growth grant program"

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

DATE: July 29, 2019
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Bob Smith, Chair
Senator Joseph Pennacchio, Vice Chair
Senator Dawn Marie Addiego
Senator Nilsa Cruz-Perez
Senator Joseph A. Lagana
Senator Anthony R. Bucco
Senator Declan J. O'Scanlon, Jr.

ALSO PRESENT:

Patrick Brennan
Erin Clark
Andrew J. Ward
Office of Legislative Services
Committee Aides

Eugene Lepore
Senate Majority
Committee Aide

Christopher Emigholz
Senate Republican
Committee Aide

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

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Chair

JOSEPH PENNACCHIO
Vice-Chair

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New Jersey State Legislature

SENATE SELECT COMMITTEE ON ECONOMIC GROWTH STRATEGIES

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COMMITTEE NOTICE

TO: MEMBERS OF THE SENATE SELECT COMMITTEE ON ECONOMIC GROWTH STRATEGIES

FROM: SENATOR BOB SMITH, CHAIRMAN

SUBJECT: **COMMITTEE MEETING - JULY 29, 2019**

The public may address comments and questions to Patrick Brennan Andrew Ward Erin Clark, Committee Aides, or make bill status and scheduling inquiries to Kimberly Johnson, Secretary, at 609-847-3840, fax (609)292-0561, or e-mail: OLSAideSEGS@njleg.org. Written and electronic comments, questions and testimony submitted to the committee by the public, as well as recordings and transcripts, if any, of oral testimony, are government records and will be available to the public upon request.

The Senate Select Committee on Economic Growth Strategies will meet on Monday, July 29, 2019 at 10:00 AM in Committee Room 4, 1st Floor, State House Annex, Trenton, New Jersey.

The select committee will take testimony from invited guests concerning the GROW NJ program and the Economic Redevelopment and Growth Grant program.

Issued 7/24/19

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SENATOR BOB SMITH (Chair): Welcome to the first meeting of the Senate Select Committee on Economic Growth Strategies.

Our job is to conduct a review of the State's economic development programs -- particularly Grow New Jersey and the Economic Redevelopment and Growth programs -- and determine the aspects of the programs that were successful, and where improvement is needed.

After the Committee has conducted a thoughtful analysis, we will make recommendations for future economic development legislation. And this is especially important now that Grow New Jersey and ERG have expired, and the State is without a flagship incentive program to attract business.

Let me be clear: This Committee is not planning to conduct an investigation of any companies or of the Governor's Task Force. This is a deliberative proceeding, intended to help the Legislature make economic development policy.

I recognize that these programs may be important tools in helping the State to attract jobs and economic activity over the past number of years. But deficiencies have recently been brought to light, specifically a lack of proper oversight and compliance monitoring by the Economic Development Authority.

Today we're going to have the opportunity to hear from Tim Sullivan, CEO of the Economic Development Authority; as well as Larry Downes, the former Chairman of the Economic Development Authority Board. We will also hear testimony from the primary authors of the Economic Opportunity Act of 2013 -- our very distinguished former Senators sitting at the table -- to gain some insight into their process and legislative intent. We also are going to ask them to evaluate, in hindsight, the effectiveness of the program.

And finally, we're going to hear today from representatives of the business, construction, and labor communities, to better understand the impact of the State's economic development programs from their perspective.

At a future meeting, we intend to invite local and national experts in economic development policy who will be able to evaluate our programs and provide insights regarding best practices around the rest of the country.

So we have a very, very heavy agenda; I think we're going to be doing somewhere between three and five meetings. So Senators, plan on your summer and fall being ruined (laughter) by your participation in this Committee effort.

And I would mention, at the start, we have some of the smartest people in the Senate here, starting with Senator Bucco, Senator O'Scanlon, Senator Pennacchio, Senator Cruz-Perez, Senator Lagana, and Senator Addiego. And I won't put myself in that group; but we have some really, I think, smart people who have been around the block and know what our State government should be doing, and how to improve what we're doing.

Co-Chairing (*sic*) this Committee is Senator Joe Pennacchio. And Joe, if you would give us a few opening thoughts, we'd appreciate it.

SENATOR JOSEPH PENNACCHIO (Vice Chair): Thank you, Chairman.

I'm going to take myself out of that list, and put you in there.

I would be remiss if I didn't welcome back my partner in the Senate, Senator Bucco. It's good to have you back, and New Jersey is better off for you being here today. We welcome you.

SENATOR BUCCO: Thank you.

SENATOR PENNACCHIO: New Jersey continues to be recognized at the top of the list of *business unfriendly* states in the country.

I'll give you a few numbers: For the first quarter of 2019, according to Garden State Initiative, we're tied with Maryland for the worst economic growth in the United States. This illustrates how states with less economic impact incentives continue to out-pace economic and business growth in New Jersey.

I applaud the bipartisan Committee's efforts to add oversight, transparency, and accountability to these taxpayer-funded initiatives. However, common sense dictates that the creation of these labyrinths and mazes of incentives are a quilt work of responses to the high cost of doing business in New Jersey, exacerbated by our suffocating regulatory and tax policies.

My overriding approach to this Committee is to search out and expose the truth. I would hope and expect that the testimony and their responses in these hearings are devoid of political theater. However, I do begin the process with some pre-conceived conditions. First, any and all of these programs applied are based on merit, not politics. Second, these programs -- whether past, present, or future; no matter whether the genesis was from the Administration or the Legislature -- must prove a net benefit to the taxpayer. Third, all these programs must have a continued and consistent amount of independent oversight. Fourth, I will look at the application of arbitrary tracks as an anathema to the purpose of taxing business incentives. What's the message? We want to grow and prosper, but not too much?

And finally, I will insist on real and consistent numbers and facts from those who testify, which I hope this Committee will adopt as part of the record. I refuse to have the truth become the first casualty of this Committee.

I thank you again, Chairman.

SENATOR SMITH: Thank you, Senator Pennacchio.

Our first witnesses today are the authors of the 2013 Economic Development Act, and they are Senator Joe Kyrillos and Senator Ray Lesniak. We miss you both.

(confers with staff)

Oh, great idea. Let's take a roll, just to make sure we're 100 percent kosher.

MR. BRENNAN (Committee Aide): Senator Pennacchio.

SENATOR PENNACCHIO: Here.

MR. BRENNAN: Senator O'Scanlon.

SENATOR O'SCANLON: Here.

MR. BRENNAN: Senator Bucco.

SENATOR BUCCO: Yes.

MR. BRENNAN: Senator Lagana.

SENATOR LAGANA: Here.

MR. BRENNAN: Senator Cruz-Perez.

SENATOR CRUZ-PEREZ: Here.

MR. BRENNAN: Senator Addiego.

SENATOR ADDIEGO: Here.

MR. BRENNAN: And Chair Smith.

SENATOR SMITH: Here.

MR. BRENNAN: We have a quorum.

SENATOR SMITH: So our first witnesses will be the authors of the Economic Opportunity Act of 2013. And we'd like to hear what your thinking was in 2013 with regards to that new legislation at that time.

And we'd like you to do 20-20 hindsight, which is always an interesting exercise on the effectiveness of the programs.

And I'm not going to fight between the two of you, as to who goes first; I assume you've worked that out.

SENATOR JOSEPH M. KYRILLOS, Jr.: Senator Lesniak.

SENATOR RAYMOND J. LESNIAK: Age before beauty.

SENATOR SMITH: There you go. (laughter)

SENATOR LESNIAK: Does that mean I go first? (laughter)

So Senator Smith and members of the Committee, thank you very much.

First of all, I would add, to the very smart people around this table, Gene Lepore, who has worked with us on all of our incentive programs. And I'd also point out that Senator Kyrillos and I have been the authors of all of the incentives programs that have generated business development and job creation in the State of New Jersey.

Thirdly, one last thing -- Senator Kyrillos mentioned to me that if I were Chairman of this Committee, we would have started on time. (laughter)

All right.

Chairman Smith and members of the Senate Select Committee on Economic Growth Strategies, I am very grateful for the opportunity to express my opinions and recommendations on New Jersey's tax incentives; and thank Senate President Sweeney for forming a bipartisan Committee to analyze New Jersey's tax incentive programs -- which have produced billions of dollars of tax revenue to State and local treasuries, and more than 100,000 jobs, during a period of slow national economic growth as the nation climbed out of a recession; and despite numerous studies -- that Senator Pennacchio mentioned -- that had New Jersey in the bottom tier as being *business unfriendly*, including one study ranking New Jersey dead last.

The spring 2019 EDA report gives a county-by-county breakdown of our tax incentive programs, which attracted $7 billion of private investment, and estimates 63,000 new jobs and 50,000 construction jobs were created, and 55,000 jobs were retained. The EDA is in the process of certifying the job numbers. The investment numbers have been certified, and the building trades will certainly testify about the significant number of construction jobs created by our tax incentives.

In my testimony before Governor Murphy's EDA Task Force, I cited four examples made possible by tax incentives.

The Jersey Gardens Mall, which was a contaminated garbage dump, that now has more visitors from out of state than any other New Jersey location.

The Revel building in Atlantic City, which is up and operational with hundreds of employees thanks to a tax incentive that put building trade workers doing their jobs, completing the building that would still be a white elephant casting a blight on Atlantic City.

Panasonic's North American headquarters -- which is in Newark, rather than in Atlanta, Georgia.

And Teachers Village in Newark, which was a five-block collection of old, run-down buildings, that a tax incentive turned into moderately priced housing, new restaurants, shops, and cultural amenities.

These four tax incentives, in addition to creating jobs and improving neighborhoods, generated hundreds of millions of dollars of tax revenues into our State and local treasuries.

Because of the significance that tax incentives have been to the economic health of our state, this bipartisan approach to improve upon the current incentive programs is a welcome relief from the partisan politics that have become the new normal in today's public policy discourse. I'm pleased to sit here today alongside former Senator Joe Kyrillos, who had been a strong supporter of economic development and job creation on the Senate Economic Development Committee during my 16 years as its Chairman.

Ending or even suspending New Jersey's tax incentives is an invitation to discourage business investment and job creation in New Jersey, and to encourage poaching by other states of our existing jobs. The significance of tax incentives for New Jersey has been underscored by Governor Murphy, who stated, "A robust tax incentive program is a necessary tool in any economic development toolbox."

Demonizing tax incentives and ignoring the billions of dollars of added tax revenue for our State and local treasuries, and the thousands of jobs created and retained, does a huge disservice to our State. So let's put politics aside and move forward with legislation that builds upon the successes of tax incentives, and learns from and corrects any deficiencies.

There have been many proposals with great merit to reboot New Jersey's tax incentives made by Senator Singleton, Assembly Speaker Coughlin, Governor Murphy, and yours truly. New Jersey has many advantages over our competitors for business investment and job creation: a superb system of public education; a highly trained and efficient workforce; location, location, and location; and Bruce Springsteen. (laughter)

All right.

But -- and it's a big but -- we also have many disadvantages, like the higher cost of doing business and the lack of affordable housing for employees. Our poorest municipalities need enhanced tax incentives to attract business investment and job creation into their communities.

As of now, New Jersey's tax incentives are in limbo, and there's uncertainty about their future. The business community representatives here will state what we all know: Uncertainty is not conducive to attracting business investment and creating jobs. It's not only not conducive, uncertainty is a deterrent to business investment and job creation.

I ask Governor Murphy to quickly sign the seven-month extension of our current tax incentives; and that you work with me, with Governor Murphy, to establish a tax incentive program that overcomes New Jersey's competitive disadvantages while recognizing the depth and magnitude of our strengths.

Thank you.

SENATOR SMITH: Thank you, Senator Lesniak.

Senator Kyrillos.

SENATOR KYRILLOS: Thank you very much, Mr. Chairman.

It's good to see you again, members of the Committee, including my own home Senator, Senator O'Scanlon; Senate President Sweeney. Thank you all for inviting me here to testify today.

As many of you know, economic growth is an issue that I was proud to champion in my 30 years in the Legislature. Our State needed it; it still does. It makes all the public purposes that we direct much easier: education, protecting our environment, social services. You can spend a lot more public money with a thriving economy producing stronger revenue.

As a ranking member of the Senate Economic Growth Committee, I worked with many of you, including my close colleague Senator Ray Lesniak, who is here today. We sponsored meaningful legislation, including the landmark BEIP program, the Business Employment Incentive Program, which I actually sponsored when I was Chairman of the Economic Development Committee in the late 1990s; and the Economic Opportunity Act of 2013, or Grow New Jersey, which has created hundreds of thousands of New Jersey jobs.

We've heard a lot of criticism about tax incentives lately here and in New York; which, frankly, most of us realize it is part of a larger political battle. And while there's always room for improvement or increased oversight, the rhetoric surrounding this issue is overblown. It's become a disservice to the people of our state and our region.

I wish we had Amazon coming to Queens, New York City, and for the clear benefits it would have had for our state. But it was chased out.

Today I'm not here to make headlines or political points. I come before you to give an honest assessment of the bipartisan job creation program that we've worked hard to develop.

I fear the good work we've done in attracting and creating jobs over the past serial decades is at risk. Unfortunately, a toxic political environment is already having a chilling effect on the business community and companies looking to relocate here, or to stay here.

Let me be clear about this. Tax incentives are necessary for job creation in a high-tax state like New Jersey. Our taxes, land costs, labor costs, and insurance costs are high -- very high. Every recent living Governor, Republican or Democrat, will tell you the same thing. In order to compete with other, lower-cost states in our region, our country, or around the world, tax incentives, combined with other advantages, help to level the playing field just a little bit.

State and local incentives helped rebuild Jersey City, as Senator Lesniak has pointed out. He also pointed out the gleaming Panasonic North America building in Newark. It helped to reinvent the iconic Bell Labs, now Bell Works facility in Holmdel, in Senator O'Scanlon's District. And it helped to erect a dramatic new skyline in Camden. And it's a lot easier to compete with and recruit the best doctors and executives from Penn, Jefferson, and CHOP with a state-of-the-art headquarters, rather than a century-old facility.

It's generally considered that New Jersey has one of the worst business tax climates in the nation. Senator Lesniak spoke about it; Senator Pinocchio as well. We have the highest corporate business tax rate in the country. We all know our property taxes are among the highest anywhere.

Yet earlier this year, Governor Murphy was able to put together an attractive tax incentive package for Amazon to locate their headquarters here. According to news sources our state was on the very short list in a wide national search. This is before its ultimate decision, now since reversed.

Tax incentives put us in the game and made our state competitive for a project that would have created 30,000 jobs in Newark and the surroundings. That didn't happen by accident.

Today the Economic Opportunity Act has been responsible for nearly $1 billion in capital investment, and over 18,000 new and retained jobs since its enactment. And since its inception in 1996, BEIP grants have supported the creation of 117,000-plus actual jobs. And contrary to political rhetoric, these tax incentives are not handouts. If a business doesn't produce the jobs and enhanced revenues that are promised, they don't get the credit; it's as simple as that. We don't just shell out cash. It's a credit on new revenue that we would not have otherwise.

In recent months the Administration has put a spotlight on the EDA and its current programs. And it's worthwhile to examine the recent criticism to see if the programs can be improved. And I know that's your charge, Mr. Chairman, and that's good. The EDA Executive Director and Board members, for example, should require advice and consent from the Senate to give the organization more accountability; a super majority of the EDA Board should be required to sign off on any incentive award. I'm sure there can be other changes; but any new legislation should be developed with bipartisan consensus -- as we have done, Senator Lesniak, over the years -- and with significant input from the business community.

In the meantime, it's critical that the current Grow program and the Economic Redevelopment and Growth Grant program be allowed to continue. I support our strong Senate President, Steve Sweeney, who I was proud to serve with and remains a close friend; and the Speaker; and all of you, for passing legislation to temporarily extend both these programs. I urge Governor Murphy -- who is my neighbor, and my friend, and a friend to my family; that's no secret -- to sign this Bill while he works with the Legislature on strengthening the current program. Right now, we have no program. So I echo Senator Lesniak's earlier call.

And by the way, we should all know -- we are not unique. Virtually every state in America has an incentive program; perhaps just one -- us.

I'm proud of the economic progress our state has made due to programs like BEIP and Grow New Jersey. I'm proud of the jobs we've created for New Jersey's working families. Ask the labor leaders who are here today if these jobs are solely corporate executive jobs. They are not.

New Jersey is one of the great states of America; amazingly so, despite our many mistakes and challenges. Think how far we could go and how many opportunities we could create if we realize what really works in the real economy and make it happen in our small place between New York City and Philadelphia, with one of the most talented workforces anywhere in this country.

Thank you all for your leadership, and good luck.

SENATOR SMITH: Senators, thank you for your comments.

I have one question for the two of you.

One of the suggestions about the possible going forward with these programs was a cap limitation on how much New Jersey would invest each year in the program. Do you have any suggestions or comments concerning that idea?

SENATOR LESNIAK: Well, I certainly do.

First of all, I think you have to look at-- There are two types of incentives. One, that but for the tax incentives, a company would not locate in New Jersey or would leave from New Jersey. Those companies-- There should be no cap on that program, because that creates billions of dollars of new revenue that would not have been in our State Treasury. So why -- I think it was Senator Pennacchio who mentioned -- why would you put a cap on the amount of additional revenue that a tax incentive produces? That makes no sense.

There are incentive programs that are more of a subsidy in nature. For instance, in the four poorest cities -- which I support, because without a tax incentive, an enhanced tax incentive, those cities are not going to be able to attract jobs. I told one story before the Governor's Task Force about a friend of mine who was offered a United States District Court Clerk's job in Camden. On his way back from the offer and from the interview, while he was stopped at a red light in Camden, a brick went right through his car windshield. He turned down the job.

So when we're talking about the poorest municipalities in the state, it's not just about having a better economic -- having an equal opportunity as elsewhere. There have to be enhanced programs attached to those to make up for the lack of affordable housing, the lack of a good education system. It has to have a universal approach.

So those have to be evaluated carefully -- carefully, because they could be a drain on the Treasury, but for the net benefit test. That's the stop- gap. Because if they all have to have a net benefit to the State no matter what, there is no reason for a cap. But if you are going to put a cap on, those programs should be evaluated regularly, as opposed to the broader tax incentives, that we've basically talked about over the years, that have generated billions of dollars of revenues to the Treasury. Why would you want to put a cap on additional revenue to the Treasury? It makes no sense to me.

SENATOR KYRILLOS: Chairman, I agree with Senator Lesniak.

We have to remember that this is revenue we otherwise wouldn't have. And there's no reason for arbitrary caps when you have an EDA Board -- that, perhaps in the future, whose members will be confirmed by the Senate -- that can impose limitations and constraints. The current statute allows for the Governor to veto the EDA minutes, and has enormous influence with Board membership and with the outcomes of decisions. There's no reason to hamstring ourselves and put an artificial constraint in place.

Many big corporations don't just decide to look around for the next year or 24 months thereafter. They start their site location process four, five, six, seven years in advance. When Panasonic decided to look around the continent, at many places other than New Jersey -- all of which were cheaper, and there were a lot of reasons why they remained in New Jersey, not least of which is their talented workforce and the incentive program -- it didn't start 12, 24 months ahead of time. It started many,

many years before. And then when leaders look around the country and think, "Where can we locate this facility?" they don't want to look at New Jersey and try to ascertain, and try to crystal ball, when it's their time to make an application whether the incentives would have reached its cap or not.

So that would be, in my judgment, very, very foolish.

SENATOR SMITH: Thank you both for your comments.

Are there questions from members of the Committee for the Senators?

Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chairman.

I also want to lend my voice in welcoming you both back. You are sorely missed.

And I would also like to express, Senator Lesniak, on behalf of myself and everybody, the recent loss of your wife -- our prayers go out to you.

SENATOR LESNIAK: Thank you.

SENATOR PENNACCHIO: Senator Lesniak, you had mentioned one out of four, the Revel. And there's been some criticism about the incentives that the Revel was given; it was given $261 million. And it was just mentioned that they had built it; the trades benefited in it. And to my understanding the Revel never received one penny of that $261 million, because they didn't complete everything that they were supposed to do. Is that correct?

SENATOR LESNIAK: I don't know exactly the figures that you mentioned. However, Revel was completed; and not only was Revel completed, it's operational -- after a few bumps in the road. But as a result of that -- again, hundreds of employees are working; hundreds of millions of dollars are being generated; and, equally important, it would cast a dark shadow on the entire landscape of Atlantic City.

So with regard to the specifics -- that's something that EDA oversight would have to answer.

SENATOR PENNACCHIO: And we will ask them.

SENATOR LESNIAK: But the most important part of it is, without that tax incentive those folks would be out of work, we would have lost a lot of tax revenues, and Atlantic City would have a blight along its boardwalk.

SENATOR PENNACCHIO: Thank you.

SENATOR SMITH: Senator Cruz-Perez.

SENATOR CRUZ-PEREZ: Yes, good morning; it's good to have you both.

What changes did the law make specifically to the Grow program, to the Grow funds? The loans -- you make the loans. What changes did you make, specifically, to the Grow loans?

SENATOR LESNIAK: Well, I mean, in my mind, the most important changes were targeting the four poorest municipalities in the state -- Trenton, Camden, Paterson and Passaic; and then, later on, I believe the Governor added Atlantic City because it had the highest unemployment rate -- to give them enhanced tax incentives, as I had mentioned before, and to change the but-for test to a material benefit test. Again, because that's the only way to attract business investment and employees into the four poorest cities.

Now, I hesitate to bring President Trump into this, you know; but he's attacking our poorest cities. And they don't need -- what they need is help. And that was the key element and direction of the changes in Grow New Jersey.

There are also other specific things that have to be recognized on an economic development basis. If you've been involved in economic development, you know that critical mass is important; and that freestanding buildings do not attract investment and don't have the added value that mixed-use projects do, as well. So those changes were made to give added incentives and produce added attractiveness to businesses to build a community, and not just one freestanding building.

SENATOR CRUZ-PEREZ: Can you talk about why you exempted Camden from the but-for test, and what that means?

SENATOR LESNIAK: Well, I explained that before -- and that is Camden needed extra help; for its size, the highest crime ridden city in America. I don't know where that number is now, but I know it has come down, you know. As well, again, what's very important to investment is public -- is a good educational system. Again, it's getting better, but these are factors that -- it has to compete with other municipalities, like Newark. Newark--

Oh, and by the way, let me mention -- I should mention this. I had a big fight with Senator Sweeney, Senator Cruz-Perez, over this bill itself; because I wanted Elizabeth included. And I was fighting for my District. "Why not Elizabeth?" And actually, I stormed out of this meeting when I found out that Elizabeth wasn't in it. And he explained, and he's right. We're in pretty damn good shape. These are the four poorest communities, Camden being the poorest one. It needed the most help, and that's why.

SENATOR CRUZ-PEREZ: Thank you.

SENATOR KYRILLOS: Just a quick footnote, Mr. Chairman, to Senator Cruz-Perez's earlier question on some key differences.

One of the big differences is we shifted to a tax credit, rather than a cash payment, to companies for job creation. And I am told -- and perhaps others from the business community will give us some specific reference later in the meeting -- that those credits have not been initiated for this calendar year, or this budget year. So many significant corporate citizens, leading companies, and some small companies in New Jersey made significant decisions -- of location, of employment, of investment -- based on the deal that they forged with the State government. And now we're virtually in August, and the State has not lived up to its commitment. So that does not bode well for confidence in coming to and expanding in New Jersey.

SENATOR LESNIAK: And one last point on that -- a very good point -- and also because we had a maze of economic incentive programs that was hard for the business community to navigate. It was hard for EDA to navigate. So for all those reasons combined, we came up with a proposal -- a bill that is best suited to attract business creation, job creation, business investment, and business retention, in our most difficult-to-locate business areas in the state that need the most help.

SENATOR SMITH: Thank you.

Senator Addiego.

SENATOR ADDIEGO: Thank you.

I have a two-part question, so I'll ask both of them together.

First of all, would you mind explaining how you developed this particular piece of legislation, and what parties or groups you worked with to develop it?

And the second part would be, now that we've been through all of this, do you have any suggestions as to how we could improve it?

SENATOR LESNIAK: Well, certainly.

We worked with all aspects of the development community -- their lobbyists, their attorneys -- with OLS staff, with Senate staff; you know, again, for the reasons that I had just given. And what was the second part? I'm sorry. Now I feel like Bob Mullen. (laughter)

SENATOR ADDIEGO: Any suggestions on how we could improve it?

SENATOR LESNIAK: Oh, sure; and Senator Kyrillos mentioned some of them. You know, certainly Senator Smith -- Chairman Smith talked about independent audits. I would suggest biannual reports to the respective committees, in the Assembly and the Senate, of the tax incentives. Certainly what the auditor has uncovered is basically sloppy oversight. We don't know the extent of that and its overall effect. So obviously improving the oversight would be the most important thing.

I would also say that -- and Senator Kyrillos put a good suggestion in there about supermajority -- because that but-for test has to be looked at very closely to make sure that it really is-- Look, there's no doubt that companies are looking for the best deal possible. Look what Amazon did; it was basically an auction, an auction that produced -- that came with 40,000 jobs and billions of dollars of tax revenue.

If you're not in it, you can't win it; and we certainly have to be in it. As Governor Murphy said, a *robust* tax incentive program.

SENATOR KYRILLOS: I think, Senator, when you hear from other people this morning, or early this afternoon -- from the business community, from the labor community -- you're going to find that there was a wide array of people, of interests that helped to advocate for this legislation. I think the coalition was called the *Smart Growth Coalition;* I could be wrong.

SENATOR LESNIAK: No, that's it.

SENATOR KYRILLOS: Is that what it was called? So that included the Chamber, and BIA, and the Commerce and Industry Association, and labor groups, and others; and it was a good community consensus from all around the state. I wish the minority had as much to say with the forging of the bill as the majority, but that's the way things go around here. But we heard from everybody, as you all do on all pieces of legislation. And my memory was, very healthy, very extensive, not out of the ordinary; and produced a pretty good result. I'm sure that each of us would have done it slightly differently then, and in the years in between, as you now have an opportunity to put together another new and great program that allows people to look to New Jersey as a place to be.

SENATOR ADDIEGO: Thank you.

SENATOR SMITH: Senator O'Scanlon.

SENATOR O'SCANLON: Thank you, Mr. Chairman.

Thank you both for being here, and for your long service to New Jersey -- long and respected service, and well-earned reputations, both of you.

So you both sponsored -- over the past 30 years, I think you said -- virtually every tax incentive program that New Jersey's done.

The Governor's rhetoric has been pretty absolute. He uses the $11 billion number -- that is the sum total of virtually every penny not only granted and awarded, but potential -- and suggested that the entire $11 billion -- these are the Governor's own words; whatever lip service he pays to a belief in some sort of incentive program -- he condemns the entire $11 billion as *wasted mone*y.

Now, never mind the misperception, purposeful or otherwise, that this is money we're throwing out the door; and you might want to address that. But the real elephant in the room is, do these programs work? Is there a net benefit or not?

So my question to you is -- I know you're both passionate about this, but this is the forum where this needs to be heard -- how do we know that the Governor is blatantly wrong?

And the other opponents you both cited -- actually, everyone who spoke this morning cited -- New Jersey is still dead last in business climate in the country, or in the bottom two. Some of the opponents to these incentive programs say they are a failure because we are still dead last.

How do you answer that, and how do you know that these programs are, and have been, successful?

SENATOR LESNIAK: First of all, I'm not sure that those "$11 billion squandered" were the Governor's words. They were probably, more likely, Steve D'Amico's words.

SENATOR O'SCANLON: The Governor himself.

SENATOR LESNIAK: I mean, it's purely a political statement, and it totally ignores the revenue that was gained by companies moving into the state or staying in the state.

If you-- I haven't done a total economic analysis of it, and you would have to discount it somewhat, because there are companies that do game the system; obviously we know that, you know? It's part of it; everybody does it. But the question is, you know, how much of a risk do you want to take to get 40,000 new jobs into the city of Newark?

So if no one has done an economic analysis -- I have, off of my little economic degree -- we've gained over $10 billion; we've gained over $10 billion, because in that $11 billion calculation was not the revenue that we would have lost but for the tax incentive attracting a business or leaving a business. So when my statement that the Governor -- when he said, "We've squandered $11 billion," it had no basis in fact; it had no basis in fact.

With regard to your second question -- you're comparing apples and oranges, you know, as I see it. The reason why we need tax incentives is because we have such a difficult business climate. But to change the difficult business climate we would have to change certain things that we do not want to change in New Jersey. You know, we spend -- what? -- the second highest amount of dollars on public education. We also have one of the best public education systems in the nation. That costs revenues. We don't want to, you know, cut back on the best public education system in the nation.

So we have -- yes, we have a highly paid workforce. Well, we want a highly paid workforce, you know? We don't want to be Mississippi;

we don't want to be Alabama, you know? We want our workers to get a livable wage. When are we going to do something about the high property taxes?

So yes, those issues should be addressed, and have to be addressed. But they're not, so we have to deal with what we have, and that's why we need the tax incentives. And without those tax incentives, as a result of being over here, at least we have generated billions of additional dollars that would not have come into the State Treasury, and hundreds of thousands of jobs. It's as simple as that.

SENATOR O'SCANLON: Second question: Joe, I know you're very heavily involved in the business community there in New Jersey. You really have your finger on the pulse. I know you are as well, Senator; excuse me.

Have you heard directly from businesses about the impact that this rhetorical battle has had -- and now practical -- by the holding up these programs. Have you heard from businesses? Is it having an impact?

SENATOR KYRILLOS: I think it's fair to say that a lot of people are talking about it. People who watch economic development policy from around the country; certainly people in our region who make regular phone calls to our corporate community, trying to take people out of state and relocate them in other states. And, of course, here at home, from people who live in New Jersey, grew up in New Jersey, have investments here and want to stay here. They don't want to move to Florida, don't want to move to other low-cost states. So there's no question that we're losing people.

I wish somebody could do a definitive tax analysis and migration study so that we could at least understand the data. Yes, we make new millionaires; but we lose a lot. It would be great to have the new ones and the old ones all at the same time.

And certainly, I've heard specifically from people who represent companies that were awarded New Jersey Grow incentives who have not received them. And so when you finally enact the new program-- It would be better just to extend what you have now for a short duration, and then you can get on with some work -- it's going to take a period of time before it all gears up; before the process ensues. So we are losing all of that time, all of that possibility, all of that progress, at a time when the country, economically, is doing very well. And so the data indicates that New Jersey itself is doing very well; but we could do much better. Wouldn't we want to do better? We have low unemployment; but is everybody in New Jersey in the best possible job that they feel they could be in? How many people feel underemployed; how many people work part-time jobs; how many people decided not to look for work at all?

SENATOR O'SCANLON: Thank you; I appreciate it.

SENATOR SMITH: Senator Bucco.

SENATOR BUCCO: Thank you, Mr. Chairman; and good morning, gentlemen, Senators. I appreciate you being here to answer our questions and let us know what you feel -- how we can improve these programs.

You know, Senator O'Scanlon asked a question, "Do you ever have any companies come to you and complain, or say that they didn't get their money?" And you said you haven't heard that. And you know, as a business owner, a manufacturing business owner, in the last two weeks three of my customers -- one just built a 300,000-square-foot building in Jacksonville, Florida; approximately 300 people are going down there.

A company in Somerville is moving to North Carolina, with about 50 to 60 people. A company in Clifton, with about 30 people, is moving out of the state. And they all complain about the same thing: It's too expensive to do business in the State of New Jersey.

And as a manufacturer, I can tell you this. I get, periodically, inquiries from the surrounding states -- New York, Pennsylvania, Delaware; and also as far out as Nevada -- asking me to move there, and I wouldn't have to pay taxes.

So these programs are needed, because we're going to be losing more and more if we don't have these programs. You have to give the incentives.

The only way you don't have to have these programs is if you load your business tax and you start relaxing some of your regulations. Because we are an over-taxed state; we all admit that, we know that. And, goodness knows, we're over-regulated also.

So I really thank you for putting these programs through for business. Because, again, if we didn't have them we'd even lose more.

And I think Senator Addiego asked a question of, "How can we make them better?" Since you two are the pioneers in this and the experts in this, tell us how we can make them better. How can we incentivize the businesses to really stay here, or come here? Because other states are trying to lure me into their territory. How do we lure them, out-of-state companies, into our territory?

Thank you.

SENATOR KYRILLOS: Senator, I know Senator Lesniak and I are really, really good. But to fully answer your question, I know you've got some smart people from the business community -- the head of the EDA and others -- who I know you want to hear from. And we should draw from each of them, and their collective constituencies, and figure out how to put together the very best program that anybody has in this country. We should have the best, because we have inordinate challenges of high costs that we all have mentioned. We're not the only state with those kinds of costs, but we're amongst the top half-dozen of expensive places. And when people can work virtually anywhere on this planet, we have to figure out how to compensate for that.

So we'll always have high costs; but we have to compensate for that with the great attributes that we have, both in terms of human resources, infrastructure, and creative economic incentive programs, the kind of which we've had. And I'm sure they can be better; they should be better. That's the challenge.

SENATOR LESNIAK: I would add one other thing.

Obviously, greater oversight; and there are many ways to implement that. But also, I mean, this isn't a silo. New Jersey -- we have to, you have to take action to make New Jersey more affordable. And we have very -- structural issues in New Jersey that drive up property taxes; that drive up taxes that have to be addressed, and they are not being. So that's part of your charge as well.

SENATOR BUCCO: Thank you.

SENATOR SMITH: Thank you, Senator Kyrillos and Senator Lesniak. We appreciate your insight on this.

SENATOR LESNIAK: Thank you.

SENATOR SMITH: And don't be afraid to send in your cards and letters with any suggestions as we go through the process. (laughter)

SENATOR LESNIAK: Thank you, Senators; thank you, Senator.

SENATOR KYRILLOS: Thank you all.

SENATOR SMITH: Thank you so much.

Our next witness will be Larry Downes, former Chairman of the EDA Board, and also a very well-respected business leader in this state.

Mr. Downes.

LAURENCE M. DOWNES: Senator, thank you; and good morning.

I appreciate the opportunity to be here today.

What I'm going to do this morning is to take you through the process of the incentive application approvals that occurred not only at the committee level, but also the Board level. I think it's important to give you a sense of what was going on in EDA so you get, really, a deeper understanding of how we approached, and the care that we took, with regard to the recommendations regarding any incentives.

Just to give you a little bit of background on myself -- I served as a volunteer member of the EDA Board for almost nine years; eight of those years were on the Incentive Committee, which is why I was originally asked to join EDA -- because of the expectation that there would be additional incentives coming forward.

I spent my final year on EDA as the Chairman of the Board. And in that role, obviously, I was involved deeply in every aspect of the Board operations. I think as you also-- I resigned in April, and so coming here to speak to you this morning -- I am not here in any official capacity.

So what I want to do is start by providing an overview of the Incentive Committee's process as we reviewed applications for EDA awards. I'm doing that from my own personal perspective and my experience over many years with the Incentive Committee.

The applications that we received were first vetted by the staff of the EDA. The staff made an initial assessment of the project's statutory eligibility. They collected all of the necessary documentation. They conducted site visits; they asked follow-up questions. They calculated the net-benefit analysis, and they also put together any other relevant information.

It was only after the completion of that process -- the staff had reached a preliminary determination that the application met the statutory requirements -- it was at that point that the application would be brought to the Incentive Committee for its review.

Just so you know, the Board, as you know, meets every month; and the Incentive Committee would meet every month as well.

But for the Committee meeting, we generally received the detailed set of application materials that included data financials; it included their recommendation, their rationale, the cost-benefit analysis. And we would generally get that five to seven days before the meeting.

During the Incentive Committee meeting itself -- and I want to give you some insight into that process, because I think it was a good process -- the staff member who was responsible for the individual proposal would present the application to the Committee. After that, we discussed each one of the applications; we did that in detail. We went through an in-depth review of their financial position, the calculation of the incentive, how was that arrived at. That included the cost-benefit analysis -- which was obviously very important, because it was giving us a sense of why they actually needed the incentive -- and any other relevant information. What we were trying to do is really get a full picture of those who were applying to the EDA for the incentive, not just looking at the numbers.

Those meetings were well attended, and the participants in those discussions included not only the Committee members, but also members of the EDA staff, including its senior management; as well as the Deputy Attorney General. And I will talk about the role of the DAG in just a few moments.

Suffice it to say, the discussions were robust. I think that the staff not only enjoyed them, but they learned from them. I know, as a Committee, we certainly learned a lot at every meeting, not only about the incentives themselves, but about the types of companies that we were seeking to incent.

We also had members of the Governor's Authorities Unit and the Treasurer's office. They attended the Committee meetings as well.

Now, there were times -- after all of the discourse that went on at the Committee meetings -- that applications were deferred, pending further analysis. If there were questions that were not answered at the meetings, the staff would always follow up with us, in writing, before the Board meeting; and if they were not able to get the answers to the questions, we would defer the application. So you had a situation where there would be applications that were being reviewed over the course of a number of meetings. But again, it was a comprehensive process; and I have to say, from a personal point of view, I was always impressed with the diligence of the staff. We were always learning, and so were they. And we had very frank conversations at all of the meetings.

With regard to the Board -- Board members received written copies of all of the incentive proposals that generally went out with the normal mailing; which, again, was about five days beforehand. The only exception was there would be, at the Incentive Committee confidential meeting, trade secrets -- things like that -- that were not appropriate to put into the public.

And then at the Board meetings, each one of the proposals was presented to the Board. Going back in the earlier time of my tenure as head of the Incentive Committee, it was presented by a member of the senior management team of EDA; and then, more recently, what we did was to have members of the staff who were more directly involved with the actual applications -- that they would make the presentation as well.

The Board Chair and myself would always make comments. So I felt that that process really gave Board members a clear picture of what the application was all about and why we were asking them to approve it. And I think, as you know -- obviously as you know -- all of the materials -- Board meeting minutes, all of that -- were posted on our website and always available to the public.

One important point in the process here that was, I think, critical to the decision-making process we were making was the role of the

Attorney General's Office and, specifically, the Deputy Attorneys General who were appointed to EDA. And they were just a tremendous resource to the work of the Committee. And the question that we were always trying to answer, "Does the application -- does that comport with the legislation?" It sounds like an easy question, but it really wasn't, because we were learning a lot from this process. But the involvement of the Deputy Attorney General was critical; and it was a very important point, and I think, certainly from my own personal perspective, really understanding that we were going through a detailed financial process -- which is my background, in finance -- but bringing along with that the legal perspective, as well, to make sure that the decisions that we were making comported with the legislation.

I think that, going forward, what we will see is that involvement of the Attorney General's Office will continue to be a critical part.

It remains my personal view that the rationale of using tax credits as a way to increase capital investment in the state, and jobs -- that makes sense from a financial point of view. We talk about them as tax credits, which they obviously are. But what we are really doing is, we are making an investment in the form of the tax credits, and we are using those tax credits with very strong performance criteria as a way to improve our economy. And I think as we look forward and we look at new incentives legislation -- which I think we can all agree that we need that -- that element, the performance aspect of this, is extremely critical. We're going through a lot of processes right now of review, which I think are learning opportunities for the EDA. But knowing that performance is actually the most important element of this I think is very important.

When I think about the awarding of -- what we were actually doing in terms of the awards, that initial incentive approval represented an opportunity to receive an incentive based upon actual performance. That is a critical part in this whole conversation as we work together to try and improve the incentive structure in our state. And I think that protection needs to be part of any future legislation.

So I'm happy to be with you here today; I appreciate the opportunity. We've had a lot of experience, really, since the incentives. The Grow and the ERG came in five or six years ago. And I do believe -- and you'll see this come through in my further comments -- what we have before us right now is really a deep learning opportunity that will show us what has worked and what has not worked; and we have the opportunity to fix that. Because I think we can all agree that we really need -- our state really needs these incentives if it's going to continue to grow.

Thank you, Senator.

SENATOR SMITH: Thank you, Mr. Downes.

A couple of questions for you, before other Committee members.

MR. DOWNES: Sure.

SENATOR SMITH: Part of the 2013 law was that there was a requirement for an independent evaluation of the benefits to the State of New Jersey.

MR. DOWNES: Yes.

SENATOR SMITH: And as part of our homework, we received a study from Rutgers University--

MR. DOWNES: Correct.

SENATOR SMITH: --basically on rate of return. And when I look at the page that does this benefit cost test, it says that, "A benefit cost ratio higher than 1.1," which, as I understand it, is 10 percent more than we provided as an incentive--

MR. DOWNES: Correct.

SENATOR SMITH: --"would reflect the element of uncertainty regarding the role of the award in the retention or attraction of any given firm; and could potentially reduce the number of approved awards, or require reductions in the size of many awards relative to the project's projected benefits."

And then it says, "Benefit cost ratios for the 227 projects considered in this report range from 1.0 to as high as 26.9."

MR. DOWNES: Yes.

SENATOR SMITH: "The average benefit cost ratio for all projects is approximately 5.9; and the cumulative average is 2.5."

Now, as I read that, does that mean that in the Rutgers study it was saying, on average, the State of New Jersey was receiving back, or will receive back 2.5 times the award?

MR. DOWNES: The concept is just that -- that there would be not only a return of our money, but also, on top of that, that the State will get a return as well.

So when we were going through the mechanics in making our decisions -- whether or not we should actually approve these -- we had to use an assumption as to what the cost of capital of the State was. And we used people on the outside there; Jones Lang -- JLL would help us with that.

But I think what you're seeing come through there -- I've obviously not looked at that recently -- but what you're seeing there is the reflection of the cost of capital that the State actually has.

I would also say to you that I thought that the Bloustein report was well done; but the difficulty that they had -- they had a small sample. And the program, for what they were trying to do, is relatively new. I thought they did a very good job with it. But that's what you're seeing there.

SENATOR SMITH: So bottom line -- bottom, bottom, bottom line -- in your estimation, will the benefits of this program significantly outweigh the costs?

MR. DOWNES: The benefits will outweigh the cost, yes. The staff would be in a better position to give you the specifics; but we knew that going in. That was the-- When you look at the processes and you look at the actual analysis that we did, that was the-- The objective is not only to retain the business, but also make sure that economically it was a good deal for the State.

Now, obviously, in some instances, there were different criteria used. But for what you're referencing there, that was the idea.

SENATOR SMITH: Great.

The Comptroller's audit made it very clear that the EDA was lacking in compliance and oversight.

MR. DOWNES: Yes.

SENATOR SMITH: Did you witness the agency trying to address the shortcomings during your tenure of office?

MR. DOWNES: What was recognized by the staff -- and I'm going to say, a year, a year-and-a-half ago; the staff would be in a better position to answer that -- was that-- There was going to be a transition, if you will, in the type of work that EDA would be involved with. So after the Grow and ERG legislation, we were focused on the approval process. And the staff recognized that that was now going to change and move into compliance. And to the staff's credit, they were working on that as part of the -- when the Comptroller's report came out.

As far as the report itself, I can tell you that the staff viewed that as an opportunity for improvement. They were, you know, extremely diligent -- and I know you're going to hear from some of my former colleagues in just a few minutes -- but they recognized that the observations that were coming from the Comptroller's report were things that they could, hopefully, improve -- what we had to do to make sure that the actual incentives were being processed and awarded properly.

SENATOR SMITH: It's my understanding that the EDA required the CEO of the EDA to certify the veracity of their applications, all right? Can you explain the importance of that certification?

MR. DOWNES: Yes; I'm glad you raised that, because that has its-- That actually goes back to the days of Sarbanes-Oxley, which was approved in the early 2000s; I think 2002, 2003. My colleague, mentor, and friend Al Koeppe was insistent, in the early -- probably in the 2004, 2005 time horizon -- that the principles associated with Sarbanes-Oxley be applied to the EDA. I was not on the EDA at the time; Al was a member of our company's board, which is how I was aware of this because we were going through the same process.

But there was a significant undertaking inside EDA to utilize, to the extent possible, Sarbanes-Oxley.

When it came to the incentives -- when it came to the Grow and ERG legislation -- he and I had a conversation about the importance of greater accountability on the part of the applicants, particularly with regard to the materials that were being provided to us, because, obviously, they were forming the foundation for our decisions. But that's where that came from; and I think in the current environment we're in, I'm glad that that's there. I would hope that we look at it and say, "Has it worked the way we expected it to, or are there ways that we can improve it?"

SENATOR SMITH: Questions from Senators.

Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chairman; and good morning Mr. Downes.

MR. DOWNES: Good morning.

SENATOR PENNACCHIO: Thank you for your testimony; and to me it's enlightening because we're going to compare your testimony to Mr. Sullivan's. And we have a past and a present.

So a couple of questions that were bantered about, and I'd like to get the answers to them, if you don't mind.

Revel: Initially, my numbers that I understand were $261 million; of which the project was actually complete, but no taxpayer moneys were ever given to them because they didn't fulfill the entirety of the grant that they were supposed to do. Is that correct?

MR. DOWNES: Yes. The staff can confirm the numbers for you, but that is absolutely correct. I remember that well; I was involved with it deeply. And to me that showed us that the protective elements of the legislation worked, because not one dime was paid out.

SENATOR PENNACCHIO: Okay.

You touched upon the previous programs -- the BEIP, the BRRAG, the Urban Transit Hubs -- and they were replaced with Grow and ERG. Could you just elaborate why were replaced? To me, especially the BEIP program was working, okay? I know you said that there was additional accountability that you wanted, but that could not have been the only thing that encouraged the formation of these additional new programs and replacing the old.

Why do you think that they were replaced?

MR. DOWNES: So my-- I wasn't involved with that on the legislative side. But my impression was that given the economic climate that we were in at the time, we needed to do more as a State, as a general objective. And that those incentives that were being provided through BEIP and BRRAG were not going to get us to where we needed to be. And I think that there were also -- again, personal opinion -- I think that there were also other broader objectives for the state areas that needed capital if they were going to be able to grow.

SENATOR PENNACCHIO: The number was asked -- I believe by Senator O'Scanlon, and was rejected by Senator Lesniak -- the $11 billion number of the total incentivisation of these programs. What do you -- is that the number, or what do you think the number really is?

MR. DOWNES: The last number -- there are a lot of numbers flying around, as we know -- the $11 billion, as I understand that number --

again, not being there anymore -- is the amount of approvals that are out there.

One of the things that I said in my testimony, that I think is important-- Let's say it's the $11 billion; some of that is being paid right now, and again the staff can update you on that. But the concept is, that is a performance-based opportunity for investment. And if that investment is made, that means that along with that will come all of the other benefits in terms of jobs, and spending, and all that. That's the way I think about that number.

SENATOR PENNACCHIO: That's the methodology; but what is the actual number?

MR. DOWNES: You can confirm it with the staff. But I believe that the total approvals is what that $11 billion is referring to.

SENATOR PENNACCHIO: Right; but again, we mentioned Revel. Revel is $261 million, which is part of the $11 billion. That money, even though it was approved, it's never going to be used.

MR. DOWNES: That's correct.

SENATOR PENNACCHIO: So is there somebody--

MR. DOWNES: Yes.

SENATOR PENNACCHIO: --who can tell me-- Will Mr. Sullivan be able to tell me what the actual, real number is, of dollars, that the taxpayers are going to be spending for these incentives?

MR. DOWNES: If he can't tell you that this morning, I feel confident you'll have it this afternoon.

SENATOR PENNACCHIO: Well, that's important; because again, that's--

MR. DOWNES: I agree.

SENATOR PENNACCHIO: I want to take the political theater out of this. I want to make sure that we're talking about real numbers, okay?

MR. DOWNES: I agree with you on that. And the number that we can get -- and that's obviously important -- but I also think that it's important to understand what that number actually represents. And that's where it's an opportunity based on performance.

SENATOR PENNACCHIO: And we understand that.

MR. DOWNES: Good.

SENATOR PENNACCHIO: But we don't want somebody saying $11 billion where, in actuality, $11 billion may have been promised, but we're only spending half that much.

MR. DOWNES: Correct. He will--

SENATOR PENNACCHIO: Okay, this is taxpayer dollars. A billion dollars, last I saw, is a lot of money, unless you're in Congress. (laughter)

There have been some complaints that a lot of programs have been held back; they've been authorized, people are waiting for their money. During your tenure at EDA, how long a list was that, and what was the reason for holding back those dollars?

MR. DOWNES: During my tenure I don't recall any holdbacks. That issue was never brought to me or to the Board.

SENATOR PENNACCHIO: Okay.

MR. DOWNES: What I'm saying is that I was not aware of it. If it was going on, it's happened after my tenure ended.

SENATOR PENNACCHIO: Okay. Would you have known about that -- because we're going to ask Tim Sullivan about the same thing -- or who, within the department, would have known who's holding back that money and why?

MR. DOWNES: Well, if there was an issue that got to the Board, the Board would immediately ask that question and understand what were the reasons for that. But as I said, that never got to the Board.

SENATOR PENNACCHIO: All right; so the decision would have been your decision or Mr. Sullivan's decision? Or somebody else, and then they just brought it to your attention?

MR. DOWNES: It would come through staff, and then it would come to the Board.

SENATOR PENNACCHIO: And ultimately, you would make that decision whether--

MR. DOWNES: The Board would make—

SENATOR PENNACCHIO: The Board would make that decision whether you have to hold it back.

MR. DOWNES: The Board would confirm the decision; yes.

SENATOR PENNACCHIO: Okay; how much weight do you carry on that Board? Do you have any weight at all -- on the EDA Board -- as far as voting? Do you have a vote on that Board or not?

MR. DOWNES: Oh, yes; absolutely.

SENATOR PENNACCHIO: You do? Okay.

MR. DOWNES: Yes; oh, yes.

SENATOR PENNACCHIO: All right.

And finally, you had mentioned about fixing the current programs. What, in your opinion, is broken, and what has to be fixed, and how do we fix it?

MR. DOWNES: Well, there are a few things.

First of all, I would break it into two categories. Over the past five years-- I mean, when we look at this, you know, over the last five or six years, we started with a concept -- the concept of tax credits, and all that, as a high level. But what has happened over the last five to six years is, we are now learning from the marketplace as we've gotten responses and we've gotten applications. That to me is a rich source of information as you consider new changes, new tax credits, new incentives. We have real market information about what works and what doesn't work. And that's information that I know the staff would love to tell you, because that's one of the things that the Incentive Committee -- that we talked about. Not only just looking at the numbers, but what are we learning from the proposals?

But a couple of other things that I personally think are important for you to consider have been alluded to a little bit here this morning. First of all, there's a key education element here. If you think about this from a financial point of view, you have the budget, which is effectively your operating plan year by year. And you have what is a long-term capital investment that is what the incentives are all about. The tax credits are the upfront money, and then the stream of benefit that will come from that.

It is important, from my point of view, that whenever there's a discussion about tax credits in the context of the budget, at the same time we are focusing on the benefits that will come along with that. Because otherwise it will look like that we're just putting this money to tax credits, and there's no understanding of what the benefits are that will come along with that. That's number one.

Number two is, all of the work that I alluded to in my comments -- when we look at all the different applications, all the potential clients, all of that-- As you go and we think about, as a State -- as we think about what an extension could look like, go back into all of those proposals -- this would be, probably, an assignment for EDA -- to really look at not only just the results -- what happened when we applied the formula or the different formulae that went along with the legislation. Are there other opportunities with the benefit that is being created by virtue of the investment of the tax credits, are there other opportunities to use that benefit beyond just what is in the application? Are there ways that we can better leverage that for the benefit of the State?

And it's something that I just alluded to as well. Five to six years of information is a lot. This hasn't been perfect, but I think we're in a better place than we were before we had that. Let's learn from what has occurred in those five to six years. That, to me, is what would be near the top of my list.

But you've got a lot of information in your staff at EDA who understand this well and are on the front line every single day, just about.

Sorry for the long answer.

SENATOR SMITH: Only because we mentioned it, do you have any examples where you were able, or EDA was able to leverage the benefit, beyond the economic benefit, to other State interests?

MR. DOWNES: That is something that's not in the current legislation, so it wouldn't comply with the legislation.

What I'm saying is, going forward, when you're looking at-- And everything that touches the economic benefit resulting from the incentives should be looked at to say, "Are we getting the maximum benefit out of that value that's being driven by the investment in the form of tax credits?" That's what I'm saying.

SENATOR SMITH: Thank you.

MR. DOWNES: Thank you, Senator.

SENATOR SMITH: Senator Lagana.

SENATOR LAGANA: Thank you, Chairman.

Thank you, Mr. Downes, for your testimony. I appreciate you being here.

Having not had the benefit of being in the Legislature when this was passed, a lot of this has been outside looking in for me. So I appreciate being on this Committee and being able to lend my voice to this hearing.

You kind of started out talking a little bit about the nuts and bolts of the application process, I think.

MR. DOWNES: Yes.

SENATOR LAGANA: Because we're examining the time period in which you were the head of the EDA; obviously, we'll focus on that time period.

So when an application would come in to the EDA-- First of all, was the EDA ever proactive -- meaning, were they actually looking at businesses to offer tax incentives, or was it just a reactive to receiving applications?

MR. DOWNES: I think it was both. Again, that's a question for staff. But the point would be that there was a lot coming at EDA. There were a lot of applications coming in.

SENATOR LAGANA: So when an application would come in to the EDA, what would be the first stop? Would it be the -- is it the Incentive Committee? Is that where--

MR. DOWNES: Staff; staff would do all of the work that I had described. And basically what they were trying to do is to figure out whether it comports with the legislation. At that point, they would then -- when that work had been done -- and that was a lot of work internally; a lot of people involved with that in EDA -- it would then come to the Board, and we would do our review with the question of, you know, understanding the business, understanding it deeply from a financial point of view; but also relying on the Deputy Attorney General to tell us whether or not it comported with the legislation.

SENATOR LAGANA: Can you explain who was on that Committee, that initial review Committee? Was it EDA staff, or were there other agencies involved at that level?

MR. DOWNES: So there were a couple of things. So you had the Incentive Committee, which was made up of Board members, obviously; you had members of senior staff of EDA; you had the people from EDA staff who were actually interacting with the applicants; you had representatives of Treasury who were there; and you had the representative of the Governor's Authority Units there. It was a pretty crowded meeting.

SENATOR LAGANA: So this is after the initial step where staff reviewed it?

MR. DOWNES: That's correct, that's correct.

SENATOR LAGANA: Okay.

MR. DOWNES: So we get--

Let me let you go, sir; I apologize.

SENATOR LAGANA: I was going to say -- the initial step where just staff is reviewing, did they have the power to reject or allow an application to proceed? Or did it have to go to the second level?

MR. DOWNES: So the first part is -- my assumption was always that if it didn't line up with the legislation, they wouldn't bring it to us to begin with. But no, any incentives had to be approved; first reviewed by the Incentive Committee, and then approved by the Board.

SENATOR LAGANA: Okay. How many applications -- if you're able to approximate -- would have been rejected during this time period? I mean, was it 50 percent rejected, or--

MR. DOWNES: It's hard for me to know. By the Incentive Committee and by the Board?

SENATOR LAGANA: Sure.

MR. DOWNES: It was minor; it wasn't like that at all. But that shouldn't come as a surprise, because if something didn't comport with the legislation, it wouldn't get to us to begin with; we wouldn't see it in the first place.

But I will say to you -- as I was trying to describe -- is the depth of the process that went on, as far as the review -- not only the Incentive Committee, but then the information that was being provided to the Board, and making sure that it not only financially made sense, but also legally -- meaning by that it would line up with the legislation.

SENATOR LAGANA: How costly would this process have been to the actual applicant? Are you aware of the--

MR. DOWNES: I don't know that number; staff would have that.

SENATOR LAGANA: Okay. So once it got through staff and went to the Incentive Committee, and all these other agencies were involved, did everybody have to give a green light before it was presented to the Board, or how did that process work?

MR. DOWNES: No, the process was the Incentive Committee would review it, then it would go to the Board, and the Board would have to approve it.

SENATOR LAGANA: Would the applicant actually present it to the Board, or would it be--

MR. DOWNES: No, no. No, the applicant would not be at either the Incentive Committee-- They may be at the Board meeting; and there were times, after the Board action, where the applicant would be there and would thank the Board.

One of the things that we tried to do in the last year was to give the Board a better sense of what was going on with regard to economic development in the state so that when different proposals were coming in they had a broader perspective, not only on how the legislation worked, but also they were understanding what we were seeing in the economic development marketplace.

SENATOR LAGANA: So essentially the EDA would take advice from the other agencies that were involved; specifically, the DAG, the people from Treasury, or somebody from the Governor's Office would all be involved in this?

MR. DOWNES: But I want to be clear. The Treasury had a representative on the Board -- okay? -- so there would be input there. The representative of the Governor's Authority Unit was not a member of the Committee or the Board. The DAG, which I always viewed -- I viewed their role as being, in effect, the general counsel of EDA -- that they would be in there advising us. I mean, one of my main concerns was, is this lined up with the legislation? But there are a whole host of other issues that would come up in those conversations that we needed some legal input.

SENATOR LAGANA: Did the EDA have its own legal counsel as well?

MR. DOWNES: That was the Deputy Attorney General, yes.

SENATOR LAGANA: It was the DAG; okay.

MR. DOWNES: Yes.

SENATOR LAGANA: So it wasn't separate counsel.

MR. DOWNES: Yes.

I just want to be clear. They were there-- They were not named *general counsel;* that's how I viewed them -- their role.

SENATOR LAGANA: As part of the legislation, I'm assuming that would be their role.

MR. DOWNES: Well, the legislation, my understanding, was looking for-- You know, we had what the legislation was saying, as far as what had to be present for the incentives. And then our job was to take that and put that into a process that would comply with the legislation.

SENATOR LAGANA: Typically, how long would an application process last, from application to approval?

MR. DOWNES: So we didn't -- I didn't see that. We would see it when it got to the Committee. That's a staff question. My guess is that it would probably vary, depending upon the complexity and how complete the application was; all of that.

SENATOR LAGANA: Because much has been said about the lack of oversight, once the application was approved, what would be the EDA's authority at that point? I mean, what does oversight look like once a grant has been given and the business is kind of on its way to living up to its side of the bargain here? Where does the EDA fall into it at that point?

MR. DOWNES: What would happen after the Board approval is that it would then go back to the staff; you know, they would handle that. And as the comment that I made earlier, staff, to their credit, recognized that the requirements associated with the incentives were going to change and that there was going to be more of a focus now on the compliance with the actual incentive award.

SENATOR LAGANA: Because the actual incentive became tangible once all the criteria set forth--

MR. DOWNES: When it was approved, yes.

SENATOR LAGANA: --in the application were met, right?

MR. DOWNES: That's correct, yes.

SENATOR LAGANA: Okay.

MR. DOWNES: Once the Board -- the Board had to approve it, right.

SENATOR LAGANA: Okay, so the approval is not the actual granting of the credit. The granting of the credit comes when the criteria set forth therein are met.

MR. DOWNES: That's exactly correct. That's a key point; that's exactly correct.

SENATOR LAGANA: Thank you.

MR. DOWNES: Thank you.

SENATOR SMITH: Senator Cruz-Perez.

SENATOR CRUZ-PEREZ: I'm just going to follow on many of his questions. You actually answered half of mine already that he asked.

But how much involvement does the Attorney General have in the process? Because after the staff collects all the information, that's submitted to the Attorney General; and exactly what do they do?

MR. DOWNES: So staff will have to tell you what the process was internally in their interactions, because I wasn't a part of that.

But there was a representative of the Deputy Attorney General's Office, really, at every Committee meeting and every Board meeting. And so they were active participants; I not only welcomed their participation, but I valued it.

So they were a -- I think you heard me use the word -- they were really *partners* with us in this whole process.

SENATOR CRUZ-PEREZ: But did they actually review the applications? Did the applications go to them, and they go page-by-page to make sure that we don't have any bad actors, and that the people who are applying are people who should be receiving these incentives?

MR. DOWNES: Their work was-- When you're saying, "Reviewing the application," they were reviewing it I think the same way that we all were, to make sure -- for the compliance with the legislation. If they were doing additional review along the lines that you suggested, that I wouldn't be aware of. You had mentioned *bad actors*, and that's sort of--

SENATOR CRUZ-PEREZ: No; so that wasn't part of their job.

MR. DOWNES: I don't know that.

SENATOR CRUZ-PEREZ: Okay.

MR. DOWNES: I don't know that.

SENATOR CRUZ-PEREZ: Okay; that's good to know.

On another subject -- you know that the program has expired already?

MR. DOWNES: Yes.

SENATOR CRUZ-PEREZ: How do you think that it is going to impact businesses in New Jersey? How are we going to keep businesses in New Jersey, helping them expand, or attract new businesses if we don't have any incentives?

MR. DOWNES: I think that we can all agree -- just giving some of the structural issues that we have here in the state -- that we're going to need those incentives. And I would add to that, just to reiterate, the way I think about them is we're going to need to make additional investments -- right now it's in the form of tax credits -- if we're going to attract businesses here. They're going to hire people and invest capital. So we will need that, or it's going to become a problem. I can't tell you when it's going to become a problem, but it's going to be a problem. I think everybody knows that, too.

SENATOR CRUZ-PEREZ: I know.

Any businesses come to mind that, if it wasn't for this incentive, would be out of New Jersey?

MR. DOWNES: The staff would be in a better position to tell you that. And I would feel confident saying they probably have a long list of them, because you have-- As you know, in the process, you've got the material factor, which would say that they're basically saying if it's not for the incentive they wouldn't be here.

SENATOR CRUZ-PEREZ: How are we competing with other states around us? Not even far away from us; around us. Are we very competitive -- you know, are we competing with those states, or are we really behind?

MR. DOWNES: Not being there anymore it's hard for me to comment on that. I think, anecdotally, we can say that without the incentives that we have some challenges ahead.

SENATOR CRUZ-PEREZ: Okay, one more question.

MR. DOWNES: Sure.

SENATOR CRUZ-PEREZ: What would the Board consider when weighing if incentives were a material factor in a company's decision to make capital investment in New Jersey?

MR. DOWNES: May I have that again, Senator? I'm sorry; I didn't hear what you said.

SENATOR CRUZ-PEREZ: What will the Board consider when weighing if the incentives were a material factor in a company's decision to make a capital investment in New Jersey?

MR. DOWNES: If you're asking me what would we consider, as the Board? The fact that they are making that representation -- and that's where the importance of the CEO signing the CEO authorization -- that they sign that. That's what we looked at.

SENATOR CRUZ-PEREZ: Okay.

MR. DOWNES: And that's why I think, as I said earlier, I think in this whole process that we're going through now -- it's so many levels -- that that's one of the things that should be examined -- the CEO certification. Should that be strengthened?

SENATOR CRUZ-PEREZ: Yes, we have a lot of companies that, as we speak right now, are not even moving from the state-- They're moving out of the State of New Jersey, but they're even leaving the country. They're going to other places like China and South America, because there is cheaper labor. So what do you think we need to be doing to be effective in keeping businesses in New Jersey?

MR. DOWNES: Well, I think, first of all, we have to get a new structure. But I think that we should be learning from what the applications have told us over the last five to six years. Because I think, personally, that that will give us a much deeper and richer understanding of where the needs actually are.

I do think that there are a lot of -- there's a lot of good information out there now about other areas that we should be targeting on. One of those was the McKinsey Report earlier this year -- actually, I'm sorry, it was last year -- that was talking about the high potential industries that we should be focused on.

And going back to my comment when I said that we should be looking carefully at the existing structure of the incentives; and I said, “Are there other opportunities?” That’s what I was alluding to.

SENATOR CRUZ-PEREZ: Thank you so much.

MR. DOWNES: Thank you, Senator.

SENATOR SMITH: Senator O’Scanlon.

SENATOR O’SCANLON: Thank you, Chairman.

Mr. Downes, thank you very much for being here; for your service to New Jersey and to the EDA.

Let me preface my question. You have a bulletproof reputation for integrity yourself. So I’ll preface my question by suggesting -- actually, by stating plainly -- that my questions about the integrity of the process have nothing to do with my faith in your integrity.

So the media has reported, pretty widely, areas where some internal people have reported, and some other folks are suggesting, that there were certain times when standards were modified, maybe unjustifiably; that there was pressure to approve certain applications.

How confident are you in the integrity of the process itself, and did you ever encounter any of these instances, either directly; or did someone report such modifications to you directly, as staff?

MR. DOWNES: So I can answer the second one easily.

I was never pressured to do anything by anybody ever, okay?

SENATOR O’SCANLON: Thank you.

MR. DOWNES: Ever.

The second part -- and again, that was coming to the end of my tenure with EDA -- the way that we would react to that, that I would react to that, is to get an independent person from the outside to tell us exactly what happened, and fix it. There was never that pressure at the Board level. If that was going on internally, it's going to be looked at.

SENATOR O'SCANLON: And you never had a staff member say that they were uncomfortable with anything--

MR. DOWNES: No.

SENATOR O'SCANLON: Okay.

MR. DOWNES: I'm sorry, Senator; let me let you finish your question before I say "no."

SENATOR O'SCANLON: Sure; not a problem.

Second question, actually. The legislation itself -- you've mentioned that your criteria were, as it should be, guided by the legislation itself.

MR. DOWNES: Absolutely.

SENATOR O'SCANLON: So we've heard much about, perhaps, unfair targeting of the legislation, as if it is some sort of-- I've had people say, "Well, it blatantly targets certain cities." Well, that shouldn't be a revelation, because that was the intent -- to focus, as Senators Lesniak and Kyrillos mentioned earlier, as compassionate people, and as people interested in helping those amongst us who most need it, and to get the biggest bang for our beneficial buck to the overall economic well-being of New Jersey. You're going to target certain cities.

MR. DOWNES: Absolutely.

SENATOR O'SCANLON: It should be no surprise that Camden was targeted; ultimately, Atlantic City and Paterson.

But beyond that level of targeting, there's been some suggestion that there was language included in the legislation that would purposefully help certain competitors, and maybe hurt other ones. Did you ever feel that there were such constraints? Did you ever scratch your head about some criteria that-- And look, we saw, for instance, the supermarket development. That troubled me, because it seems as if we weren't just encouraging certain development, but tailoring the legislation to exclude some potential participants.

Can you give me your thoughts on that?

MR. DOWNES: First of all, we all know that there were parts to the legislation that were trying to help areas; Camden was obviously one of those.

But from the point of how we were carrying out our responsibility, it was no different for Camden or anybody else. It went through the same detailed process.

As far as the last part of what you're referring to -- that I was not aware of, if that indeed is true. I mean, I've read the same things in the paper, and all that. But that was -- that had nothing to-- Our evaluation process was tied to the legislation.

SENATOR O'SCANLON: Got it. And to be fair to everyone -- the bill crafters, those of us who voted for it -- it was complicated legislation.

MR. DOWNES: Absolutely, yes.

SENATOR O'SCANLON: It was-- There was a lot of detail in there. I asked a lot of questions at the time. But in hindsight, it behooves us to look at these things, as we go to move forward, to make sure that we are simply there to promote business expansion, job creation, business retention and attraction; rather than specifically-- Well, most definitely to not thwart certain competitors from competing.

Thank you, Mr. Downes; I appreciate you being here.

MR. DOWNES: Thank you.

I would just say, Senator, that the point that you made, with everything going on right now -- let's get to the bottom of it and let's fix it.

SENATOR O'SCANLON: Here, here.

MR. DOWNES: And if things can be done better -- and I can tell you that my former colleagues in EDA feel like this -- let's fix it, and fix it quickly.

SENATOR O'SCANLON: Thank you very much. I completely agree.

SENATOR SMITH: Senator Addiego.

SENATOR ADDIEGO: Thank you.

I just want to have a better understanding on that.

I talked to you for a moment about the DAG and their role. Did you have the same Deputy Attorney General throughout the process while you were there? Or did they change often, or was it a consistent--

MR. DOWNES: In my time we had two. We had Betty Renaud, and then Gabriel Chacon; so it was very consistent.

And Senator, I would add to that -- if there were a special issue that we had to look at, they would bring in others from the Attorney

General's Office. Revel was a good example of that. But they were the ones.

SENATOR ADDIEGO: Because in my opinion, the Deputy Attorneys General are apolitical. So I think they're very important in this whole process. So would they, during any of this time, look at an application -- because I would assume that that's what they did -- and say to you, "Look, I don't know that this should move forward at this time."

MR. DOWNES: They were very candid about that. And in addition to that, there would be issues that would come up where they would say, "We have to get back to you on that. We have to do more research on that."

SENATOR ADDIEGO: Oh, good.

After all this, and with all of your experience, do you have any further advice for us as to how these incentive programs should look in the future?

MR. DOWNES: Well, I think, as I said to you, I think that we're in a-- There are a lot of issues that have to be addressed here, that are being raised right now at different levels of the State. I will say again that I think that we have to get them, and get them resolved so that there's confidence in the process, period.

We are in a much better position as a State, in my view, to understand what the real needs are for those incentives. And as part of the process by which decisions that will be made, going forward, we should rely on that heavily. We didn't have that five or six years ago. We knew that we had to do something, because we were not competitive. Now we have -- we know that that structure, in my view and experience, with the tax credits trying to get more investment, to get more jobs-- We know that that works; to me the next question becomes, "Okay, how best to allocate that throughout the state and throughout the economy?" And there is, in my view, the empirical information to allow us to make those decisions.

SENATOR ADDIEGO: Thank you.

MR. DOWNES: Thank you, Senator.

SENATOR SMITH: Mr. Downes, thank you for giving your time today.

And again, as we offered to Senators Kyrillos and Lesniak, as we go through this process -- and this is going to be a while -- if you have any suggestions you want to forward to us, we'd really appreciate them.

MR. DOWNES: Thank you; thank you, Senator.

SENATOR SMITH: Thank you, sir.

Our next witness is Mr. Tim Sullivan, the CEO of the EDA.

Mr. Sullivan.

T I M S U L L I V A N: Good afternoon, Chairman Smith, Vice Chairman Pennacchio, and members of the Senate Select Committee on Economic Growth Strategies.

Thank you for the opportunity to appear before this hearing.

I am joined today by our Senior Vice President of Portfolio Management Compliance, Bruce Ciallella.

The New Jersey Economic Development Authority has an important role to play in building a stronger and fairer New Jersey economy. With Governor Murphy's comprehensive economic development plan as our guide, and through the dedication and hard work of our staff, and with the support of our Chairman, Kevin Quinn, and our Board, we're committed to making New Jersey a national model for inclusive and sustainable economic development by building strong and dynamic communities, creating good jobs for New Jersey residents, and providing pathways to a stronger and fairer economy.

Since joining the EDA in February 2018, I'm proud of the Authority's ongoing transformation into a comprehensive economic development agency that has advanced new programs and initiatives that include expanding our resources for small businesses; developing sector-based programs to make New Jersey more competitive in high-wage, high-growth industries; and encouraging transformational investment in our communities. Smart economic development requires more than incentives, and the EDA will continue to focus on broadening our toolkit to support the state's overall competitiveness.

A commitment to a more comprehensive approach to economic development also means changing how the Economic Development Authority operates. We are making overdo investments in the people, processes, and systems we need to ensure that whenever the taxpayers of New Jersey make an investment of public resources we have all the information necessary to evaluate that investment, and that the taxpayers get what they were promised.

The audit ordered by Governor Murphy and the initial report from the Task Force on EDA Tax Incentives have identified critical areas of needed improvement within the EDA. The report from the Task Force is eye-opening, and it only strengthens the already strong case for adopting Governor Murphy's proposed new generation of economic development tools.

This report, along with the report issued earlier this year by the Office of the State Comptroller, is a roadmap to significantly improving the administration of EDA's incentive programs.

We have no higher obligation than as stewards of taxpayer resources; and we are committed to being best in class when it comes to accountability and transparency.

I'd like to take this opportunity to review for you some of the steps we've taken, and will continue to take, to achieve that goal. We are committed to fixing what needs fixing

In 2018, the EDA established a new Division of Portfolio Management and Compliance, led by Bruce, whose responsibility is to develop and oversee internal process improvement initiatives, and also to oversee the certification process. The Director of this Division, Bruce, who is here with me today, reports directly to me as a member of the organizational leadership team, which was not the case previously. And with the establishment of that Division comes a commitment by our organization to staff that Division appropriately to ensure that we have the capacity to apply the thorough and consistent monitoring that is required to properly administer these programs.

Through a recent data-sharing partnership between the EDA and the Department of Labor and Workforce Development, our staff now has access to additional information to enhance our ability to monitor the performance of incentive recipients. We've recently launched a new organizational-wide data and documentation platform, and we have expanded the scope of the independent auditor we've retained to evaluate the submission of overall certifications for businesses that have certified completion of their respective projects.

We are also in the process of instituting comprehensive training for our staff in underwriting and project review best practices, as well as fraud detection and prevention. We expect to contract soon with a third party professional services firm to comprehensively identify legal and other relevant issues that the EDA should be aware of prior to committing taxpayer resources.

The mandatory CEO certification -- that's been discussed this morning already -- that process will be amended to require an updated certification of all information subsequently submitted by an applicant during the review process, prior to consideration by the EDA Board.

And finally, we will be strengthening our whistleblower reporting policies and procedures for both employees and members of the public to report any concerns about EDA projects.

For any applicant where information has been brought to our attention that casts doubt on the information that was certified or submitted in an application, the EDA has instituted a process to afford the applicant the opportunity to respond to the questions raised. The information provided through this process will allow EDA staff to make an informed decision and make a recommendation to our Board for any potential actions, if warranted.

Any material action taken by the EDA would require the approval of the Authority's Board, and in the case of a suspension of any award, under the debarment process, the approval of the Attorney General.

These improvements are critical, in particular as we look forward to having new tools in our toolkit to strengthen New Jersey's long-term competitiveness. Because for all of our advantages and unparalleled location, extraordinarily talented workforce, second-to-none quality of life, New Jersey has lost some of its competitive edge. Where we once dominated, particularly in the innovation economy, we now lag. As a result, from 2007 to 2017, despite extraordinary investment in tax credits, New Jersey ranked 42nd in job creation and 49th in wage growth in the country. We were dead last in the Northeast in wage growth, and dead last in job growth.

We believe it is time for a fresh approach to encouraging economic growth.

Strengthening New Jersey's economy starts with investing in the fundamentals of 21st century competitiveness: talent and infrastructure, the two issues Governor Murphy and I hear about most often when talking with leaders of businesses, small and large, across the state. That's why Governor Murphy and the Legislature's commitment to investing in New Jersey Transit is so important, as are the priorities outlined by the Governor and Secretary Zakiya Smith Ellis' comprehensive plan for higher education, including expanding free community college.

Labor Commissioner Robert Asaro-Angelo's efforts to strengthen New Jersey's apprenticeship programs also are vital to our economic future.

With shifts in technology, companies have more choices than ever when deciding where to locate. If they can't find the people and the infrastructure they need, there's no tax incentive valuable enough to bridge that fundamental strategic gap. As Governor Murphy has said repeatedly, incentives have to be a tool in the toolkit of supporting economic growth. The debate is not should we or shouldn't we have incentives; it should be, do we have the right ones?

It would be imprudent to unilaterally disarm in the ongoing battle between states and cities for companies and talent. But for incentives to be most effective, they must be a tool in service of a broader strategy. The Governor's economic development plan, released more than nine months ago, includes more than 70 individual initiatives. But at its center is a proposal for the next generation of tax incentives to replace the programs which expired last month. The Governor's proposed incentive programs represent a more targeted, comprehensive approach to growing our economy that would invest in people, communities, and innovation.

If talent is the most precious commodity in the 21st century economy, then we must continue to invest in making New Jersey a destination of choice for the world's top talent. Governor Murphy has proposed a suite of place-based economic development incentives to encourage mixed-use, transit-oriented development, with a focus on reactivating historic properties and brownfields. We believe these tools can help revitalize communities without displacing people with deep local roots, while also providing good paying union construction jobs.

Governor Murphy's proposed economic development programs encourage local hiring, local purchasing, and partnering with the full spectrum of labor to ensure New Jersey residents benefit from a growing economy.

NJ Aspire, and both the Brownfields and Historic Preservation Tax Credits, are designed to be competitive programs which ensure that incentives are reserved for the best of the best, as far as impactful projects that drive the sort of community investment and reinvestment that align with the goals of the program.

New Jersey also needs better tools to encourage the creation of good jobs in growing sectors. Today, as of June 30, New Jersey had one of the most generous and least-targeted job creation tax credit programs in the country. From 2010 to 2018, New Jersey invested five -- five times more per job than our peer states did. The fiscally responsible thing to do is prioritize sectors that provide a path to the middle class or better where New Jersey has a competitive advantage or a chance to develop one, with even stronger incentives to encourage these industries to locate in cities where this investment can have the biggest impact.

The Governor's proposal also includes new tools to encourage the development of port infrastructure to help position New Jersey as the capital of the American offshore wind industry; as well as support the expansion of research and commercially driven higher education institutions, and the development of larger-scale transformative real estate development projects.

We also believe it is prudent to budget a fixed amount of tax credits every year -- a program cap -- so that the taxpayers can know what their maximum potential investment is. This is not a new concept. Part of the Economic Opportunity Act, New Jersey's incentive programs were subject to program caps, as are several new incentive programs recently approved or reformed, including the Film and Digital Media Tax Credit, the

Neighborhood Revitalization Tax Credit, the Angel Investor Tax Credit, and the Net Operating Loss monetization tax credit -- all of which have program caps.

There's no shortage of worthy programs where we would all wish to invest more: public safety, education, parks, beaches -- what have you. But in a time of limited fiscal resources, we think it's appropriate to set a reasonable budget for economic development initiatives and allocate those resources to the highest return on investments.

One way of doing that would be New Jersey Forward, which would be a jobs-based incentive program to succeed Grow New Jersey, focused on supporting new job creation in high-growth, high-wage industries, as well as fostering growth in Opportunity Zone-eligible tracks across the state. Bonus criteria would emphasize local employment, above-average salaries, and transit-oriented development. Awards under this program would be capped at $200 million per year, and awards would be limited to 5-year awards, reduced from Grow's 10-year awards.

Among the most concerning economic trends New Jersey has experienced over the past decade has been the precipitous drop in venture capital investment in our state. Funding fuels innovation, and entrepreneurs in the innovation space will tell you that the availability of investment dollars is a key indicator as far as deciding where to develop the ideas today that could turn into a Fortune 500 business tomorrow. From 2007 to 2017, New Jersey has dropped from 5th to 15th nationwide in total venture capital investment, during which time we were surpassed by several regional competitors we once led, including New York, Pennsylvania, and Maryland. We believe it is more important to support new, homegrown New Jersey success stories than to attract large companies from other states, which in and of itself represents a significant mindset shift for New Jersey's economic development strategy.

In the most successful innovation ecosystems around the country, there's a very significant and purposeful series of partnerships and interactions among large companies, academic institutions, and startups. Governor Murphy's proposed New Jersey Innovation Evergreen Fund would be a $500 million fund -- $250 million of which would be raised through an auction of State tax credits over a five-year period, to companies that commit to supporting the State's innovation ecosystem; and the other $250 million of which would be matched, dollar for dollar, by qualified private venture capital funds to co-invest exclusively in New Jersey startups and innovative industries. As companies are acquired or IPOs occur, proceeds would flow back to the fund -- meaning a time-limited investment of tax credits would create a self-sustaining source of capital for the innovation economy; which in the event of significant returns, could potentially return funding to the General Fund. By itself, more venture capital can't reboot our startup economy; but as part of the Governor's comprehensive strategy, the Evergreen Fund could be a game changer.

In conclusion, it's clear we have significant work ahead of us not only to improve the EDA, but also to help make New Jersey's economy more dynamic and vibrant, and both stronger and fairer. Under Governor Murphy's leadership and in partnership with the Legislature, I'm confident that we will make meaningful progress on all these goals.

Thank you for the opportunity to testify today. I'm happy to answer any questions.

SENATOR SMITH: So I have a few.

A lot of numbers tossed around today; one was the $11 billion number that is suggested as the tax incentives that are committed over recent years. How much of the $11 billion is attributable to Grow New Jersey and ERG?

MR. SULLIVAN: Thank you, Senator.

So the $11 billion is accurate -- as you described it -- is the total amount of approved tax credits going back to, I think, 1996 or 1997, under some of the legacy programs, as well as Grow and ERG.

Grow and ERG together -- the total amount of approvals, as we sit here right now, is about $8.6 billion of that $11 billion -- is Grow and ERG.

SENATOR SMITH: Thank you.

And of that amount, how much has been paid out as tax credits, together?

MR. SULLIVAN: As we sit here, right this morning, a little less than $400 million has been issued.

SENATOR SMITH: I'm sorry; $400 million?

MR. SULLIVAN: Four hundred million has been issued; but the

expectation is, or the projection is, that we'll have an annual payout of more than $1 billion a year, starting the fiscal year that we just started a couple of weeks ago, for the next five or six years.

SENATOR SMITH: Okay.

And in that list of $11 billion, are there any projects that have been cancelled and which will not be -- tax credits won't be issued? What is that amount?

MR. SULLIVAN: I don't have it for the total $11 billion; against Grow and ERG there have been a number of program projects that have been withdrawn for a variety of reasons. Either the company decided not to come to New Jersey and they were made an offer; or they weren't able to comply; or they didn't make the job growth requirements.

And so there's been about $1.8 billion under Grow and ERG that's been withdrawn.

SENATOR SMITH: That has been withdrawn?

MR. SULLIVAN: Yes.

SENATOR SMITH: So out of that $8.6 billion, you should minus $1.8 billion.

MR. SULLIVAN: Yes.

SENATOR SMITH: Because they're never going to happen, correct?

MR. SULLIVAN: Yes, that's correct.

SENATOR SMITH: Okay.

Since we have announced, in New Jersey, that we're having a Committee on this issue, my office has been getting calls; and it's getting calls from existing awardees who are suggesting that EDA is not providing the tax credits that they were promised as part of the awards.

Number one, is that true; number two, how many are we talking about?

MR. SULLIVAN: So I'd refer you back, just to answer your question, which I will do.

The Comptroller's report, I think, provided a pretty stark set of findings with regard to our ability, historically, to ensure that we were accurately counting how many jobs were actually created. So if a company said, "We've created 300 jobs," the team that Bruce is now responsible for is responsible for verifying that there are 300 jobs, that they have all the right -- that they're paying health benefits, that they comply with what's laid out in statute.

We have significantly enhanced that process this calendar year, since the Comptroller's report came out. But frankly it started after Bruce took the reins of that group in September or October of last year. It shouldn't surprise anyone that we're taking our time and making sure that we're getting it right. I think the Comptroller's report laid out some--

SENATOR SMITH: We always want you to get it right.

MR. SULLIVAN: We do too; you can never be perfect, but we're going to do our best to be as close to that as possible.

So we are taking our time; and as the process has been enhanced, we're both asking for more data; companies are-- You know, we're going back-and-forth with companies to make sure we're getting the right data in the right format that allows us to actually use it; as well as the partnership that we-- So we used to get data in what was basically a static PDF form. We've now entered a partnership with the Department of Labor where we can get it digitally and actually use it a little more easily. That has taken some time. And so that's the nature of any delays in the issuance of those credits -- is to make sure we get it right.

SENATOR SMITH: So now the question: How many?

MR. SULLIVAN: We can get you those figures; I have it somewhere. I think they sent it to you in advance.

SENATOR SMITH: Can we get those figures?

MR. SULLIVAN: Sure, I'd be happy to send that to you. The companies that haven't--

SENATOR SMITH: Can I get a list of the awardees that are not receiving the tax credits?

MR. SULLIVAN: We're happy to get you a list of companies that are due to receive a credit this year that haven't yet; sure.

SENATOR SMITH: All right. And can I have, in addition to that, the reasons why they're not getting the tax credits.

MR. SULLIVAN: Sure; and they'll vary, company by company. And so--

SENATOR SMITH: I understand.

You do understand the conundrum.

MR. SULLIVAN: Of course; sure.

SENATOR SMITH: Whoever these awardees are, they went in for their financing, presented to their bank that they were receiving these tax credits with a value of *X*; and now they're not.

So what are they -- then they're in default of whatever other mortgages they may have? Are they now in a position where they can't produce the jobs because they don't have the money to either build the structure or improve the equipment and materials in the facility? Isn't this kind of a Catch-22?

MR. SULLIVAN: I want to make sure I'm being clear about what I'm describing here.

There hasn't been a revocation or a declination of those tax credits. They just haven't been issued yet this year, as we go through the process to make sure we're doing our homework and are in the position to say with certainty that the companies did what they said they were going to do. And if the assertion is we're being too thorough, I'll cop to that.

SENATOR SMITH: No, no, no. Listen, we want thorough, we want the taxpayers to get the benefits they were promised. But the other side of that is, you've made awards.

MR. SULLIVAN: Yes.

SENATOR SMITH: And those companies that are legitimately trying to do business in New Jersey may be stymied by the fact that they can't receive their awards in a timely manner. Is that happening? Are you getting complaints like that?

MR. SULLIVAN: We've gotten a couple of phone calls, but it hasn't been around the clock.

SENATOR SMITH: *Round the clock* would be a little heavy. (laughter)

MR. SULLIVAN: I agree.

No, I think companies that are able to present us the data we need to verify that they've done what they said they were going to do will get their credits. I don't think there's any mystery to that.

SENATOR SMITH: When the awards were made, was there any schedule of when the credits would be received?

MR. SULLIVAN: So the statute lays out a 10 year credit. It's an annual credit, so you get, you know, credit once a year for 10 years is the vanilla version of the program -- under Grow; excuse me.

SENATOR SMITH: Now, could this also be companies that have already received awards? Last year they got their credits, but this year the credits are now on hold until the additional information is provided.

MR. SULLIVAN: It could be both first-time recipients and people who received them before; sure. We're making sure we're doing it right for everybody.

SENATOR SMITH: So how quickly are you processing these?

MR. SULLIVAN: Again, each individual circumstance is different, because it's asking companies for data, and this is detailed information.

SENATOR SMITH: All right.

What I would suggest is, you really need to focus more on this. Because whatever the promise of these incentive programs are, you now have recipients who are saying, "I have a new obligation that I didn't have before," or maybe it was an obligation they had before. But the payment has stopped; they now have to call their bankers and say, "Sorry." And it may result in the opposite of what we were hoping to do, which was to provide an incentive for new jobs and new industry in the state. And I think it also results, to some extent, in the program getting a bad rep. Because any other companies that are thinking of coming to New Jersey because of an incentive will say, "Well, sometimes they pay and sometimes they don't."

So, you know, I'm not -- I don't want to beat you up more than I already have; but I'm just saying you really need to attend to it. And I'd like to see that list, and the reasons why the awards are being held up.

MR. SULLIVAN: I'd be happy to share that with you.

SENATOR SMITH: Get them as quickly as you can; I'd appreciate that.

In your comments, you mentioned that the agency has now hired an independent auditor. Who is that independent auditor?

MR. SULLIVAN: So the firm that I was referring to in my testimony is a firm called Mercadien, Mercadien Group. We have an accounting auditor, Ernst and Young, who audits our books and records. This is a firm that is an audit firm that goes out and audits the companies, the recipients. They're verifying job counts.

SENATOR SMITH: Okay. I assume they have the power to review all the records associated with any of the applications?

MR. SULLIVAN: They are able to review anything we have access to, which is pretty broad, yes.

SENATOR SMITH: So you're going to give them whatever they need.

MR. SULLIVAN: Sure.

SENATOR SMITH: How was the auditor chosen?

MR. SULLIVAN: We went through a competitive process; I'll have to get you the details on that.

SENATOR SMITH: You did? You did go through--

MR. SULLIVAN: Yes, absolutely.

SENATOR SMITH: There was a competitive process.

MR. SULLIVAN: Absolutely, yes.

SENATOR SMITH: Okay.

MR. SULLIVAN: It was procured via the normal procurement process. They were hired in 2017.

B R U C E C I A L L E L L A, Esq.: Yes.

MR. SULLIVAN: It was 2017 they came on board; and then we expanded the scope of their contract late last year, early this year.

SENATOR SMITH: Did you hear Senator Lesniak's comments on the issue of capping awards?

MR. SULLIVAN: I heard them, yes.

SENATOR SMITH: And he said you, the Legislature, may want to consider two categories. The one category is the category where you have specialized, targeted incentives. And I think that was in the context of the four poorest cities in the state. And he said -- I think what he said; you know, beauty is in the eye of the beholder -- but I think what he said was that may be an area where a cap would be appropriate.

But he said on the other side, where you are providing incentives that are, in effect, generating more revenue and jobs than we have now, you really shouldn't put a cap on it. And then that was in the context of the Rutgers report, where it said the minimum that the State seems to be getting is 2.5 times the award.

And I don't know if you agree with the Rutgers study or not. Do you agree with the Rutgers study?

MR. SULLIVAN: It's an independent study. There's lots in there that I agree with, sure.

SENATOR SMITH: So why would we want to cap that side of it? I mean, I can understand the other, because that one, apparently, is a lot more difficult financially for the State. But on the one where you have a minimum 2.5 times winner, why would you want to cap that?

MR. SULLIVAN: So the statute, as it's currently written, generally speaking -- although there's some tweaks, there are some particularities to it -- generally requires a 1.1 times return, or a net benefit assessment.

Now, there are a couple things, I guess, that I would offer for your consideration, as you think about the meaning of that test.

SENATOR SMITH: Please.

MR. SULLIVAN: First of all, that's essentially a 10 percent return, in some cases over 20 years. I think we could-- You know, that's not an enormously significant return.

To the question-- With any economic development incentive, it's twofold. There is, could you -- how much that activity was going to happen anyway; and if there is an inducement, how much-- You want to optimize any incentive investment to be one penny more than the decision point for the company, or the business, or the developer. And so the question

is, how do you optimize those returns with having some more flexibility and better targeting? And so simply having an economic model that says that, "If everything works out the way it's expected to, you get a 1.1 times return," offers some protection, but I don't think it gives you a sort of certainty that you're making money on every trade.

SENATOR SMITH: You do you realize you're arguing against tax incentive programs?

MR. SULLIVAN: I'm arguing the taxes--

SENATOR SMITH: In effect, you're saying it might have happened anyway, so why bother?

MR. SULLIVAN: I'm saying, sometimes it's very difficult to determine, with precision, whether -- how much economic activity would happen anyway.

SENATOR SMITH: All right. So do you think -- this is your personal opinion, and not your agency's opinion-- The Rutgers study said there are some programs that are returning 26 times the award. Should we be limiting what we award to? I mean, maybe there should be a screening process where it's -- maybe it's not retention anymore; maybe it's only attracting new businesses, and maybe it's only high-tech.

Do you have any personal opinion on that?

MR. SULLIVAN: So if you look at what Governor Murphy has proposed--

SENATOR SMITH: Your personal opinion.

MR. SULLIVAN: I happen to agree personally with the Governor's proposal, so I can speak on behalf of that proposal. (laughter)

SENATOR SMITH: Okay.

MR. SULLIVAN: It makes some important changes along the lines you're describing. You want to have a program that focuses-- Most of the economic impact that comes from an incentive program comes from new jobs that are coming here from someplace else.

SENATOR SMITH: Right.

MR. SULLIVAN: Which happens less frequently than we'd all like to think. The number of companies that are actually making discrete location decisions is fewer than, sort of, the common conjecture would suggest. You want to focus on new jobs, you want to focus on high-growth, high-wage industries. You want to focus on an industry, like, for example, offshore wind, where there's a competition on for who's going to get to be the capital of American offshore wind. We think it should be and could be New Jersey, if we invest smartly. There was a capped incentive program included in 2018, and some of the energy-related programs that were adopted in 2018 to encourage the development of places like Paulsboro, and other important port facilities, for developing a competitive advantage in offshore wind. That's an investment that I think we should be making. Those are the kinds of investments in high-growth, high-wage industries, in industries that are growing and are going to add a lot of jobs.

The important other piece I had mentioned is -- I think sometimes this gets lost in the debate about, you know, trying to keep companies that are here, trying to get companies that are elsewhere to come here. The biggest source of economic growth and job creation is when small companies become medium-sized companies or large companies. And we have not seen in our economy that kind of growth of young companies going from one or two people in a garage or a coffee shop into a Fortune 500 company. And we need much more of that; that's what the Governor's Innovation Evergreen Fund and a whole suite of innovation economy initiatives are designed to focus on.

SENATOR SMITH: Thank you for your comments.

Senator Pennacchio, will you take over?

SENATOR PENNACCHIO: Surely.

Chairman, thank you.

Just to echo some of the questioning that the Chairman had.

And good afternoon, Mr. Sullivan.

MR. SULLIVAN: Hello, Senator.

SENATOR PENNACCHIO: With respect to the projects that have not been funded, that are being held -- previously Mr. Downes had testified that he really couldn't recall any projects, or name one specifically; but he did say that the process would have included him -- that he would have to-- it would go before the Board if projects had to be held or not.

And just from your testimony -- even though you haven't quantified it -- I sort of get the feeling there are a lot more projects right now that are being held that were held under your predecessor.

Some of that -- if it's to apply the additional oversight -- is fine. But one of the concerns that I would have is that it's not only the additional oversight because they want to make sure the projects are working; but there could be some outside pressure to cut into the independence of the agency. Right now they'll tell you, "Do this, because the dollars and cents are not making -- they're not making sense." But in the future they may tell you what companies should or should not be incentivized. And to me it's very, very important that we keep that EDA as independent as we possibly can.

So I'm going to ask you the same question that I asked Mr. Downes -- whether or not you ever had any pressure at all, or any conversations from the Administration or anybody else, in the application of the processes when it comes to these incentives?

MR. SULLIVAN: You asked several questions; I'm going to answer them in the order I think you asked them in.

There's a distinction I draw between an award being *held and modified*, versus our *review isn't done yet*. So what I was discussing with the Chairman were applicants who are due to get tax credits this year, assuming they've done everything they said they were going to do. We just haven't completed our review yet to make sure that everything is in the file; that we need to verify that they did what they said they were going to do. I wouldn't characterize those as being *held*, as much as, "We're not done yet, and we're working feverishly;" and Bruce's team is working hard to get those complete. And I understand the conundrum that the Chairman was describing.

In the cases where a company has been determined that they -- you know, they said they were going to create 300 jobs, but they only created 200 -- you have to bring it back to the Board for an amendment or a modification. And we process those, you know, in a somewhat ordinary course. We had a few this year, so far this year; and I expect in subsequent Board meetings we'll have some more, because that's part of the regular ordinary course oversight at the Board level. If an award changes from what was approved in a meaningful way, it has to go back to the Board for re-approval.

Then there's the ordinary course review, where we're just making sure that if the company says they were going to create 300 jobs, we can point to all 300, and we visited the facility, they've made the capital investment. We can verify and feel good about the certainty of that.

With regard to the independence or the pressure question -- yes, there's-- I echo what Larry said. No pressure; no one's told us what to do. I tell Bruce all the time -- his job is to make independent decisions based on the facts. And if people have -- if there are phone calls we get about that, that's my job to deal with those phone calls. We adjudicate these programs based on what the statute says and where the facts lead us.

SENATOR PENNACCHIO: All right. So I guess the question for both of you is, have you ever received a phone call, either from the Attorney General or anybody in the Administration, telling you to hold off a grant?

MR. SULLIVAN: To hold off a grant?

SENATOR PENNACCHIO: To hold off on a grant -- not to pay. You have not?

MR. SULLIVAN: No.

SENATOR PENNACCHIO: Okay.

A point of clarification -- you had mentioned the $400 million number; that you said starting next year, I think it's $1 billion a year. Is that $400 million a year in tax credits that we're giving out now, and it's going to jump to $1 billion a year?

MR. SULLIVAN: So the $400 million is what's actually been issued; a tax credit certificate has been issued to a company and they've--

SENATOR PENNACCHIO: Since 1980 -- the mid-1980s, when the program started?

MR. SULLIVAN: No, the $400 million is just Grow and ERG; so that's since 2010 or 2011.

SENATOR PENNACCHIO: Oh, Grow and ERG.

MR. SULLIVAN: And if we were sitting here a year from now, our projection is that that $400 million will be $1.4 billion. And if we're here two years from now, we think it will be around $2.5 billion.

SENATOR PENNACCHIO: So if that incentivizes and grows the economy, I assume that's a good thing that we've gone from $400 million to $1 billion.

MR. SULLIVAN: Yes, that presumes those companies have done everything they said they were going to do, and have made the investments that they represented that they were going to make, and told us everything that we should have known about those applications before they were approved.

SENATOR PENNACCHIO: Now, one of the things that does concern me -- you had mentioned the independent auditor. But again, that's something within the EDA organization itself. For me, I would be a lot more comfortable if it was outside the EDA, doing the audits; and I would hope they were done more routinely, and that you maybe hold off on some of those projects.

I would also hope, by the way, that the people who are actually benefiting from these tax credits are the ones who are paying for these compliance audits. Do they pay for them right now, by the way?

MR. SULLIVAN: Yes, we charge fees to cover -- fees for both the application and the oversight, that covers the cost for these things; sure.

SENATOR PENNACCHIO: But the actual audit is built into those fees on a yearly basis, or whatever?

MR. SULLIVAN: On a blended basis, yes.

SENATOR PENNACCHIO: Good.

And then, just finally, Thomas Jefferson (*sic*) had said that the best disinfectant for government is sunshine -- transparency. We're in the 21st century; website. How much of this, as far as the actual awards, are on a website, on an EDA website; and whether or not they're complying, and the results of the audit? Is there a site that we can go to that could make all of our lives that much easier? That way we could see what the awards were and whether or not they're complying, and maybe even see what the net benefit is?

MR. SULLIVAN: So EDA's website contains a number of reports that are refreshed somewhere between monthly and weekly, depending on the certification report. That's one we keep up with pretty well. It's a lot of information, a lot of data. I would submit to you that, going forward, one of the things that's in the Governor's proposal is more transparency, more reporting, more independent reports and audits on the EDA programs, which I think is entirely appropriate. And I think we're open to feedback on the best ways to do that.

So maybe I could have a longer conversation with you about your ideas for how to do that.

SENATOR PENNACCHIO: All right. But if we're not in totality of putting what the award is, and the compliance, and the net benefit, does the computer system within EDA -- will that be able to have all those linkages on it?

MR. SULLIVAN: I'm sure we have all that, and much of that is published. I don't want to suggest that it's not; it's, maybe, sometimes not in the easiest-to-understand format. So that's something we're going to continue to work on, and we want to be best in class at.

SENATOR PENNACCHIO: Is there a timeline on that?

MR. SULLIVAN: Pardon me?

SENATOR PENNACCHIO: Is there a timeline on getting that totally efficient?

MR. SULLIVAN: We're revamping our website kind of as we speak. I hope to have it done this year.

SENATOR PENNACCHIO: This year. So we'll be--

MR. SULLIVAN: For our website.

SENATOR PENNACCHIO: Will we be able--

MR. SULLIVAN: But there are things-- As we look to the next generation of incentives, there is more data that we would like to be able to get from our applicants, and publish, and share that we are not currently authorized to do so. So that's certainly something we want to look forward to in the next generation.

SENATOR PENNACCHIO: Finally, your applicant-- Are those applications online -- are they done online or they done on paper?

MR. SULLIVAN: The companies submit applications online through a web portal.

SENATOR PENNACCHIO: Online; all right. So it should be easy enough to share all of that information.

MR. SULLIVAN: Sure; it's in a pretty-- There is a robust amount of information.

SENATOR PENNACCHIO: Okay, thank you.

SENATOR SMITH: Senator Cruz-Perez.

SENATOR CRUZ-PEREZ: Hey, good afternoon.

Thank you so much for coming.

MR. SULLIVAN: Good afternoon, Senator.

SENATOR CRUZ-PEREZ: How many Grow New Jersey and ERG projects have been approved since we enacted the legislation in 2013?

MR. SULLIVAN: Under what we call the EOA version of Grow, it's been 363 approvals for Grow and 63 for ERG; so 426.

SENATOR CRUZ-PEREZ: And how many Grow New Jersey awards have been approved under your leadership?

MR. SULLIVAN: Let's see; I have to get you the exact numbers. I know it's 11 this year; 11 Grow awards this year have been approved by the Board. I'd have to get you the number for last year; it was about $465 million worth of tax credits last year, plus or minus -- that number might not be perfectly right -- were awarded last year. The number of awards I'd have to get for you. It's--

SENATOR CRUZ-PEREZ: Is Teva one of them?

MR. SULLIVAN: Teva Pharmaceuticals is one that was approved in 2018, yes.

SENATOR CRUZ-PEREZ: Is it on hold, or--

MR. SULLIVAN: Pardon me?

SENATOR CRUZ-PEREZ: Is Teva on hold, or is it going through the process?

MR. SULLIVAN: So Teva's application was approved in, I believe, June 2018; maybe May 2018. So they have up to four years to complete their project and certify their costs; that, for them, would be their moving into a facility in Parsippany. So we haven't issued them any tax credits; they wouldn't be due to receive any tax credits until they certify.

We did send them a letter, along with several other companies, in June, requesting some additional information about the lawsuit that they settled with the state of Oklahoma, which is obviously of interest to us. That pending lawsuit had been disclosed by the company during the application process. But the way our process works, under the advice of the Attorney General, is pending litigation is not something that can be disqualifying. Once something becomes either settled or adjudicated, that changes. And so those facts have evolved, and we're gathering more information about that from the company via that letter.

SENATOR CRUZ-PEREZ: Okay.

What is typically the time lag between a project's approval and the issuing of the credits? What really happens, and what is the process; and then what did you do afterwards? Did you monitor this company? What exactly happens? Can you explain to us?

MR. SULLIVAN: So the statute lays out a framework where, if the Board approves it on day one, the company has, by statute, three years to complete their -- well, it's all by statute -- but the ordinary course is a three- year deadline, and then they can seek two, six-month extensions. And most of them take advantage of that. So you have up to four years to complete your project and certify it -- that goes to Bruce's group to actually review the certifications. That's the process I was describing earlier that we're constantly undertaking; we're in the middle of right now.

And as part of that certification process comes significant and a recently enhanced amount of oversight, and scrutiny, and receipt of data. There's been an annual process thereafter. So the team that Bruce leads issues what's known as an *overall certification*; meaning, the building's been built, you've sort of met the hurdle to get into the program. And then every year there's an annual report in which that information has to be refreshed and updated, and that's when the ongoing monitoring and site visits can happen.

SENATOR CRUZ-PEREZ: Okay.

If an applicant is proposing to move -- let's say to Camden, for example -- do they need to be considering to move out of the State of New Jersey in order to qualify for the program?

MR. SULLIVAN: So the statute made some -- the 2013 amendments to the statute made some changes to that language.

Typically most -- you know, I don't want to say *typically* -- but that's an area where you'd think we'd benefit in any future generation of incentives from better clarity around what the rules of that state.

SENATOR CRUZ-PEREZ: So if an applicant is considering to move to Camden, those jobs need to be at risk in order for those employees to be considered under the net benefit?

MR. SULLIVAN: I'm sorry, can you repeat the question, please?

SENATOR CRUZ-PEREZ: If the applicant is considering moving to Camden, do the jobs need to be at risk in order for those employees to be considered under the net benefit test?

MR. SULLIVAN: So there's the CEO certification of the application, there's the net benefit test, and the cost-benefit analysis. And different parts of the information vary by which analysis you're referring to.

We base our analysis -- and again, I wasn't here for some of the ones that you're asking about -- essentially based on the information that the applicants provide to us. And so we take the applicant's description of how they're planning to pursue their project, and that is fed into a variety of models and analyses, and that's what generates the calculation for the award.

SENATOR SMITH: Senator O'Scanlon.

SENATOR O'SCANLON: Thank you, Chairman.

Director, thank you for being here.

MR. SULLIVAN: Good to see you, Senator.

SENATOR O'SCANLON: And aside from all this swirling controversy that you've been thrust into, you have a real job to do as the Director of the EDA -- talking to businesses, talking to legislators about businesses. You're doing that job well. Our interactions have been good, and I appreciate that.

MR. SULLIVAN: Thank you.

SENATOR O'SCANLON: We should let folks know that this isn't all just about this ongoing discussion about the future of the program.

A couple of specifics about the-- Is there an overall moratorium in releasing incentives, or are some going out?

MR. SULLIVAN: There's no moratorium; we're still going through the process. And as our review is complete, they'll be processed.

SENATOR O'SCANLON: Well, so some are going out as we speak, or you're waiting until your whole review is complete before you start releasing?

MR. SULLIVAN: We'll make sure that each applicant is complete before we release it, or release those companies' credits; yes.

SENATOR O'SCANLON: Okay, so some are being released.

MR. SULLIVAN: We haven't processed 2018 credits. We're still in the process of reviewing those and making sure we have all that information.

SENATOR O'SCANLON: Okay; so none have gone out.

MR. SULLIVAN: This year.

SENATOR O'SCANLON: So when they do begin to be *released* -- I guess is the right word; you correct me for the terminology--

MR. SULLIVAN: Good enough; yes.

SENATOR O'SCANLON: --it will be-- Well, actually, I should understand this, and I don't know the answer to this question.

Is it all at once? So it's over -- it's every month as--

MR. SULLIVAN: It will be when company *X* is complete and done and we're sure we have the I's dotted and the T's crossed.

SENATOR O'SCANLON: Well, in the past, would all of them be released at a certain--

MR. SULLIVAN: No, they go--

SENATOR O'SCANLON: That's what I thought; it's an ongoing--

MR. SULLIVAN: The planes take off when the plane's ready to go.

SENATOR O'SCANLON: --process; okay. So there are different months that different ones are due.

MR. SULLIVAN: Yes.

SENATOR O'SCANLON: So I got it.

So can you give us some estimate of when? Because we have heard from specific companies that -- just to put faces on this -- you hear from a baker who's invested some big dollars, a supermarket operations which run on very low margins. We've heard from folks that they've built the assumption they were going to receive these credits into their cash flow projections. It's a problem for some of these folks. So can you give us some idea of when we think these things will start to flow, some estimate? A month, six weeks--

MR. SULLIVAN: Sure; if I could, let me just offer a correction to something I said.

My comment before was accurate with regard to Grow. We have issued ERG tax credits this year; so ERG 2018 credits have been processed.

The process changes; what I've described in a little bit of length a few minutes ago focused more on the Grow program.

SENATOR O'SCANLON: On the Grow.

MR. SULLIVAN: So ERG -- which, actually, more of the supermarket-type projects that you're describing are in that bucket -- those are proceeding, with increased scrutiny and oversight as well, but those are proceeding.

Grow -- again, we're going through a new process this year with applicants. We certainly understand the importance of these credits to the applicants that have received them; and companies that have done everything they said they were going to do, and can provide the documentation of it, are going to get their credits as soon as we're able to say, with confidence, that the taxpayers are getting what they were promised during their investment process.

SENATOR O'SCANLON: Can you give us some idea? Are we talking six months; could it be six months?

MR. SULLIVAN: I think it'll be-- By and large, I think it will be shorter than that.

SENATOR O'SCANLON: Okay.

SENATOR ADDIEGO: By when?

MR. SULLIVAN: I can't-- You know, if companies can't provide the information we need to verify, we'll eventually find ourselves in some tricky situations. But our obligation is to make sure that companies and applicants did what they said they were going to do.

SENATOR O'SCANLON: Have you found a majority of folks who you've gone back out and-- I guess this is a part of the alternative recertification process that the Task Force had mentioned. Is this the same thing as re-examination, or is it separate?

MR. SULLIVAN: No, that's a separate process, and I won't-- The Task Force should comment on it -- on its process.

This is the ordinary course review process that we have; it's *ordinary course* because it's ongoing. But this year we changed the amount -- we expanded the amount of information we're asking for companies to provide to us, and the format in which it's being provided to us. That's resulting in, you know-- It's challenges that are sometimes as mundane, but important, as-- I might be listed on the payroll as *Timothy Sullivan*, but on some list that comes in as *Tim Sullivan*, or *Timmy Sullivan*, or whatever else. If you do a match, you're going to say, "Well, that doesn't match," and it's resolving things like that -- which is mundane, but labor-intensive to go through that and fix it. And so it's things like that.

SENATOR O'SCANLON: Okay. So, just to be clear, this alternative recertification process is an entirely separate action with the Task Force; and they're contacting these companies pretty much for the same material you are, right? If it's--

MR. SULLIVAN: Yes, that's correct.

SENATOR O'SCANLON: It seems a little redundant, but I won't ask you to comment on that.

Have you found, as you've gone back to these firms, that, overall, they are able to certify that what they've represented is true? Or are you finding a significant percentage that can't?

MR. SULLIVAN: Different -- and Bruce may add some commentary on that -- I think it's been a process of learning together with the applicants what information we're looking for and making sure we get it in the right format. So it's a lot of back-and-forth of, "This form didn't--" "We asked for *X*, you gave us part of *X* and part of *Y*," and then sort of had to shuffle those stacks together. It's been challenging.

I don't know -- Bruce, do you want to add some comment on that?

MR. CIALLELLA: I think that's a fair assessment.

I think, really, what we're seeing is that when the companies submit the information to us, it's just in a different format. So it's a learning curve for them to submit it to us, and us to verify that information through this electronic system that we now have in place with Labor. And going back and forth with the applicants -- and there are some discrepancies here and it could be as mundane as the name; it could be that, potentially, it was filed incorrectly. Not saying that the person didn't work there, it's just getting the reasons so that we can tell the story that the taxpayer dollars are going out for the jobs.

SENATOR O'SCANLON: And we all want that, absolutely. I'm with you 100 percent.

But you're not finding a wholesale troublesome pattern of these entities having misled us in order to get these tax credits. Is that fair to say?

MR. CIALLELLA: I think the companies have been able to respond with reasonable explanations as to why there might be some discrepancies.

SENATOR O'SCANLON: Okay. Which leads me to the next question about the Governor's statement. And I don't think I'm being hyperbolic when I say he's being hyperbolic -- that we squandered, potentially, $11 billion in tax credits. In order for that to be true on its face, we'd have to have no withdrawals; we've already shown we have $1.8 billion. And in talking to people in this industry it sounds to me like the number of withdrawn applications, or ones that are never realized, is anywhere from 30 to 50 percent.

Is that accurate, by your knowledge of the industry, of these programs? Is it in that range, typically, of tax incentives that aren't realized?

MR. SULLIVAN: Well, I think one of the shortcomings, or things that I'd like to see improvement in, is when we make offers of incentives -- which is what the Board's approval of an incentive is; it's essentially an offer of an incentive -- the number of times where the out-of-state company is actually using the New Jersey process as a way to help their process in their home state. And so there's a lot -- there's a number of circumstances where we might get an inbound from a company that, in good faith, is looking at New Jersey as an alternative to wherever they are. They choose to stay where they are, because most companies choose to stay where they are. You know, they'd like to do that. And so there's a number of situations where that's a reason for a withdrawal or, sort of, a not -- they don't accept the offer, for lack of a better word.

And so, again, we want to make-- If we're committing the good name and the tax resources of the State of New Jersey to a company, we want to make sure that they're ready to go. That's an important part of the reforms that the Governor has introduced in his proposal.

SENATOR O'SCANLON: Fair enough.

But we're going to see a significant number; we've already seen just under 20 percent withdrawal. I'm assuming that, over time, there will be a lot more. Revel, alone, was a quarter-of-a-billion dollars that didn't cost taxpayers anything. We got that building, and then they filed for bankruptcy, and I don't think one dime of taxpayer dollars went out, despite the fact that it's used by a lot of people on a regular basis. Not you or the Governor, I don't believe; but a lot of people said, "Look at all the money we squandered on Revel." We didn't squander any, so they should stop with that rhetoric.

But again, that's not directed at you.

But assuming that we have a significant withdrawal of, say, 30, 50 percent -- whatever the number is -- that $11 billion can't be accurate. We can't have squandered that, because we already know we have withdrawal, number one. Number two, it also assumes that not only is every dollar realized, but that none of it was effective. Now, you're the

Executive Director of the EDA; I'm assuming that you believe in the value of tax incentives.

MR. SULLIVAN: I think tax incentives have to be a tool in the toolkit in service of a larger strategy; yes.

SENATOR O'SCANLON: Fair enough.

And the Governor has said that as well. So unless he's going to say that our tax incentive programs, to this day, have been complete and total failures, to every penny; that none of it generated any other money, his suggestion we could have squandered $11 billion is irresponsible and completely undermines the public's faith in government, number one, and how we're dealing with their tax dollars. And in your agency that you have to preside over -- you should stop that rhetoric and we should all look at this together, as we are in a bipartisan way here today.

I appreciate you being here.

One last thing -- the idea of caps. Your agency controls what goes out the door, right? The Board, you, staff, and the Governor have a lot of influence on the agency. So you can cap it yourself, right? The Governor, through the agency, could say, "Were doing a cap." You don't need the Legislature to force it, right?

MR. SULLIVAN: So the way the statute reads, currently, for the programs that expired on June 30, there is eligibility criteria that are spelled out. If a company says it's going to do *X, Y*, and *Z*, and submits the right information, and complies with the application, and goes through the process, there is sort of a presumptive assumption -- a presumption in the statute that they would be approved for those credits.

SENATOR O'SCANLON: Ah, okay.

MR. SULLIVAN: And so there needs to be a specific reason to decline an application. Either they can't demonstrate the material factor, they can't meet the net benefit test. But if they meet *X*, *Y*, and *Z*, there's a formula that says they're entitled to whatever amount per job or the capital investment recoupment.

SENATOR O'SCANLON: Okay.

MR. SULLIVAN: And, you know, there's no discretion to reduce that award based on what you think; or there's very little discretion to reduce that award that the formula generates in the statute. That has led us to have a five times more generous program than everyone else in the region.

SENATOR O'SCANLON: That is good clarification to have, whether I agree on capping both programs or not. But I appreciate that.

Thank you very much, Director, for being here.

MR. SULLIVAN: Thank you, Senator.

SENATOR SMITH: Senator Cruz-Perez.

SENATOR CRUZ-PEREZ: Yes.

In Camden we were able to actually move some of our projects forward. But unfortunately, Trenton and Paterson -- which are Garden State Growth Zones -- did not experience significant economic development as a result of the growth of the programs. So to what do you attribute that happening in those places?

MR. SULLIVAN: Well, I'd hesitate to speculate on history. I only came back to my home state in February of 2018.

I would say that as we look forward, I think based on your question, I think we would agree on the need to make significant investments in all of New Jersey's distressed cities. And Paterson, and Trenton, Camden, parts of Newark where that investment would go the furthest -- Atlantic City, parts of Jersey City, all of those communities where that investment really could be maximized is incredibly important. Working closely with the new mayors of both of the cities you referenced to identify key projects and, hopefully, in the new programs serve those cities well.

SENATOR CRUZ-PEREZ: The projects were cancelled. To what do you attribute that?

MR. SULLIVAN: Do you mean *withdrawn*?

SENATOR CRUZ-PEREZ: Yes.

MR. SULLIVAN: So it's a variety; and its case-by-case, and we can go name-by-name. Some of them were-- Again, it's situations where the company said, "Well, we might move to New Jersey if you give us a tax credit; and we might stay in Pennsylvania or New York," or wherever they are. And they ultimately chose not to come, as they never accepted the credit.

Sometimes -- and we had an example of this at our Board recently -- where there's a company that said they were going to create *X* jobs, and they created a lot less -- they're still qualified for some tax incentive, but it gets reduced by quite a bit. So that would take that number from something to something less.

SENATOR CRUZ-PEREZ: So what can we do-- Actually, what can we do to help places like Trenton, Paterson -- that there were projects, there were businesses interested in coming into those places that badly need businesses. But what can we do -- the Legislature, EDA, all together -- what can we do to attract in and see if we can have those businesses come in to those places?

MR. SULLIVAN: Yes, I think there's so much that can be done and so much that needs to be done to invest in communities where investment has historically been denied there.

Part of it is about the fundamentals of economic development; it's about infrastructure. So it's about Transit -- it's about NJ Transit. It's about making sure that there is commuter and intercity rail that serves these communities well. Mobility is incredibly important in the 21st century economy.

It's also about quality of place. So one of the things I think is smartest about the Governor's economic development proposals is his focus on things like Brownfield redevelopment and Historic Preservation. If you drive through downtown Camden, Paterson, Trenton, and lots of other cities, you see these beautiful buildings that once were the centerpieces of the local economy that have either been vacant, or abandoned, or certainly under- loved. And with something like a Historic Tax Credit or a Brownfield Tax Credit you could see former industrial facilities converted into new residential options, whether that's affordable housing or market-rate housing. It could be business incubators, it could be the homes to new companies. We think that's an incredibly important and impactful potential investment, and one we're eager to have the tools to work with.

SENATOR CRUZ-PEREZ: And I agree with you 100 percent.

I just need to follow up on something we discussed before -- the net benefit test -- because I want to make sure that you explain how job creation criteria (indiscernible) for Camden.

MR. SULLIVAN: I'm sorry; can you clarify the question?

SENATOR CRUZ-PEREZ: On the net benefit test--

MR. SULLIVAN: Yes.

SENATOR CRUZ-PEREZ: --could you explain how the job creation criteria (indiscernible) for Camden City?

MR. SULLIVAN: Yes, so the statutory changes made in 2013 do create some unique rules for Camden -- and, ultimately, Atlantic City was added to that as well -- that changed the material factor test; it has to be a material factor -- whether the jobs would -- material factor to go to Camden.

The specifics of every application, though, are different. And so you have to understand each application uniquely to understand whether the company is coming in from out of state, is expanding within the city it's in, is coming from a suburb into the city that anchors it. And so the statute is reasonably clear; in some places it could probably benefit from some clarification.

SENATOR CRUZ-PEREZ: So it changes from company to company.

MR. SULLIVAN: Well, each application is different; each company's circumstances are different, yes.

SENATOR CRUZ-PEREZ: Thank you.

SENATOR SMITH: Senator Pennacchio, did you have one more?

SENATOR PENNACCHIO: Yes; just one quick follow-up question.

The State incentive for film and video tax credits are administered by the EDA, correct?

MR. SULLIVAN: Yes, sir.

SENATOR PENNACCHIO: Okay. It's been about year, and had the support of the Administration. Could you tell us whether that program has been audited or not?

MR. SULLIVAN: I don't believe it's been audited quite yet. We promulgated the rules and the application in the fall of last year. We've been reviewing applications at the Board level since -- I want to say April, March or April -- when the first projects came through. And so the program is in its early days. I don't know that it's been-- Unless there's been an audit that I'm not aware of, it hasn't been audited yet.

SENATOR PENNACCHIO: One of the concerns that I have is that $450 million program is supposed to last five years. I know that the legislation has just gone through the Senate -- and I don't know if it's gone through the Assembly or if it's bottlenecked there -- for an additional $450 million for another five years. So it makes it from a 5 to a 10-year program,

The concern that I have is, why would you want to extend the program unless you audit the program first to see whether or not it's working and whether or not we're getting the net benefit that we had?

So I would hope you would keep that in mind if you haven't started that audit, because this legislation is going forward and I would hope that you hasten that particular audit.

MR. SULLIVAN: Well, thank you, Senator.

The Film and Digital Media Tax Credit, I think, has certainly had an impact already in sort of the reputational dimension of New Jersey's places -- New Jersey's status as a place to film television media, and television films, and make digital media. We've seen a number of applications come in; again, we're in the process of reviewing them. And we've certainly seen an uptick in the interest from, you know, studios and film production companies in New York, and as far away as California; something we're probably going to be talking about when we're in India in six or seven weeks -- talking about their film and television industry as well.

SENATOR PENNACCHIO: Seeing the number of applications when we're giving away free stuff is not unusual. Finding out what the net benefit is to the taxpayers who are paying for this is a must.

MR. SULLIVAN: One of the things that we've been really focused on as we roll that new program out, Senator, is making sure we are doing all the right things to make sure that we have a handle on all the numbers that we're being asked to review and approve; and making sure that we are getting the bang for the buck that the taxpayers have agreed to invest.

SENATOR PENNACCHIO: Have you been asked to audit the film industry after one year -- that particular tax?

MR. SULLIVAN: I'm sorry, I didn't hear the question.

SENATOR PENNACCHIO: That tax credit -- have you been asked to audit yet?

MR. SULLIVAN: No.

SENATOR PENNACCHIO: Could we ask you to audit it?

MR. SULLIVAN: We will do as we're told.

SENATOR PENNACCHIO: Thank you.

SENATOR SMITH: Senator Addiego.

SENATOR ADDIEGO: Thank you.

The Chairman asked for a list of those people who have requested the release of their tax credits for this year. Do you have any-- Are there any companies that have requested release of their credits from prior years that have not received them?

MR. SULLIVAN: I think there are still some -- and correct me if I'm wrong, Bruce -- if there are some, we can get that list from last year.

SENATOR ADDIEGO: I was just going to say -- could you make sure it's a full list.

MR. SULLIVAN: I'd be happy to share that list as well. That's a much shorter list, as you would expect. It's (indiscernible) -- issues that need to be worked through.

SENATOR ADDIEGO: So people were able to -- or companies were able to get their applications in before it expired. Are there-- How many new applications have come in?

MR. SULLIVAN: So as we sit here right now, we saw the pipeline of applications that-- You have it correct, Senator. The EDA Board can-- So we can't-- What changed on June 30 is we can't accept any new applications. The EDA Board can continue to consider, for approval, applications that came in that were complete by June 30. And *complete* is an important concept, because if you only sent in a partial application, that doesn't count. If one only sent in a partial application, that wouldn't count.

So we have, between ERG and Grow, a pipeline of around 20 projects between the two programs that are eligible--

SENATOR ADDIEGO: That made it?

MR. SULLIVAN: That will be considered. That doesn't mean they're going to be taken to the Board for approval, necessarily. We haven't determined whether they're in compliance with the statute, whether they're material factor test has been met -- all the ordinary course questions that are asked about a project. We're in the process of doing that with our (indiscernible) Group and our Business Development Group.

SENATOR ADDIEGO: So are you saying that they are being processed?

MR. SULLIVAN: They're being reviewed. Whether they come forward for the Board's consideration is going to be case-by-case. So yes, they're being processed.

SENATOR ADDIEGO: Okay, so no one has asked you to hold those up in any way -- whether it is the Administration, the AG's Office -- pending investigation. They're not being held up in any way?

MR. SULLIVAN: New applications -- the statute says we could accept them through June 30; and we're in the process of making sure we understand all those and review them through the ordinary course.

SENATOR ADDIEGO: But no one has asked you to hold them up?

MR. SULLIVAN: No.

SENATOR ADDIEGO: Just-- I wanted to get back to what Senator O'Scanlon was talking about with regards to some of these mom-and-pop Main Street companies that are waiting for their credits. Is there a possibility of fast-tracking those? Because, I mean, I think you know, again there's a big difference between a corporation and some of these, you know, mom-and-pops that are desperately waiting for these credits.

MR. SULLIVAN: So I would have to look, name by name, through the list. But, by and large, Grow New Jersey is a program that is not really a Main Street program; it's really for corporations.

One of things I think that's been a shortcoming of our approach historically at the EDA has been that we have not been sufficiently focused on having the tools and resources for small businesses -- mom and pops stores, as you're describing Main Street businesses. And so we've worked very hard over the last 18 months or so to develop some new tools, particularly around small business lending, particularly for women-owned businesses, minority, veteran, LGBT-owned businesses, immigrant-owned businesses -- to make sure that they are getting more resources. Because if you look at the roster of companies that have applied for and have been approved by Grow, by and large it is large companies. And so we are focused on doing more for small businesses, while we're also focused on making sure we're doing what we're supposed to do with regard to Grow.

SENATOR ADDIEGO: Okay. So if there are any of those smaller ones that are being held up -- not held up, but are under review that have not gotten those credits -- would you make a commitment to seek those out and move them?

MR. SULLIVAN: Our commitment is to approve programs under the statute once companies have been able to satisfy the questions we have and verify that they've done what the taxpayers were asked to commit to when they made that investment.

SENATOR ADDIEGO: Okay, thank you.

SENATOR SMITH: Senator Lagana.

SENATOR LAGANA: Thank you, Chairman.

Thank you, Mr. Sullivan, for your testimony. I appreciate it.

I just want to go back to that -- that Senator O'Scanlon talked to you a little bit about it. And I guess it's the overall review process and how it has changed or been enhanced since you've taken over the agency.

So the projects that were previously approved, that were being awarded tax credits -- those applications in conjunction with all the new applications -- were they all being re-reviewed? And what is the process like now, as opposed to what it was prior to?

MR. SULLIVAN: So to make sure I'm clear on a couple of vocabulary things.

So there's approval-- When we use the word, or when I use the word *approval,* we mean the Board approving it.

SENATOR LAGANA: Right.

MR. SULLIVAN: Meaning an application has come in, it's been reviewed, it's been taken to the Board and said, "You qualify for up to *X* of a tax credit."

SENATOR LAGANA: Right.

MR. SULLIVAN: Then it goes through what's called a c*ertification process*, which is really what Bruce's group is responsible for. So there's a distinction between applications that have been *approved* and applications that have been *certified.* So as you're kind of going through the pipe, there is a much bigger number that have been approved, and then they go and they certify.

SENATOR LAGANA: So let's stick with the approval.

MR. SULLIVAN: So to get from here to here (indicates), it's really-- The way that process works is that the company has to basically send us a report, usually within -- it has to be within four years; usually it's between three and four years -- that says, "We said we were going to create 300 jobs, and invest $100 million, and build this new plant. And here's a stack of information that shows how we did all that."

And then Bruce's good team has to go through all that, line by line, and make sure it's accurate and consistent with the statute.

So that happens in ordinary course; and that's what's called the *certification process.* And so that's -- that happens. You do your overall certification, then every year you come back and update that information.

SENATOR LAGANA: So that's a yearly process that occurs?

MR. SULLIVAN: Once you get to the certification process. So if we approved a project at the April Board meeting, we likely wouldn't do an incremental review of that for a year, or two, or three -- until they come back and say, "Hey, we've completed our project." And no tax credits would be issued until that happens.

SENATOR LAGANA: Have you implemented any changes in those procedure; meaning, a company that was approved -- certification was approved a year ago is now coming back. Do they have additional certifications that were not there a year ago, or is it the same certification process that they had to comply with initially?

MR. SULLIVAN: The certification process is where some of the questions that were raised earlier about people who haven't, necessarily, gotten their credits this year comes about. So we've expanded and made more robust that process to make sure that we're addressing particularly the issues that are identified in the Comptroller's report of, "Can we verify that if someone said they created 300 jobs, we know who those 300 people are;

we know what they got paid; we know they got their health benefits like the statute says they're supposed to." That's rigorous work, as you just start imagining this in Microsoft Excel. That starts being lines, and lines, and lines, and lines, and lines of information. And that's the process we're going through now, and we go through that every year. And it's a more robust process this year.

I also think, by the way, this isn't sort of an investment year in that process. As the companies get up the learning curve, that Bruce described, of what they need to provide to us in this new process, and we get more efficient -- I think next year will be, certainly, smoother.

SENATOR LAGANA: Okay. Can you just explain what changed as far as the reporting or what is in that required for companies? So if a company says, "We're supposed to create 300;" but let's say, you know, three years ago they had to prove a certain criteria. Was it that your predecessor was just accepting what they said, and now you're doing more follow-up? Like, what has changed, as far as the process is concerned, with actually accepting what they are certifying to you?

MR. SULLIVAN: Sure; and I'll defer to Bruce on that in a moment.

But, generally speaking, it's a continuous process of improvement. We've made process improvements early in 2018, midway through 2018; we're making process improvements through 2019, and we'll continue to do that.

So Bruce, did you want to comment in more detail on the changes?

MR. CIALLELLA: Yes; and I think some of this is a result of the Comptroller's recommendations as well, and intertwining what the Comptroller had in their report.

So you would have -- previously, a CFO is going to certify to their jobs. We would look at their jobs; we would spot-check their jobs. We would do so via a -- as Tim earlier said -- a pdf version of their, kind of, employment report that they would send to Labor.

Now we are able to have that relationship with Labor, where we can get that information digitally. Which means that for each of those jobs, we're going to review each person and see, you know, were they there, for each quarter, the requisite amount of time? There are tons of reasons why someone might show up on-- You know, might be there in May on one report, but not there the previous month in April, where they were just hired.

So we need to go back to the business and understand all of those nuances. And this is kind of where the conversation of investing in our systems this year-- This is a little bit different than what the companies had done in previous years, because we did more of the spot-checking and relying on the certifications. With the Comptroller audit, we realized that we need to do more of an analysis on every one of the jobs.

So I think that's where the process improvements are coming in, and it's just a learning curve for the EDA to ask the right questions to the company; and the company to understand, when they report, that they just need to report more detail to us so we understand exactly what's going on behind each job.

SENATOR LAGANA: So essentially, the company reports in its certification. Now what happens is you, I guess, check that with the Department of Labor; and if there are any inconsistencies you go back to the company to correct those inconsistencies? Is that the process?

MR. CIALLELLA: That's exactly right; on a high level, that's exactly right.

SENATOR LAGANA: Okay. How often are you finding inconsistencies? And if you can, kind of, rate the inconsistencies, from Tim Sullivan, to Timmy Sullivan, to, you know--

MR. CIALLELLA: They're all over the board--

SENATOR LAGANA: Things on that level -- whether they're mundane or bigger problems.

MR. CIALLELLA: I think the majority are somewhere in the middle.

You know, there's a ton of things that it could be; it's really a case-by-case basis. It wouldn't be -- I couldn't sit here and say, "Well, you know, 90 percent are this way and 10 percent are that way." I think it's somewhere in the middle of, maybe, things were just not-- The application coming in had inconsistencies in the name or the wages; and it's just-- One, it could be clerical, right? I mean, you could type a wrong number in an Excel column, and it messes up, kind of, the whole process down the line. So it really -- it goes across the board. I wouldn't be able to put a specific number in there. But every company, for all intents and purposes, we've gone back to just to clarify a little bit, because there are just some instances of something that we need more clarity on.

SENATOR LAGANA: Okay; so, which would you consider, then -- the majority of them to be more on the mundane -- I think it was the testimony -- as opposed to being egregious?

MR. CIALLELLA: It really depends. I don't want to put-- It really is case by case.

SENATOR LAGANA: Thank you.

SENATOR SMITH: Senator O'Scanlon.

SENATOR O'SCANLON: A quick follow-up, just to get back to caps quickly.

So I did look at the statute, and it says that we're obligated to fund up to 35 percent of a capital investment. So the implication is there -- that you're right that we have -- whoever meets the criteria we have to fund something. But couldn't you decide, say, you have application deadlines, right? And you have folks qualify. And if you were to go up to 35 percent, it would be $1 billion, let's say. Couldn't the agency then say, "We're only going to give you 17.5 percent," because the statute says up to 35 percent. It doesn't obligate you to go that high. Can you not then just make a decision, "Hey, we're only going to spend half-a-billion dollars here"? Is that possible?

MR. SULLIVAN: Yes, I think the part of the statute you're referring to is ERG, and what I was describing actually was more--

SENATOR O'SCANLON: Grow.

MR. SULLIVAN: --(indiscernible) to Grow.

SENATOR O'SCANLON: Okay.

MR. SULLIVAN: ERG -- there are different hurdle rates for different types of asset classes. So residential--

SENATOR O'SCANLON: And Grow doesn't have-- I didn't look to--

MR. SULLIVAN: Grow does not have that. And the only application deadlines that we're allowed to impose is the one that came on June 30. So we can't say, "We're only taking applications through April 10," or something like that.

SENATOR O'SCANLON: So, I'm sorry. It forces you to have open-ended applications?

MR. SULLIVAN: As long as the program was eligible.

SENATOR O'SCANLON: Okay.

MR. SULLIVAN: It was operating, which was true until June 30.

SENATOR O'SCANLON: Okay; thanks. I appreciate it.

MR. SULLIVAN: Thank you, Senator.

SENATOR SMITH: One question stimulates another.

Senator Lagana.

SENATOR LAGANA: I apologize for not doing this follow-up previously.

Back to what I was talking to you about -- the level of inconsistencies. Have you rejected any applications due to inconsistencies that you found during this review process?

MR. CIALLELLA: So if we had to do -- as Tim has mentioned earlier -- if there was any hold, or rejection, or anything like that, that would go back to our Board, which we have not done. There have been instances where the explanation by the company on a job wouldn't, maybe, qualify that job for that month, or the next month, or whatever it might be.

But a rejection of an award, or anything along those lines, would go back to the Board, which we have not done.

SENATOR LAGANA: Have not done. Okay, thank you.

MR. SULLIVAN: Let me just clarify that.

We have that with the 2018s, with the class that -- the cohort of tax credits that we're reviewing now. We, with reasonable frequency, go back to the Board to adjust awards if companies haven't done what they said they were going to do, or if the project changed, or whatever else that happens. That's how you, sort of-- The number shrinks over time of what the actual obligations are.

SENATOR LAGANA: But no outright rejections.

MR. SULLIVAN: Pardon me?

SENATOR LAGANA: No outright rejections?

MR. SULLIVAN: I'd have to clarify that, but probably not, yes.

SENATOR SMITH: So the last questions--

Newspapers report that there is some concern with financing the program with tax credits. Is that the case?

MR. SULLIVAN: I'm not sure which specific news report or program you're referring to.

I think, you know, we're continuing to administer the programs to the best of our ability, and adding scrutiny and the appropriate oversight where we can within the statutory framework. And I think the most important thing is, again, in the next generation of incentives, making sure that we have all the tools in the toolkit to be as transparent and rigorous as we need to be.

SENATOR SMITH: So there's no objection from the agency, at this point, to continuing with the program where tax credits are the primary financing mechanism?

MR. SULLIVAN: So the Governor's economic development proposal makes a number of -- has 70-something different initiatives in it, some of which are legislative and some of which are-- You know, there's a successor proposed to Grow and a successor proposed to ERG. We're not opposed to tax credits. The Governor has said the tax credits have to be a tool in the toolkit. The debate is not, "Do you have tax credits or do you not have tax credits?" It's, "What size, what shape, what's their area of focus, what's the accountability?"

SENATOR SMITH: Okay.

MR. SULLIVAN: And, in particular, how to use tax credits in a way that does more to support the innovation economy. The Governor's Innovation Evergreen Fund proposal uses tax credits. It's built on the idea of a tax credit that would be auctioned to large companies with the proceeds invested in young, growing New Jersey companies; and partnerships fostered between those big companies and those small companies. That's a very, very valuable potential investment, and I think it's an innovative way to use tax credits in a different way that I think no one around the country has done yet.

And so there's not a reflexive anti-tax credit sentiment that I've ever been a part of. It's, "Do we have the right tools, do we have oversight, are we doing the things that are within our control with regard to staffing, and oversight, and compliance that we need to do to make sure that if the taxpayers make an investment, they get what they were promised."

SENATOR SMITH: Thank you very much, gentlemen, for coming in today. It was most helpful.

And the same suggestion -- if you have any suggestions as we move forward, please don't hesitate to convey them, okay?

MR. SULLIVAN: Thanks for the opportunity.

SENATOR SMITH: Thank you for coming in.

Our next group of witnesses will be a business panel, and that is compose

CIANJ.

And as I understand it, Tom is going to lead the -- you're the leader of the laundromat on this panel.

THOMAS A. BRACKEN: Thank you, Mr. Chairman, and members of the Committee; and thank you for inviting me to testify today.

As we sit here today, our state has a struggling economy and an enormous need for business and economic growth.

But where are we today? We have no tax incentives; we're the only state that I know of among our peers without them. Our GDP growth in the last six months is dead last in the continental United States, and significantly below our regional peers. We rank between 48th and 50th in the most prominent list of state business competitiveness. We have a growing negative business reputation, due to the unwarranted vitriolic attacks on the EDA, its programs, its leadership, its employees, and its incentive recipients.

Adding to that reputational challenge, we were hearing that an increasing number of prior incentive awardees are not being paid claims due for the tax year 2018.

Due to all of that, and other obstacles such as increasing taxes and costly mandates, I think it's very safe to say that the "Open for Business" sign of New Jersey is hanging by a thread, if it hasn't already fallen.

We are wasting the tremendous assets this state possesses, and allowing many of those assets to dissipate.

Also, all the work done in the last year-and-a-half to create a fair economy cannot possibly be achieved without the economic rebound we need, potentially wasting all the time and effort that was put into having those initiatives legislated.

It is long overdue to aggressively prioritize and implement economic policies to reverse our negative trends. We need to retain and attract business to our state, and equally we need to motivate existing companies in our state to invest and grow here. We can measure companies that leave, we can measure companies that enter the state, but we will never know the magnitude of foregone opportunities that never materialized because companies lacked confidence that our state valued business. And believe me, there are a lot of those missed opportunities.

Since its inception, the EDA and its incentive tax programs have had a very positive impact on our state economy and business growth. Also since its inception, the organization has employed many dedicated, intelligent, and hardworking people whose mission was to move the New Jersey business economy forward and keep it competitive.

Jobs have been created and retained, urban centers have been resurrected, companies have prospered, and our state economy has been a big beneficiary, as the net benefits have significantly exceeded the cost of the tax incentive programs.

Has the EDA been perfect in the execution of its mandate? No, but what organization is perfect?

Recent audits and hearings have uncovered alleged deficiencies in the EDA's fiduciary responsibilities and alleged misrepresentations of some of the incentive recipients. All of those need to be fully vetted and appropriate action needs to be taken if the allegations are verified. But the absolute vilification and ongoing vitriol of the EDA, its programs, its employees, most based on misinformation, is totally uncalled for and is damaging to the reputation of the state. It is basically a situation of guilty until proven innocent of all recipients of tax incentive programs.

The EDA and its incentives have played a vital role in the state's economy, and we need to keep it as a vital component in the ongoing economic development toolbox of the state.

We have a golden opportunity to reverse our negative business reputation and make it more competitive by creating an economic development tax incentive program that is new, that is aggressive, that is creative, that is competitive; and is attractive, encompassing pristine analytical and pristine internal compliance requirements. With our enormous assets and location our state should be one of the best and most attractive business states in the country; but we are not.

We lag the nation and our peer states in economic growth and job creation. Our competitive ranking is near the bottom of any poll we can find. We continue to be unaffordable, and the resulting outmigration is accelerating. We need our economy and business community to grow, not shrink, and we need it to grow quickly and we need it to grow a lot.

We need to aggressively and confidently flash the "Open for Business" sign again, and employ every tactic possible to get it there.

A revamped best-in-class EDA tax incentive program needs to be at the top of our "Open for Business" menu. We simply cannot afford to do otherwise.

So what does the new tax incentive program look like? I don't have the answer in total, but I have a few comments I would make that I think are mandatory.

First, let me preface my comments by saying I was a banker for 42 years prior to taking the job at the Chamber. I lent billions of dollars to thousands of companies, and fortunately was paid back most of it. The keys to success in extending credit -- and the EDA tax incentives programs are really an extension of credit -- the keys to success are done at the front end and the back end. What do I mean by that? I do not mean, right now, by the way, that the EDA does not do these. I'm saying there's always room for improvement.

The front end -- you need to do absolutely as much analytical work as you can: An analysis of the financial aspects of the companies that are applying, the people involved, the industry they're in, and the economic environment that they are dealing in.

On the back end, you need to have diligence in monitoring the requirements that are placed on those companies, and you have to have those requirements and that diligence done with zero tolerance. There can be zero tolerance in complying with what they're supposed to do.

Also, in putting together a new program -- make the programs as broad as possible so as many companies in our state benefit as possible. That incents the growth we need in the State of New Jersey. If we don't do that, there will be winners and losers; we cannot afford to have winners and losers. I know the comments about the innovation economy and I would, quite frankly, say that the innovation economy, if that's focused on, is only going to be as successful as the state's business growth is. And the state's business growth will definitely benefit by having a new EDA program applied to as many companies as possible. And when I talk about *as many companies as possible*, I'm talking about sizes, industries, and geography.

This will also send a very significant message to our business community that the State has the concern for the business community and will help some of the negative impressions that are out there.

Regarding caps: No caps. There is no valid incentive program that has caps. It defeats the purpose of an incentive program. Incentive programs are meant to motivate growth. If you have a cap in place, you're going to have growth to a certain point, and then the people who want to grow and were applying beyond that are left in the lurch and have to wait for the next year. They're not going to stay around; they're not going to hang around the state for that. They're going to go someplace else.

Also, a cap is, sort of, a half of loaf. If you have a cap on a program, then you cannot accommodate all the needs that are out there. And also, I don't think there is any other state that I have looked at -- and I've looked at a few -- that have caps on their incentive program. So a cap makes us non-competitive; and also it will restrict growth, not enhance growth.

Additionally, my strong suggestion is that we take the time and effort to look around the country and see the best of the breed of other states that are doing EDA tax incentives well. Use the findings to create a best-in-class program that is aggressive, attractive, and motivates growth, and is airtight from the standpoint of compliance.

And do this with the extension of the existing program, which I highly recommend. I know that there's a proposal to have it extended for seven months. I believe now it's down to five-and-a-half months, or five months, or six months. But we need to extend that program; and take the time during that time to look around the country and put together what is the best in class, and utilize that for our new program.

It is critically important that we maintain a vibrant EDA and competitive tax incentive program, and do so with the best possible program and structure. With all due respect, Mr. Chairman and Committee, we do not need any more hearings; we need action. We're not going to find anything out today, I think, that you didn't already know about the EDA's programs, and the deficiencies there, and what the recommendations are. We need to look outside the walls of Trenton; we need to look outside the boundaries of New Jersey for the best solutions, and we need to do that with a very strong sense of urgency.

I urge you to prioritize business by promoting legislation that shows the Legislature values our business community. I urge you do all you can to enable us quickly to rehang the "Open for Business" sign; and the reauthorization of a thoroughly researched best-in-class tax incentive program would be a great start to accommodate both those wishes.

Thank you very much.

SENATOR SMITH: Who is next?

CHRISTINA M. RENNA: I can go next, Chairman.

Good afternoon, everyone. Christina Renna, Senior Vice President with the Chamber of Commerce Southern New Jersey.

Thank you very much for the opportunity to testify before you today.

First, I guess I'll start off by saying ditto -- everything that Tom Bracken, from the New Jersey State Chamber of Commerce, said.

My testimony today is going to be a little unique, in that it's going to be very specific to the South Jersey region; which is fitting, seeing that a lot of the rhetoric that has been placed out there about tax incentives had been focused specifically on Camden. So I'm here to speak a little bit about that specifically today.

For those of you who are unaware, I'm uniquely positioned to kind of have this kind of conversation, representing the South Jersey Chamber of Commerce. We started as the Camden Board of Trades back in 1843. We're coming up on our 150th anniversary. We were started several years after the Civil War by RCA and Campbell Soup Company, specifically.

Over the years -- over the 146 years we've been in existence, we have evolved into the Chamber of Commerce Southern New Jersey. But over this time period, and through obviously many years and different variations of leadership, we have seen the fits and starts repeatedly of attempts at economic development, specifically in Camden City; all of which have ended up failing, up until we saw the inclusion of Camden in the Economic Opportunity Act.

We've had some conversations; Tom Bracken just mentioned some of other states that have very competitive programs. In South Jersey, especially in the Camden area, we watched after business after business moved to the Navy Yard in Philadelphia. We saw Urban Outfitters go there, We saw Tastykake move their new headquarters there -- business after business -- while we, with this beautiful view of the city, just sat lagging over the years.

When this program came along, I know our Chamber supported it, although I wasn't at the Chamber at the time. We rigorously supported the original program; then, of course, the inclusion of the City of Camden in the legislation.

I want to do this in four parts. One is just going to be a very quick overview of Camden in the grand landscape of the Grow New Jersey program. I'm going to talk a little bit about the return on investment that we've seen; that's something I know the Administration is very focused on -- whether or not we've seen a return on investment in Camden. Thirdly, I'm going to talk about some problems with the rhetoric that we are seeing. And lastly, I'm going to give you just a few brief suggestions on how these programs can be improved in the future should they, of course, be reinvigorated now that they have expired.

As we heard Senator Kyrillos and Senator Lesniak speak to, the catalyst behind putting Camden into the Economic Opportunity Act was simply because of its desperate need for economic development -- period, point blank, end of story. When the legacy Grow program was created without Camden in it, $525 million was allocated in tax incentives, zero of which went to Camden in that first legacy program.

Then you move forward, and Camden has been included in the Economic Opportunity Act. From that point on, until under the Murphy Administration -- Governor Murphy took office -- you looked at a big increase, as we know, of incentives being awarded -- almost $4.5 billion over that time frame being awarded; $1.49 billion of that did go to Camden City during that eight-year time period.

Then, since Governor Murphy has taken office -- and you heard Tim Sullivan speak to this -- just under $400 million, so far, has been approved; and of that, $64 million has been allocated to Camden.

So what do all those numbers mean? In the grand scheme of things, $5.4 billion have been approved. Of course, that number can grow, based on certain incentives with EDA, etc. But 28 percent of that went to Camden City, in the grand scheme of things. So yes, we incorporated Camden because there was a need; but at the end of the day Camden is still receiving just over a quarter of the incentives, when the rest of the state -- most of which are in North Jersey -- is still receiving the majority of these benefits.

The way the rhetoric has played out in the press, I feel like it's been skewed that Camden has gotten much more than that; so I feel like it's important to highlight those numbers. Again, not saying that that's any small amount; but going from zero with the original legacy-- And in years prior, with BEIP and BRRAG, seeing very little go to Camden City, it's obviously a huge increase. But it's not all the money that the Grow New Jersey program has, or all the incentives that have been approved are not all going to Camden. And because there's been such a specific focus on Camden, I feel as though it's important to point that out.

Additionally, Camden City is doing it right when they receive the awards. And there's really no right or wrong way to do it; but if you look at different municipalities -- we can take, like, a Jersey City, for example -- about 90 percent of the incentives, that have gone to Jersey City, they've invested on the waterfront. That's their decision to do so. In Camden, there's a true diversification of where the economic growth is going. So 28 percent is on the waterfront, and there's been a lot of focus on just that waterfront area being developed. But 40 percent are in the neighborhoods; 12 percent are in the Gateway neighborhood, which is the central region of the city of Camden; and 20 percent is in the downtown area.

So as these companies are moving in, the city is very strategically working with these companies to make sure the incentives are being spread appropriately around the community, and hopefully have great impact on the community of the City of Camden as a whole.

So I want to move on quickly and talk about the return on investment, because that is something that has really been drilled upon, over and over again, that what is the return on investment, has there been one in the City of Camden. And I can say that, you know, our tagline at the Chamber is, "We are the South Jersey business community's voice in Trenton," and we can say unequivocally, absolutely, incentives have done the job they were supposed to do in the City of Camden. Just a week-and-a-half ago, we heard the news that the lowest unemployment rate in at least 30 years in Camden City has been seen -- that's an unemployment rate of Camden City residents -- we're down to 6.8 percent. The Department of Labor only holds data for 30 years, so we can say it's the lowest in 30 years;

but we suspect it was probably a lot longer than that. Meaning that Camden City residents are going back to work; meaning that these businesses are starting to employ Camden workers. That is an undeniable return on investment.

EDA has certified just under 2,000 jobs. That was about in May, so these numbers may have shifted. But as of a few months ago, EDA certified 2,000 jobs, retained or created, in the City -- when the businesses that received incentives in Camden City were only required to retain 627 jobs. So way overshooting what they had to do coming into Camden, providing even more jobs.

And I want to read a very quick quote. A small business -- there's been a lot of talk about small businesses not benefiting. And there is a small business that is a member of our Committed to Camden Committee at the Chamber that is minority-owned and female-lead. And she was talking to me about it, and I said, "Would you mind sending me an e-mail and allowing me to read your thoughts on the return on investment to this Committee?" So I want to do so now, because you guys always hear me talk, but it's always better to hear from the actual businesses.

She stated, "As a small business based in Camden, the tax incentives have brought major organizations to the City that we would not otherwise have had access to. Now we have the opportunity to partner and grow our business right in our own backyard. This also allows us to give back more to this community, that deserves it and needs it. The incentives have handed us economic development never seen in years, and now we are positioned to take advantage of it."

So again, that's coming from a minority, female-owned, two-person small business in Camden City that can speak specifically to the return on investment.

Next, I want to move on to just some of the problems that we feel, the Chamber feels are being seen as a result of the rhetoric surrounding the tax incentive programs. And that is not to say that bad actors do not deserve to be scrutinized, investigated, and punished, because we absolutely believe that is the case.

However, not every company that has received a Grow New Jersey tax incentive and is based in Camden is a bad apple or a bad player. And this is very much how the businesses that have received this opportunity, and been accepted into this program, feel.

I want to read, again, another -- something that was given to me from a member that really drills down, again, on the impact the political climate and the rhetoric is having. This Chamber member is someone who is a consultant who works -- is hired by companies to help maneuver the very complicated application process that you heard Tim Sullivan speak to just a little while ago. This person does not deal with your big players, the ones you hear in the news; his niche is your small guys and your small-to-midsize companies. And he's dealt with, and been a consultant for, many, many companies in Camden.

He stated to me, "The business community's trust with State government has been broken. New Jersey will become an exit state and set up a growth state without incentives. To date, none of my clients have received their 2018 tax credits. My clients" -- I can't read my own writing -- "my clients hounded me every week as they need this incentive to cover the significant capital investments they made in their projects. These companies made commitments to the State and paid significant fees to the EDA. So it is highly unfair the State treats them in this manner.

"My pipeline of projects has dried up, and I am currently positioning myself to help New Jersey companies that may want to relocate do so."

And this is the same Chamber member who has been approached by two site-selection companies to do just that -- take vulnerable New Jersey companies and now move them out of New Jersey.

Last but not least, I do want to speak to some suggestions for future legislation.

We heard Tom Bracken mention the need for no caps. The Chamber has been on record saying that we do not feel as though any tax incentive program should have a cap, or we agree that there should not be a cap. I really think the key to that is adaptability and flexibility, right? I mean, you heard Senator Lesniak mention a different suggestion of, maybe, a two-prong system. Whatever is agreed upon, you need flexibility. So depending on the company coming in, you can kind of wrap your parameters in the best way, that's best not just for the business, but also for the taxpayer. And that's really key to the future of the program.

Two very quick suggestions that will certainly help every municipality that has a tax incentive business relocate into them.

First -- and we heard this quite a bit already today -- is the need for training. Right now, especially, I'll speak to Camden. Residents cannot get employed by companies because they may not have the right skill sets. So an advancement in apprenticeship programs, and expediting in the

Department of Labor of training grants for workers in municipalities in which tax incentives are being granted, will help the businesses be able to hire within their community a little bit more. So that's something that is definitely needed.

Another is something I haven't heard mentioned yet, but it is something that has come up often with our Committed to Camden Committee -- they are small businesses in Camden City -- and that is, there's a disconnect between the services the small businesses provide, and the larger businesses and what they need to procure. So the suggestion is -- whether it relies at the State level or the City level, I'm not sure -- but there needs to be a marketplace where all the small businesses in -- we'll just say, Camden -- puts all their services and goods that they are able to give the larger companies in town up on a website. And then all the larger companies that are Grow recipients are saying, "I'm looking for X, *Y*, and *Z*, and I want to hire from a Camden-based business." It's all there in one place, and they can easily match each other. Because, right now, my large companies don't know the services that the small businesses provide, and the small businesses don't have the time or the resources to go website to website and try to find out what services are being procured by the companies. So that is another suggestion.

And last but not least, added oversight is something that-- As these conversations happen about potential bad players, I think that it's absolutely necessary to continue to have a rigorous evaluation of all these programs. So should the evaluation stay the same? I don't know. Should they be stronger? I don't know. I would just caution that the more mandates and the more regulations we put around these programs, even less are going to be utilized. That is the number one issue in Paterson and Passaic -- to Senator Cruz-Perez's point -- as to why businesses don't take advantage of the program. It's because they don't have the capability to adapt to all the mandates and requirements that are needed. Not that they are bad; I'm not saying that they are bad. I'm just saying it's something to be conscientious of as we move forward with what those additional oversights look like.

So with that, I am finally done talking.

So thank you.

SENATOR SMITH: All right; before we get our next panelist, would the four of you indicate, by raising your hand, whether or not you have members of your organization who are saying that they are dramatically impeded by the fact that they haven't gotten their 2018 credits.

Okay; so you know what? I've also heard that--

(confers with staff)

Yes, let the record reflect that all four entities raised their hand. (laughter)

But I think it would be very helpful if you would write to the EDA -- copy to the Governor, copy to us -- indicating how many of your members. Not their names, but how many of the members. I've heard that there's some concern -- the people who haven't gotten the 2018 credits are somewhat hesitant to raise their hand and say, "We haven't gotten our credits, and therefore we're halted in what we're doing," or maybe losing mortgages, etc., because they're afraid they may go further back on the list.

So if you would do them a service, and us a service, by indicating how many of your members are making those kinds of complaints, it would be very helpful, all right?

Who's our next speaker?

ANDREW MUSICK: Good afternoon, Mr. Chairman, members of the Committee.

Andrew Musick with the New Jersey Business and Industry Association.

I just want to thank you for allowing me to express the Association's views here today.

You know, it's no secret that New Jersey does have a challenging business climate. The high cost of doing business, the high cost of living here in the state do serve as a barrier of entry. However, we have a number of advantages in this state: our location, our infrastructure network, and our well-educated workforce. But these qualities -- they come with a hefty price tag.

And New Jersey's incentive programs help to make New Jersey more competitive with our surrounding states, and really helps to level that playing field. And you know, we're not alone; states across this country use economic development incentives to attract jobs, retain jobs, as well as attract companies, and create overall economic activity in their states.

And as the environment for business attraction and retention has become more competitive and increasingly aggressive over the years, New Jersey's programs serve as a valuable tool that allow us to offset some of the higher costs we see here in the state. And I think this is what makes the program so critical.

Perhaps most importantly, our programs here in the state are performance-based. No company receives their award or any benefit before it's confirmed that they're generating new tax revenue, capital investment, and the jobs that they've been required to create.

The Legislature and the EDA really should be commended for taking great care to ensure that the programs deliver on these promised benefits in communities all across the state.

However, I think as economic conditions change and the past investments that the State has made take shape, it's only right to re-evaluate, reshape, and recalibrate the programs that New Jersey has in place. NJBIA believes that responsible tax incentives play a role in our toolkit here in the State for economic development, and that we can be a regional, a national, and a global leader when it comes to business attraction and business retention. And I do want to be clear that we support transparency, oversight, and sufficient monitoring of these programs.

So as you move forward designing the next iteration of New Jersey's incentive programs, I just have a couple of recommendations that I want to put forth.

One would be to reduce the overall levels of investment incentives, given the improvement in economic conditions; concentrate incentives primarily on new jobs; further increase the State's ROI on incentives. And this eliminates the need for an annual tax credit cap that would only create uncertainty within the marketplace.

To continue to shrink the program governance; to further expand access to small companies, as well as rapidly growing technology companies; to promote investment and employment in distressed municipalities, locations that enable and promote sustainable development, and areas in the state where underutilized assets exist.

To maintain the transferability and the monetization of tax credits; and to encourage companies receiving an award to incorporate a workforce development component.

NJBIA has also been a leader in helping New Jersey retain its stature as the Innovation State. Earlier this year we released a report, entitled *The Indicators of Innovation.* And New Jersey lags behind our regional competitors, New York and Massachusetts, specifically, when it comes to venture capital. So I just want to offer a couple of recommendations in terms of helping to jump-start and maintain our innovation economy here in the state.

One would be to analyze the impact a policy is going to have on the state's overall regional business climate prior to implementing that policy; to incentivize investments and employment that leverage universities and other intellectual property assets in this state; to increase thresholds for investing in R&D and small and emerging technology businesses. And I think I'd be remiss if I didn't thank both the Legislature and the Governor for passing and signing into law the recent expansion of the Angel Investor Tax Credit Act.

And to go right along with that, increasing venture capital throughout the state; and providing employers with the flexibility to structure their workforce in a way that's compatible with the innovation economy.

I just want to close-- You know, we do face the reality where the Grow New Jersey programs and the ERG programs have expired. And with this lapse and the continued rhetoric here in the state, there has been a chilling effect on companies in New Jersey. This includes projects in the pipeline -- we heard this discussed earlier -- whose applications were submitted and deemed complete, prior to June 30, that have not heard back, and no movement has taken place on them at this time.

Additionally, we are being told by our members -- as when I raised my hand and indicated -- that have created jobs and investment, that they have yet to receive their tax credits for 2018. And this has caused the market, where these credits are bought and sold, to dry up. And this impacts small companies and it impacts the startup technology-type companies, whose only option is to sell these credits; they're not able to take that tax credit. And I think that's a very important point to make.

You know, it is imperative that there be an extension of the current programs, or some sort of a transitional arrangement, until a new statewide competitive demand program can be established. It's vital that New Jersey continues to attract and retain both small and large businesses in order to drive economic growth. And without an extension or a more permanent solution we do risk continued job growth. That's something that our policymakers want and our state needs.

So we would urge the Governor and the Legislature to work collaboratively to provide a temporary transition, or perhaps a more permanent solution when it comes to the State's economic development incentives.

We look forward to working with you all to help reshape the State's economic development strategy and create a business climate that drives economic growth and job creation.

So with that I thank you for the opportunity to participate today, and I'm happy to take any questions you may have.

SENATOR SMITH: Thank you very much.

Tony Russo.

A N T H O N Y R U S S O: Yes, thank you, Mr. Chairman and members of the Committee.

For the sake of time, I'll try to be brief. I submitted some written testimony.

But I really want to focus on a couple of things that were mentioned today, because I think it's important.

You know, why are we here, right? It's about economic development. And if New Jersey had an equitable tax structure, I don't think we'd be talking about tax incentives. So if we started right with ground zero, that if our tax system-regulatory system was fair, we wouldn't have this discussion about tax credits.

Also, I think it's important that -- you know, I'm always amazed that every budget season it's always about, "Do we have a revenue problem; should we cut spending?" But people forget that there's a third option here, and that's increase your tax base, right? Bring in investment. And how do you bring in that investment? It's about attracting that new investment.

And Amazon came up only a couple of times today, but I think it's incredible what happened to New York and Amazon. What happened is, investment -- and we always say this -- investment will go where it is welcomed. And as soon as it hit that uncertainty, that resistance that

Senator Lesniak and Senator Kyrillos talked about, Amazon left and it took all the money with it.

And I think the other thing that needs to be clarified here -- and Senator O'Scanlon, you mentioned the rhetoric coming out of Trenton -- I could tell you that I've spoken to a lot of our businessmen and businesswomen. And it is harmful, because optics are everything; because as one business owner said to me, "Tony, we not only work in a very global economy, but now we're an increasingly mobile economy. That means if I could service my clients from Pennsylvania, Delaware, New York, Connecticut, I can; and I'll only come back on an as-needed basis."

So I think it's important that when we try to attract that investment, that we just show the companies that, "Hey, this is a tax-friendly state, a regulatory friendly state."

And I want to talk about -- to answer your question, Senator Smith, Chairman Smith -- about two months ago I got a call from a manufacturer. She had applied for a Grow New Jersey credit. And I think it's important to distinguish and just clarify that these are credits per employee for jobs created. So that's a tax credit against, I would assume, a payroll tax. And it's important that these tax credits be realized, maybe, a year, two years down. Well, if you're running a business, you know that things change; a year could be an eternity. Things can change very rapidly, which means you have to modify your application. And I'll use an analogy -- but somebody said to me, "Tony, the reason why I don't apply for these tax credits is because the view isn't worth the climb." You know, if you really think about all the energy, the fees, the verifications, the certifications-- And I want to give Tim Sullivan and his staff credit, because this manufacturer who called me two months ago said, "I have my application in. With all the things that are going on in Trenton, do you think my application is going to be approved?" And again, we reached out to Tim and his staff, and that application was approved.

But let me be clear and let me distinguish. Like Tim said, there's the approval process and then there's a certification process. You're likely not going to see that tax credit applied to when you're paying that tax -- and I would assume it's a payroll tax; I could be wrong -- if I'm a C-corp I'm paying that corporate business tax, if I'm an S-corp I'm paying that income tax. That could be realized years down the road; a lot of things change. So our companies are willing to wait that long.

And again, going back to why we're here and what else can we do. I think it could actually be made simpler; I think it could be expanded. We represent a lot of small businesses. I can't begin to tell you how many landscapers, trucking companies, companies that are in marketing and communications, bakeries, retail, say to me, "Well, what about us? Why can't we get some credits?" And again, we could think outside the box here. It doesn't always have to be about tax incentives. It could be other kind of incentives, regulatory incentives; maybe expedite my permits. That doesn't cost the taxpayer anything.

But again, going back to the rhetoric -- and I want to be very clear here -- is that these are not handouts, they're not giveaways. These are -- companies are still paying their taxes, the State still collects the money. Maybe it's been discounted, from $100 to $80, but it's important to realize that these companies not only pay those taxes, but guess what? When they live and raise their families here, and so do their employees, how does the State benefit? Well, they're going to be paying State income taxes. If those employees and business owners go out and purchase products, and equipment, and services, guess what? You're going to be paying sales taxes. And if you happen to be located in New Jersey, you're going to be paying property taxes.

And then let's not forget the charitable component here -- that if they're in New Jersey, they'll continue to support their communities and charities.

So I'll end with this. I think these tax incentives are necessary. It makes us competitive. I think they could be simplified and broadened.

So, thank you.

SENATOR SMITH: Questions for the panel?

Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chairman.

Just one question for Mr. Bracken.

Tom, you had mentioned there was a lot of misinformation out there about the EDA and the programs. Could you highlight some, and just clarify what those misconceptions are and why they are misconceptions?

MR. BRACKEN: Sure.

The one is that the results of the audit, which have identified a very small sampling of the EDA recipients -- a lot of the organizations that are vilifying the EDA are casting that negative -- those negative connotations on every recipient that has received a tax incentive award.

Also, there is the ongoing misconception -- which has been talked about ad nauseam today -- that there has been $11 billion given out in tax incentives; and that $11 billion could have been used for education, pension payments, used in the replenishment of our infrastructure. And we know now that very few of those $11 billion have actually been utilized. So there's that misconception, and that's cast a huge pale over the economics of this whole program.

And then the vilification of the City of Camden. I mean, they talk about what has been received by Camden -- which I think, by any measure, people would say kindly it has been *overly generous* -- was needed by Camden because it was the most crime-ridden, dangerous city in the country. And something needed to be done that was favorable to Camden, and it was done, and the City has been resurrected.

So things like that have been totally blown out of proportion. People have banged on tables, brought in reams of information to hearings, stormed into hearings, and held press conferences on how bad all this is. And a lot of the information they're giving is not accurate, is a misrepresentation of the facts, and that has really caused a lot of unnecessary criticism of the EDA, its employees, and its recipients.

So those are just some examples of what is out there. And the bottom line is, this organization has done a very fine job for the State of New Jersey, as has its employees and its recipient companies. It's had a net benefit that's been positive to the State, and it's just unfortunate that we're going through all this.

SENATOR PENNACCHIO: And just finally, Tom, that doesn't mean that you wouldn't encourage additional oversight and transparency in the process?

MR. BRACKEN: Oh, absolutely. I said that in my testimony.

I think that any organization needs to refresh and look at what they're doing. And as I said, in my history as a banker, the front end and the back end are imperatives to having any kind of credit extension, which tax incentives are.

And I would make a further recommendation. I realize that they're hiring an outside firm -- and Mercadien, by the way, is a very fine accounting firm -- but you also have, in New Jersey, the New Jersey Bankers Association. They do this work as a profession; they lend money as a profession. You could possibly talk to the Bankers Association and get some of their people, who are very concentrated on credit analysis and very concentrated on internal auditing or following the credits -- the monies that have been lent -- and bring them in to have another look at it, to have another set of eyes and ears on this.

SENATOR PENNACCHIO: So do you have an opinion whether or not it's a good idea that, even though it's an independent audit, it's still being brought about by the EDA itself, as opposed to having a third party, maybe a legislative party, doing those audits?

MR. BRACKEN: I think, based on the comments that have been made throughout the state over the last year -- and I heard Tim Sullivan say it is probably a very good idea that they're getting an outside firm to come in and look at it -- but also I think I was very encouraged to hear Tim say that internally they had already identified some of those weaknesses and they were working on those weaknesses. So the combination of the internal review, the combination of hiring some outside people, and maybe even having a third set of eyes and ears on it would not hurt. Because at the end of the day we have to make sure that the problems at the front end analysis and the back end compliance -- they have to be pristine. You can't have enough (*sic*) eyes and ears on that to make it as pristine as possible.

SENATOR PENNACCHIO: Thank you.

Thank you, Chair.

SENATOR SMITH: Any other questions? (no response)

Well, let me thank you for coming in today. We appreciate your time and your suggestions.

Our second panel is a construction panel: AJ Sabath from the Building Trades, and Mike-- Mike, help me with your last name.

(confers with staff)

Travostino, from the Associated Construction Contractors of New Jersey.

A J S A B A T H: Good morning, Chairman Smith, and members of the Committee.

It's a pleasure to be here.

My name is AJ Sabath, and I'm here on behalf of Bill Mullen, who's the President of the State Building and Construction Trades Council.

The Building and Construction Trades Council was created in 1903, and it coordinates activities for 15 trade members, affiliated unions in the construction industry; it represents 13 County Councils, as well as 100 local unions and 150,000 rank-and-file members.

We help our 15 affiliated building trade unions to make jobs sites safer, deliver apprenticeship and journey-level training, organize new workers, support legislation that affects working families, assist in securing improved wages, hours, and working conditions through collective bargaining and project labor agreements.

In New Jersey our members perform a significant amount of public and private construction work. To that end, we spend a lot of our time working on public investments in our state's infrastructure, roads, bridges, and tunnels through Transportation Trust Fund reauthorization; our schools, through advocating for multiple funding reauthorizations through the School Development Authority; as well as capital bond appropriations for our State colleges and universities; as well as local libraries and, more recently, our vo-techs -- our technical schools.

More recently we are becoming more and more focused on infrastructure funding and incentives for alternative forms of energy, such as solar and wind. Many of our members will be called to work on the recently awarded offshore energy wind project, proposed by Orsted, to develop an 1,100 megawatt offshore wind farm 15 miles off the coast of Atlantic City.

One of the Garden State's next greatest infrastructure challenges is addressing the decaying and deferred maintenance of the state's patchwork of public and private water infrastructure systems.

We also spend a considerable amount of time working with private development interests to promote and stimulate economic growth. The men and women of the building trades cannot survive solely on the public investment or public works projects. In fact, our Council has a long history of working with many private sector industries and institutions that demand well-trained and skilled construction trades and crafts personnel to complete complex projects ahead of schedule and under budget. These projects are solely privately financed. In many cases, we work side-by-side with private development interests in legislative and regulatory arenas to promote opportunities through incentives, grants, and other government tools to spur economic growth.

New Jersey's economy was much slower to recover from one of the state's longest recessions in history, and it was imperative that every effort be made to bolster private sector job growth and to take advantage of major economic development proposals and initiatives. The construction industry, over the last two or three years, has really started to turn a corner. But up until a few years ago, the unemployment rate among the Building and Construction Trades Council members was well above the state and national average, with some trades experiencing an unemployment rate of 30 to 40 percent.

In times of significant economic downturn, and in general, the State of New Jersey has an important, powerful, and necessary role to play in furthering economic development, standardization, given the numerous municipalities and innovations. It must provide tools that assist our municipalities and counties to leverage opportunities for the benefit of local finances and residents. Whether through the enactment of entities like the Schools Development Authority, the Economic Development Authority, the Housing and Mortgage Finance Agency, the Clean Energy Program, the New Jersey Environment Infrastructure Trust; or the enactment of laws, like Public Private Partnerships, the Transportation Trust Fund, Green Acres, or Stormwater Utility, the State must exercise leadership so overall economic development can prosper.

Incentives are an important tool that must be viewed in this broader context. As I previously indicated, we work with other private development interests in formal and informal ways. And I think there was a reference to the Smart Growth Economic Development Coalition, and that Coalition includes the International Council of Shopping Centers, the National Association of Industrial and Office Properties, the New Jersey Apartment Association, the New Jersey Builders Association, the New Jersey Business and Industry Association, the New Jersey State Chamber of Commerce, the New Jersey Laborers Union, and the Operating Engineers Local 825.

Our Smart Growth Economic Development Coalition prepared a summary of key facts related to New Jersey's economic development incentives a little over a year ago. You may recall the report; you've probably seen it in various capacities. I provided you the executive summary, which provides a good set of details of incentives, and includes lots of great information.

One detail I wanted to highlight is that of the 247 EDA projects approved, 43 of them have been completed and have created 1,509 construction jobs. The remaining 204 projects, if enacted, have the potential for an additional 16,530 construction jobs. I provided you with the executive summary, but the full report was prepared in the wake of the State's tax incentive programs for businesses set to expire after June 30 of this year. While, as I said, you may be familiar with this report, I did want to submit it for your review again. The report was based on publicly available data through December 31, 2017, which was the latest annual data available at the time the report was conducted.

I know we're pressed for time, so I'm going to just not finish the rest of my comments, but just kind of close with -- if Bill Mullen was here, he
would say, "All we do is build; and to that end, we're here to support any government program that provides greater opportunity for our union contractors to hire trade and craft men and women of the building trades to perform work on private development projects in New Jersey."

And I'm joined by Mike Travostino from the Association of Construction Contractors of New Jersey, who represents management. And we work side-by-side with the contractors who hire us for work. And Mike will talk; but yet, this is a perfect example of labor and management working together, outside of the traditional government investment in public works projects, to incentivize private construction.

I'll give you an example. I mean, people referenced Revel -- and you can argue whether Revel's a good example or not -- but there were over 4,000 construction men and women of the building trades who worked on that job. At one time there was approximately 400 people installing all the tile on the floor. So regardless of ultimately what happens at the end of the day, with a project being certified and each business meeting the criteria for review at the end of each year for the incentives, the reality is that kind of interest generates development, and that development provides work opportunities for our members.

So thank you very much.

MICHAEL TRAVOSTINO: Thank you, Chairman and members of the Committee.

Again, for the record, Mike Travostino, Government Affairs Director, Associated Construction Contractors of New Jersey.

I just want to underscore my colleague AJ's comments there, especially at the end. This is unique, especially nationally. Labor and management are normally on opposite ends of the table, certainly not sitting alongside one another. So I just want to echo his thoughts -- certainly that last point -- and all the data, and litany of projects, and legislative initiatives that we've worked on collaboratively.

ACCNJ, for those who don't know, represents union general building contractors, construction managers, heavy highway contractors, site development and utility constructors here in New Jersey, responsible for billions of dollars annually; commercial, industrial, institutional construction projects.

We are committed -- our Association is committed to raising the standards in our industry, in the construction industry, through quality, integrity, skill, and responsibility. We work tirelessly, alongside our labor partners and many of the forward-thinking business groups behind us, to advance legislative initiatives which create opportunities.

The Economic Opportunity Act is a great example of those collective efforts; and the programs have encouraged businesses to invest here in our many communities throughout the state, as AJ rightly pointed out. The expired programs themselves fostered many mixed-use, institutional, rehab -- the facility expansion piece was really important for our group -- and other creative and innovative developments that met our state's changing demographics.

We stand behind, as an organization, commitments to commonsense solutions that create a thriving business environment and a dynamic real estate market, which is equally important. Those translate into construction opportunities; and business incentive packages are a commitment which actually invites those opportunities to our great state.

Some raw data for the Committee to opine on, and that is in 2017-- And this further substantiates the point AJ just made -- the life's blood -- although we are, through the hallowed halls here, regularly advocating for public funding -- the private side is equally, if not more, important. So in 2017, in New Jersey alone, it was close to $7 billion of private construction employment; where on the State, local, county levels it was approximately $5 billion. So I raise that point to underscore that there is a tremendous amount of opportunities; and like P3s and some of the other initiatives that AJ referenced -- it wouldn't happen. These are opportunities that wouldn't happen unless we fought hard to create them. These incentives, what it looks like going forward, what it looked like in the past, were all variables in that debate, and we look forward to any future discussion on this topic.

Thank you, Chairman; thank you, Committee members.

SENATOR SMITH: Questions from members of the Committee. (no response)

Gentlemen, we want to thank you for coming down.

And also, same offer. If you have any good ideas you'd like to put in writing to us about the new legislation -- which I think we're going to -- this Committee is going to have some serious recommendations about -- we'd love to hear them.

We do intend to have several more meetings so that we can totally flesh this out. But your participation today, with all the others, was very, very helpful.

Thank you for coming today.

MR. TRAVOSTINO: Thank you.

SENATOR SMITH: And everybody have a-- We're going to adjourn the meeting, and everybody have a great rest of the summer -- but we'll ruin it as best we can. (laughter)

(MEETING CONCLUDED)