

Committee Meeting

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of

SENATE URBAN POLICY AND PLANNING COMMITTEE

Senate Bill No. 1120
and
Assembly Bill No. 1070

(Amends State requirements for tax exemption of
certain low-income housing projects by nonprofit
sponsors to comport with Federal requirements)

LOCATION: Committee Room 7
Legislative Office Building
Trenton, New Jersey

DATE: June 6, 1994
1:00 p.m.

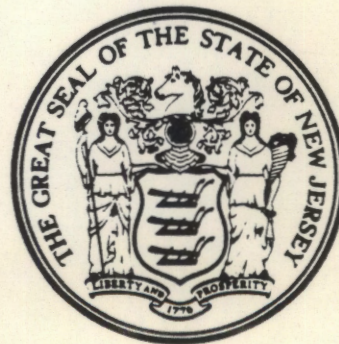
MEMBERS OF COMMITTEE PRESENT:

Senator Dick LaRossa, Chairman
Senator John P. Scott, Vice-Chairman
Senator Edward T. O'Connor

ALSO PRESENT:

Hannah Shostack
Office of Legislative Services
Aide, Senate Urban Policy
and Planning Committee

New Jersey State Library



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DICK LAROSSA
Chairman

JOHN P. SCOTT
Vice-Chairman

WILLIAM L. GORMLEY
EDWARD T. O'CONNOR, JR.
RONALD L. RICE

New Jersey State Legislature

SENATE URBAN POLICY AND PLANNING COMMITTEE
LEGISLATIVE OFFICE BUILDING, CN-068
TRENTON, NJ 08625-0068

(609) 292-1596

COMMITTEE NOTICE

TO: MEMBERS OF THE SENATE URBAN POLICY & PLANNING
COMMITTEE

FROM: SENATOR DICK LaROSSA, CHAIRMAN

SUBJECT: COMMITTEE MEETING - June 6, 1994

The public may address comments and questions to Hannah Shostack, Committee Aide, or make bill status and scheduling inquiries to Rita Nutt, secretary, at (609) 292-1596.

The Senate Urban Policy & Planning Committee will meet on **Monday, June 6, 1994 at 1:00 PM** in Committee Room 7, Legislative Office Building, Trenton, New Jersey.

The following bills will be considered:

S-1120	
LaRossa/Inverso	Amends State requirements for tax exemption of certain low income housing projects by nonprofit sponsors to comport with federal requirements.
A-1070	
Bagger	

Following consideration of the above bills, the committee will hear testimony from: Gualberto Medina, Commissioner of Commerce and Economic Development; Anthony Coscia, Chairman, N.J. Economic Development Authority; Brian Finney, Director, Urban Programs, N.J. Economic Development Authority; and Philip P. Rowan, Executive Director, Camden County Improvement Authority regarding urban economic development in New Jersey.

Assistive listening devices available upon 24 hours prior notice to the committee aide(s) listed above

Issued 5/27/94

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Bryan K. Finnie Director Urban Programs New Jersey Economic Development Authority	25
Philip P. Rowan Executive Director Camden County Improvement Authority	42

ses: 1-49
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* * * *

STATE OF NEW JERSEY

INTRODUCED MAY 16, 1994

By Senators LaROSSA and INVERSO

1 AN ACT concerning housing for low-income and disabled
2 individuals, amending and supplementing P.L.1991, c.431
3 (C.40A:20-3 et seq.).
4

5 BE IT ENACTED by the Senate and General Assembly of the
6 State of New Jersey:

7 1. Section 3 of P.L.1991, c.431 (C.40A:20-3 et seq.) is
8 amended to read as follows:

9 3. As used in this act:

10 a. "Gross revenue" means annual gross revenue or gross
11 shelter rent or annual gross rents, as appropriate, and other
12 income, for each urban renewal entity designated pursuant to this
13 act. The financial agreement shall establish the method of
14 computing gross revenue for the entity, and the method of
15 determining insurance, operating and maintenance expenses paid
16 by a tenant which are ordinarily paid by a landlord, which shall be
17 included in the gross revenue ; provided, however, that any
18 federal funds received, whether directly or in the form of rental
19 subsidies paid to tenants, by a nonprofit corporation that is the
20 sponsor of a qualified subsidized housing project, shall not be
21 included in the gross revenue of the project for purposes of
22 computing the annual services charge for municipal services
23 supplied to the project.

24 b. "Limited-dividend entity" means an urban renewal entity
25 incorporated pursuant to Title 14A of the New Jersey Statutes, or
26 established pursuant to Title 42 of the Revised Statutes, for
27 which the profits and the entity are limited as follows. The
28 allowable net profits of the entity shall be determined by
29 applying the allowable profit rate to each total project unit cost,
30 if the project is undertaken in units, or the total project cost, if
31 the project is not undertaken in units, for the period commencing
32 on the date on which the construction of the unit or project is
33 completed, and terminating at the close of the fiscal year of the
34 entity preceding the date on which the computation is made,
35 where:

36 "Allowable profit rate" means the percentage per annum
37 arrived at by adding 1 1/4% to the annual interest percentage
38 rate payable on the entity's initial permanent mortgage
39 financing. If the initial permanent mortgage is insured or
40 guaranteed by a governmental agency, the mortgage insurance
41 premium or similar charge, if payable on a per annum basis, shall
42 be considered as interest for this purpose. If there is no
43 permanent mortgage financing the allowable profit rate shall be
44 arrived at by adding 1 1/4% per annum to the interest rate per

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the
above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 annum which the municipality determines to be the prevailing
2 rate on mortgage financing on comparable improvements in the
3 county.

4 c. "Net profit" means the gross revenues of the urban renewal
5 entity less all operating and non-operating expenses of the entity,
6 all determined in accordance with generally accepted accounting
7 principles, but:

8 (1) there shall be included in expenses: (a) all annual service
9 charges paid pursuant to section 12 of P.L.1991, c.431
10 (C.40A:20-12); (b) all payments to the municipality of excess
11 profits pursuant to section 15 or 16 of P.L.1991, c.431
12 (C.40A:20-15 or 40A:20-16); (c) an annual amount sufficient to
13 amortize the total project cost over the life of the
14 improvements, as set forth in the financial agreement, which
15 shall not be less than the terms of the financial agreement; and
16 (d) all reasonable annual operating expenses of the urban renewal
17 entity, including the cost of all management fees, brokerage
18 commissions, insurance premiums, all taxes or service charges
19 paid, legal, accounting, or other professional service fees,
20 utilities, building maintenance costs, building and office supplies,
21 and payments into repair or maintenance reserve accounts;

22 (2) there shall not be included in expenses either depreciation
23 or obsolescence, interest on debt, income taxes, or salaries,
24 bonuses or other compensation paid, directly or indirectly to
25 directors, officers and stockholders of the entity, or officers,
26 partners or other persons holding any proprietary ownership
27 interest in the entity.

28 The urban renewal entity shall provide to the municipality an
29 annual audited statement which clearly identifies the calculation
30 of net profit for the urban renewal entity during the previous
31 year. The annual audited statement shall be prepared by a
32 certified public accountant and shall be submitted to the
33 municipality within 90 days of the close of the fiscal year.

34 d. "Nonprofit entity" means an urban renewal entity
35 incorporated pursuant to Title 15A of the New Jersey Statutes
36 for which no part of its net profits inures to the benefit of its
37 members.

38 e. "Project" means any work or undertaking pursuant to a
39 redevelopment plan adopted pursuant to the "Local
40 Redevelopment and Housing Law," P.L.1992, c.79 (C.40A:12A-1
41 et al.), which has as its purpose the redevelopment of all or any
42 part of a redevelopment area including any industrial,
43 commercial, residential or other use, and may include any
44 buildings, land, including demolition, clearance or removal of
45 buildings from land, equipment, facilities, or other real or
46 personal properties which are necessary, convenient, or desirable
47 appurtenances, such as, but not limited to, streets, sewers,
48 utilities, parks, site preparation, landscaping, and administrative,
49 community, health, recreational, educational and welfare
50 facilities.

51 f. "Redevelopment area" means an area determined to be in
52 need of redevelopment and for which a redevelopment plan has
53 been adopted by a municipality pursuant to the "Local
54 Redevelopment and Housing Law," P.L.1992, c.79 (C.40A:12A-1

1 et al.).

2 g. "Urban renewal entity" means a limited-dividend entity or
3 a nonprofit entity which enters into a financial agreement
4 pursuant to this act with a municipality to undertake a project
5 pursuant to a redevelopment plan for the redevelopment of all or
6 any part of a redevelopment area, or a project necessary, useful,
7 or convenient for the relocation of residents displaced or to be
8 displaced by the redevelopment of all or any part of one or more
9 redevelopment areas, or a low and moderate income housing
10 project.

11 h. "Total project unit cost" or "total project cost" means the
12 aggregate of the following items as related to a unit of a project,
13 if the project is undertaken in units, or to the total project, if the
14 project is not undertaken in units, all of which as limited by, and
15 approved as part of the financial agreement: (1) cost of the land
16 and improvements to the entity, whether acquired from a private
17 or a public owner, with cost in the case of leasehold interests to
18 be computed by capitalizing the aggregate rental at a rate
19 provided in the financial agreement; (2) architect, engineer and
20 attorney fees, paid or payable by the entity in connection with
21 the planning, construction and financing of the project; (3)
22 surveying and testing charges in connection therewith; (4) actual
23 construction costs which the entity shall cause to be certified and
24 verified to the municipality and the municipal governing body by
25 an independent and qualified architect, including the cost of any
26 preparation of the site undertaken at the entity's expense; (5)
27 insurance, interest and finance costs during construction; (6)
28 costs of obtaining initial permanent financing; (7) commissions
29 and other expenses paid or payable in connection with initial
30 leasing; (8) real estate taxes and assessments during the
31 construction period; (9) a developer's overhead based on a
32 percentage of actual construction costs, to be computed at not
33 more than the following schedule:

34 \$500,000 or less - 10%
35 \$500,000 through \$1,000,000 - \$50,000 plus 8%
36 on excess above
37 \$500,000
38 \$1,000,001 through \$2,000,000 - \$90,000 plus 7%
39 on excess above
40 \$1,000,000
41 \$2,000,001 through \$3,500,000 - \$160,000 plus
42 5.6667% on
43 excess above
44 \$2,000,000
45 \$3,500,001 through \$5,500,000 - \$245,000 plus
46 4.25% on excess
47 above \$3,500,000
48 \$5,500,001 through \$10,000,000 - \$330,000 plus
49 3.7778% on excess
50 above \$5,500,000
51 over \$10,000,000 - 5%

52 If the financial agreement so provides, there shall be excluded
53 from the total project cost actual costs incurred by the entity
54 and certified to the municipality by an independent and qualified

1 architect or engineer which are associated with site remediation
2 and cleanup of environmentally hazardous materials or
3 contaminants in accordance with State or federal law.

4 i. "Housing project" means any work or undertaking to provide
5 decent, safe, and sanitary dwellings for families in need of
6 housing; the undertaking may include any buildings, land
7 (including demolition, clearance or removal of buildings from
8 land), equipment, facilities, or other real or personal properties
9 or interests therein which are necessary, convenient or desirable
10 appurtenances of the undertaking, such as, but not limited to,
11 streets, sewers, water, utilities, parks; site preparation;
12 landscaping, and administrative, community, health, recreational,
13 educational, welfare, commercial, or other facilities, or to
14 provide any part or combination of the foregoing.

15 j. "Redevelopment relocation housing project" means a
16 housing project which is necessary, useful or convenient for the
17 relocation of residents displaced by redevelopment of all or any
18 part of one or more redevelopment areas.

19 k. "Low and moderate income housing project" means a
20 housing project which is occupied, or is to be occupied,
21 exclusively by households whose incomes do not exceed income
22 limitations established pursuant to any State or federal housing
23 program.

24 l. "Qualified subsidized housing project" means a low and
25 moderate income housing project owned by a nonprofit
26 corporation organized under the provisions of Title 15A of the
27 New Jersey Statutes for the purpose of developing, constructing
28 and operating rental housing for senior citizens under section 202
29 of Pub.L. 86-372 (12 U.S.C. §1701q) or rental housing for persons
30 with disabilities under section 811 of Pub.L. 101-625 (42 U.S.C.
31 8013), or under any other federal program that the Commissioner
32 of Community Affairs by rule may determine to be of a similar
33 nature and purpose.

34 (cf: P.L.1992, c.79, s.54)

35 2. (New section) The provisions of section 5 of P.L.1991, c.431
36 (C.40A:20-5) to the contrary notwithstanding, a nonprofit
37 corporation organized for the purpose of developing, constructing
38 and operating a qualified subsidized housing project may qualify
39 as an urban renewal entity under P.L.1991, c.431 (C.40A:20-1 et
40 seq.) if its certificate of incorporation is in conformity with the
41 requirements of the federal agency subsidizing the project.

42 3. (New section) The provisions of section 12 of P.L.1991,
43 c.431 (C.40A:20-12) requiring staged increases in annual service
44 charges over the term of the financial agreement and establishing
45 a minimum annual service charge shall not apply to qualified
46 subsidized housing projects.

47 4. (New section) The provisions of sections 12 and 13 of
48 P.L.1991, c.431 (C.40A:20-12 and C.40A:20-13) to the contrary
49 notwithstanding, a qualified subsidized housing project may be
50 exempted from taxation for such period of time as the federal
51 agency subsidizing the project may require as a condition of the
52 subsidy. The exemption from taxation may be extended for an
53 additional period of time as may be required in order to secure a
54 continuation of federal subsidies after the expiration of the

1 initial subsidy period.

2 5. (New section) The provisions of section 16 of P.L.1991,
3 c.431 (C.40A:20-16) to the contrary notwithstanding, a nonprofit
4 corporation that is the sponsor of a qualified subsidized housing
5 project shall not be required to pay over to the municipality its
6 net profits, if any, for any year in which it is subject to federal
7 requirements concerning residual receipts.

8 6. This act shall take effect immediately and be retroactive to
9 April 17, 1992.

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STATEMENT

14 P.L.1991, c.431, the Long Term Tax Exemption Law, was
15 enacted for the purpose of consolidating and modernizing the
16 laws concerning tax exemptions for improvements made for the
17 purpose of restoring areas in need of redevelopment. It repealed
18 several statutes, including P.L.1965, c.92, the Senior Citizens
19 Nonprofit Rental Housing Tax Law. This law was enacted to
20 allow nonprofit housing sponsors to secure funding under the
21 Senior Citizens Housing Program authorized by section 202 of the
22 Federal Housing Act, as amended.

23 An unintended consequence of this repeal was that P.L.1991,
24 c.431 was at variance with rules adopted by the U.S. Department
25 of Housing and Urban Development (HUD) under section 202 in
26 several important respects. The federal rules require that a
27 sponsor obtain a tax exemption for the life of the subsidy,
28 generally 40 years, rather than the 30 years allowed by P.L.1991,
29 c.431. Other differences involve the way in which project
30 revenue is to be calculated, the staged increases in service
31 charges and minimum service charges required by P.L.1991,
32 c.431, the contents of the certificate of incorporation, and the
33 treatment of any net profits received by the nonprofit
34 corporation.

35 As a result of these differences, a housing sponsor cannot
36 simultaneously comply with both sets of requirements; if a
37 sponsor cannot meet the tax exemption requirements of the HUD
38 rules, its project costs rise and it receives a lower priority than
39 competing projects in other states. This corrective legislation is
40 necessary so that New Jersey nonprofit sponsors of housing
41 projects for low income senior citizens and persons with
42 disabilities will be able to compete effectively for federal
43 funding with housing sponsors in other states.

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47

48 Amends State requirements for tax exemption of certain low
49 income housing projects by nonprofit sponsors to comport with
50 federal requirements.

ASSEMBLY HOUSING COMMITTEE

STATEMENT TO

ASSEMBLY, No. 1070

STATE OF NEW JERSEY

DATED: MARCH 7, 1994

The Assembly Housing Committee reports Assembly Bill No. 1070 favorably.

P.L.1991, c.431, the Long Term Tax Exemption Law, was enacted for the purpose of consolidating and modernizing the laws concerning tax exemptions for improvements made for the purpose of restoring areas in need of redevelopment. It repealed several statutes, including P.L.1965, c.92, the Senior Citizens Nonprofit Rental Housing Tax Law. This law was enacted to allow nonprofit housing sponsors to secure funding under the Senior Citizens Housing Program authorized by section 202 of the Federal Housing Act, as amended.

An unintended consequence of this repeal was that P.L.1991, c.431 was at variance with rules adopted by the U.S. Department of Housing and Urban Development (HUD) under section 202 in several important respects. The federal rules require that a sponsor obtain a tax exemption for the life of the subsidy, generally 40 years, rather than the 30 years allowed by P.L.1991, c.431. Other differences involve the way in which project revenue is to be calculated, the staged increases in service charges and minimum service charges required by P.L.1991, c.431, the contents of the certificate of incorporation, and the treatment of any net profits received by the nonprofit corporation.

As a result of these differences, a housing sponsor cannot simultaneously comply with both sets of requirements; if a sponsor cannot meet the tax exemption requirements of the HUD rules, its project costs rise and it receives a lower priority than competing projects in other states. This corrective legislation is necessary so that New Jersey nonprofit sponsors of housing projects for low income senior citizens and persons with disabilities will be able to compete effectively for federal funding with housing sponsors in other states.

SENATE URBAN POLICY AND
PLANNING COMMITTEE

STATEMENT TO

ASSEMBLY, No. 1070

STATE OF NEW JERSEY

DATED: JUNE 6, 1994

The Senate Urban Policy and Planning Committee favorably reports Assembly Bill No. 1070.

P.L.1991, c.431, the Long Term Tax Exemption Law, was enacted for the purpose of consolidating and modernizing the laws concerning tax exemptions for improvements made for the purpose of restoring areas in need of redevelopment. It repealed several statutes, including P.L.1965, c.92, the Senior Citizens Nonprofit Rental Housing Tax Law. This law was enacted to allow nonprofit housing sponsors to secure funding under the Senior Citizens Housing Program authorized by section 202 of the Federal Housing Act, as amended.

An unintended consequence of this repeal was that P.L.1991, c.431 was at variance with rules adopted by the U.S. Department of Housing and Urban Development (HUD) under section 202 in several important respects. The federal rules require that a sponsor obtain a tax exemption for the life of the subsidy, generally 40 years, rather than the 30 years allowed by P.L.1991, c.431. Other differences involve the way in which project revenue is to be calculated, the staged increases in service charges and minimum service charges required by P.L.1991, c.431, the contents of the certificate of incorporation, and the treatment of any net profits received by the nonprofit corporation.

As a result of these differences, a housing sponsor cannot simultaneously comply with both sets of requirements; if a sponsor cannot meet the tax exemption requirements of the HUD rules, its project costs rise and it receives a lower priority than competing projects in other states. This corrective legislation is necessary so that New Jersey nonprofit sponsors of housing projects for low income senior citizens and persons with disabilities will be able to compete effectively for federal funding with housing sponsors in other states.

Assembly Bill No. 1070 is identical to Senate Bill No. 1120, which was also released from this committee on June 6, 1994.

ASSEMBLY, No. 1070

STATE OF NEW JERSEY

INTRODUCED JANUARY 24, 1994

By Assemblyman BAGGER

1 AN ACT concerning housing for low-income and disabled
2 individuals, amending and supplementing P.L.1991, c.431
3 (C.40A:20-3 et seq.).
4

5 BE IT ENACTED by the Senate and General Assembly of the
6 State of New Jersey:

7 1. Section 3 of P.L.1991, c.431 (C.40A:20-3 et seq.) is
8 amended to read as follows:

9 3. As used in this act:

10 a. "Gross revenue" means annual gross revenue or gross
11 shelter rent or annual gross rents, as appropriate, and other
12 income, for each urban renewal entity designated pursuant to this
13 act. The financial agreement shall establish the method of
14 computing gross revenue for the entity, and the method of
15 determining insurance, operating and maintenance expenses paid
16 by a tenant which are ordinarily paid by a landlord, which shall be
17 included in the gross revenue ; provided, however, that any
18 federal funds received, whether directly or in the form of rental
19 subsidies paid to tenants, by a nonprofit corporation that is the
20 sponsor of a qualified subsidized housing project, shall not be
21 included in the gross revenue of the project for purposes of
22 computing the annual services charge for municipal services
23 supplied to the project.

24 b. "Limited-dividend entity" means an urban renewal entity
25 incorporated pursuant to Title 14A of the New Jersey Statutes, or
26 established pursuant to Title 42 of the Revised Statutes, for
27 which the profits and the entity are limited as follows. The
28 allowable net profits of the entity shall be determined by
29 applying the allowable profit rate to each total project unit cost,
30 if the project is undertaken in units, or the total project cost, if
31 the project is not undertaken in units, for the period commencing
32 on the date on which the construction of the unit or project is
33 completed, and terminating at the close of the fiscal year of the
34 entity preceding the date on which the computation is made,
35 where:

36 "Allowable profit rate" means the percentage per annum
37 arrived at by adding 1 1/4% to the annual interest percentage
38 rate payable on the entity's initial permanent mortgage
39 financing. If the initial permanent mortgage is insured or
40 guaranteed by a governmental agency, the mortgage insurance
41 premium or similar charge, if payable on a per annum basis, shall
42 be considered as interest for this purpose. If there is no
43 permanent mortgage financing the allowable profit rate shall be
44 arrived at by adding 1 1/4% per annum to the interest rate per

EXPLANATION--Matter enclosed in bold-faced brackets [thus] in the
above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 annum which the municipality determines to be the prevailing
2 rate on mortgage financing on comparable improvements in the
3 county.

4 c. "Net profit" means the gross revenues of the urban renewal
5 entity less all operating and non-operating expenses of the entity,
6 all determined in accordance with generally accepted accounting
7 principles, but:

8 (1) there shall be included in expenses: (a) all annual service
9 charges paid pursuant to section 12 of P.L.1991, c.431
10 (C.40A:20-12); (b) all payments to the municipality of excess
11 profits pursuant to section 15 or 16 of P.L.1991, c.431
12 (C.40A:20-15 or 40A:20-16); (c) an annual amount sufficient to
13 amortize the total project cost over the life of the
14 improvements, as set forth in the financial agreement, which
15 shall not be less than the terms of the financial agreement; and
16 (d) all reasonable annual operating expenses of the urban renewal
17 entity, including the cost of all management fees, brokerage
18 commissions, insurance premiums, all taxes or service charges
19 paid, legal, accounting, or other professional service fees,
20 utilities, building maintenance costs, building and office supplies,
21 and payments into repair or maintenance reserve accounts;

22 (2) there shall not be included in expenses either depreciation
23 or obsolescence, interest on debt, income taxes, or salaries,
24 bonuses or other compensation paid, directly or indirectly to
25 directors, officers and stockholders of the entity, or officers,
26 partners or other persons holding any proprietary ownership
27 interest in the entity.

28 The urban renewal entity shall provide to the municipality an
29 annual audited statement which clearly identifies the calculation
30 of net profit for the urban renewal entity during the previous
31 year. The annual audited statement shall be prepared by a
32 certified public accountant and shall be submitted to the
33 municipality within 90 days of the close of the fiscal year.

34 d. "Nonprofit entity" means an urban renewal entity
35 incorporated pursuant to Title 15A of the New Jersey Statutes
36 for which no part of its net profits inures to the benefit of its
37 members.

38 e. "Project" means any work or undertaking pursuant to a
39 redevelopment plan adopted pursuant to the "Local
40 Redevelopment and Housing Law," P.L.1992, c.79 (C.40A:12A-1
41 et al.), which has as its purpose the redevelopment of all or any
42 part of a redevelopment area including any industrial,
43 commercial, residential or other use, and may include any
44 buildings, land, including demolition, clearance or removal of
45 buildings from land, equipment, facilities, or other real or
46 personal properties which are necessary, convenient, or desirable
47 appurtenances, such as, but not limited to, streets, sewers,
48 utilities, parks, site preparation, landscaping, and administrative,
49 community, health, recreational, educational and welfare
50 facilities.

51 f. "Redevelopment area" means an area determined to be in
52 need of redevelopment and for which a redevelopment plan has
53 been adopted by a municipality pursuant to the "Local
54 Redevelopment and Housing Law," P.L.1992, c.79 (C.40A:12A-1

1 et al.).

2 g. "Urban renewal entity" means a limited-dividend entity or
3 a nonprofit entity which enters into a financial agreement
4 pursuant to this act with a municipality to undertake a project
5 pursuant to a redevelopment plan for the redevelopment of all or
6 any part of a redevelopment area, or a project necessary, useful,
7 or convenient for the relocation of residents displaced or to be
8 displaced by the redevelopment of all or any part of one or more
9 redevelopment areas, or a low and moderate income housing
10 project.

11 h. "Total project unit cost" or "total project cost" means the
12 aggregate of the following items as related to a unit of a project,
13 if the project is undertaken in units, or to the total project, if the
14 project is not undertaken in units, all of which as limited by, and
15 approved as part of the financial agreement: (1) cost of the land
16 and improvements to the entity, whether acquired from a private
17 or a public owner, with cost in the case of leasehold interests to
18 be computed by capitalizing the aggregate rental at a rate
19 provided in the financial agreement; (2) architect, engineer and
20 attorney fees, paid or payable by the entity in connection with
21 the planning, construction and financing of the project; (3)
22 surveying and testing charges in connection therewith; (4) actual
23 construction costs which the entity shall cause to be certified and
24 verified to the municipality and the municipal governing body by
25 an independent and qualified architect, including the cost of any
26 preparation of the site undertaken at the entity's expense; (5)
27 insurance, interest and finance costs during construction; (6)
28 costs of obtaining initial permanent financing; (7) commissions
29 and other expenses paid or payable in connection with initial
30 leasing; (8) real estate taxes and assessments during the
31 construction period; (9) a developer's overhead based on a
32 percentage of actual construction costs, to be computed at not
33 more than the following schedule:

34 \$500,000 or less - 10%
35 \$500,000 through \$1,000,000 - \$50,000 plus 8%
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37 \$500,000
38 \$1,000,001 through \$2,000,000 - \$90,000 plus 7%
39 on excess above
40 \$1,000,000
41 \$2,000,001 through \$3,500,000 - \$160,000 plus
42 5.6667% on
43 excess above
44 \$2,000,000
45 \$3,500,001 through \$5,500,000 - \$245,000 plus
46 4.25% on excess
47 above \$3,500,000
48 \$5,500,001 through \$10,000,000 - \$330,000 plus
49 3.7778% on excess
50 above \$5,500,000
51 over \$10,000,000 - 5%

52 If the financial agreement so provides, there shall be excluded
53 from the total project cost actual costs incurred by the entity
54 and certified to the municipality by an independent and qualified

1 architect or engineer which are associated with site remediation
2 and cleanup of environmentally hazardous materials or
3 contaminants in accordance with State or federal law.

4 i. "Housing project" means any work or undertaking to provide
5 decent, safe, and sanitary dwellings for families in need of
6 housing; the undertaking may include any buildings, land
7 (including demolition, clearance or removal of buildings from
8 land), equipment, facilities, or other real or personal properties
9 or interests therein which are necessary, convenient or desirable
10 appurtenances of the undertaking, such as, but not limited to,
11 streets, sewers, water, utilities, parks; site preparation;
12 landscaping, and administrative, community, health, recreational,
13 educational, welfare, commercial, or other facilities, or to
14 provide any part or combination of the foregoing.

15 j. "Redevelopment relocation housing project" means a
16 housing project which is necessary, useful or convenient for the
17 relocation of residents displaced by redevelopment of all or any
18 part of one or more redevelopment areas.

19 k. "Low and moderate income housing project" means a
20 housing project which is occupied, or is to be occupied,
21 exclusively by households whose incomes do not exceed income
22 limitations established pursuant to any State or federal housing
23 program.

24 l. "Qualified subsidized housing project" means a low and
25 moderate income housing project owned by a nonprofit
26 corporation organized under the provisions of Title 15A of the
27 New Jersey Statutes for the purpose of developing, constructing
28 and operating rental housing for senior citizens under section 202
29 of Pub.L. 86-372 (12 U.S.C. §1701q) or rental housing for persons
30 with disabilities under section 811 of Pub.L. 101-625 (42 U.S.C.
31 8013), or under any other federal program that the Commissioner
32 of Community Affairs by rule may determine to be of a similar
33 nature and purpose.

34 (cf: P.L.1992, c.79, s.54)

35 2. (New section) The provisions of section 5 of P.L.1991, c.431
36 (C.40A:20-5) to the contrary notwithstanding, a nonprofit
37 corporation organized for the purpose of developing, constructing
38 and operating a qualified subsidized housing project may qualify
39 as an urban renewal entity under P.L.1991, c.431 (C.40A:20-1 et
40 seq.) if its certificate of incorporation is in conformity with the
41 requirements of the federal agency subsidizing the project.

42 3. (New section) The provisions of section 12 of P.L.1991,
43 c.431 (C.40A:20-12) requiring staged increases in annual service
44 charges over the term of the financial agreement and establishing
45 a minimum annual service charge shall not apply to qualified
46 subsidized housing projects.

47 4. (New section) The provisions of sections 12 and 13 of
48 P.L.1991, c.431 (C.40A:20-12 and C.40A:20-13) to the contrary
49 notwithstanding, a qualified subsidized housing project may be
50 exempted from taxation for such period of time as the federal
51 agency subsidizing the project may require as a condition of the
52 subsidy. The exemption from taxation may be extended for an
53 additional period of time as may be required in order to secure a
54 continuation of federal subsidies after the expiration of the

1 initial subsidy period.

2 5. (New section) The provisions of section 16 of P.L.1991,
3 c.431 (C.40A:20-16) to the contrary notwithstanding, a nonprofit
4 corporation that is the sponsor of a qualified subsidized housing
5 project shall not be required to pay over to the municipality its
6 net profits, if any, for any year in which it is subject to federal
7 requirements concerning residual receipts.

8 6. This act shall take effect immediately and be retroactive to
9 April 17, 1992.

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STATEMENT

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14 P.L.1991, c.431, the Long Term Tax Exemption Law, was
15 enacted for the purpose of consolidating and modernizing the
16 laws concerning tax exemptions for improvements made for the
17 purpose of restoring areas in need of redevelopment. It repealed
18 several statutes, including P.L.1965, c.92, the Senior Citizens
19 Nonprofit Rental Housing Tax Law. This law was enacted to
20 allow nonprofit housing sponsors to secure funding under the
21 Senior Citizens Housing Program authorized by section 202 of the
22 Federal Housing Act, as amended.

23 An unintended consequence of this repeal was that P.L.1991,
24 c.431 was at variance with rules adopted by the U.S. Department
25 of Housing and Urban Development (HUD) under section 202 in
26 several important respects. The federal rules require that a
27 sponsor obtain a tax exemption for the life of the subsidy,
28 generally 40 years, rather than the 30 years allowed by P.L.1991,
29 c.431. Other differences involve the way in which project
30 revenue is to be calculated, the staged increases in service
31 charges and minimum service charges required by P.L.1991,
32 c.431, the contents of the certificate of incorporation, and the
33 treatment of any net profits received by the nonprofit
34 corporation.

35 As a result of these differences, a housing sponsor cannot
36 simultaneously comply with both sets of requirements; if a
37 sponsor cannot meet the tax exemption requirements of the HUD
38 rules, its project costs rise and it receives a lower priority than
39 competing projects in other states. This corrective legislation is
40 necessary so that New Jersey nonprofit sponsors of housing
41 projects for low income senior citizens and persons with
42 disabilities will be able to compete effectively for federal
43 funding with housing sponsors in other states.

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48 Amends State requirements for tax exemption of certain low
49 income housing projects by nonprofit sponsors to comport with
50 federal requirements.

SENATE URBAN POLICY AND
PLANNING COMMITTEE

STATEMENT TO

SENATE, No. 1120

STATE OF NEW JERSEY

DATED: JUNE 6, 1994

The Senate Urban Policy and Planning Committee favorably reports Senate Bill No. 1120.

P.L.1991, c.431, the Long Term Tax Exemption Law, was enacted for the purpose of consolidating and modernizing the laws concerning tax exemptions for improvements made for the purpose of restoring areas in need of redevelopment. It repealed several statutes, including P.L.1965, c.92, the Senior Citizens Nonprofit Rental Housing Tax Law. This law was enacted to allow nonprofit housing sponsors to secure funding under the Senior Citizens Housing Program authorized by section 202 of the Federal Housing Act, as amended.

An unintended consequence of this repeal was that P.L.1991, c.431 was at variance with rules adopted by the U.S. Department of Housing and Urban Development (HUD) under section 202 in several important respects. The federal rules require that a sponsor obtain a tax exemption for the life of the subsidy, generally 40 years, rather than the 30 years allowed by P.L.1991, c.431. Other differences involve the way in which project revenue is to be calculated, the staged increases in service charges and minimum service charges required by P.L.1991, c.431, the contents of the certificate of incorporation, and the treatment of any net profits received by the nonprofit corporation.

As a result of these differences, a housing sponsor cannot simultaneously comply with both sets of requirements; if a sponsor cannot meet the tax exemption requirements of the HUD rules, its project costs rise and it receives a lower priority than competing projects in other states. This corrective legislation is necessary so that New Jersey nonprofit sponsors of housing projects for low income senior citizens and persons with disabilities will be able to compete effectively for federal funding with housing sponsors in other states.

Senate Bill No. 1120 is identical to Assembly Bill No. 1070, which was also released from this committee on June 6, 1994.

SENATOR DICK LaROSSA, (Chairman): If I could have your attention, please? Oh, Senator Scott is here. Okay.

Thank you.

We've got one bill on the agenda today, which we're going to hold for a little bit later. Senator Bennett or Senator O'Connor will be here to give us our quorum. The primary focus of the meeting today is to really have a discussion of trying to get behind a concept, which we've begun to refer to as the Urban Redevelopment Initiative.

In terms of trying to capture some of the thoughts that we've had, as we go around to the different parts of the State -- to the urban centers primarily -- we've seen a whole host of specific needs, and they tend to be recurrent. Obviously, unemployment is one, poverty is another, infrastructure is a third, economic development, education, homelessness, and a whole litany beyond that. The difficulty is trying to find an economic engine to help drive an agenda once it is developed, so that there is some logical systematic way that all of the disparate parts tie together, rather than being a mosaic of maybe 10 different programs that have no continuity to them.

What I've asked to have happen today is-- We have Tony Coscia from the EDA, Commissioner Medina from Commerce, Caren Franzini also from the EDA, and Bryan Finnie from the Urban Development Corporation. If you wouldn't mind coming forward, what we wanted to do was try to start a little bit of a discussion based on your background, experience, and so on, on how to try to achieve some of these goals.

I know, Commissioner, you have some prepared comments, so if you would prefer to do that and then I'll get into--

COMMISSIONER GUALBERTO MEDINA: Okay.

Well, Mr. Chairman, it gives me tremendous pleasure to be here before you today to testify on the desperate need that the State of New Jersey has for a cohesive, comprehensive urban development policy.

It would probably be accurate to say that neither the Federal government, nor the State of New Jersey really have a comprehensive urban policy. The need for such a policy in the State of New Jersey cannot be overstated. New Jersey and the District of Columbia are the only two jurisdictions in this country whose populations are considered to be 100 percent metropolitan by the Census Bureau. I believe, Mr. Chairman, that, ultimately, the goal of any development strategy is to expand the employment and tax base of urban jurisdictions.

The design and analysis of economic development policies in the past have been dominated by what has been called the Rational-Locational Model, which is based on the assumption that government policies can affect the expansion and location decisions of industry by underwriting the factors of production.

Land, buildings, equipment, labor, and raw material costs are subsidized through a series of incentives including: tax abatements and/or credits, below market interest rate loans, infrastructure development and incubators, tax increment districts, right-to-work laws, low minimum wage requirements, etc. The assumption is that government incentives can, in fact, affect industry location and expansion decisions.

The problem with this approach is that business incentives are not the sole influence on business location decision making. A primary concern of industry is labor quality and productivity.

The Human Capital Model rests on the understanding of the basic link between the improvement of human capital and increased productivity, on the one hand, and economic growth on the other. Education in this model is a primary component for development. The link between education and productivity has been well documented, so the logic of this model, I think, has pretty much been established.

Therefore, the primary focus of any urban growth should focus on technical training, customized labor training programs, and improvement of urban schools. New Jersey's outstanding system of county colleges is a good beginning and constitutes a vehicle for the training of our workforce in the high technology skills essential to the work place of the 21st Century. This system, in itself, is a powerful incentive to attract businesses to the State.

We need not in New Jersey, and should not, attempt to compete with states that place undue influence on Rational-Locational Model incentives to lure businesses to their jurisdictions.

Mr. Chairman, an extreme example of this Rational-Locational approach is the incentive package that the State of Alabama used to get Mercedes to bring its 1500-employee, recreational vehicle plant to Tuscaloosa County. The incentives that were provided to Mercedes included: \$90 million to build and operate an on-site worker training center; \$78 million on infrastructure improvements; \$43 million in tax increment financing bonds to finance plant construction; purchase of 2500 Mercedes sport trucks at a cost of about \$30,000 apiece. In essence, the total incentive package that Alabama gave Mercedes has been estimated to be worth \$300 million. In other words, Alabama paid \$200,000 per job.

New Jersey should not and need not enter into such insane bidding wars with other states. We already have a well-articulated system of sensible incentives. We also have to understand the factors that will attract firms to this State and try to maximize those.

Firms will come to New Jersey, basically, for various reasons. One is that they are market oriented. New Jersey is located in the middle of one of the largest and wealthiest consumer markets in the entire world.

Firms will come to New Jersey that are transportation oriented. New Jersey has a very well-articulated system of transportation.

They will come because they are worker productivity oriented, in spite of the fact that there are states that have right-to-work laws and very low minimum wages. The fact is, they can't guarantee something that New Jersey can, which is a very well-educated workforce that is very productive.

Firms will come to New Jersey if they are infrastructure oriented, because we have one of the best infrastructures in the country.

Finally, firms will come to New Jersey if they are quality-of-life oriented. The reality is that executives of major corporations are not extremely happy in terms of watching grass grow in Arkansas, when they can be watching a Knicks game in the New Jersey region.

New Jersey already has the components of an aggressive economic development policy, but they need to be integrated into a comprehensive policy with clearly articulated goals, Mr. Chairman, as you said when you started this hearing. Some of these components include:

The Economic Development Authority: The EDA is one of the most effective public financing entities in the country. Last year, the EDA closed nearly \$700 million in financings. Approximately \$1.4 billion in total investments were stimulated last year as a result of EDA's leveraging of resources. This activity created 29,500 construction and permanent jobs. So far, Mr. Chairman, in the first four months of this year, the EDA is on a pace to quadruple last year's performance. The Urban Development Corporation and the Local Development Finance Fund have also served as effective tools for urban development. In addition, Mr. Coscia, Ms. Franzini, and Mr. Finnie are actively exploring ways to expand the EDA's capital

base and its ability to serve the capital needs of small firms. They will talk some more about those initiatives, but some of the ones that I'm really excited about are:

The EDA's efforts to become certified as a lender under SBA section 7 (a) loan. In addition, the EDA-- Caren and Tony, have met with Federal Home Loan Bank officials to see if we can represent them and commit them in the loan-making process. Finally, Bryan Finnie, Caren, and Tony have been talking seriously about the creation of a Small Business Investment Corporation, which would allow the EDA to make equity and near equity capital available to firms in New Jersey.

Another very powerful tool, and I know, Mr. Vice-Chairman, something that you take an interest in, is the Urban Enterprise Zone Program. In spite of all the difficulties and problems we've had with implementing that program, I feel that it is an unequivocal success in the State of New Jersey and has been a powerful tool for economic development and growth. Approximately 2700 New Jersey firms are participating in the current 10 zones. The UEZ Program has generated 30,000 jobs and \$53 million in investments in urban communities.

The incentive programs that UEZ uses are well-known. Firms that are in the zone charge only 3 percent sales tax, in comparison to 6 percent which other firms charge, and that 3 percent goes into a fund that is reinvested into the Urban Enterprise Zone community. In addition, one of the powerful incentives of this program is that firms that are going to locate into an Urban Enterprise Zone community pay no sales taxes on either the building materials that are used to construct the facility there, or on the equipment that they place into service in an Urban Enterprise Zone. I feel that this program has been successful, and in combination with the Federal Empowerment Zone Program, I think it's going to be even more effective.

Another tool that New Jersey has that we have to use more efficiently is the Industrial Site Recovery Act. Mr. Chairman, as you know, this is a \$45 million fund that is to be used for loans and grants to clean up contaminated sites in the State. Since much of the industrial contamination in this country -- and particularly in this State -- has occurred in our old, urban areas, if the State of New Jersey has policies that are overly restrictive, we're going to be consigning our urban centers to a perpetual under- or nondevelopment. We feel that the ISRA fund can be a key and powerful tool to help clean up sites in urban areas.

Caren Franzini and I have met with Commissioner Bob Shinn. There are limitations in terms of how the ISRA funds can be made available to firms throughout the State. We plan to propose some technical amendments to the Act to make it more easily usable, and make it possible for us to get the funds out quickly.

Another major incentive that New Jersey has to offer that should be continued, and hopefully, in the future expanded, is the Department of Labor's Customized Labor Training Program. This is a very successful program that allows employers that plan to relocate to or expand in New Jersey to work with the New Jersey Department of Labor to devise a flexible employee training/retraining program. The Department of Labor will underwrite up to 60 percent of the program cost, which could be used to underwrite payroll for workers receiving on-the-job training.

Finally, Mr. Chairman, there is the New Jersey Housing Finance Mortgage Corporation, which stimulates housing, both affordable and market housing, in the State of New Jersey, including urban areas. When we talk about economic development of urban areas, it's imperative that we mesh policies of economic development with housing development policies, because they go hand in hand, and step in step. Unfortunately, in the State of New Jersey that, all too often, has not occurred.

Again, Mr. Chairman, I concur with your initial assessment. All of these programs that I just described can serve as the foundation for a comprehensive urban development policy. What is needed is an integrated program with overall development goals. Housing, EDA lending activity, investments of the Department of Labor, ISRA, and the Urban Enterprise Zone funds should all be coordinated and should not be invested in a haphazard fashion, as they have in the past.

Finally, a comprehensive urban development policy should articulate clear criteria that will define which projects or investments merit government support. Governor Whitman has commenced this process in the context of the ill-fated proposal by the Philadelphia '76ers to build a waterfront arena in Camden.

As a result of this project, the administration has established four criteria for the allocation of public funds to development projects:

- 1) All cost and revenue factors must be carefully considered and accurately projected, which was not the case in the 'Sixers' stadium in spite of what anybody may say. As a matter of fact, the numbers kept changing weekly, as Arthur Anderson and Governor Whitman tried to review them.

- 2) The administration will only commit funds toward projects that are financially feasible. The idea of government involvement is not to take a bad investment and make it good through massive subsidies by the government.

- 3) The public sector should demand a fair return on investment in terms of jobs and economic activity. One of the major problems with the 'Sixers' project is -- from my perspective, having been a City Councilman in Camden -- the job and economic impact that was promised, in my estimation, would not have inured to the benefit of the residents of the City, but to residents in Philadelphia and in other parts of New Jersey.

Finally, the State should evaluate opportunity costs and alternative courses of action to ensure that a particular use of public funds or land is the best possible investment. One of the things that we, in the government have to be mindful of is that these criteria should be applied to all projects, especially to investment by the EDA. All too often, there is a temptation to use EDA funds for a project that may be interesting, but is a project that is not an advisable investment.

I believe that these are sound criteria and that they should be the guiding principles for our participation in projects.

In conclusion, I would like to suggest that in order to reverse the factors that have given rise to the distress that New Jersey cities are currently experiencing, we have to understand the patterns of deterioration that have placed cities in the predicament in which they find themselves.

Located in a region of the country that has suffered economic decline, most of New Jersey's cities endured substantial population and job loss, housing abandonment, neighborhood deterioration, and fiscal distress.

Central city decline is of a self-reinforcing nature:

1) The outward movement of the middle class and their replacement by in-migrating poor contributed to a cycle of deterioration. Middle-class families left our cities, in part, to avoid paying taxes to support government services for its low-income residents. The rising taxes that accompanied this process, in turn, made cities less attractive as business locations.

2) Declining population caused the unit cost of local public services to increase. This increase in unit cost, in turn, encouraged further population and job loss.

3) Population and job loss can lead to an additional self-reinforcing process of decline, by reducing the positive

economies of agglomeration offered by a city. The economies of agglomeration in the form of specialized services of production and consumption, accrue as a city grows, attracting further growth. They diminish as it shrinks, encouraging further decline.

The good news is that theories of urban form have always implied that the passage of time might bring a cycle of revival to our older cities. According to this view -- and I think we see some of these patterns working themselves through -- as cities decline, their central business districts have ceased to expand.

Transportation improvements have moved heavy industry and blue-collar jobs out of the inner city. The remaining employment will be increasingly concentrated in the service sector, in professional, managerial, and white-collar occupations that might be expected to attract the middle class. At the same time, the decline in older central cities will open up a substantial amount of vacant land for potential reuse. We've already seen this process in motion.

These evolutionary changes, taken together, have prepared the way for a new metropolitan development. By maintaining a high aggregate demand for employment through various policies including lending, as the EDA does, and others and by building new or renovated housing near the center, cities can begin to fight poverty, attract the middle class back from the suburbs, and spark a self-sustaining revival that could carry them into a new era of prosperity.

I look forward, Mr. Chairman, and Mr. Vice-Chairman, to working with this very important Committee -- in my estimation, the most important Committee the Legislature has created -- to develop the conditions that will allow this scenario to become reality.

Thank you.

SENATOR LaROSSA: Thank you, Commissioner. It is interesting that my opening comments-- I did not see your text before you read that, but in terms of having an integrated approach, it's nice to, kind of, be on the same page -- not only the same chapter and verse, but the same page, as well.

What we've seen going around the State is, while there is a slightly different change in the perspective, there is not a lot of change in the foundation of the problem, in terms of what appears to be the issues that need to be addressed.

One of the issues that you raised, which logically brings me into the part of this-- Unless, Bryan or Tony, you have any specific opening comments (no response). This really is, I think, the fundamental question is, we really need your input and your expertise in answering this question. There are a host of programs and entities -- for a lack of a better choice of words -- be it the UEZ, the EDA, the UDC -- XYZ, ABC-- The list just goes on and on and on.

What I found last year -- and this is not a criticism or a complaint, I think it's just a statement of reality. There is a brochure which the EDA publishes -- I think it's on buff-colored paper -- for small businesses and this whole compendium of things. Without knowing that you go to the EDA, it is very difficult for somebody to even begin to know that all of these programs exist. I think to a certain extent -- I don't want to call it a clearinghouse, because it is a little bit different, each of the programs has its own specific focus -- a lot of the urban-based programs, realistically, seem to be fragmented in terms of that they exist in a whole bunch of different areas. I don't know whether or not it would be more productive to try to focus that agenda. Again, this is not a criticism.

I think what has happened is, over the last decade, more so than perhaps anything -- everybody talking about urban development for years and years and years, but over the last

decade it has become more and more obvious. Commissioner, you spoke about taxes and people leaving because of that burden. If we do not realistically look at reconstruction -- and I mean some real systemic changes in the urban centers -- the bottom line is, that cost is still going to be borne, and that cost is going to be borne by suburban taxpayers.

As I've said many, many times, there is always a cost of doing something, but there is also a cost of doing nothing. So the question is, "Who ends up bearing the cost?" Obviously, if the money isn't existing in the urban centers to help to try to reestablish some of these things, logically the money is going to come from where the money is, and that's suburban New Jersey. Your comment -- it was interesting because I had heard the statement before -- about New Jersey being considered 100 percent metropolitan-- I think, Jack, it was your statement -- or somebody -- that New Jersey is one large city.

COMMISSIONER MEDINA: Yes.

SENATOR LaROSSA: It's interesting that we have these perceptions, and they seem to be being proved almost statistically as well. What I'm leading up to is really two things. I guess the question is, "Is there a rhyme, reason, and logic to try to reestablish an entity as a focal point, as a total management body?" Secondly, obviously, the magic question is the dollar sign, "How do we underwrite that?"

Before I get to the dollar sign, I'd like you to keep this in mind, before I forget -- I didn't write these down -- it was the EDA, FMHA, Federal Home Loan Bank Board is one, CRETA -- I'm missing one, which at the moment escapes me, but I'll figure it out eventually. The idea was realizing that the UDC, which tends to be where I to want to gravitate, because in reading its enabling legislation, it is very clear that that was an entity that was set up to really focus a lot of the urban initiatives -- programs.

It's difficult, and I know that it was ruled under the EDA, but let me just read, if I may, a couple of things. Doing some research back on some of the original enabling legislation, it says, "The corporation's function is to undertake industrial, civic, land use improvement, utility, and multipurpose projects in qualifying municipalities. Further, as it is described, it is given broad powers to acquire, construct, improve, maintain, sell, lease, and otherwise dispose of property. The corporation is authorized to grant subsidiary corporations to effectuate specific projects. The legislative intent being that these subsidiaries may eventually evolve into privately managed enterprises. The corporation will be granted broad powers to acquire, construct, improve, maintain, sell or lease, and otherwise dispose of property, but is prohibited, however, from exercising eminent domain or overriding local zoning ordinances."

Without going into the specifics of the UDC, that's a pretty broad charge. It's an awful lot of responsibility. But if, in fact, that is the charge we want to give to a body, if you will, it would seem to me that is what we need to do. In 1984 -- correct me if I'm wrong -- I believe-- When was ECRA originally enacted?

COMMISSIONER MEDINA: I have the ISRA legislation with me, but I don't--

C A R E N S. F R A N Z I N I: The ISRA was later.

SENATOR LaROSSA: ISRA was just last year.

MS. FRANZINI: Right.

A N T H O N Y R. C O S C I A: I have it with me. I was going to say in the early 1980s.

SENATOR LaROSSA: So what we would have had is an evolution, over time, of ECRA. Perhaps, as we've seen regulatory things, kind of going off the deep end and making a lot of the reclamation very, very difficult -- its intent to maintain clean water and air, working at cross-purposes to try

to recover part of the infrastructure. Obviously, if, in fact, we have an entity that has the ability to do this and they go out and try to do this, it seems to me that there must be some allowance within this environment.

So, I guess the questions are probably two or threefold. Very simplistically, what do we have in the existing structure, or what structure exists currently, to try to achieve the goals as outlined? Because you mentioned at least four-- I just mentioned three or four other funding sources. Then looking at what the original charge was of the UDC-- Knowing also, that Senator Littell has given me some programmatic things that he would like to see done -- which, quite frankly, sound like almost entirely in the UDC in the first place. It's interesting; everybody is kind of thinking the same thing.

It's like everybody has the thought, and everybody is afraid to say it. Now, we've got to get it out of the closet and move it forward. What suggestions or recommendations would you have in terms of moving this forward? Also, remember the most important thing is, in the economic conditions we're under now, the ability to underwrite whatever the revenue stream is. To be able to do this, obviously, has to be a major consideration. I looked at some things last week, and I believe that this year, 1994, is 10 years into CRDA. So, in fact, 50 percent of the moneys in CRDA now become available for infrastructure redevelopment through, at least, what would be considered Central New Jersey, which would include Mercer, and I believe Middlesex County is in there as well. So, again, looking at possibly the EDA--

Tony, you said something last week about the Federal Home Loan Bank Board, as to there is also some squeezing going on with them as well.

COMMISSIONER MEDINA: Mr. Chairman, I think what we have to look at is that the problems that are besetting urban areas and cities in this State and in this country are very

complex. Even if we took the Department of Commerce's resources -- all of them, the EDA, the UDC, and everything else we have -- and brought it to bear only on the resolution of urban problems, we still couldn't resolve them, because that doesn't answer the transportation issues that have affected the cities, that continue to affect them. It doesn't address the issue of education; it doesn't address the issue of housing, which are programs that are managed by the Department of Community Affairs.

What really is needed in New Jersey, which I feel-- Frankly, the reason you didn't get my comments until this morning is because one of my assistants had put something together which was good, but I thought was not thorough enough. I stayed up last night putting this together. Last night, as I was thinking about this problem, this issue; the fact that we have all of these components for an urban policy, but, as I was telling Tony last week, it's like a chef set out to make soup, but forgot to mix the ingredients. Therefore, we didn't have soup, what we had was radishes, chicken, spices, parsley, and a lot of other things separately, but we never got soup.

What really is needed within the executive branch of State government is an Urban Policy Coordinating Council -- a group that will have representatives at the highest level, from the Department of Transportation, the Department of Education, the DCA, Commerce, as well as any other authorities like CRDA that have an impact. This group should be the group that is actually creating that cohesive policy. Because, as I said, the Department of Commerce doesn't have the resources nor the authority to resolve all the bewildering problems that affect cities. Although I'm not making that necessarily as a recommendation until I speak to Governor Whitman sometime today, I think it is certainly an idea that we need to take a look at.

You're absolutely right, Senator, that has not been happening, especially in prior administrations. In this administration, we have Cabinet meetings on a very regular basis, but, from what I understand, in the prior administration Cabinet meetings were very unusual. Therefore, even the minimal coordination that you could get through these interactions was not occurring. We do have a lot of Cabinet meetings, but I think we need something a little more formal. I would suggest that maybe an Urban Policy Coordinating Council could do that. My recommendation would also be that this Council not just consist of members of the executive, but I think that persons like you and the Vice-Chairman have a lot to contribute to this process.

You and I have had the chance to sit down and talk. So have Senator Scott and I, and frankly, I've received a tremendous education from that interaction. I think that is really what is wanting in the State of New Jersey, that we just simply don't have.

SENATOR LaROSSA: You know, just by name -- Policy Coordinating Council -- I think the word coordination in there makes an awful lot of sense.

Would you envision a body of that nature as a policy setting arm, and then another entity being the implementing arm?

COMMISSIONER MEDINA: We could do that, and that implementing arm could be housed in the Department of Commerce. It could be the UDC or some other entity. I have to tell you, the reason the Urban Development Corporation has been housed in the EDA, there was very logical thinking that went into that. The EDA is a very effective lender. The UDC, in the final analysis, was really a financing mechanism. It just made a lot of sense to house that in an agency that had all the fixed costs that are associated with having, basically, a bank, assume the responsibility for managing the UDC. Because from a cost standpoint, it's much more cost-efficient; from a policy

standpoint maybe something was lost. Possibly the way to redress this would be through creating this Urban Policy Coordinating Council and having the UDC serve as, basically, the administrative arm of that Council.

SENATOR LaROSSA: That's really, kind of, where I was heading as a structural concept. You have to have the architectural plans. You can't build the house as you go, and I think that architectural plan has to be there. I think maybe the original legislation on the UDC was very, very farsighted. It was not farsighted in terms of having an acuity problem, but farsighted in terms of, maybe, it was put on the table before its time. When you go back and read that, looking at what we're trying to address now, I really like that idea of a coordinating council simply because it tends to, maybe, bring all the disparate -- perhaps sometimes conflicting and competing -- issues together.

One of the things we've seen, as the Committee has gone out there, is that whatever affects the urban centers, affects the suburban centers. They are just inexorably linked. So maybe that whole idea of a coordinating council is a way to ameliorate some of the, "us versus them," the, "we versus they," mentality and mind-set.

Tony, would you just fill the Committee in on something we talked about the other day? It was something about having the banks become, not so much more willing, but kind of having them, I don't know, coerced. (laughter)

MR. COSCIA: I won't use the word coercion, but the reality is -- and I think the conversation you're alluding to -- this Committee's timing could not be better in a great many respects. This goes back to-- At least what the EDA views as its role in this whole process, is essentially being a machine that helps you implement the policy direction that you think makes sense. I think that a lot of work has been done to put the EDA in a position to help, whether it be the coordinating council that you've discussed, or the UDC itself.

I agree with you, the UDC's legislation is actually a very artfully drafted piece of work that, I think, in many ways was clairvoyant, as, I think, was the EDA's. I think it is our responsibility to work very hard to see it realize its full potential. But I think the UDC was actually set up as a very, very impressive mechanism that could be used in a lot of very productive ways. I know that, speaking on behalf of the EDA's Board, and the direction we've certainly received from Commissioner Medina, we're very excited about working with this Committee in terms of reinvigorating some of those things and making the UDC fulfill the promise that I think its legislation brings to bear.

The topic I think you were alluding to was the fact that this whole idea of capital formation lagging in the urban centers, is something that has become pretty obvious to a lot of people in all sorts of policy making capacities, both at the Federal and State level.

The primary regulating entity for national banks, the Office of the Comptroller of the Currency, has made, over the last six months, a priority of its examinations of national banks who it charges and gives life to, to make sure of their adherence to, on a very specific level, the provisions of the Community Reinvestment Act, as well as their overall responsiveness to the community from a lending standpoint, be more than just some sort of formality.

What used to be acceptable, in terms of showing that a bank that had a substantial branch network in urban areas, is no longer acceptable. They have provided fair warning, I believe, to the commercial banks in this State and, indeed, throughout the country, that they are going to use their regulatory muscle to make sure that banks who do not aggressively seek out opportunities in urban areas -- or areas where they have a substantial branch network -- are going to suffer the consequences of it.

Now, without commenting on whether I think that's a good or a bad thing, I can tell you from both a legal and a technical standpoint, banking regulators have a tremendous amount of power over the institutions they regulate. Just as they were brutal in their pursuit of cleaning up asset problems in the late '80s and early '90s, if a similar kind of enthusiasm is exhibited toward getting banks to lend in the commercial areas, banks are going to be screaming for some way to effectively lend their money in urban areas.

If the Committee, in its work, creates a receptacle for that need I think, as I said, your timing is perfect. There is a flip side to this, though, that I don't think either we or this Committee can ever really lose sight of; that people really are going to be required, no matter what the framework, no matter what the policy initiatives, to make responsible decisions, particularly where money is involved.

I think that this State actually has a history with an urban loan authority that ultimately defaulted enough loans that required a State bailout, and I think that left a bad taste in a lot of people's mouths. So I think that anything we come up with has got to be something that is structured from a very practical, commonsense standpoint; so that those who commit resources to it have a reasonable basis to believe that they are getting something for the commission of those resources, as well as there being a level of prudence involved in how the whole program is administered.

Now, sometimes that's viewed as a cop-out for lending in the urban areas. In other words, it's very easy for a banker to look at an urban project and say, "It's just not financeable." -- the arguments for why the underwriting standards that are generally applied in commercial banking could be used to kill virtually any project in almost any urban area. It's an easy exercise, but it serves virtually no purpose.

I think the challenge is to find sources of capital and to find ways of investing that capital that, on the one hand, accomplish a very real policy objective, which is to stimulate growth in the urban areas, yet, on the other hand, aren't viewed as some sort of a government handout that has very little accountability to it. I think if we're real good investors of our money, and we bring back a return, not necessarily in terms of dollars, but in terms of saying, "We financed that building. We financed that real estate project. What was a burned-out lot is now a source of employment for people. What was a project that survived only by government sustenance, now survives on its own." Those kinds of success stories are what is going to bring people back into it. I think our mission ought to be to lead that charge, somewhat.

SENATOR LaROSSA: As far as having those projects that take on a life of their own and become self-sustaining, the volume of projects that are taking place in the urban centers-- Correct me if I'm wrong, some of the things I've read in terms of a rate of return -- leveraging, dollar leveraging -- I've seen some very, very strong numbers for the UDC, the EDA, and so on. I know what the UDC's numbers are, but I've never seen a-- I know it's in there, but it's one of those things, after a while I begin to go blind trying to read all of this stuff. What is the general ability to leverage the dollars?

COMMISSIONER MEDINA: Almost one to one.

MR. COSCIA: Actually, it depends on exactly-- In terms of actual dollars invested to the actual dollars generated, the UDC, I believe, is running at a ratio of somewhere in the area of 10 to 1. The EDA is running somewhere in the area of about 20 to 1, but you have to understand that those are very structured. That's oversimplifying what takes a lot of little pieces to do. In other words, the process we've

gone through in the recent past is to, basically, keep government only in the transaction to the extent it's necessary.

The idea that urban investment is unprofitable is a myth. It's a clear myth. I can tell you that there are many people out there who are earning -- Bryan, Caren, and Gil know -- a tremendous amount of money by developing everything from housing projects to commercial retail centers, etc. You just need to be-- It's a different way of doing business. A real estate developer who has developed hundreds of projects in the suburbs and tries to apply his craft to the urban areas will fail terribly, unless he understands the differences in developing property in different areas. There are different economics involved; there are different ways of packaging product involved. To me, anyway at this point, it is pretty clear to me when I run into someone who is either an investment banker or a real estate developer, and who understands how to undertake and invest in an urban area, versus one who is approaching it as a novice. The leveraging that you're talking about is really a function of people who understand how that business operates, but the potential return is definitely there.

SENATOR LaROSSA: My final question -- then I'll turn it over to the Vice-Chairman or Senator O'Connor -- and that, obviously, is the ability to-- You need a revenue strength, obviously, and one of the ideas that I had-- I'm not going to ask anyone to commit, because this is an exchange of ideas to see if we can try to pull some of these things together, but if, in fact, we conceptually talk about an Urban Policy Coordinating Council, and then we have an Urban Development Corporation that is a focal point to carry some of these things forward-- The numbers that I read were roughly \$30 million originally for the UDC, which, quite frankly, doesn't go very far. Especially when, as you said, the magnitude of the problems, especially when we have a metropolitan State, when you come right down to it.

The difficulty is if we went out to try to do a bond issue, the question is trying to get it done in time -- whether they're revenue bonds, treasury bonds, whatever. The question is, is there any rhyme, reason, logic, or precedent -- for a lack of a better choice of words -- where other entities who, in fact, have a vested interest in certain parts of other things going on: i.e. the EDA, FHMA, CRDA-- I can't remember what the heck the fourth one is, it's driving me crazy.

UNIDENTIFIED WOMAN: (indiscernible)

SENATOR LaROSSA: Which one?

UNIDENTIFIED WOMAN: Development Authority for Small Businesses--

SENATOR LaROSSA: That could be one of the them.

But all of these entities that have--

COMMISSIONER MEDINA: ISRA, maybe?

SENATOR LaROSSA: ISRA is one of them, as well.

COMMISSIONER MEDINA: CRDA? You said CRDA.

SENATOR LaROSSA: I said CRDA. ISRA is one. There is a whole host of them so that, in fact, if they have bonding capacity, authority, ability, and so on-- But, again, if you go back to your soup ingredients, they're all kind of sitting there; that to find some way to have all of these entities take part of what they can bring to the table, but bring it together as a cohesive whole. So that what would happen in turn would be rather than having the delivery mechanism have to go out and have its own bonding ability, have these people, kind of lend the bonding ability, and as they begin to turn their own profit and pay this off, they then acquire their own bonding capacity. Does that make any kind of sense?

MR. COSCIA: Yes.

SENATOR LaROSSA: Caren is smiling. I know that's a good sign. (laughter)

MR. COSCIA: I think the answer is, yes, but it's a question of-- There are two things, I think, to keep in mind in formulating something like that.

The first the Commissioner alluded to, which is that I think that any kind of a sound basis to create a significant amount of funds that are going to be associated with urban redevelopment has to be part of a larger urban initiative, aimed at tackling more than just throwing money at a problem, because the private sector views that as just silly government talk, where somebody is going to spend some money someplace and then show numbers. People want to see that if you're going to actually plant something, that you've cultivated the ground, you've put fertilizer in it, etc. The private sector reacts much better to that, at least that seems to be my experience.

In terms of then creating that pot of money, there are a variety of different sources that might be available for it, and you mentioned all of them. I think that what you have to actually determine is, from a policy standpoint, since the need for financing in so many different areas is so great, if a variety of different agencies were to dedicate future streams of cash to one particular objective -- namely, in this case, establishing some sort of Urban Development Corporation Capital Fund -- that certainly could be achieved, based on the reliability of those future cash flows.

For example, the EDA could contribute to it, as could FHMA and a variety of other agencies. I can tell you that the EDA would find it as a sound investment. As far as the other agencies are concerned, you'd have to convince them that that's a better way of investing the money than having them invest it on their own.

The other thing I think you should think of, in terms of bringing into the fold, is that there are a number of entities in the private sector who have a vested interest in urban economic development, not the least of which are the utilities and entities of that nature.

The issue of tax increment financing is something that you've heard people talk about. It's a very viable concept that's been used in a lot of other states, but it's a revenue

decreaser, based on how you want to look at it. If you take a burned-out lot in Newark, New Jersey and you turn it into a tax ratable, is the incremental tax created from that a draw from the general revenue or not? I'm not the policy person. I can tell you from an economic standpoint, you can make that deal work in New Jersey virtually overnight, and there have been pieces of legislation offered along those lines. But somebody has to make a policy determination as to whether you're mortgaging the future in doing that or not.

COMMISSIONER MEDINA: One of the things I think that we overlook is the fact that more and more of the capital in this society is controlled by institutional investors. Unfortunately, what happens with institutional investors is they are not investing -- in spite of what Tony indicated; that investments in urban areas could be sound investments, they're not investing there. They're not investing in the middle market. They're investing, basically, in the large corporations, and they are meeting those capital needs.

In the State of New Jersey, we've got a pension fund. It's the only pension fund in the country that doesn't invest in anything that has to do with New Jersey. I've brought this to the attention of the Treasurer, and his concern is that as fiduciary, he's got to make the best investment possible with those funds. I still find it difficult to believe that after Tony's summary of the EDA's experience, that the EDA could not become a very effective conduit for some of those pension funds, invest in a very prudent fashion, and give our pension real good returns on the investments. That is something that we have to look at very carefully. I think that the only way pension funds will be invested is if the Legislature mandates it, because I think historically, the managers of those funds have taken their role of fiduciary seriously. But I don't think they understand that you can make prudent investments in the urban areas, and those prudent investments could yield a good return on investment.

MS. FRANZINI: I also think we're talking about two different kinds of investments, as well. We're talking about investments that are in small businesses that we can do business by business and ensure that we're helping. But there are also larger investments in terms of major redevelopment projects, and those are harder investments to do.

This, with the coordinating council, where the investment involves transit money or could involve housing money, is where you're approaching, as the Commissioner said, "It's a holistic approach." Rather than just funding the one entity that's in there, it's a matter of doing the investment as a whole. I also think working with the local community and where it's located, providing the technical assistance to them to ensure that the redevelopment plan happens, and happens in a logical manner, is also a very important component to it.

So I think there are two mechanisms here. It's small business that we're helping, which is vitally important. I think we can continue doing that, and will continue doing that, as a host of financing programs. We also have large redevelopment projects that take a special kind of need and the coordinating council, where the need is greater than any one entity as whole should be doing, is a great approach to accomplishing the bigger projects.

SENATOR LaROSSA: Are any of you familiar with an entity called, LISC?

COMMISSIONER MEDINA: Yes, I'm very familiar with LISC.

MS. FRANZINI: Yes.

SENATOR LaROSSA: How would an entity like a LISC integrate with this kind of a scenario?

MS. FRANZINI: They've done very little.

COMMISSIONER MEDINA: LISC has done very little. The way LISC basically worked was, they would take foundation dollars and they would underwrite nonprofit corporations who went into joint ventures with for-profits. That was, in a way,

the equity capital that the nonprofit brought to the table. It was a good concept. A western reporter one time asked Mahatma Gandhi what he thought about Christianity, and Mahatma Gandhi said, "It's a good idea. It's a pity more people don't practice it." (laughter) I think with LISC, it was a real good concept, a real good idea, but I don't think it's done a lot. In Philadelphia, they did a number of projects. I don't know if they've done anything at all in New Jersey.

B R Y A N K. F I N N I E: Senator, with the New Jersey Urban Development Corporation, our programs can be structured to meet those same objectives. I know we make recoverable grants which, from an underwriting standpoint, can be considered equity when you're looking at a project as in LAEDA, in Camden.

SENATOR LaROSSA: I'm sure I'll come back with another couple of questions, but, Senator Scott?

SENATOR SCOTT: Thank you, Mr. Chairman.

Thank you, Commissioner, and everybody for being here. I guess we're all in line in thinking that it's too bad that we don't have a central focus to be able to tie all these things together. The idea of that council sounds very promising, and hopefully you will be successful in convincing everybody in the administration that it would be a good idea -- transportation and so on.

You're absolutely right, one of the biggest problems we have in the cities is the infrastructure. It's old; the cities are old. They've been there for an awful long time and not too much has happened to help them. So we've built new malls. We have highways to and from the malls, and bridges and so on, but the cities have really suffered in that respect. So if you can get everybody together, I think it would be an excellent idea.

As you were talking, something came to mind, something very critical in my view, in the development of the cities. From what I gather, anybody from-- I'm from the city

originally, from Jersey City, so I'm basically a city guy. I remember Sharpe James, the Mayor of Newark; he was furious because of all the land he has in Newark sitting there. Newark should be a hub. You've got the airport, the ports, you've got transportation. You have everything. You've got highways going in there. It's just a tremendous city. It should be brought back to its prominence, and it could be. One of the biggest problems he has is ISRA, ECRA. I look at the City of Passaic and there is a burned-out area from a few years ago -- a major fire -- they can't do anything with it because of ECRA, ISRA.

The City of Belleville has land that could be developed industrial -- heavy industrial -- nothing can happen to it, though, because of ISRA, ECRA, however way you want it termed.

I would ask this: Do you have an inventory of city properties that right now are sitting there and cannot be developed because of the ISRA regulations? The regulations, well, that's putting it mildly -- the condemnation. If not, I would like to suggest that that be put together. I think you will find that we do have an awful lot of vacant land waiting to be developed.

I'm a real simple guy. If you're going to put some concrete over a lot, I don't care what's underneath it, it's not going to come through. (laughter) It's coming through already, from the dirt. Kids are going in and scooping up the dirt or playing baseball in the lot, and we say, "It's contaminated. Don't put a concrete-base and build a warehouse." It doesn't make sense -- common sense. That's where I have a real big problem with ISRA and ECRA. I'm looking at all the cities, I think, that have that land. That's where the labor is that they need. The roads are there. Mass transit is in the city. Here we have this valuable land sitting there, doing absolutely nothing, because somebody said, "There's a regulation, it's contaminated."

Look, I grew up on those lots. They were more contaminated when I was growing up on them than they are now, believe me. I sucked up enough of those dust fumes playing football. Geez, do I look like there's something wrong with me? (laughter)

SENATOR LaROSSA: Talk about an open-ended question.

SENATOR SCOTT: I gained weight is all. (laughter)

COMMISSIONER MEDINA: Mr. Chairman, I did too. Maybe that's why our growth was stunted. Actually, I used to be Irish, then I played on those lots and became Puerto Rican. There was a transformation. (laughter)

SENATOR SCOTT: I'm going to probably live to be 80 years old, because of all that great dirt and all I was eating in Jersey City all those years on the chemical sites.

COMMISSIONER MEDINA: Well, one of the things I've got to tell you, I've been really, really impressed with Commissioner Shinn and his approach to these issues. As a matter of fact, Caren was just mentioning to me that we're working on a project that has a little bit of everything you like, Senator. It's an Urban Enterprise Zone; it's land that has wetlands issues; it is a contaminated site. As a matter of fact, Commissioner Shinn and his staff are allowing us to cap that site so that we can get it basically remediated in the most cost-effective fashion possible. The beauty of that particular project is this OENJ, they're going to build a series of discount--

SENATOR SCOTT: Now, who is OENJ?

COMMISSIONER MEDINA: That's the name of the company, OENJ.

SENATOR SCOTT: Oh, I thought maybe it was another government acronym. (laughter)

COMMISSIONER MEDINA: Another government acronym, another agency. (laughter)

SENATOR SCOTT: I thought another department popped up, and I didn't know about it. (laughter)

SENATOR LaROSSA: Over the weekend. (laughter)

COMMISSIONER MEDINA: This is a good example of what you're talking about, where flexibility could be very useful. This company contacted me and asked for my assistance and support in getting some flexibility from DEPE. As a matter of fact, we got a lot of flexibility. For one, capping is going to be permitted. For another, DEPE is going to permit them to get permits for the entire site, so they don't have to keep going back for permits. They have various phases of development, and they are going to get permits for every one of those phases. This is a good example of a project that is really a good one. Right next to it is IKEA, and because of where IKEA is located in Elizabeth, New Jersey, most of the customers who are coming to IKEA are coming--

SENATOR SCOTT: From New York.

COMMISSIONER MEDINA: --frankly, from New York. They are coming to IKEA because they can buy a good product, and they can get substantial savings on the sales tax. This is a good example of the Urban Enterprise Zone at its best.

I know, Senator, you have other examples of Urban Enterprise Zones at their worst, but this is a preemptive strike before you raised those. (laughter) But I agree with you. One of the things is that money is available through ISRA for grants to remediate those kind of sites. One of the reasons Caren and I met with Commissioner Shinn and his staff was, there are some impediments that we want to work through and hopefully get some technical amendments to that ISRA legislation, so that we can aggressively pursue the remediation of sites like the ones you're mentioning in Newark.

SENATOR SCOTT: I think probably every city in the State has land -- areas -- that they would love to be able to develop and throw whatever it is they want to put up there simply because of the infrastructure, the employment, the labor, and so on. But if you have-- Maybe you can request that you put a feeler out to see if you can get an inventory--

COMMISSIONER MEDINA: Get a list, an inventory?

SENATOR SCOTT: Compile an inventory, by town, to see what's available and we may actually be able to develop with some of the communities.

COMMISSIONER MEDINA: One of things that Caren is saying, is, that may be labor intensive. But maybe we can do one real simple thing; do a survey of all the large municipalities -- urban areas -- and ask them to give us--

SENATOR SCOTT: Yes. They should have it in their own real estate-- I'm sure Newark can probably tell you in two seconds.

COMMISSIONER MEDINA: Jersey City, I'm sure can.

SENATOR SCOTT: Jersey City, I'm sure, has it.

COMMISSIONER MEDINA: Camden.

MS. FRANZINI: Trenton has--

SENATOR SCOTT: I'm sure Passaic, they'll tell you real quick, because they've been trying to get it done. I think that's commendable, and if you can do that you'll make-- Because then you will bring the people back into the city. They will stay; they will have ratables. They won't need our help as much. That's what we're talking about, trying to get the cities back to where they were when they really were the hub, and the suburbs were the spokes that fed into the city. So, if we can do that--

I would like to talk a little bit about the Urban Enterprise Zone -- one of my favorites. Having gone into it a little bit about a year ago, and two years ago, one of the questions I have: Have you -- and it's rhetorical, because I'm pretty sure I know the answer -- had the required annual report from the UEZ? That's in the law. Do you have a copy of them?

COMMISSIONER MEDINA: Yes, annual reports have been generated. The reports, basically, report back on the number of companies, number of jobs, number of tax revenue that was collected and reinvested in the communities. That's the extent of the reports that have been generated.

SENATOR SCOTT: Now, we don't know, for example, that the people who applied and said that they would hire someone, whether they've hired anyone. We don't know that, I don't think.

COMMISSIONER MEDINA: Well, Senator, I have to tell you that as of a month and a half, two months ago, we had a hearing to decertify a company that, in our estimation, had not hired the requisite number of people to take away from them the benefits.

But, Senator, I would be less than truthful if I told you that I was comfortable with how we've been monitoring that whole process. We're in the process right now of instituting procedures and also obtaining the staff, because, I think, you're absolutely correct, with the staffing that the Department of Commerce had dedicated -- had devoted -- to the Urban Enterprise Zone, they simply did not have the staff to do it.

SENATOR SCOTT: They have money, Commissioner.

COMMISSIONER MEDINA: Yes, sir.

SENATOR SCOTT: They have money.

COMMISSIONER MEDINA: Senator, for some incomprehensible reason, nobody had ever asked for the UEZ Director to put together a budget and to tell the Commissioner-- In fact, I don't think the Commissioner of Commerce in the past ever talked to the Director of the Urban Enterprise Zone.

SENATOR SCOTT: No. They've been sitting quietly by.

COMMISSIONER MEDINA: But I've got to tell you, Senator, that's one of the Committees-- I'm personally sitting on two entities that I think are very important. One of them is the Economic Development Authority, because I think that is one of the big success stories in New Jersey and we want to make sure we improve on it. I do want to say, while I have the opportunity, that I'm very fortunate to have come into a

situation with Tony Coscia on the Board as Chairman, with Caren Franzini as the Executive Director, and with Bryan as the Director of the UDC, because I think that these three folks that you see here have played a key role in making the EDA the success that it is. I think they're going to play a key role in making it more successful.

I'm also sitting as the Chairman of the UEZ Authority. If Tony Coscia agreed to Chair that, I'd probably let him do that too, but so far, Tony hasn't made that commitment. I will be monitoring this very closely.

SENATOR SCOTT: I would like to work with you on that, because I cut my teeth on that thing, and I found an awful lot of disturbing-- Now, let's leave it at that. It hasn't happened, and I feel that there is a spot for it.

I think that another problem we have is this 3 percent sales tax. Now, that's fine for IKEA, but you know the most important part of this is for manufacturing. Now you're drawing manufacturing companies into that Urban Enterprise Zone and the tax credits they will get for their employees, the unemployment insurance, it's a windfall to draw someone in. That's what I think we're trying to do in all of the cities.

So if we can tie in; one, the property, where we actually say, "Build a slab of cement, build your warehouse, or whatever it is, hire 500 people," low and behold, we have a new company, a lot of jobs developing. Then you tie it in here, to give the encouragement. We can go to New York. I know that Governor doesn't want to fight with New York anymore.

COMMISSIONER MEDINA: No, not at all.

SENATOR SCOTT: But, I still do.

COMMISSIONER MEDINA: That's why she has a Commissioner of Commerce. (laughter)

SENATOR SCOTT: You see, Commissioner, I don't mind fighting New York. I'll still do that.

COMMISSIONER MEDINA: She's Lou Duva. I'm the one that goes in the ring and fights. (laughter)

SENATOR SCOTT: But we still would like to encourage some people to come over if they are willing. I think we can get them over here and give them a little better labor, little better taxes. So I think, come over to God's country and leave New York. (laughter)

These are some of the things I think we should do, and I know that you've only been in a couple of months now, and I know that you've been working very hard at it. But there are some things that I'd like to work with you, in a lot of different ways, especially the UEZ. I think it's something that can be done and done right, rather than just build the hype of a 3 percent sales tax. That's not really what it's designed for. That helps the small store, but that's not the basis, I think, for industry to come in, develop, and get their tax credits on machinery -- 3 percent or no sales tax on building a building. That's big dollars and that's what is going to encourage somebody to come into Jersey City, Newark, Passaic, Trenton, or Paterson, it's there for them, but they need our help. They still need our help on that.

Thank you, Mr. Chairman.

SENATOR LaROSSA: Thank you, Senator Scott.

It sounds to me like your Urban Policy Coordinating Council -- everything I've heard, it just kind of keeps filling in.

Senator O'Connor.

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

If I may, I'd like to just ask some questions of Commissioner Medina regarding the UEZs

COMMISSIONER MEDINA: I'm sorry?

SENATOR O'CONNOR: I'd like, with your permission, just to ask you a few questions about UEZs.

COMMISSIONER MEDINA: I thought I was done with that with Senator Scott. (laughter)

SENATOR O'CONNOR: Well, like Senator Scott, I'm from Jersey City, only they never got me out of Jersey City; I'm still there. (laughter)

As I understand UEZs, basically, the funds are for three purposes: public safety, beautification projects, and then the real economic development -- malls and the like, industrial parks, infrastructure improvements. Of those three, what, in your opinion, would be most akin-- (feedback from microphone)

SENATOR LaROSSA: It's the other one that's giving you the feedback. (indicating microphone)

SENATOR O'CONNOR: Which of those is really closest to what the original intent of the UEZ program was?

COMMISSIONER MEDINA: I'll tell you, the ones that I prefer, obviously, are the hardcore economic development projects, because we get a lot of Urban Enterprise Zone communities applying for police people and for uniforms. Those things are very important. Services are important to the Urban Enterprise Zone community, but it always makes me feel that these funds are being invested most wisely when municipalities use them for development projects.

Jersey City happens to be one of the towns that really has used their money wisely. Another, I think, really good example for the State is Sparta/Millville. I think they've been very creative in how they've used their Urban Enterprise Zone funds. But my preference always is, I think, that it has a much more long-lasting, beneficial impact, if you build things with these funds than if you just provide services. That's my own opinion. But the legislation, basically, does allow expenditures for services, for police protection, and other things, and we routinely approve those requests for those funds.

SENATOR O'CONNOR: Okay. Now, isn't it true that in order to get to that third type of project, that you need real money to do that and, frankly, the cities that are in the Urban Enterprise Zones are encouraged to discipline themselves from doing some of the smaller things in order to have that pile of money that's available?

COMMISSIONER MEDINA: Yes, Senator, and I understand where this line of questioning is leading, but go ahead. (laughter)

SENATOR O'CONNOR: Now that I've brought you to where I wanted you-- (laughter)

COMMISSIONER MEDINA: Senator, you must be a lawyer. (laughter)

SENATOR O'CONNOR: My law partners sometime question that. As legislators we don't get to spend as much time doing the other part of our lives. (laughter)

COMMISSIONER MEDINA: You were a lawyer until you got elected to the Senate. (laughter)

SENATOR O'CONNOR: What kind of effect, then, do we have, and what kind of message do we send to those Urban Enterprise Zone municipalities who have been cutting back on the park benches, the trees, and what have you, building this little pot that the State has now taken away from them in the form of the \$15 million that was initially reserved and now, in the budget, is just being lifted away from them?

COMMISSIONER MEDINA: What kind of message does it give them? A very bad one.

SENATOR O'CONNOR: Can you take a joke, Urban Enterprise Zone city? I mean, that's what it only seems like.

COMMISSIONER MEDINA: I concur. A very bad one. As a matter of fact, that's why, when I discovered that this reservation of funds had occurred, I brought it to the Governor's attention, and I also worked with the Treasurer to come up with a methodology to make those municipalities whole.

The program that we put together, basically, includes two steps: As you know, every five years the municipality loses a third of the funds. So what we're going to do is, we are going to allow municipalities to stay in the program until the recoup all of that money. That's the first thing.

The second thing is, there are some communities like Jersey City and Elizabeth which really would not be able to recapture their funds until Fiscal Year -- I think it was '97/'96. We have been working again with the Economic Development Authority -- with Tony and Caren -- to create a program so that these municipalities could borrow those funds from the EDA to carry out their projects, and those funds will be repaid from future UEZ funds that come in.

SENATOR O'CONNOR: All right. Let me make sure I understand that. The Urban Enterprise Zone municipalities that already have projects to which commitments have been made--

COMMISSIONER MEDINA: No. Incidentally, no, no, all those that had commitments made, none of those funds were touched. I want to make that clear.

SENATOR O'CONNOR: So money that was allocated for this year that would have been subject to the State reserving those funds?

COMMISSIONER MEDINA: Yes. The \$15 million would have only affected future projects, not the current projects that we had considered. All of those projects were funded. The impact was going to be on future projects. So what we've done with the Urban Enterprise Zone communities is, we've asked them to either segment the projects -- in many cases they were able to do that without any problems -- or if they really want to do a large project, they will be able to come to the EDA, borrow that money and use the future revenues from the UEZ -- from the zones -- as, basically, collateral for repayment.

SENATOR O'CONNOR: Okay. Now, you're saying that they're going to be able to recapture all the funds?

COMMISSIONER MEDINA: Yes.

SENATOR O'CONNOR: The way you're doing that is really two things; you're extending the amount of time--

COMMISSIONER MEDINA: Exactly.

SENATOR O'CONNOR: --and you're saying that they can get it from another pot?

COMMISSIONER MEDINA: From the EDA. They can borrow the money from the EDA. In addition to that, not only will they be able to use future revenues from their zone to repay the loan -- the principle -- they also will be able to use those funds to pay the interest if they do borrow any money. So we felt that this was a solution. The other thing is, I've gotten a commitment from the Treasurer that there will be a resolution -- a budget resolution -- added to the budget that will commit this administration never to take those funds again. Because I concur with you, I think that was not in the best interest of this program, and I think this program is a very, very good program. We did get those commitments from the Treasurer to take these measures to make sure that in the future that situation doesn't occur again.

SENATOR O'CONNOR: Unfortunately -- and I appreciate what you're saying -- we've seen promises made and promises broken. I can just look at the gross receipts. I mean, we passed a law in 1992 capping the amount that could be skimmed, and this year we're going well above the skim. I mean, I hope you're around to help us remind the Governor of this commitment.

How much money, if you know, is going to be left in the UEZ pot after the \$15 million is taken out?

COMMISSIONER MEDINA: Well, after the \$15 million reservation, there was about \$7 million left. Since then the funds have grown substantially, so we probably have about \$15 million in the fund.

SENATOR O'CONNOR: Fifty?

COMMISSIONER MEDINA: Fifteen.

SENATOR O'CONNOR: I don't mean to kill you with all these questions about UEZs, but isn't it true that you have certain funds allocated for each of the 10 municipalities?

COMMISSIONER MEDINA: Exactly. In other words, if people buy-- Let's take the example of Elizabeth, where we have IKEA. People go to IKEA and pay 3 percent of the sales tax. That 3 percent that is collected through IKEA is then placed in a fund in trust for Elizabeth.

SENATOR O'CONNOR: Okay. Going back to the \$15 million skim, do you know how much is allocated to each of the 10 municipalities?

COMMISSIONER MEDINA: I don't have that with me, but, yes. We do have an allocation.

SENATOR O'CONNOR: Is that something I could have?

COMMISSIONER MEDINA: Absolutely, Senator. Unfortunately -- I wish I had brought that with me -- we gave that to the Senate Appropriations Committee, but Rich Ambrosino -- Rich, can you please make a note that we need to get this to the Senator?

Yes. We will definitely get you that. What I'll do is, I'll send you that and I'll send you the recapture plan. We'll also send you the financing mechanism that we're putting together through the EDA. Frankly, my feeling is this notion of these municipalities being able to borrow from the EDA, I would like to see this thing extended, because I think it's nice if these firms can do what anybody else does. They take their future cash flows and sell it for the present value, but that is something that we'll discuss at some point in the future, because that would really give the municipalities a powerful tool to carry out projects that are important to them.

SENATOR O'CONNOR: Sounds like the EDA is the cash cow here. Is that money bonded in anyway?

COMMISSIONER MEDINA: Well, keep in mind that this is money, based on historical experience, we know is going to come in.

MR. COSCIA: It's not, actually. In fact, very much the opposite. What the Commissioner put together, largely in response to dealing with a lot of municipalities concerned with what you're talking about, is the same kind of thing -- as he said -- that we've done for the private sector. Which means, if a municipality has a great development opportunity in 1994, the fact that it's going to wait until 1996 or 1997 to get a certain amount of cash in to make that a reality, well, that possibility goes to some other place. So all we're doing is creating a way of taking a promise to pay a certain amount over a number of years, getting the present value of that up front, when an opportunity has presented itself. Because -- without being clichéish, when opportunity knocks, you have to deal with it. That's really the whole idea.

COMMISSIONER MEDINA: So it would be nice actually, Senator, if we could extend this EDA program in the future, but that's something else that I have to discuss with Tony and Caren, because their opinions are, obviously, very important to this.

SENATOR O'CONNOR: Thank you.

Thank you, Mr. Chairman.

SENATOR LaROSSA: Commissioner, Caren, Bryan, and Tony, I really, greatly, appreciate you taking this much time and really, I think, very, very high quality not only testimony, but also input. I think giving us a little bit-- Kind of tightening the noose down a little bit so--

COMMISSIONER MEDINA: Who is being hung? That's the question. (laughter)

SENATOR LaROSSA: I knew that was-- You know, I tend to come up with these great metaphors that seem to get me in a lot of trouble. Last July it was the, "Soon to be honorable," so I just-- (laughter)

COMMISSIONER MEDINA: I'll volunteer Tony for that duty. (laughter)

SENATOR LaROSSA: But with your permission, I'll maintain the communications and dialogue with both, yourself, and obviously, the EDA and UDC. The urban policy idea, I think, is a great idea. The idea of possibly finding some way to create that revenue strength -- and also some of the concerns that Senator O'Connor and Senator Scott have raised as well.

I only have one final question, and Senator Scott started on that; it has to do with the DEPE issues in revitalizing the urban centers. Again, if there is a way to produce some type of inventories that -- even if they are supplied by-- If you could give them some kind of a questionnaire where they may be able to put together in a pro forma, so they all look the same way, that would help a lot.

But the situation you spoke about with Commissioner Shinn-- Is there any formal program going on, is this one-by-one, or is this something you would recommend that we may want to look at, in terms of trying to come up with something in a formality? Because it seems to me, you know, 50 percent of something is always better than 100 percent of nothing. Part of the difficulty with the urban properties is that if it costs more to clean it up than it does to buy it in the first place, nobody is ever going to come there.

One of the ideas that we had was to be able to allow, as you know, municipalities to seize it, hold them harmless, let them give the property -- give it because there is no cost in seizing it or giving it, because it isn't generating revenues in the first place. But the difficulty is when you get to that second step, it costs more to clean it than it does -- than it would have been to buy it in the first place. It seems to me that we may have to seriously look at the possibility of having more than one level of standard. Senator Scott hit the nail right on the head. It's going to asphalt,

we've got more problems with the stuff being uncovered than it is by having it covered, assuming it's industrial sites and so on.

It's two-fold. Is there any formal program? Do you have anything in process now, or thoughts that you've given to being able to try to put some kind of formal process together? I think that is-- Aside from people, the biggest asset the urban centers have is land, and if we can't capture that, we have a major problem.

COMMISSIONER MEDINA: Well, you know, ISRA is a good way to do it, because we can write grants. That is one of the things that we want these technical corrections on -- technical amendments -- so we can actually make recoverable grants to-- That business that you talked about, "Who ends up with the land?" So they can clean the land, put it into productive use, and then, in the future, if they sell it, they can repay that loan if they recover sufficient proceeds from the sale of that property. So I think the tools are there. I think what we need to do, Mr. Chairman, as you say, we have to formalize the process. We will definitely work with you. We'll keep you apprised of this issue with ISRA. We'll send you any information or ideas that we develop.

SENATOR LaROSSA: Okay. I want to be very clear, because, again, I think one of the things that's very essential is that there is a whole different set of needs and circumstances, in terms of some of the environmental concerns in the urban centers than what we, perhaps, have with fresh running streams. Underground pollution and so on in the urban centers-- We have to recognize that urban centers -- they've got water utilities as opposed to wells, not that we're talking about changing it, but it is a reality and you have to deal with reality.

MS. FRANZINI: The EDA, even in the City of Camden where we worked with Camden County and the City of Camden and tore down the old Campbell Soup factory-- We worked with the

DEPE on establishing a new way of tearing down a million-square-foot, old factory and reutilizing those bricks into some of the foundations that were needed. So they understand that there are unique problems in urban areas and we need to have the DEPE develop unique solutions for them.

SENATOR LaROSSA: Terrific.

Commissioner, I thank you very much. I know you have a swearing in to go to.

COMMISSIONER MEDINA: Yes. Thank you, Mr. Chairman.

SENATOR LaROSSA: I had asked one other gentleman here today -- so if you other three want to stay, please feel free or whatever -- that was the only Executive Director that we've ever had for the UDC, Phil Rowan. He was with us in Camden and gave us -- quite frankly, gave us a lot of the underpinning for some of the things we've been moving on. It's been very, very positive and proactive, as I said. So whatever your preference would be.

COMMISSIONER MEDINA: Okay. Thank you, Mr. Chairman.

MS. FRANZINI: You've got to get to the swearing in.

SENATOR LaROSSA: Whose getting sworn in, by the way?

MS. FRANZINI: Linda Conlin, from the Division of Tourism.

SENATOR LaROSSA: Oh, terrific.

COMMISSIONER MEDINA: (speaking off microphone)
(indiscernible)

SENATOR LaROSSA: Make sure she understands that we have a lot of things in the urban centers that people should come to see.

COMMISSIONER MEDINA: I've got to tell you, that's one of the things I didn't get a chance to talk about, because I talked about everything else. But tourism is a real good way to bring people to urban areas, especially cities with waterfront properties.

SENATOR LaROSSA: Gee, any around here? We'll talk.

Thank you, Commissioner, Caren.

Why don't we take the vote right now -- and then we'll finish up the testimony -- so we can get it moved and seconded?

Phil, just give us a quick second.

This is Assembly Bill No. 1070 and Senate Bill No. 1120. Any testimony or questions? I know, Rich, you've been hanging around for this, but bear in mind, it's a technical bill putting us in compliance with--

SENATOR O'CONNOR: Move the bill.

SENATOR LaROSSA: Okay.

Senator Scott, second?

SENATOR SCOTT: Yes, absolutely.

UNIDENTIFIED MEMBER OF AUDIENCE: Great bill, Mr. Chairman.

SENATOR LaROSSA: Do we do this well, or what?
(laughter)

UNIDENTIFIED MEMBER OF AUDIENCE: It had the right Senate sponsor. (laughter)

MS. SHOSTACK (Committee Aide): Senator O'Connor?

SENATOR O'CONNOR: Yes.

MS. SHOSTACK: Senator Scott?

SENATOR SCOTT: Yes.

MS. SHOSTACK: Senator LaRossa?

SENATOR LaROSSA: Yes.

MS. SHOSTACK: Okay, that's on both bills.

SENATOR SCOTT: Nice going, Rich.

SENATOR LaROSSA: Welcome, Phil, thanks for coming up.

PHILIP P. ROWAN: Glad to be here. Glad to be back again before your Committee.

SENATOR LaROSSA: Well, I think you heard some interesting commentary.

MR. ROWAN: Some good ideas.

SENATOR LaROSSA: The floor is yours.

MR. ROWAN: Okay.

Well, I thought I would talk a little bit of history, a little bit of present, and some ideas for the future. As you mentioned in my introduction, my name is Phil Rowan. I'm currently the Executive Director of the Camden County Improvement Authority. We're a county improvement authority primarily involved, currently, in urban redevelopment projects in the City of Camden, financing housing projects, and other development activities in the county.

My prior position was Executive Director of the State's Urban Development Corporation, which, I agree, had a very interesting legislative background. I think the legislation gave us wide powers.

One of the things that I felt was critical in the development of the Urban Development Corporation -- we started out-- I was one of the local Economic Development directors, pushing for the need for an Urban Development Corporation. We thought it was very important to have an agency that focused on the cities.

The Economic Development Authority -- a great organization, a large organization -- involved in issuing, primarily, industrial revenue bonds since 1974. They have the franchise. When I was in local government, we used to try to issue industrial revenue bonds until Governor Byrne's Executive Order prevented us from doing them. But all those powers were given to the EDA. They have the sole franchise to issue industrial revenue bonds.

In other states throughout the country, most counties are the issuers of revenue-- In Pennsylvania, Philadelphia, Montgomery, or Bucks County issue industrial revenue bonds. They also have a state agency, too, but most industrial bond issuers are local county or municipal governments. In New Jersey, the EDA has the sole franchise. At one time, they did over a billion-dollars-a-year in industrial revenue bonds.

With the Tax Reform Act of 1986, that's been cut down because there is a volume cap right now of \$50 per person, so there is about a \$375 million cap and it has to be split between housing and some DEPE activities.

In response to that, many of the legislators -- Senator Lynch, Assemblyman Schwartz, and other people -- were involved in pushing for a State agency that would focus on the problems of the cities. As a result, it was the Urban Development Corporation. I think that was its greatest strength, because it didn't have to worry about the shopping center out in the suburbs, or all those other types of industrial-- We could focus on the Camdens, the Trentons, the Newarks, Jersey City, Atlantic City -- in fact, that's really the approach that we took.

We hired people who worked in the cities. Bryan was one of the people I hired from New York City. We hired Mark Quinn from Florida. We hired people who knew the urban problems, could work with the urban mayors, and knew the complexity of urban development.

It's a lot different developing a project in several city blocks than clearing an apple orchard. As Tony said, "It's infinitely more complex. It's geometrically more complex." Yes, the utilities are there, but they're old. We used to call it public arteriosclerosis. (laughter) They're just full of crud. The cholesterol is calcium and iron rust.

I'm working on an industrial park in South Camden right now. Our sewers are cedar, wooden water lines that bring water -- many of our cities have-- Jersey City has water coming from their aqueduct through wooden lines. When we were involved in the Greenville Industrial Park, to try to bring in Tropicana Orange Juice -- "great water sample, but why this high tannin content?" Well, probably because the wood -- which was coming from the reservoir up in the mountains somewhere in one of the outlying counties.

So the problems of the cities are much more complex. We thought it was very important to have the right kind of people who could work with the urban mayors, who could focus on the problems of the cities, who knew how to put a transaction and deal together, and work with redevelopment agencies. Because when you get involved in the cities there are a lot of players. There are housing authorities and neighborhood groups. There are universities, a lot of what we called, "stakeholders" involved.

So to put a deal together you have to be able to synthesize all this and structure a project properly. So proactivity was important and focus -- we didn't have to worry about all of these industrial revenue bonds and all these manufacturing projects throughout the State. We could focus really on a handful of projects.

What we were looking to do was something in the neighborhood of 8 to 10 impact projects, whether it was bringing Merrill Lynch to Jersey City, keeping General Electric in Camden, or in Newark. We were trying to bring in a Penta Hotel -- in Atlantic City, a noncasino hotel. We could really focus on a project that would have a major impact, that would maybe turn a neighborhood around, something that would attract more investment. We felt that leveraging was very important, not only the leveraging of our project -- whether it's 8 to 1, or 10 to 1 -- but is this a keystone project? Sometimes, it's a parking garage. A parking garage is built, therefore, a hospital can expand or something like that. So it was really important to make sure that this was the most important project.

We wanted statements from mayors indicating: How does this project fit into the overall strategy of the city? Is this a keystone project to support, or is this just the project of the day? I think it was important for our staff to recognize there is the hot project that comes in because a

developer just walked in, or is this really the project that's been waiting, stuck for so many years, and if it happens, could stimulate a lot more investment?

One of the approaches that we developed-- I think we were one of the first agencies in the area of development to document cost-benefit analysis. I know Commissioner Medina was making reference to the proposed sports arena on the Camden waterfront in terms of cost-benefit analysis. I believe that cost-benefit analysis was done by the Sports and Exposition Authority.

I know it was not done by the County Improvement Authority, because, basically, we have people trained in cost-benefit analysis. We knew what the numbers were for that project. We had a maximum downside of \$3 million per year, and an upside potential to what we call "the gold dome" -- the State Legislature -- of about \$8 million, in terms of athlete's salaries, the wage tax there, the sales tax. So we knew which way the scales were tilted on that. I'm not sure the Sports Authority had the documentation to put that together.

But cost-benefit analysis was very important. In order to justify the investment, we had to say, "What were the benefits of the project and what were the costs, both in the short term and long term?" We always had, at least, a one-to-one. Most of our projects were in the range of three-to-one or four-to-one of the amount of money the State would have to allocate, because the primary source of funding for the UDC came from the sale of State bonds under the Community Development Bond Act.

I was one of the local development officials that came up with the idea of "Why don't we get a referendum?" Because we're in the throes of the 1981-'82 recession -- of putting on the ballot a bond issue to rebuild out cities. Everybody thought we were crazy. I remember talking to local newspaper editors. It was like lobbying for Green Acres. Someone

suggested to me, "Why don't we call it the Urban Redevelopment and Green Acres Bond Issue?" Because Green Acres Bond issues always pass, and that way we would slip it in.

We went out there with a project called the Community Development Bond Act, and we were going to-- Originally, it was \$100 million, but it got knocked down to \$85 million, which was money to help rebuild the cities. You know, New Jersey is a very suburban dominated State. I never thought it would pass, but it did pass. We were all surprised. We had \$85 million to help rebuild the cities. That's not terribly a lot of money. We broke it down into \$45 million for the local development financing fund, which the Department of Commerce administered at 4 percent loans. That program has been very successful. Ten million for urban industrial parks to add to the EDA's successful program there, and also \$30 million which wound up becoming the bootstrap money for the UDC. I think, in reality, what happened was that \$30 million became the only money for the UDC.

The real dream of the UDC, which has never been realized, was that was only the bootstrap money. The function of the UDC was to begin to develop funds so that private foundations, hopefully, some pension funds from the State-- We had a concept we were talking about: take the money that was invested in South Africa and invest it in South Camden or in Newark, or in other neighborhoods.

We felt that, at a minimum, those kind of investments should have been drawn into the UDC. The UDC should really have been establishing accounts. If you look in the legislation, it talks about forming subsidiaries. Subsidiaries really should have been formed for each city, whether it was Trenton, Newark, or Camden because-- In Camden, Campbell Soup wants to make money available to the city, but they have a difficult time deciding which are the most important projects. That's where the UDC can form subsidiaries to focus in Trenton, to focus in Newark, to take--

I know it's a long step. I've had many conversations with Rick Wright and others regarding State pension funds. But I think, as Commissioner Medina said, many of our states around the country have been investing in their own state -- in their own backyard.

SENATOR LaROSSA: Excuse me, Philip. Is that the original legislation, when they talked about the corporation authorized, through its subsidiary corporations? Is that what you're referencing there?

MR. ROWAN: Yes, exactly.

SENATOR LaROSSA: Okay.

MR. ROWAN: To be frank with you, both during the Kean administration-- Several members of the cabinet were opposed to that concept. They thought it was too risky. I have to tell you, I spent four years, to the day, as Executive Director of the UDC, and we did a lot of good things, we felt. But there was a lot of prudence overbearing over us. There was always tempering, "Well, that's awful creative." It was the Kean administration. We were doing good things.

When the Florio administration came in, we were a little disappointed, I think. I'm from Camden. I've been a lifelong Democrat. But I was a little disappointed when the Florio administration decided to homogenize the UDC into the EDA. I chose to leave and get involved in Camden County economic development, because I thought that we would lose the focus. I'll let other people comment whether it lost its focus. But I felt that being combined into a bigger agency with a lot of other things to worry about -- school funding and environmental -- that you get homogenized; where I felt the marginal advantage of the UDC was focus.

We were responsible. If we made a commitment to the Mayor of the City of Newark, or the Mayor of Atlantic City that we would get something done; there was no hiding. It was a small five- or six-person staff. They could pick up the phone and say, "Where do we stand on this project?" I felt focus was very important.

I'll go back to an example. When I was working in the City of Bridgeton, we had six different cultural, arts, and historic organizations. The Mayor and other members of City Council came up with a great idea that we would combine them all together: The Victorian Society, the Daughters of the American Revolution, The Art Society; we would combine them all together. When we homogenized them all together, the whole group fell apart, because each group had their own focus. A certain group cared about Victorian architecture. Another group cared about the Revolutionary War. Others cared about painting and sculpture. When you throw them all together, they lose that niche -- that burn that they had. I felt that was something that really hurt that organization.

So that's, sort of, the history. But I do think that the UDC's dream -- because I've talked to Dave Schwartz and other people who have been involved early on, or working with the foundations, major companies, and other programs that the Legislature has had, and maybe even the pension fund-- I know that's a stretch, to put together major accounts for urban redevelopment. Certainly, \$30 million, \$100 million, a half a billion dollars is really an insignificant amount of money in terms of urban reinvestment. I know in the small City of Camden, we've spent almost a half billion dollars in various redevelopment projects, and we'll probably spend much more than that. I have two projects we're working on right now, each is a quarter of a billion dollars.

So we need large scale money involved. Most of that is going to come from the private sector. I think what government can do is, sort of, create the account, create the mechanism, but it really has to be funded by the banks, the pension systems, and the employees. I think they are major stakeholders in the cities, and can get involved.

Some of the activities and issues that are currently facing us: One is, when you work on an urban redevelopment project--

I'll tell you, for an example, the General Electric Aerospace Project. When a city starts the initiative to try and keep a company like that, or try to bring a company in, what happens is you look at the cost-benefit analysis, you'll find that most of the revenue from a project of that nature goes to the State of New Jersey. As we said, it goes to the "gold dome," the wage tax from all the employees, the sales tax, if it has a retail component. What the cities are asked to do in order to save that business or attract that business is, give a concession on its ad valorem real estate tax -- the only tax money that it gets. The squeeze is put on that fiscally distressed city to give it up.

That's really what it comes down to. Whether it's Trenton, Newark, or Camden, there is a squeeze for the Fox/Lance type of tax abatement, and the companies are saying, "Look, we can't pay 4 percent or 5 percent or 6 percent ad valorem real estate tax. You have to give us a long-term tax abatement, or we're going to go to that suburb that has cheaper taxes. It's much more attractive. The roads are there, and the sewers are new." So what happens is, these projects such as General Electric Aerospace, which was a worthwhile project -- it's absolutely critical. Many of the workers who work at that Camden facility live in Cherry Hill, Mount Laurel, and Philadelphia, and the city was asked to give up those taxes. The project pays \$900,000 in a tax abated situation. The old plant paid \$2.5 million a year in taxes; they gave that away to the city for demolition.

So really what is needed is some form of sharing with the urban communities on these major development projects. I think if the direct goal is to rebuild the cities and help

their economic distress, there has to be some kind of mechanism of sharing the sales tax and the wage tax -- the major sources of revenue -- to stimulate these development projects.

For example, the arena project that would have brought the Sixers to Camden. If somehow a portion -- 25 percent to 33 percent of those sales and wage taxes -- could have been shared with the county or the city, I think the county would have financed the whole project because the long-term benefits would have been there. The State really needs to be a partner with the cities for these urban redevelopment projects.

I'll turn to another issue, which we're talking about here today. I don't want to be too long, but in terms of environmental issues in the cities -- and we're sort of beating this dead horse here, and I think ISRA was a step in the right direction-- What we find is most of the major prospects are interested in the cities because of their location, because of their labor force, and other, what we call, market access issues. Sony/Pace wants to be on the Camden waterfront because it's right opposite Society Hill in Philadelphia. That's really where they want to be.

What these companies have turned to doing now -- and it's a workable solution -- they no longer want to own land in the State of New Jersey, and especially in urban areas. GE Aerospace wants a long-term lease, nothing to do with the land; Sony/Pace, a long-term lease.

I had a prospect in today from Pennsylvania with a quarter-of-a-billion dollar project. They absolutely do not want to own the land, because they just don't know what the shifting tides of environmental law are going to be. First, they don't know what can pop up under the ground; they don't know how the U.S. EPA or the State could change. What was okay today could be a contaminant tomorrow. It could be right under your plant or right under a major piece of equipment, and it's just too much risk.

So what has become the norm right now in cities is for the municipal government to say, "Okay, we'll buy it, we'll own it, and we'll lease it to you long-term." Therefore, we create what we call an environmental membrane. They take no responsibility for terra firma -- what's under the ground. They're responsible for what they build up, and if they ever spill anything, that's all written into the lease. But whatever is under the ground is going to remain in the public sector.

I think we're going to see more and more of that as a response. It has been a workable response. I see that's the adaptation that companies are making to reinvest in cities.

One of the outstanding issues that is still affecting the cities -- and it's not related to UDC -- is that a high proportion of the property in urban areas is off the tax rolls. In the situation with the City of Camden, over 40 percent of the land is off the tax rolls. I look down at all my other 36 communities in the county, and there is no town that is even close. We look at Gloucester City, which is adjacent to the City of Camden. It had one small piece of property that was not on the tax rolls. It was second-class railroad property, and that's--

SENATOR LaROSSA: You're talking about off the rolls, not exempt?

MR. ROWAN: Well, it's either exempt properties, religious properties, university properties-- In Camden, I can go down all the properties whether it's South Jersey Port, or the State properties, Federal properties -- Court House -- so that-- You see, the trend is continuing to increase. I know Newark, with the airport and the ports -- a high propensity of the land coming off the tax rolls. So a shrinking tax base of a lot of distressed property is being called on to support the city's government.

At the same time, the State has underfunded its pilot program. Its payment-in-lieu-of program is only funded at, I understand, now, 47 percent of what it needs to be.

SENATOR LaROSSA: Actually, it's 48 percent. Last year I introduced legislation to fund it at 100 percent. You see how far that got.

MR. ROWAN: Well, good for you. I think that-- But it is an issue. We just add all of these things up and we say, "Why aren't our cities doing better than they are?" I think there are some things that this Committee can look at. They're not "pie in the sky"; they're not unrealistic. My approach would be much more practical. Just look at things we can do in the next two or three years that can help us, because I think the cities are poised right now. The neighborhoods are severely distressed, and that sort of a wave of decline is moving out. But many of the cities' key areas have good reasons for being there. I think they can be strengthened. Once they are strengthened there -- and more investment -- then it's going to help the outlying neighborhood areas.

I was with a group in South Camden two weeks ago. They were talking about-- They wanted to be redeveloped. They wanted their houses taken because their neighborhood had gotten so bad. They indicated after a severe snowfall last January, the city was not able to clear the street for three weeks. That's how the fiscal stress upon-- All the cars that were snowed in, they basically-- The neighbors got together and they dug the entire street out to get out to Broadway. So this is all caused by the fiscal stress, meaning the quality of life has dropped dramatically in the inner city neighborhoods.

That concludes my remarks. Do you want me to answer any questions?

SENATOR LaROSSA: I think your commentary, as it was down in Camden when we were down there, was very enlightening. But I think the good news is -- and you always look, not

necessarily for the silver lining-- But I get a distinct impression that after the four or five towns we have gone to with the Committee, the commitment with the commentary that Commissioner Medina made, as well as Caren, Bryan, and Tony Coscia, is that there is an acknowledgment. I think, maybe, finally, that there is substantial light at the end of the tunnel. We're getting to the point where we're rapidly going beyond the lip service stage and actually getting to the point where some proactive things are going to take place.

I would very much like to maintain a dialogue and communication with you as well. Both, from your background in UDC, and obviously having such a proactive vested interest not only in urban cities, but, obviously, in urban counties.

I don't know if you heard the Commissioner's comment -- what was it -- "The U.S. Census Bureau: Washington, D.C. and New Jersey are the only two jurisdictions with a population that is considered to be 100 percent metropolitan." If that doesn't, kind of put the icing on the cake, as to let's stop talking about and let's start getting it done.

What do you think of the idea of an Urban Policy Coordinating Council?

MR. ROWAN: I think that's a good idea. I think that is a good idea. I think there is a need for something either in addition to it, or maybe a subcomponent. My main competitor for economic investment in the southwest part of the State is the State of Pennsylvania. They are very formidable in terms of the budgets that they have and the staffing that they have. Also, their Governor's response team is excellent.

I find that the competitors I'm working with, they have people who come down immediately, put proposals together, and have resources to do something with. So, I think, in addition to a coordinating committee, where we get Environment and Transportation to meet maybe on a quarterly basis, I think

they have to limit themselves to five or six significant urban redevelopment projects. If they have 50 projects on their agenda, they're really not going to be effective.

But whether it's Allied Junction or something, it has to be these major projects, where they can bootstrap them and move the velocity of them, because I think that's the key to investment. If a company thinks it's going to take a year and a half or two years to get a permit to do something, they're going to go to another state.

In our area, Delaware and Pennsylvania appear to have less stringent environmental requirements, and they can move a lot quicker. That's the perception that I hear from the businesses. So, I think, in addition to this coordinating effort, which I think is important, we probably need to have a response team.

Now, we do have a good response team in terms of the Department of Labor. They do a great job -- when a plant announces that they are closing -- about coming in to find the workers other -- all kinds of benefits and how to get unemployment and do that. I always felt that was too late.

I think what we need is a Governor's response team -- or someone's response team -- so that when they hear about something for the first time, early intelligence is gathered, they get down there right away and find out what can be done to either keep them in the State, or, if it's a prospect, find out what has to be put together.

Bryan mentioned to me GE. If you have 30 seconds, I'll give you an idea of what we did there. We were informed by the Mayor that GE made a courtesy call upon the Mayor of Camden, indicating that they were planning to leave and move to Valley Forge, Pennsylvania, where they own a lot of land and a developer was willing to put up a new building for them. They have this big contract for Space Station Freedom -- a 10-year contract.

But if the City of Camden could come up with a 20-acre site in the immediate area within the next 30 days, they would be willing to entertain staying in the city. It's all just built around it.

We were just very lucky that Campbell Soup had recently announced that they would close. We were able to work a deal out that for a dollar, to get their plant, blow it up, and make this deal available. But that was a lot of luck, and it is not easy to replicate again.

Another example: We had a company in Camden, Quality Foods. I found out through somebody I had hired years ago -- a little bit of loyalty -- that they were planning to move to another county. He called me up and said, "Phil, you don't mind if this company moves out of your county?" I said, "No, I don't mind." Boom, I jumped in the car, ran right down there. We worked out a plan where we actually got land from our State agency -- South Jersey Port -- which refused to sell land to this company, so they could expand. We worked it out so they would sell them the land, and they decided to stay in the City. That saved 275 jobs, and they're going to add 50 new jobs.

So that's the kind of response that you need. When I say rapid, I mean a day or two. I don't mean, "See you in two weeks." You've got to get down there right away, because with companies -- when they're thinking about leaving -- many a time, when we first hear about it, the decision is pretty far down the track.

So, I think that would be an important addition to this coordinating committee.

SENATOR LaROSSA: Just in terms of a simple yes or no -- what you heard today, because you heard all the conversation, dialogue, and so on -- what's your feeling? Do you think UDC should, in fact, be looked at as being pulled, being able to be that stand alone urban body?

MR. ROWAN: I don't know whether I can say yes or no. I have a lot of good friends -- Caren, the Commissioner, and Tony is a good guy -- but I would say yes. I think that moving out on their own-- I call it the "bunny in the field." You're right there. There is no hiding. How many projects did you do? How many jobs did you create? What are we getting as a return on investment? There is no hiding within a big organization; there is no homogenization. You're right there and you're accountable. I think it would be helpful to the State of New Jersey.

SENATOR LaROSSA: Terrific.

Bryan?

MR. FINNEY: Just to comment on that, Senator. It's also an awfully difficult situation for me.

MR. ROWAN: You're working there.

MR. FINNEY: Yes, but more importantly, I think that a lot of the things that I've been able to accomplish in the State, especially with the UDC, has largely been as a result of Phil giving me an opportunity back in 1988. I respect him for that and learned a lot from him.

But getting back to the question of where we should sit. Clearly, I've worked for two administrations, and that's a policy decision made by the particular administration. However, on the other hand, we currently -- the UDC, when I say, we -- have \$5 million available. In my opinion, from an analyst's standpoint, it doesn't make a lot of sense for us to be relocated to another situation without additional capital. We've talked about how much capital we need for that to come to fruition. I think Commissioner Medina also has indicated that he would be more than happy to move us wherever the administration saw fit. But the bottom line is, that if you are to do the type of things that we've done, and we've done successfully, we need additional capital.

But one item that wasn't discussed here today, and I want to just inject this one point. We have been able to

accomplish our successes because we have had patient capital. If we do not have patient capital -- where we don't have to have annualized cash on cash return -- some of the things that we have accomplished since Phil started us up in 1984, we will not be able to do. So when we start looking for resources and thinking about the UDC, it's important that if we are going to be pioneering, we need patient capital.

Another point that wasn't mentioned is our ability to work with neighborhood groups. That is an element. We have to begin to work with for-profit, neighborhood development corporations, because that's the key to our success in our cities outside of our downtown areas. It starts in the communities, and it starts in the neighborhoods.

SENATOR LaROSSA: I agree. You know, politicians like to say that they're grass roots, and then the ministers say that they're grass roots. They are no more grass roots than the people in their backyards, and I think that's where it is.

MR. FINNEY: Yes.

SENATOR LaROSSA: I thank you very, very much for the time, the input, and the enlightenment. I think we have an inexorable march for getting this done, because it seems like there is a lot of will to stop talking about it. I just hope that we don't end up with-- At least, I won't allow it to happen-- I don't want to end up having a horse that is designed by a Committee that ends up looking like a camel.

With that, thank you.

MR. ROWAN: Thank you for having us.

SENATOR LaROSSA: Thank you very much.

(HEARING CONCLUDED)

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