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# Committee Meeting

of

SENATE ECONOMIC GROWTH COMMITTEE  
ASSEMBLY COMMERCE  
AND ECONOMIC DEVELOPMENT COMMITTEE

*“The Committees will take testimony from invited guests concerning the oversight and effectiveness of New Jersey Economic Development Authority tax incentive programs”*

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

**DATE:** February 11, 2019  
10:00 a.m.

**MEMBERS OF COMMITTEE PRESENT:**

Senator Nilsa Cruz-Perez, Chair  
Senator Troy Singleton, Vice Chair  
Senator Shirley K. Turner  
Senator Joseph Pennacchio  
Senator Steven V. Oroho  
Assemblyman Gordon M. Johnson, Chair  
Assemblyman Robert J. Karabinchak, Vice Chair  
Assemblyman John Armato  
Assemblyman Clinton Calabrese  
Assemblyman Roy Freiman  
Assemblyman James K. Kennedy  
Assemblywoman Eliana Pintor Marin  
Assemblyman P. Christopher Tully  
Assemblyman Robert Auth  
Assemblyman Anthony M. Bucco  
Assemblyman John DiMaio  
Assemblyman Parker Space



**ALSO PRESENT:**

Robert C. Rothberg	Alea Couch	Laurine Purola
Patrick Brennan	Eugene Lepore	Senate Republican
Office of Legislative Services	Senate Majority	Kevin Logan
Committee Aides	Bianca Jerez	Thea Sheridan
	Assembly Majority	Assembly Republican
	Committee Aides	Committee Aides

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

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NILSA CRUZ-PEREZ  
Chair

TROY SINGLETON  
Vice-Chair

SHIRLEY K. TURNER  
STEVEN V. OROHO  
JOSEPH PENNACCHIO

PATRICK BRENNAN  
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**New Jersey State Legislature**  
**SENATE ECONOMIC GROWTH COMMITTEE**  
STATE HOUSE ANNEX  
PO BOX 068  
TRENTON NJ 08625-0068

**COMMITTEE NOTICE**

TO: MEMBERS OF THE SENATE ECONOMIC GROWTH COMMITTEE  
FROM: SENATOR NILSA CRUZ-PEREZ, CHAIRWOMAN  
SUBJECT: COMMITTEE MEETING - FEBRUARY 11, 2019

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

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The Senate Economic Growth Committee and the Assembly Commerce and Economic Development Committee will meet on Monday, February 11, 2019 at 10:00 AM in Committee Room 4, 1st Floor, State House Annex, Trenton, New Jersey.

The committees will take testimony from invited guests concerning the oversight and effectiveness of New Jersey Economic Development Authority tax incentive programs.

Issued 2/4/19

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Chair

ROBERT J. KARABINCHAK  
Vice-Chair

JOHN ARMATO  
CLINTON CALABRESE  
NICHOLAS CHIARAVALLOTTI  
ROY FREIMAN  
JAMES J. KENNEDY  
P. CHRISTOPHER TULLY  
ROBERT AUTH  
ANTHONY M. BUCCO  
JOHN DIMAJO  
PARKER SPACE



**New Jersey State Legislature**  
**ASSEMBLY COMMERCE AND**  
**ECONOMIC DEVELOPMENT COMMITTEE**  
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ROBERT C. ROTHBERG  
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**COMMITTEE NOTICE**

**TO: MEMBERS OF THE ASSEMBLY COMMERCE AND ECONOMIC DEVELOPMENT COMMITTEE**

**FROM: ASSEMBLYMAN GORDON M. JOHNSON, CHAIRMAN**

**SUBJECT: COMMITTEE MEETING - FEBRUARY 11, 2019**

*The public may address comments and questions to Robert C. Rothberg, Committee Aide, or make bill status and scheduling inquiries to Julie Ferranto, Secretary, at (609)847-3875, fax (609)633-1228, or e-mail: OLSAideACE@njleg.org. Written and electronic comments, questions and testimony submitted to the committee by the public, as well as recordings and transcripts, if any, of oral testimony, are government records and will be available to the public upon request.*

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**SENATOR NILSA CRUZ-PEREZ (Chair):** Good morning.

We are going to start the joint hearing on EDA incentives -- the Assembly and the Senate.

Can I have a roll call, please?

**MR. ROTHBERG (Committee Aide):** Good morning.

Assemblyman Space.

**ASSEMBLYMAN SPACE:** Here.

**MR. ROTHBERG:** Assemblyman DiMaio.

**ASSEMBLYMAN DiMAIO:** Here.

**MR. ROTHBERG:** Assemblyman Bucco.

**ASSEMBLYMAN BUCCO:** Here.

**MR. ROTHBERG:** Assemblyman Auth.

**ASSEMBLYMAN AUTH:** Present.

**MR. ROTHBERG:** Assemblyman Tully.

**ASSEMBLYMAN TULLY:** Here.

**MR. ROTHBERG:** Assemblyman Kennedy.

**ASSEMBLYMAN KENNEDY:** Here.

**MR. ROTHBERG:** Assemblyman Freiman.

**ASSEMBLYMAN FREIMAN:** Here.

**MR. ROTHBERG:** Assemblywoman Pintor Marin, substituting for Assemblyman Chiaravalloti.

Assemblyman Calabrese.

**ASSEMBLYMAN CALABRESE:** Here.

**MR. ROTHBERG:** Assemblyman Armato.

**ASSEMBLYMAN ARMATO:** Here.

**MR. ROTHBERG:** Assemblyman Karabinchak.

**ASSEMBLYMAN ROBERT J. KARABINCHAK (Vice Chair):** Here.

MR. ROTHBERG: Chairman Assemblyman Johnson.

**ASSEMBLYMAN GORDON M. JOHNSON (Chair):** Here.

MR. ROTHBERG: All present.

MR. BRENNAN (Committee Aide): Senator Pennacchio.

SENATOR PENNACCHIO: I'm here.

MR. BRENNAN: Senator Oroho.

SENATOR OROHO: Here.

MR. BRENNAN: Senator Turner indicates she will be here.

Vice Chair Singleton is on his way.

And Chair Cruz-Perez.

SENATOR CRUZ-PEREZ: Present.

Senator Oroho, can you lead us in the Pledge of Allegiance? (all recite Pledge)

ASSEMBLYMAN JOHNSON: Good morning, everyone.

Welcome to this joint hearing.

We are here to hear from the industry -- the business side; the businesses in the state -- to find out if we can improve the different incentive programs that we've heard about so much in the press.

It appears that some mistakes were made in the past; but through this hearing, and through what we hear today from different business sectors in our state, we can only improve -- hopefully we can improve the programs and show the taxpayers that we are doing the best that we can to bring business in, but also do it in an effective and efficient way.

So we are going to ask that those who come before us limit their remarks to five minutes, if possible, recognizing that some sectors of business may have a little more to say than others. But still, we'll try to limit it to that.

And with that--

Anything else to add, Chairwoman?

SENATOR CRUZ-PEREZ: Yes, I want to take this opportunity to recognize -- I see Governor Jim Florio in the audience. Thank you for attending, and good morning.

And good morning to everyone.

ASSEMBLYMAN JOHNSON: This is neat stuff, because I get to share this with my fellow Chairwoman here; so we're going back-and-forth.

So first up we have Philip Degnan, the State Comptroller.

Is he here? He is.

**PHILIP JAMES DEGNAN, Esq.:** Good morning.

I begin by thanking Chairwoman Cruz-Perez and Chairman Johnson for the opportunity to provide testimony concerning issues worthy of public debate.

I also thank Senate President Sweeney and Assembly Speaker Coughlin for their stewardship of public money spent by government in the State of New Jersey.

Lastly, I wish to take a second to thank the joint Committee staffers, Ms. Jerez and Mr. Lepore, for their assistance and courtesies with administrative matters over the last couple of days.

On March 9, 2018, the Office of the New Jersey State Comptroller formally initiated a performance audit of the New Jersey Economic Development Authority, with a particular focus on EDA's administration of five economic incentive programs overseen by EDA -- the Grow New Jersey Assistance Program, the Economic Redevelopment and Growth Program, Business Employment Incentive Program, Business Retention and Relocation Assistance Grant Program, and the Urban Transit Hub Tax Credit Program -- for the time period from January 2005 through December 2017.

This matter was referred to us through an Executive Order signed by Governor Murphy, on January 19, 2018; and was subjected to every aspect of our usual audit process, including the evaluation of the referral, pre-planning, engagement of the auditee, field work, quality control checks, preparation of a discussion draft of the report which was provided to the auditee, and an evaluation of the auditee's response.

Ultimately, OSC issued its final report on January 9, 2019.

At the outset, and as we did in the report, I acknowledge the cooperation shown to us by the executives and professionals at EDA.

OSC consistently advises auditees that a performance audit is not an adversarial process. Indeed, our goal -- which is consistent with our mission as an office -- is to evaluate agencies and programs, and to make recommendations for improvements designed to safeguard taxpayer funds. This is a mission that anyone with an interest in good government and a sensitivity to the use of public money should appreciate.

We always understand, however, that it is rarely a comfortable experience for the auditee. Notwithstanding that tension, I will say that

EDA -- as an agency, and the individuals with whom we interacted through the course of the audit -- acted professionally, in good faith, and made every effort to comply with our requests for information and to assist us in fulfilling our mission.

That is not to say that EDA agreed with all of our findings. Indeed, they responded in a way that I would expect, testing our data and conclusions where appropriate. But they were also receptive to many of the recommendations set forth in our audit; and, as I understand, have ready taken steps to make changes to the manner in which they administer the programs.

The conclusions reached by OSC through this audit process are amply spelled out in the body of the report. It is important to note, however, that our findings and recommendations are directed at the auditee, in this case the Economic Development Authority. Our audit process was designed to, and did, examine information that was either in EDA's possession, or that was accessible to it through other government agencies.

We did not engage with any of the program awardees; indeed, the 48 awardees that were subjected to analysis for purposes of our audit were selected through a valid sampling process and were not made aware by OSC that they were the subject of this further examination. Thus, for example, we did not make formal document requests to companies that were the program awardees and were receiving EDA program benefits.

As a result, we did not reach any conclusions that are specific to the awardees. For example, when we conclude in the report that EDA did not have sufficient information to verify the creation of a job, we are not

alleging that the job was not, in fact, created. What we are saying is that EDA's data regarding that job was either insufficient or unclear to the point that it, EDA, could not conclusively confirm that the job had been created. As a result, based upon the government auditing standards applicable to our office, it was our conclusion that an award payment based on that particular job would have been improper.

Indeed, for OSC to have reached a conclusion regarding the actual existence of the job, we would have had to engage with the individual awardees and, in accordance with notions of general fairness and due process, allow the awardees an opportunity to respond to our findings. Those efforts would have been beyond the scope of this audit, and would have made it impossible to meet a time frame that would have been useful to the Governor's and the Legislature's consideration of these programs prior to the July 2019 sunset date.

Similarly, OSC did not make any public policy judgments regarding the merits of these programs themselves. This was a performance audit of the administration of the five listed programs. It would have been outside the scope of our audit, authority, and expertise to comment on whether or not these incentive programs reflected sound economic development policy or represented a fair use of taxpayer funds. Those considerations are appropriate for the elected members of these Committees and other public officials, as you and they set the economic development policy for the State of New Jersey.

What OSC did conclude is that changes can and should be made to EDA's practices and procedures as related to these programs. To that end, OSC made 21 separate and distinct recommendations, all directed

to EDA, which we believe would result in strengthening and improving the agency's administrative efforts. Those recommendations are amply detailed in our public report.

Within the next two months we expect to receive a formal Corrective Action Plan from EDA that will set forth its approach to addressing each of the recommendations. Additionally, OSC will conduct a follow-up audit within the next three years to assess the state of EDA's programs administration at that point.

I would be happy to answer any questions you have about our audit.

SENATOR CRUZ-PEREZ: Thank you, Comptroller Degnan, for your testimony.

MR. DEGNAN: You're welcome.

SENATOR CRUZ-PEREZ: I'm going to start with a few questions, and then we're going to go around.

Comptroller, you stated that you were unable to verify 2,993 of the 15,370 jobs that fell within the scope of the audit. To what degree of certainty can you say that any of these committed jobs did not exist? Can you tell us how many companies are in violation of their incentive agreement with EDA?

MR. DEGNAN: So let me start with one explanation before I get to the answer to those questions.

So we did not conclude that 2,993 jobs out of 15,000 were found to be in error. We never drew that conclusion; that was a conclusion that was reported, and there were statements made to that effect. But if you really dig into our report, we do not combine those two numbers; and

there's a reason for that. I'm speculating a little bit, but what I believe is happening here is that at the beginning of our report we talk about our 48 awardee sample group. And there's a chart at the beginning of the report that illustrates the job creation and/or retention obligations of each of those 48 awardees. Those are year-over-year obligations. But that chart is a snapshot of a one-year obligation.

So what we found, in reality, is approximately 3,000 exceptions within the total job creation and/or retention pool, which is that yearly obligation, or some component of it, multiplied over a number of years. So it's not 3,000 exceptions out of 15,000 jobs; it is 3,000 exceptions over a much larger pool of jobs.

We never connected those two numbers for that very reason, because it's a much nuanced, complicated issue. But it's important to be clear about that.

I do not have information before me as to whether or not those jobs were created. Our conclusion was that the data that EDA had in its possession, or that EDA had access to, demonstrated some question as to whether or not the job had been created. There was some inability to be conclusive about the existence or retention of that job. That is, in my opinion, a very different conclusion than the job did not exist, or was not created.

So from that standpoint, I do not have any information about whether or not those jobs were created.

SENATOR CRUZ-PEREZ: And can you tell me how many companies were in violation of their incentive agreement program with the EDA?

MR. DEGNAN: Well, I can tell you we looked at a sample of 48 awardees; we did not conclude that any of them were in violation of any aspect of their obligation. What we concluded was that, with respect to those 48 awardees, EDA was not in a position to make conclusive determinations about job creation or retention with respect to a subset of those jobs.

SENATOR CRUZ-PEREZ: Can you explain how that sample group for the audit was selected?

MR. DEGNAN: I can.

So what we first did during the pre-planning process was, we asked EDA to provide a list of awardees whose applications had been accepted; and that gave us 1,000 awardees. Because of the focus of the audit, we wanted to make sure that we were looking at completed projects. So we decided we would look at a smaller pool, and we asked for a sample of awardees whose projects had been accepted, the work had been completed, and they had received at least one incentive payment. That gave us a pool of 401 awardees.

From that, we actually selected 42 awardees to do a deeper dive on, and combined that 42 with 6 sample projects that EDA had provided to us during the pre-planning process. And the way we selected the 48 was, we wanted to get as broad a representation of the 5 programs that we were looking at; awardees spread around the state, different parts of the state, and with different size awards. So we took what, in audit-speak, is called a *judgmental sample*; you know, we selected the sample to create as broad a representation and as even a representation of the group as we could. And that's how we arrived at the 48.

SENATOR CRUZ-PEREZ: Can you release the names of the companies that were audited?

MR. DEGNAN: Of the 48?

SENATOR CRUZ-PEREZ: Yes, of the 48; their names.

MR. DEGNAN: So after looking at this very carefully and giving it a lot of thought, what we can do is release the names of the 401 -- the larger sample group. I believe that given the type of the work that we do, the fairness considerations that are at work here, the due process that would be due to an awardee that's named publicly in this setting -- that it would not be appropriate for me to name the 48. But within the-- Because of how our findings work; because they're systemic findings that relate to EDA's management of these programs, I would expect that the same issues would be found across those 401 companies.

So I think if the goal is to do this deeper dive, that you're suggesting, and look at whether or not these jobs were, in fact, created or retained, that can be done with an examination of the 401 companies. I suggest that me providing the 48 awardees to you would, in fact, artificially limit the look that this body might take; and I think that would be inappropriate.

SENATOR CRUZ-PEREZ: Okay; so you can't release the names of the company. Is there any way we can see in which programs they were -- these people who were in violation?

MR. DEGNAN: Well, we found issues across all five programs, as detailed in the report. I would have to go back -- and I, obviously, would want to provide this to you in a written format. I believe we would be able to break down which of the 401 companies were subject to which of the five

programs. I believe that would give you the information that you're looking for.

SENATOR CRUZ-PEREZ: One more from me, and then we'll allow other people to ask questions.

MR. DEGNAN: Sure.

SENATOR CRUZ-PEREZ: But of the 48 projects evaluated, how many were awarded on the State's current incentives, ERG or Grow New Jersey -- of the 48?

MR. DEGNAN: Of the 48, how many were involved in those two programs?

SENATOR CRUZ-PEREZ: Yes.

MR. DEGNAN: So out of the 48, we had 7 ERG awardees.

And I apologize -- what was the second program you were interested in?

SENATOR CRUZ-PEREZ: Grow New Jersey.

MR. DEGNAN: Grow New Jersey -- we had 12. So 7 in ERG and 12 in Grow New Jersey. And I can just barely read that without putting my glasses on. (laughter) That's on page 4 of the report, for anybody--

ASSEMBLYMAN JOHNSON: Okay; one quick question from me, sir.

MR. DEGNAN: Of course.

ASSEMBLYMAN JOHNSON: You mentioned judgmental sample--

MR. DEGNAN: Yes.

ASSEMBLYMAN JOHNSON: --where you selected these 48 companies.

Does judgmental sample -- is that, like geographic, or is it by business sector?

MR. DEGNAN: So again, judgmental was a term of art that auditors apply.

And I should also say that when I say *we* -- I don't have involvement in that process. I'm not an auditor; I supervise the project, but let auditors do their job.

So what the auditors did in this case was to try to select both -- get some geographic diversity in the group and some economic diversity as well, in terms of the size of the awards--

ASSEMBLYMAN JOHNSON: Okay.

MR. DEGNAN: --so that we had a fair representation of the pool.

ASSEMBLYMAN JOHNSON: Okay, sir. That's all I have. You want to open it up to our members?

SENATOR CRUZ-PEREZ: Assemblywoman Pintor Marin.

ASSEMBLYWOMAN PINTOR MARIN: Good morning.

MR. DEGNAN: Good morning.

ASSEMBLYWOMAN PINTOR MARIN: Some of the programs that were selected in order to do the report -- are these programs that are currently still in existence, or not? I believe that the majority of the programs that were selected for the audit are no longer in existence, correct?

MR. DEGNAN: So they're in existence, in the sense that there are still obligations that are outstanding that relate to three of the programs.

But only Grow New Jersey and HUB, I believe -- but I may get that wrong -- there are only two of the five programs that are actively available for new applications. Three of the programs have been closed out. But again, there are still outstanding payments that have to be paid under those obligations, or that might have to be paid.

ASSEMBLYWOMAN PINTOR MARIN: So do you believe that some of the issues that were present with BEIP and BRRAG -- because those were some of the programs that you audited as well -- were they resolved or were they a little better under Grow? Because my understanding is when, in 2011 and 2013-- So in 2013, the Economic Opportunity Act was passed.

MR. DEGNAN: Yes.

ASSEMBLYWOMAN PINTOR MARIN: And it was essentially, really, to facilitate whether you wanted to go one way or the other.

MR. DEGNAN: Yes.

ASSEMBLYWOMAN PINTOR MARIN: So it was Grow, then it was ERG.

MR. DEGNAN: ERG; I'm sorry.

ASSEMBLYWOMAN PINTOR MARIN: Can you-- Do you feel that when you analyzed some of the older programs, that some of the issues were corrected under the two newer programs?

MR. DEGNAN: I don't know that we looked at it that way. I mean, we found issues with the administration of all five. So to say whether some were improved after 2013 -- there are just different requirements for each program, and they run different ways. We didn't

really look at it from the standpoint of comparing each program against the other, in terms of how it was administered. We just did a look at all five and reported the issues that we found.

So I know that's not an exact answer to your question, but it's the perspective that we came at it from.

ASSEMBLYWOMAN PINTOR MARIN: Okay.

Why only 19 out of the 48 from the current programs?

MR. DEGNAN: Again, the scope of the audit was such that we looked at five different programs. We wanted a representative sample of those five. Even though they are -- even though three of the programs are closed out, there are still significant monies that may be paid out pursuant to those programs; so the administration of those closed-out programs, in our mind, is just as important as the administration of the two current programs. So we didn't overweight the sample dependent upon the status of the programs.

ASSEMBLYWOMAN PINTOR MARIN: And if you could, I would just like you to repeat one thing that you did say, which was very important. And I think it's important for everyone to hear because-- In your audit, it doesn't state that necessarily a job wasn't created through that program, so a certain company did not create that job. It's just that there wasn't enough data in order -- enough data that you received, or that you were handed, to prove the fact that that company, essentially, did create that job.

Am I correct in saying that?

MR. DEGNAN: Yes. There's no allegation -- we don't make any allegation that a job was or was not created. I can give you an example.

There were a number of jobs that were reported by awardees that we -- and this is in the report -- that we, when we tried to match them up to data from Labor, we couldn't find an exact match. So as an auditor, you look at that, and that's an exception; and that demonstrates that you cannot conclusively determine whether that reported job was, in fact, a job in existence.

And as a result, a payment based on that job would be an improper payment, from the perspective of an auditor. That is not to say that that job was not created. And had we gone to the awardee and said, "Look, there's a discrepancy with employee A; can you prove that employee A had a job that meets all of the requirements of the program?" That awardee might have been able to do that; but that was beyond the scope of what we did in this audit, because of the focus being directly on EDA.

ASSEMBLYWOMAN PINTOR MARIN: Okay; thank you.

I'm just happy that you clarified that, because I think that's been misconstrued in the fact that we're saying that companies are not really doing what they need to do; but it's just, in fact, that the data is not sufficient in order to conclude that theory.

Thank you.

MR. DEGNAN: Thank you.

SENATOR CRUZ-PEREZ: Senator Oroho.

SENATOR OROHO: Thank you, Madam Chair.

Thank you, Comptroller, for being here today.

MR. DEGNAN: Thank you for your interest.

SENATOR OROHO: As a former auditor myself, I can appreciate your comments that you made; and also the stress on the

organization itself when the auditor says, “Hey, I’m here, and I’m here to help.” People just don’t believe that, obviously, but--

MR. DEGNAN: It’s understandable though, Senator.

SENATOR OROHO: --you have a hard job to do, and I appreciate it.

The Chairwoman was mentioning the idea that the sample wasn’t a random sample. It was a selected -- I would say, a very selected sample, correct?

MR. DEGNAN: I don’t know about *very selected*. But it was -- there was purpose behind the selection, in terms of getting a broad representation of the program.

SENATOR OROHO: And even in the report itself, you mentioned that you can’t extrapolate from the sample that was taken, to the program as a whole, correct?

MR. DEGNAN: That is correct.

SENATOR OROHO: Okay.

There is actually something in there that is part of the original bill -- that I made sure was in there -- and that’s a net benefit analysis. That’s a major part of the whole program, is it not correct?

MR. DEGNAN: With respect to some of the programs, it is.

SENATOR OROHO: With some of the programs; yes the ones that were actually part of the 2013 Economic Incentive Plan, correct?

And I do agree that-- To me, that was a critical aspect; and anything we can do to help with the controls and the effectiveness of the program to make sure that they meet those goals, are obviously very important. But that net benefit test, I think, is something -- I think it was

missed because part of-- I think there have been a lot of reports out there about the gross number -- the total amount of the awards, right?

Were there certain amounts that were awarded and, quite frankly, that net benefit was not met, so the award was never paid out?

MR. DEGNAN: That's a good question.

I would have to confirm that. The one issue where -- or one of the issues where a net benefit analysis came up was with respect to the HUB program, and--

SENATOR OROHO: Now, you're just talking about your sample itself. But there are other parts of the total-- The number that's been out there is \$11 billion; but the amount of cash that's actually gone out, either by actual payments, or maybe some of those projects didn't meet the net benefit test, or some other test, that no money has gone out-- Is that correct?

MR. DEGNAN: I think that you're correct in that the total obligation is \$11 billion; money that's actually gone out the door is much less than that.

Whether that's related to the fact that the project hasn't been completed yet, that it's not ripe for payment yet, or there was some finding that they didn't meet an obligation -- I don't know the answer to that question, Senator.

SENATOR OROHO: So your audit didn't look at any of those programs or any of those awards that might not have been paid because the net benefit wasn't attained?

MR. DEGNAN: No; and in fact our sample was created to look at awardees that only received -- that had received one payment. So if

there's an awardee out there that hasn't yet received a payment, they would not be included in our sample; they wouldn't be in that 401.

SENATOR OROHO: So the characterization of the \$11 billion as being already out the door -- because I think in your report it mentions somewhere to the tune of -- over all these years, about \$686 million has actually -- or right around there -- between \$600 million to \$700 million has actually been paid out, correct?

MR. DEGNAN: I would have to look back in the report for that exact number.

SENATOR OROHO: I heard that -- I believe that's actually in the report.

One of the things -- looking at the total effectiveness of the program-- As part of the work here, was there any work that might have been done to take a look at New Jersey's total -- its tax structure competitiveness, compared to other states? Was any work done on how competitive New Jersey's tax is, or why might we have needed some of these programs in place, and what was the objective? Any work done on that?

MR. DEGNAN: We did not; it just wasn't within the scope of the audit. Again, we were focused on the administration of the five programs -- those considerations. While I'm not suggesting they're not important, they are beyond what we were--

SENATOR OROHO: Okay, so there's no work done on, say, how New Jersey's competitive position stands within tax structures of our neighbors, or of anybody else within the country--

MR. DEGNAN: No.

SENATOR OROHO: --or other countries.

MR. DEGNAN: That's correct. There was no work done in that area.

SENATOR OROHO: Very good; thank you.

MR. DEGNAN: You're welcome.

SENATOR OROHO: No more questions.

ASSEMBLYMAN JOHNSON: Okay; thank you.

First, I'd like to acknowledge Senator Singleton, who has joined us.

Thank you, Senator, for coming.

And Assemblyman Freiman, you're up.

ASSEMBLYMAN FREIMAN: Good morning.

MR. DEGNAN: Good morning.

ASSEMBLYMAN FREIMAN: Thank you for being here.

MR. DEGNAN: Thank you.

ASSEMBLYMAN FREIMAN: When I read through this -- and read through your report and the summary -- actually I found it a bit sobering; and I do appreciate what you put it together here.

It's not that-- And I happen to agree with the Assemblywoman, that the program isn't providing benefits; from my perspective, you can't improve what you aren't properly measuring. And I think that's really the crux of what you found challenging in your audit -- is that there are data points and there was data that you couldn't measure. And that's where the gaps occurred.

Is that where the audit--

MR. DEGNAN: I think that's fair; that's a fair assessment of the audit.

ASSEMBLYMAN FREIMAN: And that's where I think a lot of your recommendations are coming in, and saying, "How do we put in place proper measurement to assess what is going on, so we can find out and we can improve on the incentive programs, going forward."

MR. DEGNAN: Yes; I mean, right. The majority of the recommendations are directed towards improvements that EDA could make that would allow them to keep better track of the deliverables that these awardees sign on for.

ASSEMBLYMAN FREIMAN: Okay.

When I read through the report, I was looking at the appendix. It might be here; I just didn't pick up on it. Is there a breakdown and is there assessment of the awards as it relates to-- I started geographically, on the size of businesses.

MR. DEGNAN: We did not break it down that way in the report, no.

ASSEMBLYMAN FREIMAN: Okay. Is that available?

MR. DEGNAN: I would have to check. I can check on that; I don't know if we have the data categorized.

ASSEMBLYMAN FREIMAN: To determine that, are we heavily weighting it towards our larger businesses; and what are we doing to support the smaller businesses, overall; and have the programs disproportionately gone one way or the other?

MR. DEGNAN: I will check on whether or not we have the data broken down that way. I think that in our sample we tried to be representative, in terms of large awards, small awards. But that might not necessarily correspond to the size of the business.

So I can check on that, and get back to the Committee.

ASSEMBLYMAN FREIMAN: Okay, thank you.

MR. DEGNAN: You're welcome.

SENATOR CRUZ-PEREZ: Senator Turner.

SENATOR TURNER: Thank you, Madam Chair.

I'd like to know -- in response to your audit, the EDA indicated that they outlined multiple steps that have been taken to improve oversight and monitoring of awardees, including establishing a new Division of Portfolio Management and Compliance, executing an employment data-sharing arrangement with the Department of Labor and Workforce Development, and developing a new data and documentation database.

Can you speak to the adequacy of the steps that EDA has taken in order to improve oversight and monitoring since 2018?

MR. DEGNAN: Since 2018 -- I can't; but we'll know more about that through the follow-up process.

So the way our audit process works is, within 90 days from the completion of the audit, EDA will provide to us a Corrective Action Plan that will outline the steps that they plan to take to address the findings in the audit. And then, within the next three years, we will go back and engage EDA again and do what's called a *follow-up audit* to examine the improvements that they've made at that point.

So we'll be in a much better position to assess their corrective efforts at that point than I am right now.

SENATOR TURNER: So it would take approximately three years before you know whether or not they have taken adequate steps in order to assure accountability and transparency?

MR. DEGNAN: Well, I think we'll know quite a bit in two months when they give us a Corrective Action Plan, and we have a sense of what steps they plan to take. And we will confirm that through the follow-up.

So it does take time; I believe, to be perfectly fair, they are entitled to time. These are complicated programs; we're talking about hundreds of thousands of data points ever year. We have a statutory requirement to have that follow-up done by the three-year mark; so it may be that's finished sooner than that. But we do stay engaged with the process, through the Corrective Action Plan and follow-up procedure that we have in place. And that's applicable to every audit that we do in our office.

SENATOR TURNER: And you also indicated earlier that you do not want to reveal the names of those corporations that you audited?

MR. DEGNAN: Well, we did not audit the awardees. Again, the audit was focused on EDA. We did not engage the individual awardees in his program; in fact, the awardees, within that group of 48 -- if I were to disclose that list publicly today it could be the first time that they're aware that this was going on with respect to their business. And that's why I think there's a fairness component here and, frankly, a due process obligation that we have that would potentially be violated if I were to release those names.

I do believe that I can release the 401 -- the names of the 401 awardees that we pulled that sample from. And that is a more than adequate amount of data; for anyone who wants to look further into this, that would be a very good starting point for them to do that.

SENATOR TURNER: Would Honeywell be on that list? They're one of the more recent companies that took the money and ran to North Carolina with it.

MR. DEGNAN: I don't know. Sitting here, right now, I can't tell you the name of a single awardee that is in the sample group. That was not part of my review. My auditors know that; but given my level of involvement, I can actually make the argument that it might be inappropriate for me to know the names. So I don't know whether Honeywell was a part of that group to or not.

SENATOR TURNER: Thank you.

SENATOR CRUZ-PEREZ: Thank you, Senator Turner.

ASSEMBLYMAN JOHNSON: Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chairwoman and Chairman, for the opportunity to address the Comptroller.

First, I want to thank Senator Turner for mentioning Honeywell. Honeywell is in my District; and I took great concern when they decided that they were leaving, especially due to the fact that we did single them out and help them. They said that the monies and jobs were not related to the efforts that the State made. I would hope that the Controller or the Auditor would look into something like that, because that affects me and my constituents directly.

SENATOR TURNER: (off mike) Forty million dollars.

SENATOR PENNACCHIO: Now, if I may, Chair people, I'd like to broaden the discussion just a little bit, because looking at the EDA, or the Treasurer, and the oversight that they have or haven't done-- They're only as good as the product that we send them. And I would like to

discuss an example of one of those products; I think that it may not fall under the EDA, but it could fall under the Treasurer.

But in my view, it's a tax give-away. It was the Garden State Film and Digital Media Jobs Act. And the reason I think it's timely is because Senator Oroho had mentioned how they had insisted on a net benefits test. And thanks to a bipartisan effort, in 2013, we passed that legislation; and we thank the Senator President and the Assembly Speaker for having taken the leadership on that. And basically what it says is that the State really has to take in equal, if not more, to the amount of incentives that we give to those programs as designed -- as designed. These Hollywood companies don't have to invest anymore -- anymore in the state than they had previously done.

An example -- if all the companies invested \$100 million, and the next year they invested \$100 million, they're entitled to that tax incentive. It would have made more sense to me, and to the taxpayers of New Jersey, that the \$100 million could have been used as a baseline, and anything above and beyond would have incentivized them to do that.

Do you have a comment on that?

MR. DEGNAN: I do not. I'm sorry, Senator.

SENATOR PENNACCHIO: I didn't think you would; \$425 million which, in my view, was a colossal waste of money.

And we're talking about oversight-- But we were warned. The Office of Legislative Services actually told us, "There is absolutely no proof that it would produce a return on investment." The Office of Legislative Services -- no more than three minutes away.

If you feel like reading, there were studies -- a study published in the *Journal of the American Politics Research* said that, "The programs had little effect, and were not working."

Another study, published in the *American Review of Public Administration*, said that the incentives had, "No sustained impact on wage growth, and little effect on the employment."

According to the National Conference of State Legislators -- that's us -- more than one dozen states have actually discontinued these state credits.

So, again, it goes to the point that we can't chastise and protest too much towards the EDA or towards the Treasurer for some of these programs, because they're just dealing with the programs that we hand them. The work that Senator Sweeney, and Senator Oroho, and our colleagues in both houses did to make sure that there was a net benefit should also apply to programs prospectively -- what you should have done -- as opposed to us going back. The Digital and Film Act was signed and passed, I think, last summer; so it's not even a year.

I would hope-- And we did a follow-up letter to the Auditor. And as a matter of fact, I have legislation that would create, every two years, audits of all these programs. But I would hope -- and I would ask you publicly, that you would look into this, because the program is not quite one year old -- and I would hope that you would be able to come back to all of us and tell us whether or not we are receiving a net benefit to the \$425 million that we are spending.

Just quickly, just to put it in perspective -- Senator Sweeney and I are very involved with Special Education funding. To fully fund

Special Education across the board, for every child in the state, it costs an additional \$140 million a year. So, my God, that's two-and-a-half years' worth of that full funding; and yet, we're giving it to a group of people, a corporation. Why? Just to make the same effort that they did the previous years? So we're basically giving them a tax give-away.

So you can comment on my statement. I appreciate the latitude that the Chair people gave us, because I'm sure it was never their intent-- Some of us didn't vote for that Bill; some of us did. But it was never the intent that we should have a net negative benefit from that. And I would hope that going in the future, Mr. Controller, you would be able to report back to us what the benefit, if any, is from the Digital give-away.

Thank you.

ASSEMBLYMAN JOHNSON: Okay; thank you, Senator.

And just to respond-- You're referring to the Film Tax Credit, I take it? And we, in the County of Bergen, have seen the benefits of that. Even though the Film Tax Credit is not what we're discussing here today -- that's not one of the programs that's being discussed -- however, we look to the Izod Center in Bergen where MSNBC, Universal is actually shooting a-- They rented the whole space out, and they are shooting a series there. And all the ancillary businesses that have been employed and contracted by this film company -- this is one example -- I think is a benefit to New Jerseyans when it comes to jobs, and also the taxes that are collected from the local businesses.

So I think it's a bit early; it's only been a year since that's gone into effect. The industry has expressed a lot of interest in coming to New Jersey to film. But we'll see; I assume we'll see that later on.

And with that, I'll pass the microphone -- or I'll call up my friend, Senator Singleton, who has joined us.

Senator.

**SENATOR TROY SINGLETON (Vice Chair):** Chairman, thank you.

Mr. Comptroller, a couple of questions.

But just to follow up on what my colleague, Senator Pennacchio asked -- with respect to the incentive programs and, I guess, the statutory configuration of those programs, do many of the programs -- especially the most recent ones -- Grow and ERG, etc. -- don't they have statutory reporting requirements on what they're supposed to do, as far as job enhancements, etc.? Aren't those a part of those statutes?

**MR. DEGNAN:** There are statutory reporting requirements, yes.

**SENATOR SINGLETON:** So a question can be that if those statutory reporting requirements are there, and the information was not either presented to the EDA, or the EDA did not actively go get it -- either/or -- the configuration of the actual statute to address the point that Senator Pennacchio was alluding to, and asked you to opine on -- which I think you're better served not opining on-- The statute does have the reporting requirements that are necessary, now, perhaps they can be enhanced, and I think that's part of the conversation here today. But there are statutory reporting requirements for many of the things, as far as the economic outcomes and jobs performances -- job development and retention are part of those statutes.

MR. DEGNAN: Again, I think it's important to note that we didn't spend a lot of time focusing on what could be better about the statute. From our perspective, the statute is what it is.

SENATOR SINGLETON: No, let me stop you, sir.

And I apologize.

I'm not asking you to opine on the statute, right?

MR. DEGNAN: Okay.

SENATOR SINGLETON: I'm just asking you -- do those statutes have the reporting requirements -- that, perhaps, can be enhanced -- but they do have existing reporting requirements in those?

MR. DEGNAN: There are reporting requirements in the statute. I think what we looked at, though, was even data points beyond that even.

SENATOR SINGLETON: Understood.

MR. DEGNAN: Making sure that the way the -- that EDA was properly assessing the data that was--

SENATOR SINGLETON: And that's a fair critique of that, and I'm sure that EDA will offer its opinions of that when they have an opportunity to come up.

You said that you personally did not share an answer to the question my colleague, Senator Turner, asked you -- the awardees list to the EDA. You said it would be improper for you. Did your auditors that you had working on it, who actually, as you said, know the awardee list, know who was deemed to be in violation -- do you know if they shared that with the EDA?

MR. DEGNAN: Oh, I'm sorry if I was unclear.

I was talking about sharing the names of the 48 awardees--

SENATOR SINGLETON: Correct; that's what--

MR. DEGNAN: --publicly. I believe EDA is well aware of who the 48 are.

SENATOR SINGLETON: Okay.

MR. DEGNAN: Because--

SENATOR SINGLETON: Through your auditors.

MR. DEGNAN: Through the auditors.

SENATOR SINGLETON: Okay.

MR. DEGNAN: I can't say that with 100 percent certainty, but I suspect that they would be aware.

SENATOR SINGLETON: So your auditors -- just so I'm clear -- the folks who are in violation -- you believe, possibly, that your auditors shared that information with the Economic Development Authority, but did not share that information with you as to who they are.

MR. DEGNAN: Well, again, we didn't find that anyone was in violation. What we found was that EDA did not do enough to confirm the data that was being reported to it. Whether or not those awardees were, in fact, in violation is beyond the scope of what we looked at. So nothing in our audit, nothing that we communicated to EDA, would ever have been communicated in such a way to suggest that awardee *A* is in violation of their obligations.

SENATOR SINGLETON: Comptroller, you can also understand that by reading your report, a reasonable person could come to the conclusion that those individuals are in violation of their statute -- of what their reporting requirements are. Would you acknowledge that?

MR. DEGNAN: I would not, respectfully.

SENATOR SINGLETON: Okay.

MR. DEGNAN: I think the conclusion is that EDA did not do enough to confirm the data.

SENATOR SINGLETON: Okay.

MR. DEGNAN: Those jobs may exist, they may not exist. What I'm explaining is that -- that determination was beyond the scope of the work that we did.

SENATOR SINGLETON: Got you.

And once again, I apologize for my tardiness for being here today. If you answered this, I apologize in advance.

MR. DEGNAN: No problem.

SENATOR SINGLETON: How large was the sample size of companies you looked at?

MR. DEGNAN: So we looked at 48 awardees.

SENATOR SINGLETON: You looked at 48; and do you have a rough idea of how many awardees there are, with respect-- Because I'm trying to understand -- because many of us around this dais have seen polls before, and we also know what a representative sample size would be. So if it's 48 out of  $X$ , that sort of gives a better idea.

Would you happen to have a rough idea of how much that total pool of awardees is?

MR. DEGNAN: So we started-- I can only tell you the data points that we have in our audit, which is that we started with 1,000 companies, or 1,000 awardees, whose applications had been accepted or approved. Many of those had not received award payments yet; so given

the scope of our audit we deemed them, kind of, irrelevant for our consideration.

So what we then looked for was a group of awardees whose applications had been approved, whose projects were complete, and who had received at least one award payment. That brought us down to 401 awardees; and from that group of 401 we pulled a sample of 48; so a little more than 10 percent of that pool.

SENATOR SINGLETON: Got it.

And which other respective -- out of the 48-- Because the EDA administers a lot of different incentive programs. Can you just give a quick thumbnail -- what other programs that you all did an audit on?

MR. DEGNAN: Sure; we did five of the tax incentive programs. We did the Grow New Jersey program, the Economic Redevelopment Growth program, the Business Employment Incentive program, the Business Retention and Relocation Assistance Grant program, and the Urban Transit Hub Tax Credit program. Those are the five programs that we had within our audit scope.

SENATOR SINGLETON: And someone around the dais can correct me if I get this wrong -- out of the five you did, aren't only two of them still more active programs that are used? Isn't, like, ERG and Grow -- and they're relatively new, in the grand scheme of things, with the reconfiguration--

MR. DEGNAN: Right.

SENATOR SINGLETON: So I guess I'm struggling with the fact that a lot of the recommendations, that are thorough recommendations in the report, are based on, sort of, some of the programs that I don't think

we actually worked through anymore. Is that -- that seems a rough way to come to some of the conclusions when we don't use that anymore.

MR. DEGNAN: Well, it's important to remember that while those three programs may not be active in the sense they're accepting new applicants at this point--

SENATOR SINGLETON: Right.

MR. DEGNAN: --there is still money that's obligated through those programs. So those programs are still being administered, and will be for years to come. So the manner in which they are administered -- even though they're not active in the sense of receiving new applicants at this point -- we still believe that's an important focus, because there's money still on the table that we need to keep track of.

So while you are correct in that only two of the programs are active in the sense of accepting new applicants, there is still value in examining how all five of these programs are being administered.

SENATOR SINGLETON: Okay; I appreciate that.

Thank you, sir.

ASSEMBLYMAN JOHNSON: Assemblyman Bucco, and then Senator Turner.

ASSEMBLYMAN BUCCO: Thank you, Chairs.

Controller, thank you for being here today to help clarify the scope of the audit that you completed with EDA.

I just want to make sure-- I think it's been said a couple of times, but if I understand your report correctly, the audit only looked at the information that the EDA had available on the criteria that needed to be met by the companies that received the tax benefits, correct?

MR. DEGNAN: That's right.

ASSEMBLYMAN BUCCO: Okay. And there was no attempt by your staff to contact any of the companies, or any of the individuals that received these tax credits, to verify whether in fact they had met the requirements of the statutory grants, correct?

MR. DEGNAN: That's correct.

ASSEMBLYMAN BUCCO: Okay, all right.

Well, I'm not real happy with the EDA -- that they didn't have this information available and that, perhaps, will be a question for later on in the day.

I guess the bottom line is, your report-- This Committee cannot take your report to mean, in any way, shape, or form, that the State did not receive the net benefits from those award programs that we created. Because in order to reach that determination, you would have had to verify that, in fact, those companies did not meet those criteria, correct?

MR. DEGNAN: I think that's a fair reading of the report, yes.

ASSEMBLYMAN BUCCO: Okay.

And also, out of the \$11 billion that was committed, \$11 billion hasn't been paid out. That's correct?

MR. DEGNAN: Yes, that's correct.

ASSEMBLYMAN BUCCO: Do you know how much has been so far?

MR. DEGNAN: You know, I don't have that number at the tip of my tongue. It's a significantly less amount than \$11 billion. I can't quote you the number right now.

ASSEMBLYMAN BUCCO: I would appreciate it, through the Chairs, if you could provide that information to the Committee.

MR. DEGNAN: Of course.

ASSEMBLYMAN BUCCO: I'd like to have a handle on exactly how much has been committed for these programs.

ASSEMBLYMAN JOHNSON: Assemblyman Bucco, I think we have your answer from Senator Oroho.

SENATOR OROHO: Actually, it's part of the-- Assemblyman Bucco is right on point.

The total amount is \$696 million. It's actually in the report, in one of the appendices; but I also believe it was in the response from Mr. Sullivan.

ASSEMBLYMAN BUCCO: That's why you're in the accounting business and I'm a lawyer. (laughter)

MR. DEGNAN: I'm a lawyer too, for the record. (laughter)

ASSEMBLYMAN BUCCO: Well, I thank you.

If you could just verify Senator Oroho's number--

MR. DEGNAN: I will. (laughter)

ASSEMBLYMAN BUCCO: If you could audit his number, I would appreciate that.

My last question is, based on the information now that you've obtained, has anyone in the Administration or the EDA, to your knowledge -- and again, this may be a question for later on -- put a hold on the continuation of supplying these tax credits, until the information from these companies that have been awarded these tax credits have supplied the information necessary to verify that the net benefits test can be met?

MR. DEGNAN: Again, I'm not trying to parse words here, but when you say we would be waiting for the awardee to supply the information -- it may be that they've supplied what they have and that confirmation is required. But I don't have an answer to that question; I'm probably not the right person to--

ASSEMBLYMAN BUCCO: But if they had supplied that information, wouldn't you have gotten it?

MR. DEGNAN: Well, there may be a scenario where an awardee supplied everything that was asked for; and then there's some-- When you dig into that information, you find that, maybe -- for example, a report, in this example I used earlier -- a reported job is not reflected on the labor reports. And now you have discrepancy that needs to be confirmed.

So the awardee has supplied the information it has available, but a confirmation process shows some discrepancy that should be worked out before a payment is made.

ASSEMBLYMAN BUCCO: Out of the 48 awards that you reviewed, how many were in that category?

MR. DEGNAN: I don't have it broken down that way.

ASSEMBLYMAN BUCCO: Is that something you could find out?

MR. DEGNAN: I can check to see if we can--

ASSEMBLYMAN BUCCO: Because I think that's a big -- I mean, I think that's a big issue. If out of 48 companies that you reviewed, if 46 of them have provided the information but there were just some discrepancies, that's a big difference than 48 out of 48 not having supplied anything, right?

MR. DEGNAN: Yes, I can discuss that with the audit team and see if they have those numbers broken out that way.

But again, I would suggest that because the focus of the audit was on EDA's administration of the program, that the examination of this at that level should be broader than just the 48 that we looked at.

ASSEMBLYMAN BUCCO: I don't disagree; but I'd like to know out of the 48 -- unless Senator Oroho has that answer to that question (laughter) -- if you could provide that through the Chair, I would appreciate it.

And then, finally, if you could just answer the last part of my question -- has anyone in the Administration or in the EDA, that you know of, suggested that those who have not submitted all that information -- that a hold be placed on the continuation of this grant program until such time as that information is obtained and verified?

MR. DEGNAN: I'm not aware that there's been any hold suggested; but I certainly don't know everything. I wouldn't be necessarily privy to those discussions either.

ASSEMBLYMAN BUCCO: Most likely a question for EDA.

Thank you.

MR. DEGNAN: You're welcome.

ASSEMBLYMAN BUCCO: Thank you, Chairman.

ASSEMBLYMAN JOHNSON: Thank you, Assemblyman.

Senator Turner; and then we'll close out with Chair Cruz-Perez.

SENATOR TURNER: Thank you very much.

I've been concerned about whether or not New Jersey, and our taxpayers, are really getting the best bang for their buck in terms of these

subsidies to these corporations. In many instances it boils down to corporate welfare; because I do not believe that we have been holding these corporations accountable for the commitment that they're making in order to get our precious dollars.

Mr. Controller, are you aware of the Development Subsidy Job Goals Accountability Act?

MR. DEGNAN: I am not.

SENATOR TURNER: Well, it dates back to 2007. It was a Bill that I sponsored, and it was signed into law. And that law would provide, number one, to require the State to collect information concerning employment, as well as wage and benefit goals of businesses seeking development subsidies. And two, it would require the State Treasurer to file an annual report concerning the costs and benefits provided by State subsidies.

And to this day, that law has not been enforced. And I might add, if it had, perhaps we would not be sitting here today, wondering where our money went and whether or not we're receiving the dividends and the investment that we expected to.

I think if we look back and we look to what we did, what we committed to, with the \$7 billion to try to lure Amazon to New Jersey -- \$7 billion -- and New York only offered a fraction of that amount and they received the brass ring, so to speak. So we should learn by now that money cannot buy you love (laughter); and I think that this is long overdue. We need to take a long, hard look at how we're spending the money and what we are receiving in return.

So you have no idea of why this law has not been enforced -- that was signed in 2007?

MR. DEGNAN: I do not.

SENATOR TURNER: To require the Treasurer to provide us with a report annually as to how the money is being spent, and whether or not promises made are promises kept.

MR. DEGNAN: I don't, Senator; I'm sorry.

SENATOR TURNER: Well, I have asked and I have written to the Christie Administration, as well as the Murphy Administration, asking why the law has not been enforced. So you have no knowledge, either?

MR. DEGNAN: I do not.

SENATOR TURNER: Okay.

ASSEMBLYMAN JOHNSON: Okay, Senator?

Assemblyman Auth.

ASSEMBLYMAN AUTH: Good morning, and thank you for your testimony.

Thank you.

MR. DEGNAN: Good morning.

ASSEMBLYMAN AUTH: It's been a little bit rough, I guess.

MR. DEGNAN: No.

ASSEMBLYMAN AUTH: But you're doing great.

I have a couple of questions.

The first one is pertaining to the Attorney General's influence in all these activities. Is it true that the Attorney General's Office approves every incentive as lawful before it's paid out?

MR. DEGNAN: Proves (*sic*) that every incentive is lawful--  
Sir, I don't know the answer to that question.

ASSEMBLYMAN AUTH: Okay; thank you for that.

Another question -- is it true that incentives aren't paid until jobs are created and capital investments are finished? And in that activity, would you say that there are thousands of people in trades, men and women, being employed as a result of these particular incentives?

MR. DEGNAN: You know, I can only speak to the data that we collected through the audit; and we reported the numbers of retained jobs and created jobs. And so based on the reported data, we are talking about thousands of jobs -- more than that. But I'm not sure I'm, maybe, picking up on the nuance of your question.

ASSEMBLYMAN AUTH: Okay.

ASSEMBLYMAN JOHNSON: Excuse me, Assemblyman Auth.

ASSEMBLYMAN AUTH: Yes.

ASSEMBLYMAN JOHNSON: You're asking about labor, and about people employed; or because of the incentives that are being offered, or--

ASSEMBLYMAN AUTH: That was correct.

ASSEMBLYMAN JOHNSON: We have the Department of Labor coming later this afternoon, and they could probably answer that for you.

ASSEMBLYMAN AUTH: One other question, Chairman?

ASSEMBLYMAN JOHNSON: Yes.

ASSEMBLYMAN AUTH: Thank you.

With regard to the returns on incentives -- I read a report that, thus far, it's been 110 percent. Can you verify that number, or give us a suggestion of how much benefit the State has garnered from the incentives thus far?

MR. DEGNAN: I'm not sure I understand the question. The 110 percent -- the discussion of the 110 percent in the report -- at least, that I'm thinking of -- relates to a specific program, the HUB program, and awards being 110 percent of the -- the relation between the net benefit analysis and the award payment.

But that doesn't apply across the board to every program. That was a very specific finding, with respect to HUB; and a very hotly contested finding, I would say, on EDA's part as well.

So I don't know that that 110 percent necessarily applies across the board.

ASSEMBLYMAN AUTH: And one last question, Chairman, if I may?

Is it true that the company CEOs have to sign certification that jobs were created and the capital investments completed under penalty of prosecution?

MR. DEGNAN: There is a certification process that must be signed by a ranking member of the awardees. And one of our issues was that EDA seems to rely on those certifications. So we've made recommendations that the certifications should not only have more detail required, but that they should also be confirmed, audited, independently verified -- whatever you want to--

ASSEMBLYMAN AUTH: And is there penalty of prosecution if they give false information, or misleading information?

MR. DEGNAN: I don't have the form in front of me; I would have to see how that reads. And you would also have to confirm that there's some misrepresentation on the form which, again, is beyond the scope of what we looked at.

ASSEMBLYMAN AUTH: Thank you; thank you, Chairman.

SENATOR CRUZ-PEREZ: (off mike) Yes, that's something that -- those questions would be great, (indiscernible) to ask those questions.

ASSEMBLYWOMAN PINTOR MARIN: Just a follow up.

I know that we're trying to wrap up here.

Mr. Comptroller, I have tremendous respect for you, and for your office, and for everything that you've done. I know when it comes to Budget time, you come in front of us and you talk about a lot of savings that you've found for the State.

And I know that you tried to word your report very carefully; and unfortunately, I think a lot of things have been misconstrued, with regards to the report. Because it's really -- with respect to the EDA and in-house, how certain things are handled. And not necessarily a telltale of how the incentives are working and some of the tweaks that, obviously, have been made.

And this is just, you know, a question based on the opinion that maybe you're now coming to understand, from everything that has come out there -- is that when we talk about the report, that's one thing;

but when we talk about the incentives and whether they're working, or whether they created jobs -- that's something completely different.

Do you feel that the report has really set a negative tone for how we do business in the State of New Jersey?

MR. DEGNAN: If it has, it was certainly not the intent.

I mean, one of the things I wanted to do today was just give you my perspective of how the report should be characterized; what I believe the report says.

So if someone has taken the report and interpreted it in a way that we didn't intend, I don't really have a comment on that. I can't say that it has happened; I can't say that it hasn't. But our focus, again, was on the administration of the program by EDA. We tried to stay in that lane; and as you said, the report is carefully written to stay in that lane. So that's my only thought on that.

ASSEMBLYWOMAN PINTOR MARIN: But I do have to end on this note. I think that the report, obviously, is something important for us to have, with regards that if there are any missteps, or staffing issues, or whatever needs to be fixed in EDA -- I think it's important.

But I think that -- and this is not to talk negatively on the work that you've done -- but I think that when we've asked certain questions with regards to-- When a company receives an incentive package, or has applied for it -- right? -- there's a whole *A* through *Z* scenario that they need to go through. And I think that what's missing in this report -- and again, not with anything to do with you -- is really a real thorough and precise from *A* to *Z* on whether certain companies have done what it is that they need to do.

And I think that the report is a little bit misguided in the sense of what it is that we have now; what it is that we have passed into law after 2013; whether these two programs that we currently have -- should they expire, should they not expire, should we tweak them? Because everything needs tweaking. And from my perspective -- I can't speak on behalf of the whole Committee, or my colleagues -- but I feel that there needs to be a better analysis of not only what's happening within EDA, but whether Grow, whether ERG, whether these two programs are really working; and do we need to have them expire in July, or do we need to re-tweak them and not really recreate something that's been working thus far? Because if we're going to be able to compete with the states that surround us, and look at the incentives that they have, I think that that's, I think, more of an analytical approach that we need to go on, based on just what EDA needs or does not need to do within their limit and scope.

MR. DEGNAN: I agree with that, for the most part. I disagree with the misguided -- you use the word *misguided* -- but I do think, and I readily admit, that there was a limit to what we tried to do here. That was a conscious choice that we made through the preplanning process, given the time constraint that we felt that we were under, with respect to getting a product out that would be useful and timely with respect to the upcoming sunset date.

So we had a choice to make about what scope we could manage.

ASSEMBLYWOMAN PINTOR MARIN: Understand.

MR. DEGNAN: I agree with you that if a--

ASSEMBLYWOMAN PINTOR MARIN: And I don't mean to offend you with *misguided*, but when I read from the testimony -- which you clarified today -- right? -- based on your testimony, you clarified. But those who are reading the report might not get the same assumption -- "As a result, based upon the government auditing standards applicable to our office, it was our conclusion that an award payment based on that job would have been 'improper.' Indeed, for OSC to have reached a conclusion regarding the actual existence of that job, we would have had to engage with the individual awardee--"

So I thank you for explaining that; but you see that, without your explanation -- how when we have the report, it could be misconstrued. And that's the only reason I used the word *misguided*.

MR. DEGNAN: Well, I'm glad I could clear that up--

ASSEMBLYWOMAN PINTOR MARIN: Thank you.

MR. DEGNAN: --and certainly the intent was to focus on EDA's administration, not comment beyond that.

ASSEMBLYWOMAN PINTOR MARIN: Thank you.

ASSEMBLYMAN JOHNSON: Okay; we're going to try to wrap this up.

So Senator Oroho, do you have a question? And then the Chairwoman.

SENATOR OROHO: Just, actually, a follow-up to the Assemblywoman's, which was very good.

To me, one of the key issues is this whole net benefit test. And how Senator Lesniak and myself had the discussion, making sure, when it

was going through the Senate, that it was actually in the 2013 Economic Incentive Act.

And it's been characterized -- \$11 billion has been awarded. But there's been a-- You know, in a public document it talks about "the Controller could not prove that New Jersey got back benefits anywhere near what it handed out. Based on the sample it could not even prove that 20 percent of the jobs promised to be created or retained actually ever were -- meaning, money flowed to taxpayer's pockets into the black hole." And that's referring back up to the \$11 billion. But according to the testimony today--

MR. DEGNAN: Sir, I'm sorry to interrupt--  
I'm sorry.

SENATOR OROHO: --based upon the testimony today, your work, because of its limited scope, its targeted scope-- Even in your report it says that it can't be extrapolated to the whole program. That is a mischaracterization -- as to what the Assemblywoman said -- as to what your work could have even proved.

Is that correct? I mean, this statement can't be correct.

MR. DEGNAN: I don't know where that statement comes from. It's not from our report; so just to be clear, I don't know what you were reading.

SENATOR OROHO: But the statement itself can't be correct -- not based upon the work you did.

MR. DEGNAN: It goes to the idea that when we make a conclusion that a payment was improper--

SENATOR OROHO: Right.

MR. DEGNAN: --what we are saying, as an auditing agency, is that if EDA could not conclusively verify that a job was, in fact, created -- if there's a discrepancy in the data -- then our conclusion is that a payment on that job would be improper. But again, the context of that statement that you're reading -- I don't know where it's from; I don't have a comment on that particular statement. I can only tell you what we did in our report.

SENATOR OROHO: The idea that we have to have strong controls, making sure that we're getting the benefits of what we have, without a doubt-- But \$11 billion -- when you're talking about \$11 billion in awards, and we actually have documentation that shows that \$696 million has been issued -- I think, as it said in the report, over the past two decades, not even since 2013-- And obviously, we changed some of the programs. I do think the net benefit test is critically, critically important.

But I think it's highly a mischaracterization to say that, based upon the work that you did -- that could not prove that 20 percent of the jobs promised or that the \$11 billion went into a black hole; because, obviously, not even 10 percent of the money has actually been paid out yet.

So I just make that as-- I'm not asking for your response, but I don't think -- I really don't believe that your report could have been used to back up that statement.

Thank you.

SENATOR CRUZ-PEREZ: Thank you, Senator Oroho.

One last question.

MR. DEGNAN: Of course.

SENATOR CRUZ-PEREZ: Based on your audit, has the Office of the State Comptroller made any judgement regarding the effectiveness of

the New Jersey Incentive Program at creating jobs and promoting economic growth?

MR. DEGNAN: No; and I would argue that given the type of agency that we are and the type of work that we do, it would be inappropriate for me to make a conclusion.

SENATOR CRUZ-PEREZ: Obviously, your audit generated a lot of attention.

MR. DEGNAN: It sure did. (laughter)

SENATOR CRUZ-PEREZ: Including strident attacks and defense of tax incentives as a vehicle for economic development in New Jersey. Are you surprised that the audit has gotten such attention, despite the fact that it does not make any value judgements regarding the effectiveness of these programs?

MR. DEGNAN: I've been doing this kind of work, now, for the State for seven years, both at the Comptroller's Office and the SEI. I sort of stopped being surprised at how things happen after we release reports. So I don't know that *surprised* is the right word.

Honestly, I'm gratified that people are interested in the work. I do think it's an important issue. I'm proud of the audit that we did. So to the extent it's been useful to you all, or will continue to be useful to you all as you make the bigger decisions here, I'm happy to be a part of that, and I appreciate your interest. But I'm not surprised by any of it.

SENATOR CRUZ-PEREZ: Thank you.

Anybody else? (no response)

Well, thank you so much for your testimony.

Mr. Chairman.

ASSEMBLYMAN JOHNSON: Thank you, sir.

MR. DEGNAN: Thank you.

ASSEMBLYMAN JOHNSON: Thank you for coming; thank you members.

And it was a little longer than we expected, but I'm sure we'll move this thing along as we go forward.

Next we have a-- I'll ask OLS to read a statement from Larry Downes, Chair of the EDA Board, into the record.

MR. BRENNAN (Committee Aide): "I appreciate the invitation to appear at the joint meeting, and the opportunity to provide this statement to the Senate Economic Growth Committee, and the Assembly Commerce and Economic Development Committee.

"I have served on the Board of the New Jersey Economic Development Authority since 2010. Between 2010 and February 2018, I served as Chair of the Incentive Committee. Last February, Governor Murphy recommended me as Chairman of the Board, at which point I relinquished the Chair of the Incentive Committee.

"I hope this statement will help the legislative Committees in their review of the operations, oversight, and effectiveness of the EDA and its incentive programs.

"As Chairman, I believe I can offer valuable insights into the Board's process surrounding the incentive programs, as we work together to ensure that EDA is doing all it can to serve the people of New Jersey.

"As you know, the EDA is an independent state authority. Our mission is to finance small and mid-sized businesses, administer tax incentives to retain and grow jobs in New Jersey, and revitalize

communities through development initiatives. I understand the focus of today's hearing is Grow New Jersey and ERG which, under the Economic Opportunity Act of 2013, are the two primary incentive programs; although other legacy programs are still phasing out.

“These two programs, Grow NJ and ERG, are scheduled to sunset in July of this year. From my perspective, these programs are building the foundation for meaningful, long-term economic benefit to New Jersey in the form of new job growth and increased capital spending.

“A robust public discussion on these programs will allow the Legislature and the Administration, along with the EDA, to build on the successes of the existing programs and find opportunities for improvement to make our incentive programs more effective by incorporating what we have learned to date.

“As the legislative Committees are aware, Grow NJ's primary focus is on creating and retaining jobs by providing tax credits for businesses that either create new jobs, or maintain jobs in New Jersey that might otherwise move out of the state. The ERG program emphasizes developer incentives, with the objective of addressing revenue gaps in development projects.

“As with any economic development program, it is important to regularly assess whether our programs are working. One way of assessing their effectiveness is built into the current legislation. Last year, as required by legislation, the EDA engaged Rutgers University's Bloustein School of Planning and Public Policy to perform a review and analysis of the Grow NJ and ERG programs. Importantly, the resulting July 2018 Bloustein Report

provided a number of helpful suggestions for the EDA to consider and implement going forward.

“The Bloustein Report ultimately concluded, however, that it is much too early to estimate the overall economic impact of these awards because the programs, by design, have a multi-year horizon, during which grantees must meet certain requirements.

“This makes sense. By statute, all of the programs were designated to be performance-based, meaning that although a project is approved, it must then achieve certain goals in a set number of years, including the hiring or retention of employees, before it actually receives the approved benefit. Only if a grantee meets its specific requirements will the full amount of the approved award be disbursed.

“This is a critically important point. The currently outstanding awards among active incentive projects amount to approximately \$11 billion. As of today, only a small percentage has actually been realized in the form of issued tax incentives. As the Bloustein Report observed, we cannot fairly judge the success of the program as a whole at this early stage. However, I firmly believe the economic logic behind these programs is sound: Each tax incentive should be viewed as an investment in the State’s future that is expected to lead to higher employment and an overall enhanced level of economic activity. In other words, these investments, through tax credits, will only be realized by the grantees after they demonstrate those benefits through performance.

“As a board member, and now Chairman, I am proud of the work the EDA has done to promote the New Jersey economy, although I’ll be the first to say that there are always opportunities to improve. We are

continually working to find ways to do better. You should know that, during my tenure as Chair of the Incentive Committee, there was never a meeting where we did not have engaged, substantive discussions about the incentives, whether they were creating value and complied with the legislation, and what we were learning from the market.

“As part of the Incentive Committee’s review, a Deputy Attorney General actually participated in the committee meetings, and was available to answer questions and ensure compliance with the legislation. In addition, EDA professional staff, Board members, the Chief Executive Officer, as well as members of the senior management team often participated in the committee meetings.

“From time to time, particular projects were discussed at multiple committee meetings to ensure all outstanding questions were addressed before making a recommendation for full Board approval. The standards for review were rigorous, consistent, and driven by the legislation.

“Transparency has also been critical to a successful incentive process. Every incentive forwarded out of the committee was reviewed by the Attorney General’s Office, and then publicly voted on by EDA Board members. EDA staff prepared briefings on the proposed incentive awards that were sent to Board members for review approximately one week prior to the Board meeting. The EDA Board meeting minutes and agendas, incentive activity reports for all legacy and active programs, previous reviews, and EDA annual reports are all publicly available on the EDA website.

“The review and approval process for incentives was substantive, it had legal oversight, and it was publicly transparent. I must,

again emphasize that the Incentive Committee participants were always focused on the intent of the legislation.

“I firmly believe that the EDA can offer a beneficial perspective on how to improve the next incentive program as the current legislation sunsets in July. Since the implementation of the legislation, we have gained substantive market knowledge about the incentives that will assist in the development of the new incentive programs. The EDA also welcomes constructive ideas and suggestions from all corners, whether from the Legislature, the Administration, academics, economists, or other experts.

“That includes the recent performance audit from the Office of the State Comptroller. Many of the audit’s suggestions are valuable and reflect useful ideas for longer-term improvements.

“I am happy to report that the EDA had already begun pursuing many of these initiatives for a number of years, particularly when it comes to technology and using data. As with any organization, objective audits and assessments are essential to growth and development, and I thank the Comptroller and his team for their efforts, and for sharing their findings and recommendations with us.

“I think it is important, however, for the Legislature to take into account a few points of context about the audit and some of its limits as you consider how to best move forward with the next generation of incentive programs for New Jersey.

“First, the audit itself states that it relies on a non-statistical sampling approach; and therefore, as the report acknowledges, the findings “cannot be projected over the entire population” of EDA incentive grants. For any businessperson this is obviously an important point. It’s easy to

overcorrect an apparent problem if your sample makes the problem look much larger than it is. It also calls into question whether or not the sample can be used to support the report's broader conclusions.

"I emphasize this today, in part because the sample reviewed in the audit not only lacked statistical significance, but was also weighted heavily toward the legacy programs previously administered by the Commerce Committee that have already sunsetted: the Business Employment Incentive Program (BEIP), the Business Retention and Relocation Assistance Grant Program (BRRAG), and the Urban Transit Hub Tax Credit Program (HUB). For example, of the audit's 48 projects sampled, 29 were projects from BEIP, BRRAG, or HUB; while only 19 of the sampled projects were from Grow NJ or ERG.

"As noted, the Bloustein Report found that it was too early to judge Grow New Jersey's overall program results based only on the projects that have already created jobs and received tax credits. In addition, the legacy programs are no longer accepting applications. Although our experience with the legacy programs can offer valuable learning opportunities, it is particularly important that we focus on the programs that are still active in deciding what form the future EDA programs should take.

"Second, there are also a number of suggestions in the audit that either reflect differences of interpretation of the current statutes, or rest on suggestions for ways the current statutes should be changed. As I said, we welcome a robust discussion around how the new programs should operate. And I can state with the greatest confidence that the EDA staff, the Incentive Committee, and the Board followed the current legislation to

best of our ability, based on our understanding of what those statutes and regulations direct and require. In fact, as I referenced previously in my statement, in every meeting where the Incentive Committee made a substantive funding recommendation, and every full Board meeting at which a recommendation for incentive award approval was being made, the EDA's assigned Deputy Attorney General was present to ensure that EDA always acted pursuant to and in compliance with current law. We greatly appreciated the Deputy Attorney General's guidance.

“Third, the Legislature should also know that many of the issues outlined in the audit have been or are in the process of being addressed. Under the current leadership of Tim Sullivan, the EDA is entering a new phase of incentives, after spending the last several years in the approval process. As many of these projects grow, the EDA is developing additional resources to monitor compliance with the award requirements. In particular, the EDA is strengthening its post-approval monitoring of projects by creating a division tasked with monitoring project compliance with award agreements, partnering with the New Jersey Department of Labor and Workforce Development to verify information submitted by applicants, and implementing a new organization-wide data and documentation system that will be the central database for all EDA programs. Furthermore, many of the recommendations laid out by the OSC have been incorporated into the updated annual requirements for businesses seeking tax credit certification.

“Before I conclude, I want to thank the Governor, the Legislature, and the Office of the State Comptroller for striving to make New Jersey's economy work for the people of this state.

“I also want to thank the dedicated professionals within the EDA. I promise you, nobody is more dedicated to ensuring that the EDA’s programs are fair and efficient than the women and men who have committed their time and careers to the EDA. The expertise and quality of our team -- which is comprised of hard-working staff with skills in finance, economics, and redevelopment in the various sectors where New Jersey is already strong or has opportunities for growth -- is unmatched.

“In my experience, the quality of the team that shows up to work every day at the EDA is outstanding, and it’s a privilege to work with them on behalf of New Jersey.

“I would be remiss if I did not recognize the extraordinary leaders who helped guide the successes of EDA over the years, including former EDA Board Chairman Al Koeppe, EDA Board Vice Chairman Joe McNamara, and former EDA CEO Caren Franzini. They were all true public servants, and deeply involved in developing the processes that guide our review of incentive proposals to this very day.

“I firmly believe that the Economic Opportunity Act created a framework that can facilitate economic growth in our state. What we are doing is working. We have learned a lot from our experience so far, but there is always room for improvement. The challenge ahead is to incorporate those learnings into new incentive programs that will allow us to achieve New Jersey’s economic development goals.

“On behalf of the EDA, we are committed to working closely with you on this critical initiative.

“Thank you for considering this submission as part of today’s hearing.”

Signed, Lawrence M. Downes.

SENATOR CRUZ-PEREZ: Thank you for reading the testimony by the Chair of the EDA.

The next person we're going to bring to testify in front of us is Tim Sullivan, Chief Executive Officer of New Jersey Economic Development.

ASSEMBLYMAN JOHNSON: Mr. Sullivan, welcome.

TIM SULLIVAN: (off mike) Good morning.

ASSEMBLYMAN JOHNSON: Good to see you again. Always a pleasure, sir (laughter); at least, most of the time.

So please introduce those with you, and we'll go forward.

MR. SULLIVAN: I'm joined by Lori Matheus, our Senior Vice President for Finance and Development; and Bruce Ciallella, who is our Senior Vice President for Portfolio Management and Compliance.

Good morning.

Chairwoman Cruz-Perez, Chairman Johnson, members of the Economic Growth and Commerce and Economic Development committees, thank you for the opportunity to appear before this joint hearing.

As I mentioned, I'm joined by two colleagues, Bruce Ciallella and Lori Matheus, and we're happy to be here, and welcome this discussion.

As an organization, the New Jersey Economic Development Authority is proud to play a role in building a stronger, fairer economy for New Jersey. Administering the State's incentive programs is one important part of that charge, and we take seriously our responsibility to protect the public interest and to foster inclusive economic growth that benefits all New Jersey residents and communities.

Consistent with this commitment, we welcomed the audit completed by the Office of the State Comptroller as an opportunity to assess areas for improvement, and further strengthen our policies to ensure the highest level of transparency and accountability related to incentives. Governor Murphy is right that state taxpayers are entitled to a full understanding of what they got, and will get, for their investment via tax incentives.

We welcome today's discussion, as well as the other efforts underway related to New Jersey's tax incentive programs.

I joined the EDA as CEO in February of 2018; and can, therefore, speak primarily to who we are as an organization today, and how we have evolved over the past year to best support the Governor's vision for a stronger and fairer economy.

The EDA is staffed by a group of hardworking, diligent, and dedicated professionals, and supported by an engaged and deeply committed Board of Directors, led by our Chairman Larry Downes. I cannot emphasize more strongly my personal commitment, and that of our entire organization, to the highest levels of stewardship with regard to the taxpayer investments we are charged to oversee.

With support from the Legislature and under Governor Murphy's leadership, the EDA has transitioned from a transaction-oriented bank to a comprehensive economic development agency. With new programs -- such as a \$15 million small business loan program focused on minority-, women-, and veteran-owned businesses; the Innovation Challenge, which is making direct investments in nine communities to support local innovation economies; and NJ Ignite, which is helping more

young, growing companies thrive in New Jersey -- the EDA is advancing new tools and new approaches to strengthen the state's economic competitiveness.

We have also launched new efforts to focus on international business development, and an enhanced focus on the fastest-growing portions of our economy through the newly-created Office of Economic Transformation.

We are committed to making New Jersey a national model for inclusive and sustainable economic development by focusing on key strategies to help build strong and dynamic communities, create good jobs for New Jersey residents, and provide pathways to a stronger and fairer economy.

As we continue our evolution as an organization, we want to take this opportunity to thank Comptroller Degnan and his team for identifying thoughtful recommendations, and for acknowledging the proactive steps we have already taken to strengthen processes, as well as our commitment to make additional changes to establish best-in-class incentive administration practices.

Among the actions the EDA has taken to date:

One, we have created a new Division of Portfolio Management and Compliance, led by Bruce, to focus on developing and overseeing internal process improvement initiatives.

Two, we're finalizing a partnership with the New Jersey Department of Labor and Workforce Development, related to data sharing, which will ensure enhanced monitoring of job performance of incentive recipients.

And third, we will soon launch our new organization-wide data and documentation system, which will strengthen practices related to verification, monitoring, and reporting.

Finally, the EDA also will be expanding the scope of our independent auditor, who is charged with evaluating the submission of overall certifications from businesses that have certified completion of their respective projects, which was a key recommendation of the 2017 OLS audit of EDA's programs.

We are also exploring all options available to us to pursue recapture or repayment of any funds that were expended improperly; and we look forward to updating both these committees, and all of our stakeholders on those efforts in the weeks and months ahead.

The EDA administers these complex and nuanced incentive programs in strict adherence to statutory requirements, and in consultation with the Attorney General's Office on legal matters. While the recently released audit provided helpful insights and findings in regard to a number of important topics that we are in the process of evaluating, there were several findings with which we disagree, or where we believe additional context is needed to fully understand the issue. And these areas are detailed in the written response included in the Comptroller's report.

As we are all aware, this is a pivotal time, as the current incentive programs are scheduled to sunset in July 2019. Therefore, the OSC recommendations that can be best addressed within the statutory requirements of any new incentive programs are of real value, as we work together to design programs that provide the greatest return on investment and allow for the highest level of fiduciary oversight.

As the Governor said, we believe a broader, more comprehensive approach to economic development is required; one which not only makes direct investments in companies via incentives, but also focuses on parallel investments in infrastructure, workforce development, higher education, renewable energy, and in revitalizing our cities and downtowns.

New Jersey has clear competitive advantages -- an unparalleled location; world-class institutions of higher education; extraordinary public schools, a mix of vibrant urban, suburban, and rural communities; and, current challenges notwithstanding, a dense network of transportation infrastructure. Despite these advantages, New Jersey has experienced economic stagnation and growing inequality over the last 10 years. From 2007 to 2017, New Jersey ranked 42nd in the nation in job growth, and 49th in real median wage growth. As a result, half of working New Jersey residents take home less pay today than they did before the Great Recession.

At a time when most innovation ecosystems around the country have experienced significant expansion in the amount of venture capital invested in them, venture capital investment in our economy has fallen by more than 50 percent over the last decade, resulting in far too few of the homegrown success stories we need to drive sustainable and significant new job creation.

To address these challenges, Governor Murphy unveiled a new, comprehensive economic development strategy on October 1 that aims both to recapture New Jersey's leadership position in the innovation economy, as

well as tackle longstanding inequalities in our economy that are, frankly, unacceptable. Incentives should be a tool in service of this broader strategy.

The Governor's economic development plan includes five achievable, measurable goals. One, driving faster job growth than all Northeast states; two, achieving faster median wage growth than all Northeast states; three, creating the most diverse innovation ecosystem in the nation, and doubling venture capital investment in the state; four, closing the racial and gender wage and employment gaps; and five, encouraging thriving and inclusive New Jersey urban centers and downtowns, with a focus on reducing poverty.

We believe we can make progress toward these goals through the four strategic priorities outlined in the Governor's plan.

One, investing in people, to help all New Jersey residents develop the skills they need to find work that supports and sustains families in the 21st century economy; two, investing in communities to build the world-class cities, towns, and infrastructure that are increasingly the magnets for the talent on which the innovation economy thrives; three, reclaiming New Jersey's historic place as the State of Innovation, to create more and better jobs across the state so that more entrepreneurs and visionaries bring their companies to life here; and four, making government work better to improve New Jersey's competitiveness and business climate, particularly for small businesses.

The plan includes a comprehensive suite of initiatives, many of which are underway, in partnership with the Legislature and within numerous state agencies across our Administration, including *Computer Science for All*; expanded apprenticeship programs; a Future of Work Task

Force, permitting modernization efforts; a comprehensive Opportunity Zone strategy; and a STEM loan forgiveness pilot program.

The plan also calls for the creation of five new investment programs to catalyze job creation and private sector investment in our cities and towns.

As proposed, New Jersey Forward is a jobs-based incentives program to succeed Grow New Jersey, focused on supporting new job creation in high-growth, high-wage industries, as well as fostering growth in Opportunity Zone-eligible census tracts. Bonus criteria would emphasize local employment, above-average salaries, and transit-oriented development. And awards under this program would be capped at \$200 million annually.

The proposed successor to the ERG Program, NJ Aspire, would be a gap-based financing tool, awarded twice annually, and capped at \$100 million per year, to support real estate development projects that will help revitalize communities and catalyze the innovation economy, with a particular focus on mixed use and transit-oriented development. Bonus criteria would include food desert alleviation, inclusion of electric vehicle charging stations, and development of incubators and collaborative workspaces.

A new \$20 million annual Brownfields Redevelopment tax credit, implemented in partnership with DEP, would catalyze remediation projects and help drive job creation and economic development at sites long left behind because of contamination, often in communities where investment is needed most.

And a new \$20 million annual Historic Preservation Tax Credit -- evaluated by EDA, DEP, and DCA -- would breathe new life into old buildings.

Finally, the New Jersey Innovation Evergreen Fund would be a \$500 million effort that would raise funds over five years by auctioning State tax credits, and then leveraging those funds with private venture capital funds to co-invest exclusively in New Jersey startups. The Fund would also encourage ecosystem building, and support a diverse set of founders that reflect the state's rich cultural makeup.

As companies are acquired or IPOs occur, proceeds would flow back to the fund, meaning the investment via tax credits would be time-limited, but would create a permanent source of capital for the innovation economy. And in the event of significant returns, some funding would flow back to the General Fund.

These proposals would, collectively, help bring the cost of our incentives in line with peer states, and would include strong prevailing wage requirements; as well as regular evaluations by independent parties, ensuring accountability and transparency.

The EDA looks forward to working with the Governor and the Legislature to design and implement incentives in a strategic and fiscally responsible manner to advance the shared goals of sustainable, equitable economic development all across our state.

Thank you for the opportunity to testify today, and I am happy to answer any questions you have.

SENATOR CRUZ-PEREZ: Thank you so much, Mr. Sullivan, for your testimony.

Mr. Sullivan, could you walk the Committee through the incentive approval process, from initial application, through the Board approval, to the incentive payment; and can you tell us what role the Attorney General's Office plays in this approval?

MR. SULLIVAN: Sure; I'll try and give you the high-level version. There's a much longer and detailed version of our process that we're happy to share. I just want to -- in the interest of brevity.

The process actually starts before an application, in what we characterize as sort of the *pre-application process*. There are lots of companies and lots of interest in the incentive programs; and lots of companies that have interest via partners at places like the Business Action Center -- where we are aware of folks who might be interested in an incentive, but an application never materializes because they're not eligible, or they don't fit the requirements, for whatever reason.

Once an application comes in, Lori and her team in the Business Development and Underwriting function review the application, perform all the various analyses that were discussed earlier -- including the cost-benefits analysis and the net benefit test -- and ensure the application is complete and meets the statutory requirements.

As part of our review process, not only does Lori's team lead the charge on that, but we also have a sort of senior management committee that reviews all these projects before they're forwarded to Incentive Committee that Chairman Downes referenced in his testimony. There's then an Incentive Committee meeting, which is a subcommittee of our Board; and then they're brought to the Board of Directors for full approval at the Board meetings.

At every step of the way the Deputy Attorney General, or one of his or her representatives, is present; and we run these programs in very close coordination and consultation with the Deputy Attorney General. So at that point, your then at approval by the Board.

ASSEMBLYMAN JOHNSON: Okay; I'll ask my questions a little later.

I'll open it up to the members on the dais here.

Any questions?

Actually, Mr. Freiman has his hand up.

Assemblyman Freiman, you can go first then, sir.

ASSEMBLYMAN FREIMAN: Thank you for being here.

MR. SULLIVAN: Thank you for having us.

ASSEMBLYMAN FREIMAN: I appreciate your testimony.

There was a lot of conversation in the earlier testimony around trying to figure out if the current incentive programs, or the legacy programs, were working. There are the reports that came from Bloustein that said, "Well, it's kind of too early to tell." There are some that say, "Well, we just don't have the proper measurement in place, sampling size wasn't proper."

So we just -- it's confusion. Just, "We don't know," was my personal takeaway about this.

And you have some push back saying, "Well, we're not really comfortable with some of the audit report overall."

Even if we get the numbers, and even if we agree, "Yes, here are the numbers;" from my perspective what we're lacking is, what were the goals; how do we benchmark those against what were we trying to achieve?

What was the mix -- what was the strategic objectives of the EDA overall? What were we trying to-- If we had 100 percent of this money going to retention, versus job growth, was that success? If this went all towards large companies versus small companies, was that success? If this all went towards urban versus suburban, was that success? Were there objectives laid out, or it was just -- it was open and we were just--

So how do we measure success with all this? And when we look, going forward, are we very specific around breaking this down on these kinds of success factors, so we know -- even though we might get better around gaining the data-- How do we measure our true ROI around this?

MR. SULLIVAN: I think-- Looking forward, I think one of the reasons the Governor's Economic Development Strategic Plan that he released in October of last year is so important is that it does lay out some pretty clear strategic objectives in terms of job creation; and not only job creation on sort of a growth basis, but also the quality of jobs, and the wages that are earned, and who's participating in that job creation activity. It's a very, very important part of any economic development strategy, and any economic development incentives that are a tool to achieve that strategy.

And picking the right metrics is really important. Picking the right goals, picking the right, again, strategic objectives is really important, particularly when you're thinking about things like economic development. There are lots of metrics in the world you can look at: the unemployment rate; you can look at job creation; you can look at labor force participation

-- there are literally an unending number of things you can look at. And what you choose to measure matters.

So I think one the things that I think is so important about the Governor's proposals and the Governor's economic development plan is it really focuses on wages. So yes, the unemployment rate is down; more people are working than were 5, 10 years ago. But because of some of the data that we can see around median wages, more than half of them are taking home less pay than they were 10 years ago. And that's a goal we ought to try and address.

And so picking those metrics, going forward-- And that's some of the things that are included in the Governor's plan that I think are incredibly important. Because I agree with you that setting the right benchmarks and setting the right thresholds -- both for the portfolio of investments you make specifically, but also what's the broader economic impact that those have. Because how company *A* or company *B* or project *A* or project *B* performs, based on how you hope it does, is important and critical. But also what's the macro-economic, or the broader strategic impact of those kinds of investments as a portfolio? Those are the kinds of really important things that I think are important to focus on and measure, going forward.

ASSEMBLYMAN FREIMAN: Well, I appreciate that.

So let me be more specific, then. Can you give me the specific objectives for the current programs as they are currently set up -- the Grow and the ERG programs; and how do we -- are there specific measurements around new jobs versus retained jobs?

So if all of the money went towards new jobs, versus retained jobs, is that success? Do we have those in place? Do we have urban versus suburban goals? So along those lines -- do we have those very specific strategic goals, so when the Board sits back they say, "Yes, we feel good about this?"

MR. SULLIVAN: So I guess I'd answer the question about statutory requirements for companies and applications that are eligible to participate in the program; and with regard to the eligibility -- those are outlined pretty clearly in statute.

There are not in the current programs, say, goals or targets for retention versus new, or geographic location -- other than to say there are different incentives for retained jobs versus new jobs; and there are different -- with regard to a few different geographies, there are more generous and less generous incentives.

And so there are mechanisms in place to encourage certain parts of the program. But in terms of goals, or was there -- did we get an A on the test in regards to--

ASSEMBLYMAN FREIMAN: Do you see that as a gap that we didn't think through -- that of saying, "Well, attracting a new business into our state wasn't necessarily something we're keeping an eye on. Or bringing -- growing new businesses is not something that we're keeping an eye on"?

MR. SULLIVAN: Well, I think, certainly, I think the Governor is right to call for a more comprehensive and broader set of tools to do the kinds of things you're describing, particularly with regards to new companies. Most of the new job creation that happens in any economy, New Jersey or otherwise, happens from new companies that go from 5 to 10

people, to 100 people, to hopefully a couple of thousand people, if not more.

We have not seen in New Jersey that kind of trajectory of companies enough, compared to what our competitors face. And so focusing on the young companies is, I think, an important part of any program -- should be an important part of any program going forward.

Direct tax incentives aren't always the most helpful tool in encouraging those younger companies, because they're young, they're growing, they are usually not -- they're pre-profit, pre-revenue in some cases; and so a tax incentive may not be the tool of choice to encourage those, or to attract those. So something like the Evergreen Fund, that the Governor has proposed, I think is a pretty interesting approach to thinking about how to get more venture capital into the state's ecosystem and create a, sort of, broader, more competitive framework for young entrepreneurs, young entrepreneurial companies -- I don't care how old the people are -- how young the companies are with regard to the economy.

ASSEMBLYMAN FREIMAN: One last question.

So, going forward, we have a broad set of objectives that have been laid out strategically. But yet there is also a proposal that it's on a first-come, first-serve. Do we set ourselves up, potentially, for failure by not allocating dollars, or setting aside dollars to achieve certain objectives; but yet, saying first-come, first-serve, which may set us up for the fact that we may serve one particular segment, versus trying to create a balance?

MR. SULLIVAN: You asked an important question, and I want to answer it directly.

Within the programs that have been proposed by the Governor, three or four of them have competitive features -- whether it is an application process-- And for those of you who are familiar with affordable housing financing and the 9 percent tax credit application process-- We would propose to do it a little bit more like that, where there is, sort of, a regular application process, and you're able to look at 5, 6, 7, 10, 25 projects together and decide which ones have the highest merit and achieve the policy objectives.

With regard to the success of NJ Grow that's been proposed forward, that is, sort of, as you described -- proposed to be, sort of, first-come, first-serve. And it's an important consideration you're making. I think it's a balance, though, between having-- So the Governor's proposed -- and I think it's smart -- to have a cap on these programs; whether there's a way to fiscally dimension what the State's exposure might be this year, next year, 5, 10 years from now. And balancing the tradeoffs between having a cap and some certainty around that -- more certainty around that; and the phenomenon you're describing, and timeliness. So things might pop up at the end of the year. That's something we are going to have to work through, and I think it's an important thing, as we go from both designing the programs to writing the rules and regs; and our processes and procedures are something I think is very appropriate for us to think about.

ASSEMBLYMAN FREIMAN: Thank you for your answers; I appreciate it.

ASSEMBLYMAN JOHNSON: Assemblyman Bucco.

ASSEMBLYMAN BUCCO: Thank you; thank you, Executive, for being here.

This morning we heard testimony from the Controller that confirmed that the audit that they conducted focused only on your side of the equation -- right? -- on whether or not the information to guarantee that the requirements of the statutory incentive programs were met.

And it was his opinion that either that information was lacking, or it couldn't be verified.

First, do you agree with that analysis; and if you do, what is being done to correct it?

MR. SULLIVAN: So the Comptroller's report, and the testimony provided earlier -- I think, obviously is entirely consistent with that -- provided a number of important pieces of feedback and important findings.

As you get into the -- the more layers you click down to the specifics of their findings and our thoughts on them, the more you might find that a couple of differences of opinion. But at the macro level, we surely have room to improve; and the Comptroller's report and other reports, including the OLS report -- the OLS audit from, now, two years ago -- as well as the findings of our own team, certainly made clear we have room to improve our processes. We've already begun a number of those important steps; and I'm happy to describe those in a little bit more detail. But one of them was the creation of the Division -- that Bruce, to my right, is in charge of -- with regard to our internal processes to make sure that we are collecting the right data. Some of that data we're permitted to collect under the statute, by the way. So as we think about going forward, that's a really important area of, I think, continued -- should be an important area

of continued focus; because what data we're able to collect drives what data we will collect.

And so that's an important piece of it.

And then also what form it comes in, how we're able to double check that, triple check that against other sources. So we referenced in my testimony -- I think Chairman Downes referenced it as well -- a data-sharing agreement that we're on the verge of entering into with Commissioner Asaro-Angelo and his team at the Department of Labor and Workforce Development. That will be a really important way for us to do a better job; sort of saying what came in from the company, versus what's coming in via the Labor Department. And the third leg of that is Taxation, and working with them to make sure that we're able to, sort of, triangulate those three pieces of data as best we can.

So I totally accept the premise that we have room to improve. But I would also assert that we've done a lot to get our arms around it already, and we will continue to stay focused on it, because it's incredibly important.

ASSEMBLYMAN BUCCO: Based on what you've seen from the audit, has there been any company that's been awarded a tax credit under any of the programs that you believe has not met the net benefits test that is required as part of these programs?

MR. SULLIVAN: So the one thing I'd note in response to that question is that the net benefits test is performed at the application level; so eligibility for the net benefits test is determined at the point of application. So it's what's projected to occur, and what is represented that the company or the developer will do or will propose to do.

And so then making sure that the specific inputs that go into that happen is the important job of the certification process and the post-certification reviews -- again, that Bruce and his team are responsible for. So the most important one, again, is the number of jobs. So if the number of jobs materialized at the salaries they were expected to, a big chunk of the net benefit test is kind of spoken for there.

And so our certification process reviews that very, very thoroughly. At the recommendation of the OLS audit in 2017 we brought in, and have on board, an independent auditor who helps us; checks our work. We're in the process of expanding the scope of the number of audits that they will do, so that we can increase that. I don't know the exact number we're going to go to, but we will increase that from where we are to more, going forward. And also providing some additional resources within Bruce's team, to make sure we're doing everything we can to track down -- to verify everything we can.

ASSEMBLYMAN BUCCO: Maybe you can expand on that a little bit.

MR. SULLIVAN: Sure.

ASSEMBLYMAN BUCCO: Because I understand the net benefits test is done at the time of the application to make sure all the boxes are checked and everything adds up.

But what do you do during the course of the release of these credits to make sure that those benchmarks are being met along the way?

MR. SULLIVAN: So the companies are required-- There's one big step of the process, and then subsequent steps.

At the moment of certification -- which is usually, in the case of the current iteration of Grow, two, if not almost four, years after the Board approval they have to certify that they did what they said they were going to do. And the awards can be adjusted; and, with great frequency, are adjusted down if the companies have not done what they had represented that they planned to do. And sometimes that's because economic conditions have changed, there's competitive dynamics in their sub-industry, they weren't able to grow as fast. Sometimes they've grown more, and done more than they pledged that they were going to do

And so then there's that moment of certification; you have to have gotten over the bar and achieved the critical metrics that we evaluate in the certification process. And we're happy to provide you with all the nitty-gritty details of what's checked as part of that process.

And then there's an annual check-in, an annual certification process that, again, Bruce and his team are responsible for, where making sure that, particularly, the number of jobs has remained at or above the number that's required.

ASSEMBLYMAN BUCCO: So is it just the documentation that you were lacking that was triggered by the findings of this audit report? I mean, if you have annual checks to make sure that these programs are meeting the expectations, is it just on the certification of the company, and the auditor said, "Well, look we see the certification, but there's nothing here to prove, in fact, that those jobs were created." What caused the gap?

MR. SULLIVAN: So a couple of the gaps relate to our ability to, sort of, check that against other public sources.

So the partnership that we're on the verge of entering into -- and I say that our Board is expected to vote on this tomorrow, so hopefully by tomorrow I'll be able to say we've entered into this partnership with the Department of Labor -- to be able to look at what comes in via their various filings. So you can say that company *X* has *XYZ* people; and these are their names, and these are the names for the unemployment insurance, or the various programs and data that they get.

Heretofore, that has not been a seamless data mash-up, and those are some of the areas that are identified, I think, in the audit in more specifics. So you may have a person who's named; and his name is *Timothy Sullivan* in one report, and *Tim Sullivan* in another. And so we do a data match that may not show a match. That's the kind of exception I think that Comptroller Degnan was referring to earlier.

And so more data, more digitized data. Our having a better, essentially, internal IT system, as of a couple of months from now, will give us, I think, much more -- much higher, much more precise capability around those things.

But again, it's also important -- whatever is designed for the future iterations of (indiscernible), making sure we're able to capture the correct -- and we have the authority to ask for all the right data, is an important part of this as well. And that's certainly improved through every generation of the incentives. I joined a year ago, so I don't have much experience in the older ones. But certainly from a design perspective, those issues have been, I think, consistently moved forward and advanced. And so I would hope that the next generation will continue to make more improvements on that.

ASSEMBLYMAN BUCCO: Have any credits been issued that you've had to claw back; and have you brought them back?

MR. SULLIVAN: So we have a pretty robust process for both claw back-- So with regards to the ones in the audit, but also just generally, -- yes, we have claw backs that happen -- I don't want to characterize how frequently -- but yes, with some frequency.

ASSEMBLYMAN BUCCO: So if any of the information contained in the auditor's report, in the Comptroller's report, proves to be true, there's a mechanism for the State to claw back if the benchmarks weren't met.

MR. SULLIVAN: So it depends on the program; but broadly, yes.

A little bit more specifically, it depends -- it varies, program by program. So BRRAG is different than BEIP, is different than Grow, is different than ERG. And the nature of the inconsistency would matter. So if it's an error on the EDA's part in how it was administered, that's one thing; if it's an error on the company reported, that's one thing; if it's an error on what actually happened, that's a very, very different matter. And so we're evaluating all those options for any awards that were -- any payments--

ASSEMBLYMAN BUCCO: That were made.

MR. SULLIVAN: --any awards of cash or tax credits that did go out improperly, we're evaluating all of our options to make sure that we get that right.

ASSEMBLYMAN BUCCO: Okay.

Based on what you found from the Comptroller's report, and the process that you've entered into since then, to review the programs, have you come up with anything that would, in your opinion, require a statutory change to the existing programs?

MR. SULLIVAN: I want to think about that. It's an important question; I want to think about it before I give you an answer.

I think, certainly, some of the older programs, in particular -- the data that we were sort of able to capture, or authorized to capture at the point of application, isn't exactly what you would wish if you were designing it today. I don't know if, practically speaking, a change in the statute would aid in the recreation of the history around that, of an application that might have come in (indiscernible) '09, '10, '11.

But certainly, as we look forward, I think, you know, getting the right authorities, or right authorizations within the new statutes, or new programs, is really, really important. It's something we've spent a lot of time thinking about; I'm sure those of you who are involved in thinking about these programs, are also thinking about it and looking forward to making sure we try and get that as best as we can, going forward.

ASSEMBLYMAN BUCCO: Okay.

ASSEMBLYMAN JOHNSON: Assemblyman Bucco?

ASSEMBLYMAN BUCCO: Thank you.

ASSEMBLYMAN JOHNSON: All right.

Chairwoman Cruz-Perez has a quick question before we go to Assemblywoman Pintor Marin.

So, Chairwoman.

SENATOR CRUZ-PEREZ: Just to piggyback on some of the questions that Assemblyman Bucco was making -- I know the Comptroller had said that the EDA is not looking enough. But you actually, under your tenure as the CEO, you created a Division of Portfolio Management and Compliance, with the Department of Labor, sharing information.

Can you talk to us about how effective this Division has been?

MR. SULLIVAN: So I would say it's relatively recent. I think one of the things that are new about the Division is that Bruce-- Bruce has been with the EDA for four or five years, but is new to his position. It's a newly created Senior Vice President role; Senior Vice Presidents report directly to me. That is not something that has happened before with this function. I think that happened Halloween, plus or minus, is that right? So it's still the early days of that office and that effort. And you've added some staff -- Bruce's team has added some staff in the last couple of weeks; we're probably going to add some more in the coming weeks and months.

So I would say -- positive early returns; but not enough data to support any broad conclusions.

So if I understand your question correctly, there's the mechanism about the data-sharing with Labor.

So, yes, we get jobs reports and jobs rosters from folks who have been approved; and it's helpful for us to be able to, sort of, true that up against other filings that that company might be making with the State. Labor is the best and most proximate place to do that, because of unemployment insurance and a few other things.

And so having a more robust, integrated data set that is able to do that. Not quite automated, but pretty close, and making it much easier

for Bruce and his team to do that without having to reconstruct data sets every time there's a certification that comes in -- we think will provide us a pretty powerful tool. And so, touch wood, our Board will approve that tomorrow, we will sign it, and Commissioner Asaro-Angelo and I will both sign that, probably, at the Board meeting. He's on our Board.

SENATOR CRUZ-PEREZ: What steps have the agency taken to improve compliance and monitoring with the program?

MR. SULLIVAN: Sure.

So I think, again, the two most important things that we have done are -- again, less than 24 hours away from being done -- is the creation of the Division that Bruce leads, as well as the addition of staff to that area; the Labor data-sharing agreement. We are -- my team will kick me if I say this wrong, because it's an IT product, and they are hard to predict -- but we are several weeks to several months away from launching this new internal data management system that will be a really, really powerful tool; and that's going to be a powerful tool that we have at our disposal.

And then, finally -- again, we haven't done it yet -- but we're in the process of expanding the scope of this independent auditing firm that helps us on the back end with certifications. We will be expanding the scope of their agreement to do more tests and more audits.

ASSEMBLYMAN JOHNSON: Assemblywoman Pintor Marin.

ASSEMBLYWOMAN PINTOR MARIN: Good morning.

MR. SULLIVAN: Good morning.

ASSEMBLYWOMAN PINTOR MARIN: I have a few questions.

If you can step back-- I know that Assemblyman Bucco asked you a couple of questions with regards to the net benefits test.

MR. SULLIVAN: Sure.

ASSEMBLYWOMAN PINTOR MARIN: Can you speak a little bit more to that? Do you feel that the net benefits test that's currently in place is accurate or is substantial; or do you feel that there needs to be some tweaking?

MR. SULLIVAN: So the net benefits test is an economic model. And so, like any economic model, it's based on, first, a lot of assumptions; and it's something that you are doing your best-- It's a simulation.

ASSEMBLYWOMAN PINTOR MARIN: It's a projection.

MR. SULLIVAN: Yes, it's both a projection and a simulation.

And so you can always, if you tweak a couple of things here and there, you can make meaningful changes to it.

So I know there was a meaningful iteration of changes in 2016 -- pre-dates me -- 2016; I think that was a big leap forward in the evolution of the net benefits test, or net benefits analysis.

In my time here, I've worked with their team; and we have a consultant, JLL, that is a firm that helps us do the economic modeling around this. We've also brought in an economist to our team for the time, which joined in August or September -- that we have an economist in-house, with our team, to help us think about these kinds of questions, going forward.

So I think it's one of those things you want to constantly be refreshing; it's like being in good shape. You have to keep eating right and

going to the gym. And so we'll continue to look at that; and I think there's important-- Also, as tax codes change, and as Federal tax codes change, and State tax regulations change, we have to make sure we're capturing those things in the right way. And so that's one of those things you have to constantly be monitoring. I think with the new programs we will probably, likely, take another look at a refresher, just to make sure we're doing what we think is best.

ASSEMBLYWOMAN PINTOR MARIN: Okay.

And then, with a follow-up to that -- and the Chairwoman brought this up -- with regards to how a person starts the application process.

So if you could just, really, put this on the record; because I think it's important for people to understand this.

A company does not receive a check unless they've reached their threshold on their performance basis, correct?

MR. SULLIVAN: Yes, that's correct.

ASSEMBLYWOMAN PINTOR MARIN: And through every step of the process, through the CO certification, which-- Any CO would be out of their mind if they signed a certification that wasn't, to the best of their knowledge, true. There is an AG who really helps your office, and guides them to make sure that all your *Xs* are crossed, all your *Is* are dotted, and all your *Ts* are crossed as well, correct?

MR. SULLIVAN: So we run these programs, or implement these programs, in very close consultation with the Attorney General's Office; absolutely.

ASSEMBLYWOMAN PINTOR MARIN: And I think the programs that have been-- And I'm saying this for myself; I'm from Newark, so I can clearly point out dozens of projects that have, obviously, been advantageous to us through these programs in place.

Now there's going to be a sunset in July of 2019. Are you concerned? Because I am.

MR. SULLIVAN: Well, I think, you know, the Governor has outlined some proposals for a new generation, or successor, to both Grow and ERG, as well as some additional tools around brownfield and historical tax credits, and an Evergreen Fund to catalyze venture capital investment. I think, surely, the Governor's right; and it sounds like you're in the same place -- that incentives have to be a tool in the toolkit. We have to have a competitive framework, just like our neighboring states, and states around the country; and cities, to a certain extent, are getting more and more into the game. So I think we do have to have some tools in the toolkit.

ASSEMBLYWOMAN PINTOR MARIN: Do you feel that the proposed programs that the Governor has alluded to-- Take away the ones that will be expiring. Do you feel that they're competitive, or just as competitive, as the states surrounding us?

MR. SULLIVAN: Yes, I think what's important about them is that they're comprehensive. So you can bring to bear several of the different tools together on a given real estate project, or a project with a company.

ASSEMBLYWOMAN PINTOR MARIN: But does comprehensive make us competitive at times?

MR. SULLIVAN: Competitive in a good way, I think you're asking, right? I mean, yes; and I think the tools the Governor has proposed I think would position us well -- to have a broad, comprehensive approach that would position us well to compete with our neighboring states, and states far way as well.

ASSEMBLYWOMAN PINTOR MARIN: I'm concerned with-- There's one that -- I think you stated, on the record, it's for \$20 million for brownfields. Is that correct?

MR. SULLIVAN: That's the proposal, yes.

ASSEMBLYWOMAN PINTOR MARIN: So Newark -- that would probably be four projects for us; that's it. So no one else in the state would be able to apply, because that would-- Essentially, Newark would eat that up.

MR. SULLIVAN: Yes, I think one of the things that's important about the (indiscernible) proposal -- and this is something I spent a lot of time--

ASSEMBLYWOMAN PINTOR MARIN: And I'm just trying to get your opinion on this, because I think it's important for us to understand where we're at now, and where we potentially might be, moving forward.

MR. SULLIVAN: An abundantly fair question.

I spent a lot of time on brownfields in my previous job in Connecticut; and the program that I helped run actually just won an EPA national award for its comprehensive approach to these things.

So a couple of things: One, we would endeavor to pair that tax credit with a low-interest loan program that we would run at the EDA; and

we'll take that to our Board for approval at some point. That would pair the tax credit money -- which is, essentially, equity -- with a low-interest loan. Because one of the problems with brownfields -- broadly speaking, there are lots of problems with brownfields -- but one of the biggest problems is banks won't touch them until they're clean. And I think part of our public mission, public stewardship mission is to be willing to take a little bit more risk on those projects -- for the benefit of the public, for the benefit of the people we serve -- with a low-interest loan program that helps developers, or municipalities, or companies take a run at redeveloping these sites.

I think some of the biggest gaps in-- The big, big sites tend to be able to attract Federal funding in a bigger way. What's missing here and other places, I think, is a tool to sort of address the smaller and mid-size projects. So you want to be able to, sort of, provide for the relatively small sites -- a gas station that's in the middle of a neighborhood that's been abandoned forever is not as big as a Superfund site, which is -- clean up is in the hundreds of millions, right? That's well beyond my complexity to deal with, and I'd leave the EPA and DEP to deal with those.

I think a targeted tool that can support more of those smaller and mid-size projects is important. Could that run out pretty fast? Sure, but I think that would be a high-class problem, because we're developing more of these brownfields; and success will build on itself, and we'll take it from there.

ASSEMBLYWOMAN PINTOR MARIN: And Mr. Sullivan, I think that the Comptroller's report, obviously, pointed out some deficiencies, right? And I know that you're working on it, and I think you

have a hard task ahead of you; because you not only have to answer that, but you have to make sure that you have, in place, programs that are attractive for other companies to come in.

A company looking at the State of New Jersey would probably take about -- what? -- two years or so if they would like to move into the state?

MR. SULLIVAN: Some move faster, some move slower. But yes, that's fair.

ASSEMBLYWOMAN PINTOR MARIN: My concern is that some of the things that we've talked about, and some of the, I would say, misguided information, is that the State of New Jersey is not open for business. And we see some of the things happening -- even what's going on in New York with Amazon.

MR. SULLIVAN: Sure.

ASSEMBLYWOMAN PINTOR MARIN: I think I, for my particular District, want to make sure that we say, "We are open, we're ready, we're willing to work with you." And I believe that incentives are appropriate to have; and I think, obviously, when there are specific companies that come in and they need a little bit more help or tweaking, I think that your office would be the ones to do that. I don't think it's the Legislature's purpose to do that.

But do you feel that, right now, we're sort of giving a negative tone, as to-- Anyone who is looking to do business in New Jersey, "Watch out, because all of these things are going on, and they're doing investigations, and they're hiring attorneys."

Can you just give a little bit more clarity, and just put on the record that we are here to support business, and that we are open for business?

MR. SULLIVAN: The last part of the question is one of the easiest ones I could ever get.

We are open for business, and we are here to support anyone who wants to grow and invest in New Jersey.

I think Governor Murphy's economic development plan was really well received, both here and around the country, with regard to, particularly, the Evergreen Fund as a way to, sort of, kick start and supercharge the venture capital part of our economy. So I think the messaging we're sending around the country, via that plan, and around the region, via that plan, is very, very positive.

With regard to investigations and accountability -- I think companies that do business with the public expect that level of accountability and expect that level of obligation. That's why some choose not to participate in incentive programs. And so I think it's appropriate that we have these -- that taxpayers have an understanding of what their investments have gotten, and what they will get going forward. I think it's also important that we continue to be making the exact case that you just made, which is that we are open for business, we do want to attract investment, we do want to retain the companies we have here; and importantly, I think, increasingly want to support the young, growing companies that are taking root in the New Jersey economy all across the state.

ASSEMBLYWOMAN PINTOR MARIN: Thank you; I appreciate you putting that on the record.

And two last things before I move on.

I'm a little concerned that we're going to be putting caps on projects. Because I think that that will then potentially -- and this is just -- you let me know what you think -- might stifle some of the other companies that are interested in growing or applying.

Do you feel that putting caps on something is necessarily the best thing to do?

MR. SULLIVAN: I think capping incentive programs is appropriate, particularly given where we are in our fiscal cycle. I think making sure we have a sense of -- a concrete sense of the maximum exposure that both Treasury and the taxpayers might be obligated for, for any new incentives we commit, is appropriate. And I think the Governor has proposed a number that is supportive and appropriate of what we think we should be investing, going forward.

But I think it's important, as a balance, to have some transparency and some predictability into what the incentives would be.

ASSEMBLYWOMAN PINTOR MARIN: But if you put caps-- I'm sorry; I forgot what the total amount was that you stated. In your opinion, how many projects do you think, per year, that the State would be able to deliver on?

MR. SULLIVAN: So the Governor's proposed successor to Grow, which is NJ Forward, is around \$200 million. So it depends on how much each per-job incentive would be, so it's hard to answer your question. It's a totally fair question; it's just hard to answer it, because it depends on

what the per-job incentive might be; it depends on how long those tax credits might run.

So a five-year program at \$5,000 per job, over five years, is a very different answer to the question than a--

ASSEMBLYWOMAN PINTOR MARIN: I think that's a very difficult one, though.

MR. SULLIVAN: What's that?

ASSEMBLYWOMAN PINTOR MARIN: That's a very difficult one, though.

MR. SULLIVAN: Sure. But, you know, a 10-year credit at \$100,000 a job is -- your numerator and denominator have to match up.

But I think in the calendar year we just concluded, EDA's Board approved -- under the current regime, which I think is, again, more generous than anyone else in the region -- a little less than \$400 million of Grow credits. And so I think having -- if you have lower awards and more targeting for high-growth, high-wage industries, I think that's a pretty -- that's an appropriate--

ASSEMBLYMAN JOHNSON: Assemblywoman--

MR. SULLIVAN: --warm up. Appropriate as a mechanism, and appropriate as a (indiscernible).

ASSEMBLYWOMAN PINTOR MARIN: Yes, I'm done.

ASSEMBLYMAN JOHNSON: You're done?

ASSEMBLYWOMAN PINTOR MARIN: Yes.

ASSEMBLYMAN JOHNSON: Oh; I was about to ask you if you were done. That's good; okay. (laughter)

We have a few more legislators who have questions here, so we've trying to move this along.

I know one individual, who will be speaking later, has to catch a plane. So we'll try to get him up as soon as we can.

But Senator Singleton, you're up, sir.

SENATOR SINGLETON: Thanks, Chairman.

A couple questions; and I'll do these pretty quick.

So I'd asked -- and I'm sure you were in the room -- I'd asked the Comptroller earlier, with respect to the 48 projects that he outlined, where he said his auditing team had shared those projects-- I guess they got their information from you in order to do that. What were the 48 projects that they looked at?

MR. SULLIVAN: So I think the Comptroller articulated correctly -- some of the balance that needs to be struck, with regard to sharing that information. I think we are in the process of, sort of, re-evaluating what the best way to provide that transparency is, and we expect to have something on that--

SENATOR SINGLETON: Wouldn't the best way to provide the transparency is to just tell us what the projects are? I'm not asking you to get in the nitty-gritty, as to pick which ones did whatever. I'm just curious which of the 48 they looked at.

Because I -- let me just tell you why. Because I believe -- and I'll just speak for myself -- that it's inadequate to look at the projects that are Grow and ERG, because the length of time to study those -- you don't have enough runway to really study those. So that's, like, 19 or so of those projects. If you look at the ones that came before that, you have in the 20s,

almost 30 of those projects. So that's, probably, a better estimation of what they were. That's why I'm just curious as to what the projects were. I don't need the specific methodology -- did they look at this one, and this attributed to X or Y. I'm just trying to get an understanding, because there are all types of other factors. It could have been -- well, they looked at this project because this project was in Newark, or this project was in Camden; and that could have created a different dichotomy, as opposed to another project that would have been somewhere else.

So, through the Chair, at least I request for -- I think my colleagues -- I think we all would have interest in this -- as soon as possible, can we get a list of the 48 projects that were looked at?

MR. SULLIVAN: Again, we're in the process of trying to provide the right context around those names; that some of the factors you just described, Senator, would be helpful to understand.

And to the Comptroller's point earlier, that would be the first time those companies know they're one of those 48; and so we want to be thoughtful about how we do that, being-- Again, balancing transparency with the fairness for these companies.

SENATOR SINGLETON: So, at this point, you've not notified any of those 48 -- the 48 projects, the recipients of those 48 projects that they were subject to this well-publicized audit?

MR. SULLIVAN: They would have no way of knowing that.

SENATOR SINGLETON: Okay.

MR. SULLIVAN: To the best my knowledge. Could they have found out, sort of in the wind?

SENATOR SINGLETON: Sure.

MR. SULLIVAN: I have no idea.

SENATOR SINGLETON: I heard you say -- and I want to make sure I heard it right -- that you said there are independent audits of applicant performance; I thought I heard you say that. And the report goes on to say that the agency -- your agency relies on self-reporting, rather than independent verification; which would seemingly be a disconnect between what you believe -- excuse me, not what you believe -- what you do, as opposed to what the Comptroller's report says. Is that a fair assertion, that you actually -- you do provide independent verification of applicant performance, contrary to what their report indicated?

MR. SULLIVAN: So as a result of -- at the suggestion of the OLS 2017 audit that EDA participated in, we brought on an independent firm that does a sample; they audit a sample of those who have actually received credits, and have actually certified and are receiving credits. We will look to likely expand the scope of that -- those samples and those audits that they do, so that they're doing more.

And so I think any discrepancy there between reports and that set of facts, probably has to do with time and what program that's really focused on. The audit really has focused on Grow and ERG; and I think some of those comments might have been focused on some of the earlier programs that are no longer accepting applications.

SENATOR SINGLETON: But as -- thank you -- but as a general statement, where the report says that there's only self-reporting, and not independent verification in the broader sense, that would not be entirely accurate.

MR. SULLIVAN: Well, self-reporting is part of it, in terms of the information we get from the companies; how much we're able to, sort of, back check that against other things is a limitation we have that we're working to improve with Labor and Taxation; and also this independent auditing firm. So it's not-- It's a mix.

SENATOR SINGLETON: I understand that; and I'm not -- and I don't want to belabor the point. But I think you're telling me that you do do some-- It's not just all self-reporting, as the report would indicate--

MR. SULLIVAN: It is not.

SENATOR SINGLETON: --which is the question I asked.

Okay, thank you.

MR. SULLIVAN: It is not just self-reporting.

SENATOR SINGLETON: Thank you.

It seems from Mr. -- from Chairman Downes' statement that he put out -- and my words, not his -- that I think he takes more exception to this report than, perhaps, the authors of the report believe it to be, as far as an accurate depiction of what the program does, its monitoring, etc.

Do you share a similar viewpoint as Chairman Downs, as to that the report is not an accurate reflection of EDA's role in the monitoring of the incentive programs?

MR. SULLIVAN: Well, I think, you know, we said from the beginning that we welcome the opportunity here from the Comptroller and what their findings were going to be. A number of the findings are helpful and important; and some of them are things we have already been getting

ahead of, some of them are things we're taking more incremental action on now.

There are some places where we disagreed, and those are identified, in some detail, in our response to the report.

SENATOR SINGLETON: Okay.

And my last question of you-- I know you come from Connecticut.

MR. SULLIVAN: I came from Bergen County first. But I used to work in Connecticut, yes.

SENATOR SINGLETON: That's fine; but you, most recently, worked in Connecticut. And I know in the department that you worked under in Connecticut, as a way of its evaluation of economic incentive programs, has actually -- has reshaped how it looked at its evaluation -- I think to a positive; looking at things-- And I'll report the more in-depth tax incentive review and evaluation of the accuracy of previous year's report, and a requirement to provide recommendations concerning improving the current incentive offerings. And it covers everything from credits abatements, grants, loans -- anything that's designed to improve economic development. And that law change, that Governor Malloy put in place -- your office, your old office was actually very involved in doing that.

Those types of recommendations-- Because I agree that I think we need to do a better job of looking at it, in its totality, having a uniform standard of how we evaluate all these tax incentives. Because whether I believe the tax incentives can be used for economic growth, it still should be trustfully verified, ideally.

Are the types of recommendations that you, in your previous role, worked with, worked on -- are those the types of things that you have recommended to the Governor -- and by that, to this bi-legislative body -- that we should look to try and do in creating a uniform standard of how we evaluate all these tax credits and tax abatements, etc.?

MR. SULLIVAN: Yes, I think having the right reporting, and the right transparency and accountability is incredibly important for these programs; because the taxpayers deserve and have every right to expect an understanding of what's being -- what investments are being made on their behalf.

What Governor Malloy employed in Connecticut is certainly an example we can look to. One of the things we did, as we were putting together the economic development plan, was evaluating best practices from around the country. I think Pew is testifying later; I'm sure they'll have some perspectives on best practices from around the country as well. They've been working with -- been in conversation with us directly; as well as we read their stuff, and it's very, very helpful.

And so what I think is really, really important, Senator -- I think you're hitting on exactly the right point. Whatever we do, going forward, or whatever comes next in terms of incentives, has to include as many of those best practices as makes sense.

Some places-- And, you know, Connecticut, my prior job, relied a bit more on grants and loans, rather than tax credits. So some of that, you know, wouldn't translate exactly across the state line. But the notion of having uniform reporting, making sure we're getting all the right data, again, on the front end. Any evaluation -- independent, by us, by you,

by anyone else -- depends on getting good data on the front end correct; gathering the appropriate and the most comprehensive set of data.

So we welcome any and all suggestions for how to get that right, going forward. And we look forward to working with you all to get that right.

ASSEMBLYMAN JOHNSON: Senator.

SENATOR SINGLETON: Thank you for that, because I think that's appropriate. And I think both Connecticut and Florida -- being another example of another state that's doing it, I guess, in a really right way -- I think encourages -- should encourage all of us to look at, rather than evaluative metrics by program -- because when we create a new statute, it's almost by program and development -- to have an overarching statute that does that. And I think your expertise, coming from Connecticut, that had just, most recently, done it, would probably be helpful to many of our colleagues around the dais as we fashion that.

So thank you.

MR. SULLIVAN: Thank you.

ASSEMBLYMAN JOHNSON: Thank you, Senator.

Mr. Sullivan, I thank you for the Bergen County plug, too.

MR. SULLIVAN: Yes, no problem. (laughter)

ASSEMBLYMAN JOHNSON: Senator Pennacchio.

SENATOR PENNACCHIO: Thank you, Chair.

Good afternoon, Mr. Sullivan.

MR. SULLIVAN: Good afternoon.

SENATOR PENNACCHIO: Thank you for your testimony.

We had previous testimony from the Controller -- and it's been followed up with some of the concerns that Senator Singleton just mentioned -- as far as the very small sample, and not even being able to get the names of the companies that were done.

I think he had mentioned 48 companies; and is it right to say there's a couple of thousand, at least, incentives in programs that are administered by the EDA -- of these types of programs? Is that--

MR. SULLIVAN: The total universe is a little bit less than 1,100.

SENATOR PENNACCHIO: Eleven hundred?

MR. SULLIVAN: Eleven hundred, since 1985.

SENATOR PENNACCHIO: Okay, so if we do the math, that comes out to, what, 1 percent, 2 percent? Not an awful lot.

But you testified that all these programs are certified on a yearly basis?

MR. SULLIVAN: All the current programs are certified on a yearly basis. I can't speak with as much authority to the ones that--

SENATOR PENNACCHIO: Can you just slow down just a little bit? I have a hard time hearing.

All these programs -- and then you said *not* all these programs. So of the 1,100, how many are certified, Mr. Sullivan?

MR. SULLIVAN: How many are certified -- have been certified? Bruce, do you have that number?

SENATOR PENNACCHIO: On a yearly basis.

MR. SULLIVAN: So each program is a little bit different. When I said they certify on a yearly basis, that's primarily a comment about Grow and ERG; and BEIP, as well, certifies on a yearly basis.

SENATOR PENNACCHIO: How many?

MR. SULLIVAN: How many have certified? Bruce, do you have that number?

**BRUCE CIALLELLA, Esq.:** So in the Comptroller report -- and the Comptroller actually mentioned this -- it's-- So of the report that you are looking at here, they looked at the totality of 401 that had certified at--

SENATOR PENNACCHIO: Okay; so out of 1,100, 1,200, you only certified less than half of those. Do you think that the taxpayers are owed at least a yearly review and certification of how their tax dollars are being spent?

MR. SULLIVAN: We're happy to provide-- You know, I think I agree with the spirit of what you're saying entirely, which is that taxpayers have absolutely every right to understand what investments are being made, and how that's being implemented. We provide a ton of information on our website on, I believe, a monthly basis, about what's come in, and certified, or closed. We provide that information in an annual report. It's pretty big and so--

SENATOR PENNACCHIO: Okay. All those annual reports, all those certifications that you can provide -- I assume they're all on your computer, correct?

MR. SULLIVAN: It's on our website, yes.

SENATOR PENNACCHIO: Right; and every single report, then, can be linked to your website; and the public can take a look at it

without any problems, without OPRAing it. It's just public knowledge then.

MR. SULLIVAN: If we're referring to same thing -- I'm not sure.

So we have a summary that says Company A certified X credits this year, X credits last year, X credits next year. The detailed analysis that goes into that company information is not on our website; but the summary report of how many certified this year, how many certified last year -- all that kind of information is (indiscernible) by name.

SENATOR PENNACCHIO: Okay.

Certification comes from the EDA. Senator Oroho had suggested -- and it may help with Senator Singleton's query -- as far as getting them to sign on to an affidavit. That way-- Because, right now, you really don't have third-party administrators looking at this; but you could have a lot more accountability if you did have them sign on to an affidavit that, under penalty of whatever law or whatever we want to apply-- Is that something that you would be open to?

MR. SULLIVAN: So certainly open to discussing anything that could enhance, you know, accountability and transparency.

There are three important representations to this process that sometimes get blended together under the word *certification*. Let me just clarify.

One, there's a certification that comes from the CEO at the point of application. That certification is primarily two-fold. One, that the incentives being sought -- are what's known as a *material factor* in the

company's decision to stay or go, to grow or not, in New Jersey. So it's called the *material factor certification*.

The second is that the CEO is acknowledging that everything that's in the application, to the best of his or her knowledge, is accurate and factual. That's the certification at the early part of the process.

Later in the process, there's a certification of the jobs from the Chief Financial Officer of the organization, and there's a certification from the firm's CPA firm of the capital investment that's been made. So there are three different representations and certifications, throughout the way, that leads to, then, us issuing a certification. So the vocabulary -- it's a lot to keep track of.

SENATOR PENNACCHIO: Okay, roughly 50 percent of those that you've certified this year -- can we assume that the ones that were not certified are going to be the other 50 percent that you are going to do next year; or is there a redundancy in the process? Will you keep certifying the same companies over and over again?

MR. SULLIVAN: So the way it works is that the most central moment of the certification process is the first certification. You come in, and within-- In the context of Grow, for example, that has to be within four years of approval.

SENATOR PENNACCHIO: Now, just--

MR. SULLIVAN: The certification -- that every year there's a check.

SENATOR PENNACCHIO: All right. The first certification means, do they qualify for the program?

MR. SULLIVAN: Pardon me, sir?

SENATOR PENNACCHIO: Do they qualify for the program -- that's first?

MR. SULLIVAN: No, that's-- Whether they qualify for the program is sort of sussed out during the application process. They won't get anywhere near the Board if they don't qualify for the program.

SENATOR PENNACCHIO: Okay, when does that-- Then the first certification is after the first year?

MR. SULLIVAN: It depends; it's when the project is completed. So under the statute, under Grow, the company has three years; we have the right to extend them up to four, up to a fourth year, to complete the capital investment, and make the hiring or create or retain the jobs that they've pledged that they would do so. They then have to come in for their, kind of, initial certification. That's a big moment; that kind of gets them into the tax credit process.

SENATOR PENNACCHIO: Okay, and--

MR. SULLIVAN: And then there's an annual check, or an annual recertification--

SENATOR PENNACCHIO: You had mentioned, Mr. Sullivan, that roughly 400 or 500 had been certified this year.

Did the Controller specifically just ask you for 48, or did you volunteer 48? How did that number 48 come about?

MR. SULLIVAN: Quick question.

Bruce, can you help me with that one?

MR. CIALLELLA: So when the Comptroller was engaged, they came in for an entrance conference, and they wanted to just see a sampling of what, you know, the programs are; and they wanted a project from each

program. So, at that point, we selected six programs for them to look at; subsequently, a couple months later, after they did that initial review of those six programs, they came back with 42 additional that they wanted to look at.

SENATOR PENNACCHIO: All right. So if the Controller had asked for more, you would have been willing to give him more and, in addition, expand the scope of what you gave him.

MR. SULLIVAN: Absolutely.

SENATOR PENNACCHIO: Okay; going forward, if the Controller or the Legislature asked for more, you'd be willing to give us more of the ones that are certified?

MR. SULLIVAN: We welcome the opportunity to provide as much transparency--

SENATOR PENNACCHIO: Again, just to be clear -- I'm finishing this up -- the information on each and every single one, regardless of whether they're certified or not certified -- can that information be gotten in a quick, easy, timeless -- timely manner on the Internet right now?

MR. SULLIVAN: If I'm understanding your question correctly, then the answer is "yes." There's summary information on our website that's updated, I believe, monthly on all the approvals that have been made by the Board; and then there's a subset of approvals that have come in for certification, and then there's probably a subset of that that are folks that are finished and completed, and out of the program, if you will.

SENATOR PENNACCHIO: And that would include the documents that the EDA asked from these particular companies, relative to the job growth and monies involved?

MR. SULLIVAN: No, it's a summary format. It's an Excel spreadsheet, essentially, that says "Company A has certified for X number of jobs, and Y amount of capital investment--"

SENATOR PENNACCHIO: And finally, if the company is less than truthful, what recourse do you have, or how do you find that out? Do you do a forensic audit?

MR. SULLIVAN: So the CEO certification is made -- I think the phraseology is *under penalty of law*. We have the option to refer those to the Attorney General if there's any--

SENATOR PENNACCHIO: Has that ever happened?

MR. SULLIVAN: I don't believe it has.

SENATOR PENNACCHIO: All these years, in New Jersey, we've never referred a case to the Attorney General because somebody was less than truthful?

MR. SULLIVAN: I don't believe we have; but I'm not 100 percent--

SENATOR PENNACCHIO: Okay.

ASSEMBLYMAN JOHNSON: Senator--

SENATOR PENNACCHIO: That's heartening.

ASSEMBLYMAN JOHNSON: Senator, are you wrapping it up?

I think your time is up, Senator.

SENATOR PENNACCHIO: I think you're right.

ASSEMBLYMAN JOHNSON: Here, that is.

Senator Oroho.

SENATOR OROHO: Thank you.

I'm on the clock. (laughter)

All right, I'll try to talk fast.

One thing I think is critically important to remember -- and because, particularly, since we're now looking into-- This will sunset; this program will sunset. What do we do next?

At the time frame of when this was happening, New Jersey had just gotten out of the first decade in recorded history that we have actually lost more private-sector jobs-- We had less private-sector jobs at the end of the decade than we had at the beginning. It was the first time in recorded history. So we have to keep some of that in mind as to -- when we're doing that.

The other thing-- Mr. Sullivan, I thank you. You brought up excellent points with respect to, you know, loans, versus grants, versus tax credits. And that was one of the big things about the net benefit test; is the fact that the tax credits -- they actually have to (indiscernible) money in order to better use it. Now, they can sell -- in certain respects, sell them; but not, I don't believe, 100 percent. So some of what we have to keep in mind is the time frame of when it happened, and why some of these things were put into the program.

But Mr. Sullivan, as head of the EDA, you must meet with many, many -- or talk to many, many companies as part of your job.

MR. SULLIVAN: Yes, sir.

SENATOR OROHO: You do. Can you tell us what are-- Quickly, can you tell us, what are some of the things that you're hearing from some of these companies? Because here's the reason that I firmly believe -- I'd rather have a situation where we didn't need any incentives;

where our tax structure was competitive; that we could just rely on our tax structure alone, and it could-- Because you look at our location, our education system; we can argue about how we pay for it, or who gets what; our workforce and our infrastructure itself; we have great assets. But there's a reason why we needed some of these incentives.

I think it's because we don't have a competitive tax structure in total. You met with many companies; can you give me your reasons as to why we think we need these incentives?

MR. SULLIVAN: So I think the two things we hear most consistently -- from, you know, CEOs and the leadership teams of companies in New Jersey -- the two factors that keep coming up most, most consistently -- I want to say a 100 percent of the time, but that's probably statistically not correct -- but virtually in every conversation we have: talent and infrastructure. Those are the top two things on the list virtually every single time. Can they find the people with the skills they need, in the parts of their companies that they are growing in, to meet their growth ambitions?

And that's a challenge that doesn't get solved overnight. It requires a partnership, from as early on as primary education, through high school, and college, and post-secondary education. So the work that Commissioner Repollet is doing, and Dr. Smith Ellis at Higher Education is doing, around skill development and computer science for all, and those kinds of things, are incredibly important.

The Labor Commissioner and the Governor just, I think right before I started speaking, unveiled some funding around apprenticeship

programs; incredibly important. Those kinds of efforts are really, really important, and those register with CEOs of companies big and small.

The second is infrastructure. Can people get to and from work with any degree of predictability? Can they get their goods to and from where they're going? Incredibly important.

So the challenges that are well-documented -- and I don't have to get into the details -- but getting New Jersey Transit on a better path is incredibly important. So the investments that are being made there, and need to be made there, are incredibly important for our competitiveness.

So are things like Gateway, you know? I could go on a filibuster about Gateway, but it's really important -- being able to get to and from New York City and having the Northeast Corridor function is really important to the New Jersey economy. We sit in the middle of 20 percent of the American GDP. If people and goods can't get around, that number would shrink.

SENATOR OROHO: Thank you; I appreciate it.

One of the things I put on (indiscernible) -- I can't disagree with, with respect to the workforce was -- many companies have moved; they find out that they can't get the workforce; and they come back to different -- other locations. You see that in corporate history, you know, many, many times.

But also, at the top of the list is the idea of the cost of doing business -- whether it be regulatory, whether it be tax structure. I would also put that on there as well.

Have you been asked at all to suspend or pause the application process because of the Controller's report?

MR. SULLIVAN: So we take the Comptroller's report incredibly seriously. We've been evaluating which of those things we can implement right away, and which we need to consider on a longer term basis.

But, you know, the statutes govern the eligibility for these programs.

SENATOR OROHO: And they still stand.

MR. SULLIVAN: Pardon me?

SENATOR OROHO: And they still stand.

MR. SULLIVAN: And they still stand. Our Board is scheduled to meet tomorrow.

We have, in the past year -- thanks to a few different people's input -- tightened up our process, I think quite a bit, on the review of these applications and these processes. We now do a call with the CEO of the company, with usually me -- often me; if not, Lori and her team -- to really talk through, making sure we understand their strategic decision-making.

And we really want to introduce into those conversations, again, a broader strategic dialogue. So it's not just about incentives; it can't be just about incentives. It has to be, "What else are we doing to help you with your workforce? What are your challenges with regard to infrastructure and transportation? What are your challenges with regard to any regulatory headaches you might be having?" So we're having those -- trying to have a deeper and broader engagement with these companies at the leadership level; as well as some tighter reviews around the cost-benefit analysis. All those factors have added up to, I think, a pretty significantly

reduced number of awards in the last year; we're down to a little bit less than \$400 million, from substantially higher than that in the years prior.

SENATOR OROHO: I'm sorry; I think, actually, you just answered my next question; which is good. (laughter) How many is that? Because next I was going to -- how many tax credit applications have been approved, would you say, in the past--

MR. SULLIVAN: The number -- I don't have off the top of my head; we can certainly get you that. The total amount of credits is right around \$400 million.

SENATOR OROHO: Around \$400 million.

MR. SULLIVAN: For Calendar Year 2018.

SENATOR OROHO: Just real quick -- my last question, and it refers--

Because one of the things-- First of all, I loved to see you fought hard to make sure that all parts of the state, you know, whether we -- even with the Highlands and the Pinelands, in those areas where you could have economic development -- that any part of the state could participate. One of the things we did is -- and I see Governor Florio; he's here, and he had a very good Op-Ed piece -- we did look to see how we could help, you know, with Camden.

And in your opinion, can you tell me -- do you think some of the economic incentive plans, with respect to that city, have actually helped Camden grow?

MR. SULLIVAN: So surely, you know, having more investment from private sector companies in Camden, and in cities across the state, is incredibly important. Across the country we are seeing most of

the job creation happen in cities and metro areas. And that's a dynamic that is true in New Jersey, it's true in the Northeast, it's true across the country. We have to position our cities to be stronger magnets for talent and investment. That's true in Camden; it's true in cities all across the state.

And so one of the things that's a centerpiece of the Governor's plan for going forward is having more tools to address some of the challenges that exist, particularly around urban economic development. And both making sure we're doing the right, sort of, inclusive and equitable economic development -- focusing on local hiring, focusing on high wages -- but also focusing on some of the physical development -- meaning things like brownfields and historic tax credits -- to get that cocktail even more potent to address those challenges.

SENATOR OROHO: For somebody who worked for 18 years in New York City, I would love to see New Jersey attracting those jobs into our city areas; and then, obviously, you know, from a geographic standpoint, helping all suburban, rural -- all areas of New Jersey, as more and more we can attract those jobs that people travel into New York-- Because, obviously, if they travel into New York -- which I did for 18 years -- their tax revenue goes to New York, not New Jersey; and that's a significant amount. So the more we can attract and retain here in New Jersey -- whether it be in the city, whether it be in the rural area, wherever it happens to be -- we'd be much better off.

So thank you very much.

ASSEMBLYMAN JOHNSON: Thank you, Senator.

And Mr. Sullivan, I think that wraps it up for you.

MR. SULLIVAN: Mr. Chairman, Madam Chairwoman, thank you.

ASSEMBLYMAN JOHNSON: So thank you for coming; and I'll be in contact with your office later about some other issues offline, as we try to attract more businesses to this state.

And also recognizing that there are certain industries that are lacking -- that are looking for trained personnel, such as-- I read that there's a shortage of aircraft mechanics that's happening; there's a shortage of truck drivers. So as we try to address that, and, hopefully, ask those companies, or incentivize those companies to come here to open these businesses and train these people, we will -- (indiscernible) as you go forward.

So thank you for coming.

And we're going to bring up Governor Florio.

SENATOR CRUZ-PEREZ: And we want to limit the questions; we still have a lot of people to testify.

And I notice Michael Amato, Co-Founder of Camden Yards Steel-- I know you have to take a plane, so you are next, okay?

Stephen Mullin is coming with the Governor; okay.

**G O V E R N O R J A M E S J . F L O R I O:** Good afternoon.

ASSEMBLYMAN JOHNSON: Good afternoon, Governor.

GOVERNOR FLORIO: I commend the Chairpersons, as well as the members, for their diligence, and persistence, and patience.

And I do appreciate the opportunity to share some thoughts with you -- and I will try to be as brief as possible -- to share some thoughts with you about the impact on Camden of the various State policies, with regard to business incentives.

In a word, the impact on Camden of this series of programs has been *astounding*.

I have lived in Camden, I've raised a family in Camden, I went to school in Camden, I represented the City in the State Legislature and in Congress, and in the State House as Governor. And what's happened in the last couple of years has been astounding.

I've seen the good, the bad, and the ugly in Camden. We have two mayors recently -- the past Mayor, Mayor Redd; and the existing Mayor, Mayor Moran -- who have brought competence and honesty to the City; qualities that were not always there. There have been some good improvements.

They have also contributed to a degree of urban revitalization, which is a classic model of the way things should be conducted. They brought about a degree of cooperation and collaboration that has inspired all the stakeholders and the citizens in the City, and it has resulted in -- and you can see, if you go there. And I would urge you to do go to the City -- you will see the cranes, you'll see the new buildings, you'll see the new businesses, all of which are developed as a result, in part, of these benefits of the program.

There's a study that's been conducted -- that Mr. Mullin will talk about -- that will quantify the benefits: the improvements in health, improvements in education, infrastructure, transportation; really, very impressive. You'll certainly be impressed if you go there.

What I'd like to do is to point out -- as a result of the State program of incentives, these good things occurred. Grow New Jersey has been particularly beneficial to Camden. It has made available some \$1.3

billion in capital investments; the economic additional benefits that come from that total \$2.6 billion. The necessary components of remedial action are fairly clear.

The one thing I would like to emphasize is that because a program can be improved doesn't mean it's a failure. This program, in the City of Camden, has been an extreme success; good things have occurred. And as this Committee considers modifications to the program -- reauthorization of the program -- I would just bring to your attention that there were a number of studies over the last number of years -- the McKinsey studies were very important to appreciate. Things that have to be done, you should be playing a role in, because the Legislature and the administrators of the program are very key to the success.

First and foremost is a need for the defining of goals. If you don't have goals, you can't develop metrics; if you don't know metrics, you can't measure whether you have success or not.

And goals have to be set in the largest context, being as inclusive as possible. You have to have citizens, average citizens, involved in defining where you want to go to. The old saw about, "If you don't know where you want to go, any road will get you there" is appropriate here.

What we need to do is to get the people, citizens, engaged and informed about setting up goals; engaged because that's the nature of our process. The system doesn't work unless we all work at making it work. There's a need for us to have people involved because, if you don't know what you're looking for, you can't find anything. There are no answers if

you don't know what the questions are. So there's a need for full participation.

In fact, participation, by the way, is the key to the success that Mr. Mullin is going to talk about, in terms of getting people engaged in the goals.

The key is to then establish variables in the formulas that will be used so as to get you connected with the goals that you're trying to achieve, as well as the weapons that you have -- the tools that you have to achieve those goals.

The consultants talked about goals for not only the City of Camden, but for all our urban areas. There's a need for us to develop the types of things which will have fast-growing, young companies being nurtured; and that's really the incentive relationship -- is nurturing outcomes that reap the goals that you're talking about. So there's a need for some degree of creativity on the part of legislators, as well as on the part of the administrators of the program, to say, "Here's what we want to do. What is it that will induce companies to come to do these things that we will measure, and have them completed at the end of the process?"

So this is not as difficult as it would seem; it just takes some creativity, some energy, and some understanding of what real people want out of their governmental systems.

The use of skilled workers -- I heard that referenced today -- it's very important. When you have new companies coming to New Jersey, companies coming to Camden, New Jersey-- For example, American Water Company; American Water Company is one of the largest water and wastewater companies in the nation. I just went to the dedication of the

building in Camden; the national headquarters of this company is in Camden, New Jersey. This is a really great thing for us to build on.

Likewise, Holtec -- a very super-sophisticated national company, dealing with the whole idea of decommissioning nuclear facilities; developing casks for containing nuclear facilities. They're going to be having work for nuclear scientists, but also for technicians -- people with mid-level skills; which is very important for all of our businesses when we encourage companies to come -- to deal with those types of skills, and give them the incentives.

Public-private partnerships are very important. It's a mechanism which has been particularly successful in New Jersey in the college field: Stockton, Rowan -- many of the colleges are using public-private sector partnerships to achieve things that have not been achieved. We want to reinforce companies that can take part in those public-private partnerships, and these incentives may be the margin that makes them work, as opposed to not working.

Let me just conclude with an example that I think really highlights one of the things we have the potential to do here in New Jersey.

Water -- very thoughtful people have said that water is the new oil; that oil, in the last century, is now going to be replaced by water in this century; saying that there's a need for us to focus on water. New Jersey -- and Camden now, as a center of the water industry, with American Water being centered in our area -- has great opportunities to maximize the way we can utilize these incentives. For example, there's an interesting book, if you're interested, called *Let There Be Water*, by a fellow named Seth Siegel. It talks about the Israeli water policies, which have made Israel, a water-

deprived nation, now into a water-exporting nation. They're exporting water because of the technologies that they've used in reclaiming water. We have the capability of doing that in the United States; and Camden, New Jersey, may very well be the center, if we could do that.

Because there are other policies being pursued in Camden that are going to reinforce this whole idea of a catalyst industry. For example, in Camden, the CCMUA -- Camden County Municipal Utilities Authorities -- is working with Covanta, which is a solid waste mediation company, an energy generation company. They're working together on a project that I hope will end up being a designated project for micro-grids -- utilizing water, utilizing energy, and the synergies between those types of things, with high technology.

We have, in Camden, \$55 million invested in parks and open spaces; and not just for aesthetics, not just for recreation. But what we're doing is using flood control mechanisms; we're using well stormwater -- rather than going into the sewer systems and being treated inappropriately and more expensively, and then having sewer overflows with health problems -- we're now using technology wiser, and in a much more sensible way.

There are a whole lot of other things that we're doing. We have a collaboration; the group that is financing the study that we're talking about is a collaboration between Rowan University and Rutgers University on a Life Science building. Again, it fits into the water use utilization.

So I guess what I'm saying is that with energy, with creativity, and with some financial assistance from these types of incentive programs, we can be inducing companies to make the decision to come to places that

we're interested in; that can then be used to develop jobs. The only limitation is creativity, energy, wisdom, and vision.

So I just commend you for what you've done to this point, and I urge you on with great vigor to continue on this path, with some success in the future.

Thank you.

SENATOR CRUZ-PEREZ: Thank you, Governor.

Mr. Stephen Mullin.

STEPHEN P. MULLIN: Thank you; and thank you, Governor.

Good afternoon, Senator Johnson, Senator Cruz-Perez, and the members of the joint Committee.

My name is Stephen Mullin, and I'm the President of Econsult Solutions, an economic and public policy consulting firm.

I do have written testimony, I think, in your packet. I'm going to go through some of the highlights here, if that's okay, and certainly be ready for -- happy to answer questions.

Also, I do believe that our report -- *Social Determinants of Health* -- it might be available too, so I'm happy to just give an overview.

And leading from Governor Florio's very good overview, I will note I've been happy to have had the opportunity, over the past couple of decades, to do some work in Camden, Cooper's Ferry, and with RURCBOG, over time; and with the Governor. And I share his-- I have a long history in working in governments. I was St. Louis' Budget Director and Development Director in the 1980s; I was Philadelphia's Finance Director and Commerce Director in the 1990s. And I also see the, sort of,

palpable change that we observe here, even if I'm looking at it, sometimes, many times, across the river in Camden here.

We were hired by RURCBOG to evaluate the relationship between local incentives and outside incentives -- investments; and improvements in the key factors or social determinants of health care -- the health levels of Camden residents between 2012 and 2018. Many examinations of tax incentive programs concentrate on a very narrow set of benefits; furthermore, they tend to only focus on an immediate time frame.

Our study examines an important benefit that is often overlooked in this debate: the health levels of the population and the importance of improved health quality; paying economic and fiscal dividends far into the future

We identified a number of improvements and social determinants of health in Camden. We also quantified public and private sector investments in Camden, between 2012 and 2018, that were applied to four categories of social determinants of health. One, public safety; two, education and health care; three, neighborhood quality of life; and four, economic development.

Multiple investments were examined, including two Economic Opportunity Act of 2013's tax incentive programs -- as have been discussed here -- Grow New Jersey, and the Economic Redevelopment and Growth program, ERG.

We reviewed the background of improvements in Camden during this six-year period; as well as major achievements in local initiatives and outside support; and the changes in those social determinants of health between the beginning period and 2018. We conclude that the EOA

programs have been, and will be, a major positive contributing factor to Camden's positive health quality gains.

As Governor Florio mentioned, you can't go without some sort of a goal and plan; and the City's whole-city plan -- redevelopment strategy -- had three primary goals over the years.

One, a regional comprehensive approach focused on the root causes of challenges in Camden; and two, four intermediate objectives for reversing decline. First, eliminate the City's structural General Fund deficit; two, facilitate the inflow of capital; three, use public funds to rebuild the physical infrastructure and human capital; and four, strengthen local government. And the third major goal was to secure local, regional, and State commitments to this plan, while strengthening the local civic engagement and leadership.

Three foundational achievements were recent results of this long-term effort. Number one, achievement of a BBB-plus credit rating in 2014, up from a BA-2 in 2011; two, the disbanding of the City of Camden's Police Department and formation of the Camden County Police Department Metro Division; and three, improvements in the K through 12 education system, including increased graduation rates, test scores, and decreased dropout rates.

Despite these local improvements, there continues to be a need for State-level incentives, and other outside investments, to both grow and supplement the City's tax base as it stabilizes and grows. We found that improvements in the City's fiscal health, public safety, and public education system have improved Camden's economic stability, creating a more secure climate for outside investments. Local leaders pursued these positive

changes with the objective of securing more outside investments in the City, and in order to develop a symbiotic relationship between the local and State-level officials, which enables further progress in Camden.

The influx of outside investments includes the EOA tax credit projects, private sector investments, and increased foundational funding. These contribute further to improvements in social determinants of health.

Between 2012 and 2018, Camden saw significant group improvements in public safety, access to health care, K to 12 and post-secondary educational achievements, neighborhood quality of life, and economic development -- all of which are detailed in our report. However, it still lags behind statewide averages on most key economic and health indicators. Camden has made tremendous progress in the past six years, but these changes are not yet stabilized. Since 2012, more than \$2.5 billion in capital investments have been made in Camden. Our report details all of these major investments in Camden over the past six years. These outside investments are still critical to the future health, growth, and equitable redevelopment of the city and its residents.

Improvements in public safety, education, health care, and neighborhood quality of life have all contributed to helping local leaders leverage outside investments, one of the major objectives of their whole-city strategy. The City's improved climate has attracted large, medium, and small companies to relocate to Camden, creating employment opportunities for local residents.

State tax incentives facilitate investments in Camden that were needed to grow its tax base and reboot the City's local renaissance. Since the enactment of the EOA, incentives for residential, retail, and corporate

development have attracted billions of dollars of the economic value to the City. More than 5,000 jobs, new jobs, are coming to Camden. New Jersey EDA-certified EOA companies had originally committed to bring 627 jobs to Camden, but have delivered more than 1,900 jobs to date. Among major companies that have received tax credits, over 10 percent of employees are Camden residents. There has been \$1.4 billion in incentive-induced capital investments in the city, already resulting in a \$2.6 billion total economic impact.

The cumulative impact of this investment in critical social determinants categories has had a meaningful, measurable, positive impact on the health of the Camden community. Social determinants of health -- public safety, K to 12 education, access to health care, neighborhood quality of life, and economic development -- are interrelated. This interrelated whole-city strategy, undertaken by local public and private sector leaders, marks a significant change from the earlier piecemeal efforts. Systemic, integrated changes in Camden have spurred outside investments. The symbiotic relationship between local incentives and outside investments has begun to build a positive, sustainable cycle of change in Camden. In the last six years, Camden has seen improvements across all social determinants of health.

In conclusion, Camden has made significant strides in recent years after more than 50 years of economic decline. The integrated, whole-city strategy, driven by local leaders and supported by outside investments, much of which have been the result of the State tax incentives, has driven improvements across all social determinants of health for Camden residents. Through critical infrastructure, capital, and business

investments, and the Grow New Jersey tax credit program, the State of New Jersey has played a critical role in increasing the probability that Camden's economic future will be self-sustaining. The impact of the investments can be seen in every corner of the City -- from new high rises, as the Governor mentioned, along the waterfront, to expanded and improved parks in the neighborhoods, to new and rehabilitated housing stock.

We focused on a very important policy objective: improving the health levels of the City's residents. This is a benefit worthy of inclusion in any cost-benefit evaluation of any government incentive program. Camden has made tremendous strides in a short period of time; but the changes are not firmly established, and continued investment by private and public sectors -- including the State of New Jersey -- are necessary to ensure that Camden's emerging platform for growth is not compromised, and is sustainable for years to come. The improved health of the City's residents and the future of the City itself require it.

Thank you.

SENATOR CRUZ-PEREZ: Thank you.

GOVERNOR FLORIO: Mr. Chairman, if I could just make one last comment.

SENATOR CRUZ-PEREZ: Absolutely.

GOVERNOR FLORIO: The key to success, to the (indiscernible), is collaboration -- collaboration between the sectors -- public sector, private sector, academics sector, nonprofit sector; between levels of government -- the County, the State, the City. That is so important to the success of Camden that I would suggest that it be considered as one of the factors going into the granting of the incentives. Looking at what the local

situation is, in terms of whether it facilitates collaboration, or does not. And if it does, it should be rewarded, in terms of the granting of points and allocations for giving these grants.

This example here -- we've talked about the national recognition of the County of Camden and the City of Camden, integrating the police department into -- converting it from a military occupational force to a community-based system with good outcomes. That happens in area, after area, after area.

SENATOR CRUZ-PEREZ: Thank you, Governor.

Mr. Mullin, thank you so much for your testimony.

For someone who moved to Camden City right after the military, in 1990, I have seen how the City has risen. I have seen the change in the City. I have seen how the City has been turning to (indiscernible) new cancer facilities. We have a University of Medicine in Camden City; our kids have improved their grades. We have the lowest unemployment rate since 2000. It's actually, from 2009 -- it was 16.9 percent; today, it is 7.4 percent. We created more jobs than anticipated. Our neighborhoods are safer.

And you're absolutely right, Governor Florio. We worked together as a team to accomplish all these things in Camden City; and they should be an example. And he said -- how can -- the Chairman over here said to me, "How can we replicate what you're doing?" We have to work together. We did it because we worked together, and resources were put into the City to make sure that this was happening in the City.

But thank you so much.

And now I'm going to allow him to say a few words.

ASSEMBLYMAN JOHNSON: Thanks for coming.

I just had a quick question, or comment actually, as I asked the Chairwoman here.

What has happened in Camden, and what's going on there today-- And this is over a 10-year period, was this, or--?

MR. MULLIN: It was from 2012 to 2018.

ASSEMBLYMAN JOHNSON: So a six-year period. So we could take that -- what you've done -- as plans, so to speak. I'm from Northern Jersey, so, like, take a Paterson and use the same idea, same plan, in Patterson -- in some way, of course -- to turn that city around and make that city a place that more people want to be. I mean, Paterson has highways, it has rail to New York, it has-- There's a lot of promise there, I believe; and it just needs some help from the State and the proper people driving this idea.

GOVERNOR FLORIO: And smart people to make use of the virtues that the town has. For example, we have three hospitals -- Rutgers University; Rowan is now in Camden; County College in Camden. And all these folks are cooperating across the lines.

ASSEMBLYMAN JOHNSON: Yes, yes.

GOVERNOR FLORIO: And that's the key.

ASSEMBLYMAN JOHNSON: Yes; okay.

SENATOR CRUZ-PEREZ: Senator Oroho.

SENATOR OROHO: Just real quick.

Thank you, Madam Chair.

Governor, thank you very much for being here.

Mr. Mullin, I've gone through your report quickly here. I look to bring in more depth.

Obviously, we can measure the capital investment from private investment, which is in the report here. You take it, and extrapolate that into the other impact on the social aspects within Camden.

Is there anything in the report -- I didn't see it; it's probably in here -- of what the impact of the State budget would have been had we *not* implemented something like this? Like, for example, any estimate of what those costs avoidance were because we had these programs? Is there-- I know that's very difficult to do. Is there--

GOVERNOR FLORIO: All you have to do is go back a couple of years. At Camden you see the degradation taking place there.

SENATOR OROHO: Right.

GOVERNOR FLORIO: I mean, all the things-- Again, I mentioned a couple of them. American Water, Holtec -- companies--

SENATOR OROHO: There's a whole list; yes.

GOVERNOR FLORIO: All the results of this type of cooperation.

SENATOR OROHO: So the argument could be, there, is that -- that's when private investment came in substituting for-- Which could have been government -- State operating costs in different programs. And that's hard to measure; but without a doubt you believe that that's actually occurred -- where we have private investment come in, as opposed to State dollars come in.

GOVERNOR FLORIO: A wonderful example -- I gave you the example of what could be done with water, water technology. We could do

the same thing with offshore wind. Offshore wind is a whole new industry that we can reinforce participants, entrepreneurs coming into different facets of that industry. Grow that as well.

MR. MULLIN: I'm happy to also add, that I think not only are you correct in the assumption that the type of expenditures that would have been coming from the State to Camden not only would have been higher, but would have continued to grow over time.

SENATOR OROHO: Right.

MR. MULLIN: We haven't made any estimates there; but as the Governor mentioned, you can sort of track and look at some trends on that.

SENATOR OROHO: Thank you.

SENATOR CRUZ-PEREZ: Thank you, Senator.

Assemblyman Auth.

ASSEMBLYMAN AUTH: Thank you, Senator.

Governor, thanks for your testimony.

Normally-- And I want to applaud you for your advocacy for Camden as well.

Normally, I wouldn't ask someone giving testimony about Camden, about northern New Jersey, where I'm from. But Assemblyman Johnson and myself are both from northern New Jersey, and we have a situation where we have a large amount -- an abundant amount of vacant corporate campuses up in the northern part of our state.

And because you have some experience in overseeing all parts of the state in your past, I think it's acceptable to ask you your opinion about those particular situations for the residents in northern New Jersey,

and the incentives that we might use to get companies to come in and repopulate those campuses.

GOVERNOR FLORIO: The public-private partnership initiative on the college side has been a wonderful experience; a good beneficial experience. What has happened in Rowan, Stockton, College of New Jersey -- they've all been financing public facilities with private-sector money; in return for which the private sector is getting opportunities to do development on campus with building stores, other types of profit-yielding opportunities. It's been so successful that the Legislature, not too long ago, passed legislation, comparable to the authorization for public-private partnerships, on the academic side, over into transportation. I'm looking forward to the Legislature, and the Governor, working with the public-private partnership initiative in transportation, (indiscernible) with some of the problems associated with New Jersey Transit.

So (indiscernible) is developed; it can be done. And I would urge people to take advantage of the existing Authority in transportation, and academic areas in higher education -- expand it into other areas as well.

ASSEMBLYMAN AUTH: Thank you.

Thank you, Chairman.

SENATOR CRUZ-PEREZ: Thank you so much, Governor Florio and Mr. Mullin, for the testimony.

Thank you for the good work.

ALL: Thank you.

SENATOR CRUZ-PEREZ: Michael Amato, Co-Founder and CEO of Camden Yards Steel.

MICHAEL AMATO, Sr.: Good afternoon.

ASSEMBLYMAN JOHNSON: Mr. Amato, are you going to make your flight there?

MR. AMATO: Yes, I'll be fine.

ASSEMBLYMAN JOHNSON: Okay, just checking. (laughter)

MR. AMATO: Thank you.

ASSEMBLYMAN JOHNSON: All right, sir; and thank you for taking the time to speak to us today.

MR. AMATO: Thank you for being invited here.

I want to echo what the Governor just said about Camden. I was sitting back there, and I kind of get a little emotional.

Camden has been very, very good to me. I started a business there in 2001; and yesterday was the first time my wife and I took my son, and daughter, and their spouses, and my three grandkids -- and we went to the Aquarium. And as I was looking in my rearview mirror leaving, I see what an unbelievable transformation Camden has made: beautiful buildings, clean sidewalks, Light Rail. You know, it's a wonderful thing to see.

Camden, at one time, was one of the most thriving manufacturing cities around; and it fell on some hard times. And now, with this revitalization of businesses, with the infusion of money, has been able to lift it back up to its glory again. It has a long way to go, but I think it's on the right track.

We employ 50 people in Camden; I'm proud to say that 11 of them are Camden residents.

We start at \$15 an hour; we pay 100 percent health care for our employees. We pay up to 50 percent of their deductible. We have very

low turnover at our place. You treat people the way you want to be treated, and you have a happy worker. And I'm thrilled to be able to say that I have a business in Camden, and I'm thrilled to say that the State has stepped up and really done some wonderful things to encourage us to grow.

You know, I compete with behemoth companies, being in the steel business. And these companies were companies like mine that have been bought out by these large corporations. So for me to compete, I have to keep growing. You can't stand still in business; you either go forward or backwards. And with the infusion of money that was the tax credits, we have been able to purchase some new equipment that has enabled us to go into some new markets and compete with these large corporations.

Camden is logistically perfect; it is located on the Delaware River, two major bridges, great highways, rail. We unload-- Actually, the port that we're in unloads for us 2,000 rail cars a year. That probably creates somewhere around 200 hours a week of ancillary jobs that we don't have directly. This is great stuff; these are great things. And you know, businesses need, sometimes, some help; and I think that this project, Grow, has been phenomenal; it's been phenomenal.

And I thank everyone for giving me the opportunity to come here today; and hopefully, we keep moving, and keep growing, and get back to those glory days.

I'm in the New York Shipyard. At one time, in 1943, the New York Shipyard employed 33,000 people. That's 11,000 people per shift, three full shifts. This building is 120 years old. It's unbelievable; it's majestic, it's gorgeous. And every day I walk in there, and you could almost hear those employees back in the day still talking in the background; and

it's a wonderful thing. And I encourage anyone to come down and see our facility, meet our employees. It is a very rewarding trip.

And I thank you.

SENATOR CRUZ-PEREZ: Thank you, Mr. Amato, for your testimony.

I do have a couple of questions for you.

If it wasn't for the tax incentives that you're getting, would you even be in Camden City, or even in New Jersey?

MR. AMATO: We probably would not.

We also have a facility in Columbia, South Carolina, which is only an hour away from our largest supplier, Nucor Steel. We probably would have-- That's a much larger facility; we probably would have located there. That was our thinking.

SENATOR CRUZ-PEREZ: That was your thinking back in 2001? I'm happy that you stayed in the State of New Jersey, and that you stayed in Camden City, providing the jobs and opportunity to our residents in Camden City. Obviously, without the incentives, that would have been very difficult.

So thank you so much.

MR. AMATO: Thank you.

SENATOR CRUZ-PEREZ: Assemblyman.

ASSEMBLYMAN FREIMAN: Thank you, Mr. Amato.

You say you have 50 employees here, correct?

MR. AMATO: Correct.

ASSEMBLYMAN FREIMAN: Thank you very much.

What would it take for you to double? What do we need to do?

MR. AMATO: Well, I think, you know, it's like-- People ask me how these steel tariffs have helped me. The steel tariffs are a double-edged sword; the steel tariffs, no doubt, made my inventory worth more money. It made me compete with-- Because I buy mostly domestic steel. I buy 95 percent domestic steel, which is unlike anyone in my business. It's a double-edged sword.

Until we bring manufacturing back into this country -- not only to the City of Camden; into this country -- we're not going to get that middle base, that level of employee that makes \$15 to \$25 an hour. And you know, we still have tremendous competition from China, and India, and Vietnam; the countries go on, and on, and on, bringing in manufactured products.

I think that manufacturing has to be the base. There are only so many tech jobs, and only so many, you know, engineering jobs. Manufacturing has built this country; and every year it kind of melts away -- it melts away, because the competition from abroad is tremendous.

I think we need to help manufacturing grow again; and the only way we can do that, unfortunately, is by putting some mechanisms where the manufactured item that comes here is priced equally to what it should be here. Because we can't compete with \$1.50 an hour labor in these other countries; Mexico being one, Canada being another. So we have to be on equal legs.

So I think manufacturing has to come back here; and we would love to see it. My business is-- We sell directly to OEMs; that's a big part of my business.

ASSEMBLYMAN FREIMAN: Okay. What about -- what does New Jersey need to do to get you to bring those South Carolina jobs to New Jersey? (laughter)

MR. AMATO: Well, we've been looking for a larger building in Camden to expand. We're in the South Jersey Port; we've been looking now for, probably, three years for another 100,000 square feet. It's almost impossible to find, where I'm at. You know, we have to have certain material things in these buildings -- heavy cranes, large doors, high ceilings -- and it's very difficult to find.

We have been very successful in growing; we found ways to -- by hiring people. We found ways to turn our inventories quicker, where we don't have to sit with as much inventory as we usually do. We invested some of the money that we are going to get in tax credits to increase our production capacity, which also allows us to get more steel out the door in less time.

We would love to add another shift, and hire another 15 people. That's our goal.

ASSEMBLYMAN FREIMAN: Okay; so I'd like to get your card before you go today, because I'll be damned if we're going to sit here all day without getting jobs.

MR. AMATO: I agree, I agree. It would be my pleasure.

ASSEMBLYMAN FREIMAN: Thanks.

SENATOR CRUZ-PEREZ: Thank you so much.

Anybody else? (no response)

Thank you so much; thank you for staying in New Jersey.  
Thank you for staying in Camden City, and let's keep you there.

MR. AMATO: Thank you.

It's very scary sitting here, by the way; I just want to say.  
(laughter)

SENATOR CRUZ-PEREZ: No, it's-- Who's nervous?  
(laughter)

MR. AMATO: Thank you.

ASSEMBLYMAN JOHNSON: You fit right in; don't worry.  
Good luck on your flight; safe trip.

MR. AMATO: Thank you.

ASSEMBLYMAN JOHNSON: Okay, next we we'll call up  
Stephen Eels, the State Auditor.

Okay, sir.

**S T E P H E N M. E E L S:** Senator Cruz-Perez, Assemblyman Johnson, members of the Committees, I wish to thank you for inviting us to answer questions regarding the Office of the State Auditor's report on the New Jersey Economic Development Authority Selected Incentive Programs for the period July 1, 2011 to September 30, 2016.

The Office of the State Auditor functions as the Legislature's fiscal watchdog; an independent auditor charged with improving the accountability for public funds and improving the overall operations of State government.

Our audit staff consists of some of the most experienced governmental auditors in the state. The Office has issued an average of 26

reports each calendar year, providing potential cost savings and revenue enhancements averaging \$116 million annually over the last 10 years.

I have with me the manager of the audit, Mr. Timothy Bush.

Our audit of the State's tax incentive programs was born out of our desire to gain a knowledge in this area in relation to the issuance of Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. As the auditors of the State's Comprehensive Annual Financial Report, we felt it was imperative to better understand these programs, as they would be part of a required disclosure in the notes to the financial statements going forward in accordance with the standard issued by the GASB.

Our audit was considered a *performance audit*, with a focus on compliance with statutory requirements. Thus, our scope of work differed from that of the Governor's directive to the Comptroller, per Executive Order.

In terms of summarizing our report conclusions, we found that EDA had adequate controls over awarding and administering the business incentive program grants in compliance with statutory requirements, with the exception of certain procedures used in the Grow New Jersey Assistance Program grants. The critical cost-benefit analysis, detailing the difference in cost between staying in New Jersey and the company moving out of state, needs to be adequately reviewed and the documentation of reported costs verified for propriety. Simply put, the analyses on file were not complete and definitive.

In the area of monitoring, we again found an adequate effort to comply with statutory requirements, with the exception of the procedures

utilized to verify the status of grant-eligible retained jobs under the Business Retention and Relocation Assistance Grant Program, more known as *BRRAG*.

Procedures need to be implemented to verify the existence of at-risk jobs prior to grant approval. Monitoring of business compliance with grant terms also needed to be improved. All of these issues were confirmed in the Comptroller's report, involving these same programs, issued earlier this year.

Our report, as well as the Comptroller's, indicated EDA's position as program administrator was to strictly comply with statutory mandates. For us, this mind set, this approach, created a disconnect in acting as a responsible, invested partner in this program. A program administrator/manager must be responsible for so much more than simple compliance. Where applications and situations can vary so greatly and be extremely complex, it is absolutely necessary to have a program partner who is willing to question the result of the process if it doesn't make sense.

Based upon the EDA response to our report, and to the report of the Comptroller, I feel EDA stopped short of acting as a program partner and approached the program as an information processor, doing only what they felt was necessary under the statute.

Going forward, this cannot be an acceptable means of program management. These programs require an entity that is vested in making and ensuring that all incentive grants are meaningful and appropriate for all involved, and not just up to statutory standards.

And with that -- at the end of my statement, I do want to add-- from what I've heard from EDA today, they've made it clear that they

firmly intend to be an interested partner, going forward; and that, for me, is very encouraging, based on the audit reports that we've seen.

So with that, I will take any questions.

ASSEMBLYMAN JOHNSON: Thank you, sir.

Any questions from the dais? (no response)

No?

You did a fine job.

MR. EELS: Good. (laughter)

ASSEMBLYMAN JOHNSON: An excellent job there.

MR. EELS: Thank you very much for inviting us.

ASSEMBLYMAN JOHNSON: So based on what I heard from your opening remarks here, is that you're satisfied, going forward, working with the EDA. And as we try to have more transparency, and to ensure there's efficiency and these programs are effective, going forward -- that will be the goal, as it should have been in the past.

MR. EELS: Absolutely, absolutely. I think that a lot of the similarities in our report -- I think the Comptroller confirmed some of that. Again, different methodologies; ours was to understand-- And I do want to make a point around the \$11 billion, versus the amount that has going out. I think it's significant to understand. The \$11 billion is very significant to us, in terms of the GASB standard. That disclosure that occurs in our financial statements is around the actual liability that we have laid out, as far as awards.

And so it is about the \$11 billion number when, you know, outside investment and outside readers of our financial statements want to understand, you know, what commitment we had made. That commitment

right now, and that liability that's out there is the \$11 billion. Although cash is not going out the door for that amount, certainly they will look -- the readers of our financials will look to see what commitment we've made to those. And right now, that's the \$11 billion number; and that's what the notes are for.

ASSEMBLYMAN JOHNSON: Senator Oroho.

SENATOR OROHO: Thank you, Mr. Chairman.

Thank you, Mr. Eels; thank you very much.

And we spoke on the phone a number of times.

MR. EELS: Yes.

SENATOR OROHO: With respect to the disclosure -- and I understand that that's the commitment -- but also part of disclosure, can't there be what those economic investments-- Because, you know, whether it be the amount of capital investment required in order to earn the -- in order to give it the correct context, if \$11 billion was to go out, and you then said, "Okay, if every project was successful, the \$11 billion would have turned into *X* dollars of capital investment; it would have turned into *X* number of jobs." That could also be part of the disclosure too, correct?

MR. EELS: Absolutely. I mean, each program is described in detail as to what is to accomplish, what the expectations are. I mean, the \$11 billion is just the committed amount, to give some measure of what the State is committed financially.

SENATOR OROHO: But I think it's important, when we do the disclosures, to make sure that, you know, if that cash flow was to go out, this is the amount of private capital investment that would have had to been required. I've done disclosures; I've done many, you know, financial

reports throughout my career. And I think that's an important balance to give, because the \$11 billion wouldn't go out until you probably had triple or quadruple that amount of money in private investment coming in, let alone the number of jobs that would have had to be created. And therefore -- and that's why I do believe -- I can't emphasize it enough -- the issue of the net benefit test on any program going forward. I think we can tighten that up a lot, you know, making sure that there are, as Mr. Sullivan said, benchmarks along the way; because what gets measured gets mastered. And I think that that is critically important.

But I also do think, in our disclosures, that, say, if the \$11 billion actually goes out -- which we probably already know; if not, because some projects we already know that were approved, never hit their benchmarks, never got a dime of "taxpayer money."

So I do think in full and fair disclosure for an investor -- or anybody else who is going to rely on our financial statements -- that they understand that the \$11 billion will only go out, in total, if these targets are met. And let's say that the \$11 billion did go out, because you have to give that number. I agree with that. Here's what it would have meant: *X* dollars of capital investment of private money, *X* jobs created, I think, to have a fair and full disclosure.

MR. EELS: Yes; I mean, again, the GASB does ask for specific information; but there is leeway for the State to offer--

SENATOR OROHO: Probably leeway to put in what you think to be a fair and full disclosure for anybody who is going to rely upon your financial statements.

MR. EELS: The Treasurer and the State is able to, actually, you know, expand and talk about the different expectations that they have for the different grant programs, you know, in that note. And so they have that opportunity to expand on that, as long as they meet the actual amounts that the GASB is requiring for a potential reader to--

SENATOR OROHO: Correct. I mean, that's the minimum they have to put-- I mean, many financial or private companies, or public companies on the markets-- They have what is referred to as *management discussion analysis* that they can put some context around some of the disclosures that say the generally accepted accounting principles would have to put in. But anything that would be considered fair and full disclosure-- Because the characterization that the \$11 billion goes out, and that's all that goes out-- No, that would be (indiscernible), because we would have been highly, highly -- the amount of capital investment that would have been brought into the state, if all that money went out-- And we know all of it is not going out, because we already know, because of examples where it will not go out, that that would have been a lot of -- a significant amount of extra incremental capital investment that would not have been there otherwise.

So, thank you.

ASSEMBLYMAN JOHNSON: Thank you, Senator.

Any other questions? (no response)

Going once, going twice--

Gentlemen, I guess that's it.

MR. EELS: Thank you very much for the opportunity to testify.

ASSEMBLYMAN JOHNSON: Well, thank you, sir.

Thank you for coming.

Next we have Ron Brett (*sic*) -- Did I pronounce that right, Brett (indicating pronunciation)? -- CEO, RBH Group.

**R O N B E I T:** I'm sorry; it's Ron Beit. (indicating pronunciation)

ASSEMBLYMAN JOHNSON: Okay; Beit.

MR. BEIT: Yes.

ASSEMBLYMAN JOHNSON: Yes, sir; got it.

MR. BEIT: Thank you very much--

ASSEMBLYMAN JOHNSON: Thank you for taking the time to come before us today.

MR. BEIT: Thank you for having me here. I appreciate it.

Yes, Ron Beit; I'm the CEO of RBH Group. We're based out of Newark, New Jersey.

And the first project we were involved with in Newark, New Jersey, was the Teachers Village Project, which was a beneficiary of the Urban Transit Hub Tax Credit and the Economic Recovery Growth Grant. That project was the first ground-up residential building in the downtown in approximately 40 years. And but for these programs, they would not have occurred.

The playbook that was used for Teachers Village was also used in later projects: the L+M's Whole Foods project in downtown Newark; Carl Dranoff's project across the street from New Jersey Performing Arts Center; and numerous other projects in the downtown.

We were also involved with a project called AeroFarms, Makers Village in the Ironbound section. That one was a beneficiary of the Grow

New Jersey. And as developer, the public investments went to the tenant. But this was an industrial property in the Ironbound section of Newark. We had a very narrow band of, sort of-- We had gone out to the community to find out what they wanted. And there was this-- Oddly enough, they wanted -- instead of all the residential and retail development that they had in the community for decades prior, this particular pocket of Newark, in the Ironbound section -- they wanted green jobs. They wanted to be able to walk back to their jobs; they wanted to be able to walk to their jobs, but did not want the noxious odors, and the trucks, and so forth, because the community had developed around it around it a little bit and was not, sort of, a historic industrial neighborhood anymore.

And we went out and found AeroFarms, which has since put their corporate headquarters in Newark, New Jersey. We brokered a job training program with a local nonprofit, where they're hiring locally. And again, while this is the tenant -- I'm just the landlord and the developer of the project -- anecdotally, has far exceeded the job expectations and far exceeded the local hiring.

And so we've had, in Newark, New Jersey, in the last several years, really, projects coming out of the ground that, for the prior decades, could not. And it's squarely because of these public investments; none of these projects would have happened without it. And squarely because of an NJEDA that was in the trenches with us, trying to figure out how to get these projects out of the ground.

And I would say that both projects are projects now that are models. Teachers Village is now-- The second one is opening up in Hartford, Connecticut. Municipalities across the country are calling us

because they want -- they are a very important, sort of, middle-income workforce housing product. We have projects in Atlanta, Miami, and Chicago; and I will say that these public investments -- I think, quite frankly, on a national level, they're going to be looking to see what we did here in New Jersey. The workforce housing piece has not been figured out; and but for the programs that were here in New Jersey, we would not have this model that's spreading across the country. And, quite frankly, cities and states that we're visiting now are looking to these programs to figure out how we solved it here in New Jersey -- to be able to solve it in their backyards.

And so-- And I appreciate the opportunity to testify this afternoon, because I think it's a very healthy dialogue we're having now. We had, I think, a tremendous success with the public investments, looking at Camden and Newark. I think that behind some of these Grows and BEIPs, and when you look at the Urban Transit Hub Tax Credits and ERGs, behind the jobs there's some real community development going on. Even when you look at the Panasonic project, or you look at Prudential -- you know, in the first instance they are jobs to New Jersey. But beyond that, these are buildings that are changing neighborhoods in Newark.

And so I appreciate the opportunity; I appreciate the conversation.

I think we're not done; we're definitely not done in Newark, you know? Rising construction costs sort of set us back a bit. But you know, we have a market with which to work now; and I'm encouraged by the conversation to continue these programs, because they are really necessary to make sure that these projects continue to happen. We have

not gotten to the point-- You know, we tend to look at these things-- When we look at a marketplace -- when we started in Newark, there were no comparables. You could not build these things without the public investment; it was clear. Today, fortunately, we do have some comparables; but we're not all the way where the market forces can just attract the private capital on its own.

And so we're on the way to that continuum, but we still need another round, another generation of projects to make sure that Newark can -- you know, similar to Jersey City -- get to a point where the private capital can just take over.

And so I think, from a macro perspective -- from my limited macro perspective, when you look at this continuum of, really, starting from nowhere; starting from a neighborhood where our first Teachers Village project was built on 92 percent surface parking lot; but an overall downtown that had no residential development in 40, 50 years, and getting to the point where you have only private capital developing these things--

There is a continuum; and it's, I think, a great merit to these programs that both Newark and Camden are on that continuum now. And I think it's a great merit that we're having these conversations in the State of New Jersey, and I'm encouraged by the proposals to continue the programs.

ASSEMBLYMAN JOHNSON: Okay; before Assemblywoman Pintor Marin asks a question, I have one.

AeroFarms -- is that a hydroponic-type of farm system?

MR. BEIT: So it's an aeroponic -- they call it *aeroponic*.

It was a patented technology out of Cornell School of Agriculture. We're building now the third phase of that project; and it will be the largest indoor farm in the world. And it is aeroponic; and they're growing leafy greens and selling to local supermarkets, and it's, like, 90 percent less water. It's local hiring in Newark; it's less trucking because, you know, we-- The leafy greens, generally, were coming from, like, the West Coast, and took six days to get on the shelves here in New Jersey. Now it's getting there in an hour.

It's ultra-clean, because it's beyond-- They use a spectrum of light that's beyond organic, right? They don't need, even, organic pesticides, because they use a spectrum of light where the pests can't grow. And it's really -- they've gotten attention globally. They have venture capital from all over the world looking at this, as an urban solution. And I think New Jersey, and Newark, can proudly call -- not *can*; *is* calling it their corporate home and, really, their research and development arm -- right here in New Jersey.

ASSEMBLYMAN JOHNSON: Okay, thank you.

Assemblywoman Pintor Marin.

ASSEMBLYWOMAN PINTOR MARIN: Hi, how are you?

First of all, I want to thank you for believing in this city, and for investing in the city. Because you have really been one of those people who came to the forefront; you believed in the city, and you saw its potential.

I have one quick question.

As you heard from the testimony here today and you've been listening to a lot of the reports that have been coming out, there is real

uncertainty on whether the Grow and the ERG are going to continue; and whether we're going to have new programs continue. Does that leave you, as an investor, hesitant to continue the work that you need to do?

MR. BEIT: It's not even *hesitant*. It can't happen. When you look at these capital stacks-- Even today we're looking at our next generation of projects now. When you look at these capital stacks, when you look at where rents are, when you look at where construction prices are, even today, even-- We've had a few hundred units built in Newark, but by no means are banks just jumping in now because, you know, they believe that there's a sustainable market. There's still a question about how much demand there is, coming to this type of product.

And so when you look at where rents are -- you can just look at the market comparables -- and when you look at where construction prices are, there's a gap that has to be filled by these types of public investments. And so, you know, there are a lot of announcements about towers and people buying land; but I can tell you, being at the forefront of this, and really scratching through the surface and trying to actually raise the capital, it doesn't work without these public investments.

And less today -- less today; thankfully we are at a different place where we have market comparables -- but still we need another round and another generation.

ASSEMBLYWOMAN PINTOR MARIN: So we are in no way -- in no way out of the water that we do not need these incentives.

MR. BEIT: Absolutely not.

ASSEMBLYWOMAN PINTOR MARIN: It is critical in order to move-- Some of these cities that-- Really, for 60 years, Newark and

Camden have really survived off of State subsidies. And now we're really at that point where they have garnered so much attention; and that is because, you say, of the programs that have been instituted.

MR. BEIT: Absolutely. And you know, with the sort of economic headwinds heading towards us, if we want to continue to work in the next few years we absolutely need these programs

ASSEMBLYWOMAN PINTOR MARIN: Thank you. I thank you, once again, because I know you put a lot of work--

And one of the most important things that you said is that -- it's true -- when you build something, it's about the community that's around it.

So thank you very much.

MR. BEIT: Thank you.

ASSEMBLYMAN JOHNSON: Assemblyman Calabrese.

ASSEMBLYMAN CALABRESE: I followed the Teachers Village project and the AeroFarms project from their infancies. Because I just thought they were fairly amazing; and it's not easy to do this type of work.

I know that there was both public, obviously, and private capital, correct? Now, how was it to work with the EDA in the application process?

MR. BEIT: I have to tell you, NJEDA is an institution we ought to be very proud of; I mean, utmost professionals. And, you know, Teachers Village -- the initial capital stack and the initial closing -- we had about 50 different attorneys on the conference call to coordinate about 13 different pieces of financing. And I have to say NJEDA was as professional

as any investment bank that was on that call. And they underwrite it; they know-- They just operate as any other investment bank. I don't know how else to say it. And the beauty of having an NJEDA -- they're sort of a one-stop shop, because they are -- they tend to be the sort of center of the public investment arena in New Jersey. And to be able to work with a team there, that's focused on getting a project done-- And when, you know-- Honestly, I don't know how many organizations like that there are in the country.

ASSEMBLYMAN CALABRESE: So once they approved and green-lighted the funding, then that allowed the private capital to then fulfill their half of the capital stack.

MR. BEIT: Absolutely. I mean, the private capital is looking for that first approval to even begin moving. They'll have conversations with you; they'll give you term sheets. NJEDA needs to hear from these folks before, you know, to know that there's a viable project. But until they make their first move, no one's really committing, in a real way, to get to a financial closing.

ASSEMBLYMAN CALABRESE: Just out of curiosity, Teachers Village -- the case they -- what was the percentage of public funds in the total capital stack?

MR. BEIT: It's hard to say because, again, for example, the Urban Transit Hub Tax Credits -- you know, they're tax credits, and so there's a public investment there, but I need to go sell them. And so part of the issue was actually, from these early iterations of the Urban Transit Hub Tax Credits, selling them -- right? -- one thing or another might not make them marketable. And so even with the tax credits, it's hard.

But if I had to put a number on it, on the, sort of, \$150 million project, I think there was, probably, about 30 percent public investment there. And this is a project that-- I have to tell you, that we went to HUD, which is a Federal organization, that is, sort of--

ASSEMBLYMAN CALABRESE: To take out the construction money.

MR. BEIT: Yes; and they turned to us and, quite frankly, said, "Who's going to live here?" And so, you know, without these public investments, without, sort of, the State of New Jersey saying -- you know, making a move towards saying, "This is a commitment we're going to have with the city of Newark as well;" and, quite frankly, CRDA; we had CRDA from South Jersey, sort of, stepping up -- this project would not be.

ASSEMBLYMAN CALABRESE: Excellent; very good.

MR. BEIT: Thank you.

ASSEMBLYMAN JOHNSON: Thank you, Assemblyman.

Senator Oroho.

SENATOR OROHO: Thank you; just real quick.

I'm sorry I wasn't here at the beginning of your testimony, but it sounds like you do a lot with capital formation. Your business -- is it for-profit or nonprofit?

MR. BEIT: We're a for-profit.

SENATOR OROHO: For profit.

MR. BEIT: Yes.

SENATOR OROHO: So the issue being with the incentives-- Now, obviously, in capital formation, they don't look at the-- Say, okay, what's the prospect of the project to be successful? Big -- you know, big

inputs into there are regulatory schemes, you know, tax schemes, incentive schemes. In your opinion, if New Jersey's tax structure was more competitive -- as compared to other states, other areas of the country -- could New Jersey do less with the incentives than we-- Aren't the incentives pretty much an outcome because of our tax structures?

MR. BEIT: So I don't want to comment on, sort of, a corporation moving here and, sort of, their analysis; because I simply don't know.

From my limited view -- which is, sort of, community development -- quite frankly it doesn't really make a difference. It's sort of, you know, the -- we need -- we're looking at a capital stack that needs to plug a gap because of certain market forces. And so without just that, sort of, incentive, it's not happening.

SENATOR OROHO: I think some of that market force-- And I agree with you; I think some of that market force is what is the tax structure that you're operating in. And I absolutely agree that, you know, capital is like water; it follows a path of least resistance to success. And that success happens to be, is there going to be some sort of reasonable-- What's the risk I'm taking, versus the expected reasonable rate of return; and some of the big inputs, whether you start-- You know, it's interesting. When they goes through the economic models, they start with -- here is the tax structure; here are the regulatory costs that go with it; and then, you know, in certain states -- boom, that could be it. That could be our market.

Unfortunately, in New Jersey, you have another step -- do we-- Incentives that can help offset that a little bit; and therefore--

But I really do believe that part of that capital attraction -- if we have a lot more competitive tax structure, we wouldn't need, you know-- And this is someone who supported the program, because it was the only thing that -- and sometimes, got a seat at the table. But if we didn't -- if we had an overall tax structure that was more competitive, capital formation would be a lot easier, and they would be able to judge success and failure a lot easier. Do you agree?

MR. BEIT: Yes; I mean, I'm sure, you know-- From a corporate standpoint, bringing jobs--

SENATOR OROHO: Why isn't somebody who is like an S corp, an LLC, or LLP -- a pass-through entity -- saying, "Capital is capital."

MR. BEIT: Absolutely. And all else being equal, they're going-- I agree with you. The capital will follow, sort of, the most profitable place.

And so-- And I'm sure there is an impact there as, sort of, corporations are deciding, and LLCs, and, I agree, businesses deciding whether to stay or not. I'm on a little bit different, again, piece of the business; and so my field of vision is a little bit more limited on that. But yes, as a business owner -- right? -- and when you're starting to look at projects across the country, and you have to, sort of -- you start thinking about those considerations as well.

SENATOR OROHO: The other thing-- I mean, obviously, on the positive side, somebody would look at our workforce; you know, our location. Our location is not going to change; those are all positives that they would look at. On the negative side, they look at -- here's the cost of government; here's the cost of, you know, a particular transaction.

MR. BEIT: And construction, right? I mean, we are in the New York construction market, and so there's certain-- And we certainly don't have the market comparables that they do.

SENATOR OROHO: Thank you.

MR. BEIT: Thank you.

ASSEMBLYMAN JOHNSON: Thank you for coming.

I think that's it for your line of questions.

We appreciate what you brought to us, and we want to call our next speaker--

MR. BEIT: Thank you.

ASSEMBLYMAN JOHNSON: --which will be Josh Goodman -- who has to catch a train, I'm told -- from the Pew Charitable Trust.

**J O S H G O O D M A N:** Hi; good afternoon.

Thank you, Chairwoman Cruz-Perez; thank you, Chairman Johnson; and members of the Committee.

My name is Josh Goodman, and I'm a Senior Officer with the Pew Charitable Trusts Economic Development Incentives Project.

And Pew is a public charity that provides research and technical assistance to State policymakers across a range of policy issues.

For the last seven years, we have studied how states can improve the effectiveness of their economic development tax incentives; and based on that research, I'm going to talk about three ideas for strengthening New Jersey's incentives.

First, New Jersey should establish regular, independent evaluations of tax incentive programs. As the recent studies from Rutgers and the Comptroller illustrate, evaluations can draw valuable conclusions

about the design, administration, and effectiveness of incentives. While New Jersey has conducted one-time studies of incentives, our research shows that states benefit from establishing recurring evaluations of all major tax incentives.

Thirty states have approved legislation requiring regular evaluation of tax incentives. And in virtually every case, these bills have won strong, bipartisan support. They have also brought together supporters and skeptics of incentives alike, who agree on the need for better information.

This information helps lawmakers improve policy. Policymakers in Florida, Indiana, Maryland, Oklahoma, and Washington, as well as other states, have made changes to incentives that were consistent with evaluations' findings or recommendations. And changes both large and small, from ending ineffective programs to subtly modifying the design or administration of incentives, can greatly improve the results.

Second, New Jersey can ensure that its incentives have strong fiscal protections. Many states have seen the costs of tax incentives increase quickly and unexpectedly. And when that happens, lawmakers are often forced to make difficult choices between raising taxes and cutting spending in other areas to make up the difference.

These problems are not inevitable, however. Our research shows that states can design incentives so that they do not cost more than the state can afford over the long-term, and so that their costs are more predictable from year to year. One effective approach is to set annual cost limits, or caps, on incentive programs; and caps keep lawmakers in control of the cost of incentives. You can adjust the cap from year to year,

depending on your priorities and the State's budget situation, in the same way that you can adjust spending levels in other policy areas like education or transportation.

And some states have designed caps to provide more flexibility to economic development officials to respond to opportunities. For instance, Iowa's Economic Development Authority can exceed its cap by 20 percent in any given year; but those dollars then count against the next year's cap.

And then third, and finally, New Jersey can ensure that its incentives are well-designed to maximize their effectiveness. Designing incentives is complicated work. But as more states are evaluating incentives and more academic economists are studying these programs, policymakers have the benefit of a growing body of research on what works in economic development. And this research offers several lessons that may be relevant as you consider the future of New Jersey's incentives.

For instance, one insight of this research is that the timing of incentives matters. Businesses generally place a high discount rate on money that they're promised far into future. One study showed that if you offer corporate executives a dollar 10 years from now, they value it at only 32 cents today. As a result, if states offer incentives on shorter time horizons, they can potentially spend less on incentives while having the same impact.

Shortening the time frame on incentive deals can also help make the costs of the programs more predictable, because state officials are not left guessing when or if businesses will earn, and then use, tax credits.

Another finding from this research is that states should target their incentives to businesses that will grow the state's economy, such as those that sell their goods nationally and internationally. If policymakers' goal is statewide economic growth, they should avoid providing incentives to businesses that primarily serve a local market, such as hotels and restaurants. These businesses compete for customers with other local businesses, so helping one business expand will generally result in job losses elsewhere in the local economy.

Let me just conclude by saying that with the pending expiration of major New Jersey tax incentives, you have an opportunity to make sure these programs are serving the needs of your businesses, budget, and workers. Our research points to ways to ensure that the next generation of New Jersey economic development programs are effective, accountable, and fiscally sound.

Thank you very much for this opportunity, and I'm happy to answer any questions.

ASSEMBLYMAN JOHNSON: Thank you, sir, for coming before us.

I think what you said we've heard before -- it's about oversight. I think my colleague Assemblyman Freiman talked about stated goals; define success -- what do you mean by success, what is success? I'm using your words there, Assemblyman.

And as we go forward with the next round -- or next bill, I guess you could say -- that's important to put in there, I feel.

My Co-Chair has a few questions for you.

SENATOR CRUZ-PEREZ: No, I just wanted your opinion--  
And thank you so much for coming and testifying in front of us today.

Your opinion on this Division that is going to be created by EDA to oversee the management; and working with the Department of Labor to actually get some data and some real information about how many people are really employed. What's your opinion on that Division?

MR. GOODMAN: Sure.

So one thing in my job that I do a lot of, is read these tax incentive evaluations from around the country. And one of the themes you see, over and over again is, how can we make sure companies created the jobs that they were supposed to create? And so that's something that isn't unique to being a question in New Jersey. And certainly a lot of states -- one approach to doing so is to work with their Department of Labor; that Unemployment Insurance data is this, you know, third-party source to try to confirm job numbers. And so, you know, I don't know that I would weigh in on, you know, exactly how to do that, or if EDA is doing that right; but that's an approach that a lot of states are using. And so making sure that companies are following through on their commitments is an important part of oversight of these programs.

SENATOR CRUZ-PEREZ: Thank you so much.

Anybody else have a question? (no response)

Well, thank you so much for your testimony. Go catch your train. (laughter)

MR. GOODMAN: Yes, thank you so much.

SENATOR CRUZ-PEREZ: The next person we're going to be calling is Brandon McCoy, Director of Government and Public Affairs; and Sheila.

Oh, it's Sheila-- I'm sorry, he is not here; you are--

**SHEILA REYNERTSON:** Good afternoon.

I don't know if you heard who I am; but you want to introduce me again? (laughter) Do you want to try that again?

SENATOR CRUZ-PEREZ: Sheila Reynertson.

MS. REYNERTSON: Yes.

SENATOR CRUZ-PEREZ: You are the one who is going to be testifying?

MS. REYNERTSON: Yes; and he's here for answering any questions that you may have.

SENATOR CRUZ-PEREZ: Now I get it.

MS. REYNERTSON: We're together.

SENATOR CRUZ-PEREZ: Well, thank you so much for attending.

MS. REYNERTSON: Certainly.

Hi, my name is Sheila Reynertson.

We are nonpartisan research organization -- State budget, tax, and economic issues.

Since NJPP's inception in 1997, we have consistently raised concerns about the over-reliance on business tax subsidies, and have repeatedly called on stricter oversight of this economic development strategy.

So as the latest iteration of corporate tax subsidy programs wind down, and in light of the Controller's audit of the EDA, our position remains the same.

So based on our long-term independent analysis of both corporate tax subsidies and the precarious status of the State budget, we find that the ends simply just don't justify the means. New Jersey was already in the midst of a financial crisis when the volume of awarded tax breaks was allowed to skyrocket. Once spending caps were lifted in 2013, the EDA approved close to \$6s billion in corporate tax breaks.

Last year, the McKinsey and Company report stated that New Jersey's tax subsidy programs pay more than five times as much as peer states for every dollar it attracts, and every job created or retained. That's the kind of short-sighted game New Jersey simply can't afford to play, especially not at the level that it has -- providing overly generous and exorbitant subsidies that are significantly out of step with what we see across the country, and by comparable States.

Further, putting that kind of stock in tax subsidies to spur economic growth blatantly ignores the state's precarious financial reality. In official documents submitted by the EDA during Budget Committee hearings in recent years, subsidies may result in a loss of over \$1 billion a year in revenue starting in 2020 -- at precisely the same time that the State's biggest obligations are set to cripple and State budget.

None of this was hard to predict, as anyone involved in these issues understood that New Jersey would be facing these tough situations, and relatively soon. And yet, the choice was made to gamble away future taxpayer dollars without getting a sufficient return on that investment.

This has only been made more difficult to fund vital public services and invest in our state's most important assets.

Some changes made in 2013 were positive -- like more stringent standards for subsidies given to corporations shifting jobs around the state. But on the whole, the Economic Opportunity Act greatly expanded the size and scope of these offerings, while eliminating several key financial protections for taxpayers and for the State of New Jersey.

Since then, the EDA has taken some measures as a partial course correction. Now it's the responsibility of the Executive Office and the Legislature to implement real reform, and get these tax breaks under control again.

Here are the most important ways to bring back accountability and oversight to business tax subsidy programs on behalf of New Jersey's taxpayers.

First, restore spending caps on the total amount New Jersey can give in subsidies per year, to ensure accountability and increase the Legislature's oversight roll. Strict spending caps both ensure that New Jersey has a handle on its ability to track and assess awarded projects, and guarantees that the overall program is, again, in line with comparable states. The caps put forth by the Governor's proposal are a great starting point, although we would argue they could and should be even lower.

New Jersey must get serious about reporting requirements. This should be done in a number of ways, including a legislative fix to allow the Treasury to finally release the Unified Economic Development Budget, which would provide annual data on large awarded subsidies, like the number and quality of jobs created.

Design and implement a robust, independent evaluation process to determine, on an ongoing basis, if these tax breaks are having the desired effect.

Require the EDA to post a more regular and longer-term analysis of the budget impacts -- say, a 15-year forecast -- just so that we can see what the budget impact of already-approved subsidies are, year by year.

Lawmakers should also eliminate tax subsidies to retain existing jobs; or, at the very least, limit such subsidies for a large number of jobs that are supposedly at risk of moving to another state, as proposed by the Governor.

So finally, New Jersey must restrict corporations' ability to sell their tax credits. The very idea of a secondary market for tax credits should give the Legislature pause. New Jersey's tax subsidy program is so overly generous that it enables the sellers to receive far more money in subsidies than they actually owe in taxes. New Jersey may regard these tax breaks as an effective way to entice large employers to relocate, but for these corporations it's just icing on the cake.

Allowing them to not only sell their tax credits, but to exempt that transaction from taxation is especially egregious. That's like taking the time to research and find the perfect wedding gift for a friend, and then only to discover that they sold it at a yard sale the following year. It's time to end this whole practice of selling tax credits.

There's no shortcut or silver bullet to improving our economy. It takes a long, sustained approach of targeted investments to produce balanced growth that spreads opportunity to all the corners of the state.

Tax subsidies can be a tool in that strategy; but for far too long, New Jersey made them the only strategy, while critical assets suffered from disinvestment.

The State must reverse course now by adopting strong and sufficient reforms for its subsidy programs; adopting a long view on job creation; and investing in the kinds of opportunities that have been proven, over and over again, to grow and sustain economies. High-quality K through 12 education, higher education that is accessible to all, public-private partnerships centered on research institutions; as well as clean, safe communities and affordable, efficient transportation systems. These are the things that will continue to make New Jersey a magnet for research, and enterprise, and an attractive place for business to grow.

Thank you.

ASSEMBLYMAN JOHNSON: Thank you.

Is there a follow up?

UNIDENTIFIED MEMBER OF AUDIENCE: No, we're here to answer any question you might have.

ASSEMBLYMAN JOHNSON: Oh, you're here as a team; okay.

Any questions? (no response)

Seeing none, I guess you're--

MS. REYNERTSON: Can we ask you a question? (laughter)

ASSEMBLYMAN JOHNSON: I think there are no questions. Thank you for your presentation.

MS. REYNERTSON: Oh great.

ASSEMBLYMAN JOHNSON: Oh, we have two; we have--

ASSEMBLYWOMAN PINTOR MARIN: Just one quick question.

So in your view, though, do you feel that some of the tax incentives have helped some of the urban areas really move forward, from where they first were to where they're at now?

**B R A N D O N M c K O Y:** So there's no doubt that there's been improvement in the urban areas that have received an investment.

But I think it's really important to have a responsible view of the difference between growing an economy and revitalizing a city. Growing an economy is really produced by adding jobs, and adding activity, and GDP growth. But growing a city requires adding cultural institutions and cultural assets that can attract foot traffic. So while it's nice to have certain headquarters in the city to provide jobs, that's not creating foot traffic; that's not attracting me downtown to spend my money.

So while we definitely acknowledge that a lot of the investment that has occurred has helped these communities grow, the question is not has it grown; the question is, has it grown to the degree that we expect.

ASSEMBLYWOMAN PINTOR MARIN: So you don't think that it's caused a ripple effect? I mean-- And I would disagree that the tax incentives are -- I'm just speaking in particular to my area -- they brought ShopRite, Farmers Market, Teachers Village, AeroFarms, Mars, Cablevision, Prudential, Marriott Hotel. And that has started a ripple effect that now has even caused more of a demand for housing, in order for those communities to start becoming a little bit more built up.

MR. McKOY: Sure; but it's not been equally applied across the state. And as the gentleman from Pew spoke earlier, when you're providing

tax incentives for, sort of, those sort of institutions -- like hotels and supermarkets -- it's really awesome. There's a danger in displacing activity elsewhere. So we understand that there's definitely an interest in making sure that New Jersey has a tax incentive program that is going to help our communities grow; our contention is that they should be better targeted, and they also be properly sized. For instance, right now, New Jersey is paying 2.3 times as much nationally per new job; we're paying 3.8 times nationally per new job -- the average, nationally, compared to a state like Virginia, which is comparable to us in size, and has a budget larger than ours by about \$10 billion -- we pay 20 times per new job in tax subsidies; we pay 13 times per retained job in tax subsidies.

So the question is, from our perspective, are these subsidies properly sized? Prior to the 2013 law, it was much more properly administered and designed. The 2013 law allowed a lot of changes that exploded our programs, exploded the amount of money that we were awarding; and all at a time when our obligations in the rest of the budget, and for our assets as a State, were crumbling.

So we're simply saying that if we're going to properly and efficiently grow -- properly and efficiently grow our economy in a balanced and healthy way that spreads prosperity all across the state, and not just a select few municipalities, then we need to also properly balance our approach and invest in our assets in a way that allows us to do both those things that we want to do -- which is grow our natural assets, like transportation, education, etc. -- but also provide the ability to attract businesses.

ASSEMBLYWOMAN PINTOR MARIN: I guess we're just going to agree to disagree. But I just know that, from the perspective of Newark, you know, it's brought supermarkets to food deserts. It's really created new opportunities that didn't exist there before; and it really tried to revitalize some of the downtown area, which is so critical into our corridors that now are moving forward.

So I thank you for your testimony today.

MR. McKOY: Thank you.

ASSEMBLYMAN JOHNSON: Okay, thank you, Assemblywoman.

Assemblyman Calabrese.

ASSEMBLYMAN CALABRESE: How are you doing?

Hey, there, Mr. McKoy; long time no see.

MR. McKOY: Good to see you.

ASSEMBLYMAN CALABRESE: This question is for both of you, because you recommend restoring spending caps, right? So have you given an idea as to what that number would be; maybe a spending cap per project, or per company, and then overall spending cap in totality?

MS. REYNERTSON: So the Governor's proposal is \$200 million for the Grow; and then \$100 million for ERG -- well, whatever they're going to call it -- right? -- correct?

So that's a per-year spending; and I think that's a wise decision, so that you're not -- so that the EDA is not put in a position of coming back to the Legislature, asking them to blow out the cap repeatedly. That should just be set in stone; that when-- It's first in line, first come-first serve; and whenever they hit that cap, that's the end of it for the year.

MR. McKOY: And just to add on to that.

I mean, the point of the Caps is twofold: one is to prevent outside spending that the State cannot afford; also it is to ensure that the agencies that are responsible for evaluating these agreements have the capacity to do so. If you don't have a cap, and you're just taking all the agreements that come to you, it's kind of hard to expect EDA, or Treasury, or whoever's going to be responsible for evaluating these agreements, and actually predicting, and measuring, and analyzing job growth in real time, to be to be able to do so accurately. So you want to make sure that you're not having too much and just, sort of, turning on the fire hydrant and, like, not able to deal with it.

ASSEMBLYMAN JOHNSON: Okay; thank you for your testimony.

That closes it out; and we will call up our next presenter.

So thank you for coming; thank you for taking the time to be with us.

I have on my list here a Gene Diaz of the--

Oh.

Is the Commissioner from Labor here?

UNIDENTIFIED MEMBER OF AUDIENCE: (off mike) Any minute now.

ASSEMBLYMAN JOHNSON: Oh, he's not here yet; okay, good.

So Erica -- I can't pronounce your last name, Erica; but you're a State Director of Americans for Prosperity.

I would -- I'm not going to try to guess that; so please--

**ERICA L. JEDYNAK:** Jedynak (indicating pronunciation). It's Polish.

**ASSEMBLYMAN JOHNSON:** Like it's spelled, of course.  
(laughter)

**MS. JEDYNAK:** Chairman and Madam Chair, thank you so much for having me today.

Again, my name is Erika Jedynak, New Jersey State Director for Americans for Prosperity.

And we're one of the largest grassroots organizations in the country, educating citizens on how free-market policies can lead to New Jersey residents living their version of the American dream.

Since I've provided written testimony to you today, I'm going to provide some highlights, and then be available for question and answer. I know it's a long day for everyone.

So AFP is committed to standing up to -- for people and against corporate handouts. As such, one of our priorities is decreasing and eliminating cronyism.

New Jersey is, unfortunately, one of the worst states in the country for picking winners and losers in the marketplace. This is simultaneous to companies, like Mercedes, having cited our tax climate as the reason they left New Jersey. Even when \$50 million of an incentive package was on the table, they still left New Jersey.

Now, there are several examples that have been cited in the media; and recently, just an example -- the Philadelphia 76ers received \$82 million over 10 years in tax incentives for a new practice facility. It is reported that the investment would bring 250 jobs. Even if we generously

accept that figure, that would work out to more than \$300,000 per taxpayer-funded job.

There's Holtec International; where even assuming the creation of the jobs -- the State of New Jersey agreed to pay more than \$650,000 per promised job. We could just pay people -- right? -- far less than that. And I'm not suggesting that, but there's a clear status quo issue where New Jersey has been offering tax incentives more generous than even what companies are interested in. And the status quo is not working; companies are leaving. In surveys, company after company has cited that it is the overall class tax climate that is an issue here.

Looking at the impact of the EDA, as a whole, can also further shed light on the extent to which taxpayer dollars are wasted on broken policies to benefit special interests, rather than the state as a whole. This means that New Jersey taxpayers have spent, on average, \$61,000 per subsidized job in the last nine years. This is simultaneous to the country's almost largest pension crisis. We just go back and forth with Illinois -- who has more pension liabilities on the books; over \$200 billion. So there are certainly other areas that the New Jersey State government could be spending on, and core government services.

I would also suggest to the Committee members here today to think about the large totality of this -- right? -- and it is in pledge dollars -- what that could look like if it was broad tax reform across the board for everyone; for all players in the field.

As a recent audit of the EDA shows, New Jersey does not seem to be heeding the warnings of these tax incentive programs. And the audit found that, among other things, \$11 billion in tax incentives have been

approved for 1,000 projects; however, the EDA failed to assess whether recipient businesses actually created the 162,000 jobs or \$34 billion in capital investments that they promised.

My written testimony includes more of the EDA report analysis. So I'll leave that for you, since I'm sure you've all seen that.

Now, it also seems to have -- that tax incentives have really had a real impact on business decisions. There's been significant research that companies only make relocation decisions based on taxpayer incentives between 2 and 25 percent of the time. This means that when policymakers are relying on these targeted handouts, they're missing the bigger picture.

So some of what's been discussed today is New Jersey's location on the East Coast corridor; a great location in between New York City and Philadelphia; very highly educated workforce; so much talent here, that we could be lauded even more.

And then looking at the overall tax climate -- right? -- what are businesses really looking for? And I know some of those surveys have been out there already.

Now, the Governor has put forth several recommendations that would increase transparency and accountability for these programs, including annual caps. While caps would certainly be a step in the right direction, AFP is urging policymakers to even go further. Please do look at eliminating all State-level targeted incentive programs; and instead, put that funding toward lowering tax rates, particularly our corporate income tax and property taxes, which are holding New Jersey back when it comes to attracting business investment.

I have the opportunity, in my role, to speak to residents across the State of New Jersey and different communities; and day in and day out, in this job, I hear from folks who are just breaking under the high property taxes here. And it's not just for folks who own homes; you know, those things lead to rent increases and the overall high tax climate.

So, you know, Madam Chair and Chairman, thank you for the opportunity today to share AFP's perspective.

ASSEMBLYMAN JOHNSON: I heard what you said; I guess we've heard what you said. And we'll definitely take that into our consideration -- recognizing that we have a responsibility to the people of New Jersey.

I see a hand up here to my right, from my fellow colleague from Bergen County.

Assemblyman Auth.

ASSEMBLYMAN AUTH: Thank you, Chairman.

Thanks for your testimony.

You mentioned that you felt that a broad-based tax reduction, rather than targeted, would be a better route to go; and I'm inclined to agree with that.

Could you cite-- You cited several states where there are problems. Can you cite, for me, a state that has employed the notion that you've just conveyed to us, and their success in it, and how that's worked, if you could?

MS. JEDYNAK: Sure.

So I think North Carolina, certain Southern states, are much better apt-- And getting the companies, by the way -- you know, like

Mercedes that left New Jersey for Georgia even when \$50 million in tax incentives was on the table.

ASSEMBLYMAN AUTH: Thank you.

Thank you, Chairman.

ASSEMBLYMAN JOHNSON: Okay; thank you for your testimony, and for taking the time.

I see that we've been joined by the Commissioner of Labor and Workforce Development, Mr. Asaro-Angelo. Did I say it right?

SENATOR CRUZ-PEREZ: Yes, you got it right.

ASSEMBLYMAN JOHNSON: Okay, okay.

SENATOR CRUZ-PEREZ: You didn't kill it. (laughter)

**COMMISSIONER ROBERT ASARO - ANGELO:**  
Good afternoon.

ASSEMBLYMAN JOHNSON: Commissioner, thank you for taking the time and coming by.

COMMISSIONER ASARO-ANGELO: Thank you for having me.

ASSEMBLYMAN JOHNSON: And I see you've brought your backup with you.

COMMISSIONER ASARO-ANGELO: Yes; Assistant Commissioner for Income Security, Ron Marino.

ASSEMBLYMAN JOHNSON: Good to meet you, sir.

Commissioner, you're up.

COMMISSIONER ASARO-ANGELO: Great; thank you.

Good afternoon.

Thank you, Chairwoman Cruz-Perez, Chairman Johnson, and the members of Senate Economic Growth Committee and the Assembly Commerce and Economic Development Committee for inviting me here today.

It's a pleasure to be here. After one year and a couple weeks as New Jersey's Commissioner of Labor, I am pleased to say this is my sixth appearance before a Legislative Committee. I look forward to today's hearing -- continuing to communicate Labor's work on behalf of your constituents and all workers in New Jersey.

Being the Commissioner of Labor and a member of the EDA Board, I believe I am in a unique position to help ensure programs provide the best return on investment for New Jersey's workers when it comes to hiring agreements. The sharing of ideas, data, and best practices help safeguard programmatic compliance and success. This is evidenced by a recent MOU between our Department and the EDA, which fostered cooperation to ensure compliance with New Jersey's prevailing wage laws for projects utilizing EDA funding mechanisms.

Together Labor and the EDA have developed methods to educate, monitor, and enforce the prevailing wage on EDA projects. Under the MOU, designated contacts are identified; pre-construction education is improved; the sharing of data is streamlined; and any alleged violations are quickly communicated.

We believe this MOU is an excellent step in recognizing that government works best for everyone when it works coherently and cooperatively. Cooperation between State agencies, authorities, and strategic partners opens new doors.

In addition to the recent MOU, which was completed, Labor and the EDA are in the final steps of formalizing an agreement to utilize wage data to enhance the EDA's visibility into hiring out projects, and help assess whether or not the hiring requirements are being met.

We hope this data -- I'll say data and data (pronunciation) both -- along with any other data Labor is identifying as useful, will go a long way to get a 100 percent job verification. Labor will continue to develop innovative ways we can use our data and our know-how to augment compliance efforts. While ensuring compliance with the number of jobs created is important, we must also understand the transformative powers of a job.

As Labor Commissioner and a Board member on EDA, I look forward to working to make sure that every job supported by EDA is a job that provides dignity. I believe a job is not just a job; as government, labor, and business leaders we are making an investment in a person's dignity. Dignity comes when workers are paid the proper wages and overtime they are due; dignity comes when a worker doesn't need to fear for his or her safety or lives when they start their work day; dignity comes when all workers, regardless of their gender, national origin, immigration status, or any other factor, for that matter, are afforded the same rights in the workplace as everyone else.

Every EDA-funded business has an important role to play in the lives of every worker hired, and their families, and their communities all play a role for years to come. This is a big responsibility, and one that I know that the Department of Labor and Workforce Development, and our 3,000-plus employees, are committed to taking on.

Thank you for having me today.

SENATOR CRUZ-PEREZ: Thank you so much for your testimony.

I do have a couple of questions for you.

ASSEMBLYMAN JOHNSON: Thank you, sir.

SENATOR CRUZ-PEREZ: Commissioner Asaro-Angelo, when did the Department of Labor and Workforce Development begin collaborating with the EDA on employment data sharing?

**ASSISTANT COMMISSIONER RONALD MARINO:** We've been interacting with EDA for about six, seven weeks now, trying to come up with exactly what they were looking for in order for them to do the verification and the validation of individuals who had been working for particular entities. And, going forward, they're interested in looking at our wage data, each and every quarter, in order to verify the fact that individuals have been increased into the various businesses that they have.

Right now we are in the final stages -- as the Commissioner mentioned -- in confirming the data-sharing agreement. As you may know, the Federal government provides the Department of Labor with administrative funds. So what we need to do is to establish a confidentiality agreement between us and EDA in order to ensure that PII -- Professional Identification Information -- is maintained and stabilize so it doesn't get into the hands of anyone else.

As I mentioned, we are in the final stages of that, sir; waiting to hear from them. Once we get that information, we'll be able to provide them the information that they're looking for.

SENATOR CRUZ-PEREZ: Let me rephrase the question, then.

ASSISTANT COMMISSIONER MARINO: Yes.

SENATOR CRUZ-PEREZ: Because you said a couple weeks ago; and that's-- Have we ever worked together in sharing this information?

ASSISTANT COMMISSIONER MARINO: Yes.

What we will be doing, basically, is -- they're going to get the wage record information in a form. In the past -- if they were looking for information, they could have asked us to go through the process, and could have gotten that information.

What they're going to get is -- from a particular date that they're interested in-- Let's just say they're looking at 2014 wage data. We'll be able to give them the information going back that far.

SENATOR CRUZ-PEREZ: We never did it? We never shared information between EDA and the Department?

ASSISTANT COMMISSIONER MARINO: Yes; what they're going to be doing is -- they're going to give us a series of accounts that they want information from. And once they give us that information, those accounts, we'll be able to process that into our system and provide them with information. And then they're going to put it in a spreadsheet so they can match it up with the information that they already have.

SENATOR CRUZ-PEREZ: I do have another question.

Does your Department collect independent data, or rely on companies for self-report?

ASSISTANT COMMISSIONER MARINO: We only have the data that companies provide to us on the WR-30s. We don't have a specific section, or unit, or anybody in our in our Department who works on -- specifically on these funded projects.

SENATOR CRUZ-PEREZ: Senator Oroho.

Thank you so much.

ASSISTANT COMMISSIONER MARINO: Thank you, Senator.

SENATOR OROHO: Thank you, Commissioner; thank you for being here.

COMMISSIONER ASARO-ANGELO: Senator.

SENATOR OROHO: Quick question: It seems to me that trying to match up names, and-- Is there any way-- To me, the issue is the importance of the position; because people could leave and go to another position, or whatnot. But is that-- A job position has been created. Is there any way, in your opinion, as we go forward -- if we're going to go forward with these kinds of incentive plans -- where we could require those companies to say, "Okay, this was the position that was created," and have them track it through either your system or another system that might be around? But to me the importance is -- that position be created, whether it's, you know, covered by Betty, or Steve, or Joe, or whoever it covers.

COMMISSIONER ASARO-ANGELO: So, Senator, the information that we have in our Department is whatever is the basics required for the WR-30 form; which, as you may know, is -- I hope I get this right -- a quarterly form with just names and gross wages for that quarter.

SENATOR OROHO: Right.

COMMISSIONER ASARO-ANGELO: It does not break down by hour or by title.

Correct, Ron?

ASSISTANT COMMISSIONER MARINO: Yes, that is correct.

We do have what is known as *base weeks*; but basically, that is basically saying that they've made at least a \$172 in a particular week; and that is basically used for giving that individual a potential unemployment amount. There are no hours, so it is not perfect; but they'll be able to see the Social Security number, the name of the individual, the amount of earnings that they have for that particular quarter; and again, as I mentioned, base weeks. So if they identify 13 base weeks, and they've made \$10,000, they'll know that an individual, in all probability, is a full-time individual. If they see something that it may be \$1,700 for a particular individual, they may have to question that to determine whether it is a part-time person, or that person came on in mid-quarter.

COMMISSIONER ASARO-ANGELO: We don't collect job titles.

SENATOR OROHO: Not the job title.

Somehow I think, going forward -- one of the things we have to take a look at is how we-- Because somebody could be transferred to another position, because somebody had been let go, you know, in that particular position. If we're looking for the best net benefit test we can have, it's that those, you know, net increases in positions occur; as opposed to whether any particular individual has that title, or position, or not.

So somehow I think that's the way we can help tighten up, to make sure we're getting the benefits out of whatever program we go forward with.

COMMISSIONER ASARO-ANGELO: I just want to clear up, Senator.

We just provide are very basic data--

SENATOR OROHO: Right.

COMMISSIONER ASARO-ANGELO: --over there. We don't track that stuff. I'm not saying that EDA doesn't I'm not exactly familiar with how they track.

SENATOR OROHO: No, I didn't think you went position-by-position. You are more person-specific.

COMMISSIONER ASARO-ANGELO: Right.

SENATOR OROHO: Okay; thank you.

ASSEMBLYMAN JOHNSON: Any other questions?

ASSEMBLYWOMAN PINTOR MARIN: (off mike) I do.

So just-- Hi, how are you?

Just a quick question.

So I understand what the MOU, moving forward -- what's going to happen. But can you just explain, very quickly, what was the process beforehand? So if a corporation was awarded an incentive, at what point do they notify -- is it the EDA that notifies you, or is it the corporation that is responsible to notify you?

COMMISSIONER ASARO-ANGELO: In the past, we've had nothing to do with that verification process at all.

ASSEMBLYWOMAN PINTOR MARIN: Okay; interesting.

Okay; thank you.

SENATOR CRUZ-PEREZ: I do have-- The Department of Labor and Workforce Development is responsible for collecting and

reporting the State economic data, right? What impact has the (indiscernible) growth New Jersey project in the State overall -- if you know the answer.

COMMISSIONER ASARO-ANGELO: I don't have any kind of break down like that in our Department.

ASSEMBLYMAN JOHNSON: Well--

ASSEMBLYWOMAN PINTOR MARIN: So, Commissioner -- and I know that you guys have been on for a year. But there's been no data collection with regards to what these particular programs have-- How many jobs were created? It's strictly only through EDA?

COMMISSIONER ASARO-ANGELO: Correct.

ASSEMBLYWOMAN PINTOR MARIN: So EDA is the only one who has the data? I'm not trying to get anybody in trouble; I'm just trying to figure this out.

Okay.

COMMISSIONER ASARO-ANGELO: No, we do not have any current-- Until we, at the Board meeting -- I think tomorrow we're going to be signing this MOU. But I don't believe there's been any prior data requests for data sharing. Again, just to be clear--

ASSEMBLYWOMAN PINTOR MARIN: Probably because of some type of confidentiality, I would be assuming, correct?

COMMISSIONER ASARO-ANGELO: It is my understanding that it is all-- EDA is the specific office that handled this, and that they were relying on data provided by the companies.

Now, I don't -- I was not able to hear Director Sullivan's testimony this morning, so I don't-- I hope I'm not disputing anything he said, because maybe I'm wrong about what--

ASSEMBLYWOMAN PINTOR MARIN: No, no. no; I think you're just clarifying. And I think that what the -- what Tim said this morning actually helped out with regards to the new MOU that both of you are going to be signing -- an agreement, both Departments--

COMMISSIONER ASARO-ANGELO: Yes.

ASSEMBLYWOMAN PINTOR MARIN: --are going to be signing. I think we'll have some clarification.

I was just wondering because -- those numbers -- right? -- those numbers from EDA would have had impact on your Department somehow, right? As a total number of workforce, you know, (indiscernible).

COMMISSIONER ASARO-ANGELO: Yes, I mean-- Right, that's correct. But we don't-- Unlike NJ Build, or other programs that we administer--

ASSEMBLYWOMAN PINTOR MARIN: Okay.

COMMISSIONER ASARO-ANGELO: --or tracking data, or workforce programs, or apprenticeships where we're tracking data, tracking job titles, tracking benefits, or whatever else. Because this wasn't one of our programs, we're just providing data -- or we're going to, now, be providing raw data--

ASSEMBLYWOMAN PINTOR MARIN: I see; because you didn't really have the oversight over the particular program. So it really is embedded within EDA.

COMMISSIONER ASARO-ANGELO: Correct.

ASSEMBLYWOMAN PINTOR MARIN: Okay; thank you.

ASSEMBLYMAN JOHNSON: All right; Senator, hold on a second.

Deputy Commissioner, we missed your name. What was that?

ASSISTANT COMMISSIONER MARINO: Ron Marino.

ASSEMBLYMAN JOHNSON: Marino.

ASSISTANT COMMISSIONER MARINO: Assistant Commissioner for Income Security.

ASSEMBLYMAN JOHNSON: Got it.

Got it? Okay, she has it.

Senator Oroho.

SENATOR OROHO: Thank you, Mr. Chairman.

Just real quick -- I think one of the things for the clarification we had with Mr. Sullivan here today -- I think what they're trying to do is use some collaborative evidence when they're looking to see if a CEO or CFO is providing some sort of affidavit. I do think -- I do agree that, you know, penalties -- that if they provide misinformation or the wrong information, there should be strict penalties and clawbacks with respect to that.

I think what they're trying to do, and with the MOU, is where they could get -- collaborate (*sic*) outside information from, say, the Department of Labor and Workforce Development, that would say, okay, are those companies or employers telling us the truth? Is there some data that say, "Hey, wait a minute. Their numbers are way off. They can't possibly be right."

I think that's the kind of -- what they're trying to look at for information from your Department, correct?

COMMISSIONER ASARO-ANGELO: Absolutely. I mean, as I said before, our information is very basic, quite frankly, on that front.

SENATOR OROHO: Right.

COMMISSIONER ASARO-ANGELO: But it's more-- But with the data they have and the basic cross-checking, what they'll be getting from the companies -- just to make sure that it lines up with whatever data we have.

SENATOR OROHO: One of the things, going forward, I think, to the Committee is that -- if these programs were to continue to go forward -- with a cap, or whatever -- that there will be, somehow, the ability to look at those positions, and also to be able to go back after those companies to say-- And whether it be the affidavits that Senator Pennacchio said-- But that have clear ability to measure and make sure they're providing you with the jobs and accurate information, under penalty of perjury, or whatever -- strict penalties and financial penalties.

So I think -- thank you so much -- to whatever extent we can potentially-- I know we have some of the worst technology in the world here in New Jersey. I don't-- It's one of the frustrations that I have. We still have programs that are run under Cobalt. I don't know if we have--

COMMISSIONER ASARO-ANGELO: We're one of the two Departments that have that, yes.

SENATOR OROHO: Yes, so-- And I know it's difficult. Every time we ask for a change-- But one of the things I think we need to take a look at is how we can get more and more of that collaborative

innovation. But the only way it's going to be, is to take a look and say, "Are those companies telling us the truth?" and some of that collaborative information can tell us; and have them go after them strongly, if they think that it's not being, you know -- they're not providing the correct information.

COMMISSIONER ASARO-ANGELO: Correct.

SENATOR OROHO: Thank you.

SENATOR CRUZ-PEREZ: Thank you so much, Senator

Can you tell me if this-- The new project that has been approved in Camden City -- there has been a tremendous reduction in unemployment in Camden City. Can you say that this is because this new project has helped reduce unemployment tremendously in Camden City?

COMMISSIONER ASARO-ANGELO: I don't have Camden-specific data with me; but obviously, there's been a great boom in Camden over the past few years. But I definitely could drill down and talk to our Office of Research Information about getting you some data on that front.

ASSEMBLYMAN JOHNSON: That's it?

Oh, we have one more.

Mr. Auth.

ASSEMBLYMAN AUTH: Thank you, Mr. Chairman.

Commissioner, thanks for the testimony.

Can you-- I hate to ask you off the top of your head, but could you tell us, between 2016 and 2019, the increase in employment in New Jersey?

COMMISSIONER ASARO-ANGELO: I cannot, and I did not bring the proper people with me, or the proper brains and heads.

And I know that, year-over-year, three years in a row, an increase in manufacturing jobs.

ASSEMBLYMAN AUTH: You've increased manufacturing jobs?

COMMISSIONER ASARO-ANGELO: I have not; I have not, no.

ASSEMBLYMAN AUTH: No; but, I mean, the State has--

COMMISSIONER ASARO-ANGELO: Yes.

ASSEMBLYMAN AUTH: At what percent? You don't know.

COMMISSIONER ASARO-ANGELO: I don't know off the top of my head, no.

ASSEMBLYMAN AUTH: Well, if you were going to use more general terms, would you, on a scale of one to ten, would you say it's at a five, or seven, or--

COMMISSIONER ASARO-ANGELO: Everything in New Jersey is at a 10, in my mind, Assemblyman. (laughter)

ASSEMBLYMAN AUTH: Right now? I think you're a little biased--

ASSEMBLYMAN JOHNSON: And I would agree.

Assemblyman, if you want those numbers, you can get that--

COMMISSIONER ASARO-ANGELO: I can get that pretty quickly after I leave here today.

ASSEMBLYMAN AUTH: But in other words, it's safe to say that you're happy with the way things are moving, with regard to employment in the state at this point.

COMMISSIONER ASARO-ANGELO: Absolutely. We're at almost full employment in New Jersey.

I was at the job fair for Marcal -- laid off Marcal workers last week, many of whom got hired on the spot because employers are so desperate for workers right now. And we're doing everything we can, including our announcement, earlier today, of nine different apprenticeship programs we'll be funding to create a pipeline of workers in multiple industries across the state. I think it's something you heard from multiple speakers here earlier today. I was able to listen in the car; it was about-- I think it was Director Sullivan -- talked about when he meets with CEOs, how their number one need is talent. And that is what I think that we are working on every single day, every minute, in my Department; hand-in-hand with the EDA to provide the talent that's necessary to keep our economy growing.

ASSEMBLYMAN AUTH: And so one last thing.

I know Assemblywoman Marin has considered the notion of having incentives as a key component to the increase in employment in the state; and I'm inclined to agree. However, also -- just the national economy itself has been very helpful in that respect as well. Are you able to separate the two and give a percentage of which one is the larger of the contributors to the employment situation that we have in the state right now? Which one is helping more, if you--

COMMISSIONER ASARO-ANGELO: I don't have the number off the top of my head, but I do know that New Jersey has a high degree attainment rate. I think our most viable incentives, regardless of today's hearing, is our workforce. We have a highly educated workforce, a

highly diverse workforce, a highly motivated workforce across multiple different industries. I think it's always going to be our strongest incentive.

ASSEMBLYMAN AUTH: You skirted around that question very, very adroitly, sir. (laughter)

COMMISSIONER ASARO-ANGELO: I'm not an economist, Assemblyman; sorry.

ASSEMBLYMAN AUTH: Thank you.

Thank you, Chairman.

ASSEMBLYMAN JOHNSON: I thank you.

Thank you for coming; for taking time to be with us.

COMMISSIONER ASARO-ANGELO: Thank you very much.

ASSEMBLYMAN JOHNSON: We'll call, next-- We're going to call Pete Kasabach -- is Mr. Kasabach here? -- the Executive Director of New Jersey Future.

**P E T E R K A S A B A C H:** Good afternoon.

Thank you for having me; thank you for having me present, and not testify.

ASSEMBLYMAN JOHNSON: Thanks for coming.

MR. KASABACH: You're welcome.

So my name is Peter Kasabach; I'm Executive Director of New Jersey Future.

Many of you know New Jersey Future -- we greatly believe that New Jersey has thousands of great places; from our cities and towns, to our forests, farms, and beaches. And that part of our job is, as we move forward to protect and improve these great places, we want to do it in a way that

makes them fairer, healthier, and makes New Jersey more competitive, going forward.

As many of you have probably read over the last few years, economic development is changing; and it's moving more and more into place-based economic development, which means it's creating the great places, that then attract the jobs and attract the employees. And sometimes it's the other way around -- attracting the employees first, which then attracts the jobs.

It's one of the strongest things that we would recommend with the future incentive programs -- is that we look at place, and how place relates to the incentive programs.

The current incentive programs, of Grow and ERG, have done a good job of laying out certain place-based criteria, and directing those incentives and growth into the places where we want to see growth happen. And you've heard great stories about Camden, Newark; and the point was made before about -- are we looking at job growth or community revitalization? And, in fact, we're trying to do both.

But I would definitely emphasize the fact that the new incentive programs -- however they're iterated as they come forward -- really need to consider giving greater incentives to the places that we want to see grow. And we know how to do that; we know where those places are. The current incentives talk about -- use the State plan; uses planning areas 1 and 2 to direct growth and direct incentives into those places and away from the areas that we want to preserve. With opportunity zones, with our distressed cities, or emerging markets, we know where we can prioritize.

This Administration has started to move towards looking at census tracts as an important measure for where we move incentives; and we think that's the right idea, because that's the right level of looking at markets and market places.

There are ways that we can incentivize those as well, and there's been some discussion about caps for the programs; in particular, the Grow and the ERG program. I understand the reasons for trying to create caps; but there may also be a hybrid approach where we can look at, in those most targeted areas -- where we're really looking to push the market and do community development -- is lifting the caps in those specific geographies. Because what lifting caps does is it sends a signal to the market that this is where we want incentives; this is where we want to see growth happen; and companies are making decisions far in advance of where they want to be, and they can't be in the situation of thinking, "I have to make this decision that's going to affect me for the next 10 years, but I don't know whether I'm going to get this incentive or not."

I worked for the New Jersey Housing Mortgage Finance Agency for five years, and we ran a Low Income Housing Tax Credit program. And as many of you may know, that's a very competitive program. You may get 50 applications, and only 10 are awarded. But if you're a corporation looking to relocate to -- or looking to locate to New Jersey, you can't always take that kind of risk of, maybe you'll be the one -- the organization, the company that gets the incentive; and maybe you won't.

So we consider the caps very carefully; and in particular, if they are looking at lifting caps, looking at lifting those in the places that we most want to see growth and development.

There's a very important point about the current program -- the ERG program; and Ron Beit had alluded to this -- which is, the current program incentivizes doing market-rate housing in emerging markets. The kind of housing development that you're seeing in places like Newark and Camden would not happen without the ERG program. That program had a very limited cap; it only went to a few places in New Jersey. I would highly recommend that we look at that specific aspect of the program -- the residential market-rate housing -- because that is what is going to drive urban redevelopment. We've seen it in Camden, we've seen it in Newark; now it's time to see it in Paterson, Trenton, and some of our other cities. So I highly emphasize that.

One of the elements that was missing from the incentive program was a historic tax credit. There are 30 other states that have historic tax credits. New Jersey could have a State Historic Tax Credit; it gets matched up to the Federal Historic Tax Credit; and enables a lot of development to happen, mostly in our built-up and older communities. So we are strongly in support of any new incentive program having a Historic Tax Credit component.

And finally, the brownfields were mentioned. Brownfields are in most of our urban areas; they're in our older communities. Having an incentive to clean them up -- whether it's a tax incentive, a grant, or a combination of the two, along with a loan program, would go a long way to helping improve these cities. Because one thing that you've seen and heard

is that it's about momentum. And so when you have a place like a Camden or a Newark, you want to build that momentum, build that market, and then keep that momentum going. And what will happen -- and Jersey City is a good example -- is you get to a point where the market will operate on its own, and then those incentives can be pulled way back.

Those are all my comments; and you have my written testimony.

One other point I would add is -- you heard about the AeroFarms project. New Jersey Future has Smart Growth Awards that we give out every year. Last year, AeroFarms was a winner. You could go to our website and see a great video about AeroFarms. It really is an amazing, world-beating kind of company.

So thank you again, very much.

ASSEMBLYMAN JOHNSON: Thank you, sir; thank you for coming.

A quick question from my notes here.

I think I misunderstood -- place-based economic development; is that what you said?

MR. KASABACH: Correct.

ASSEMBLYMAN JOHNSON: Place-based economic development.

MR. KASABACH: Right.

ASSEMBLYMAN JOHNSON: Is that, like, the Triple Five project in Bergen County?

MR. KASABACH: I don't think I would put that one in the category.

ASSEMBLYMAN JOHNSON: Just checking; okay.

MR. KASABACH: What place-based economic development means is -- really, it's about creating those great towns and downtowns that have a mix of uses, that are walkable--

ASSEMBLYMAN JOHNSON: Walkable communities, and open space--

MR. KASABACH: Exactly; and that have a whole mix of uses as well.

ASSEMBLYMAN JOHNSON: Right.

MR. KASABACH: And so once you create those authentic places, then people will come. And what we've seen from our labor force -- I wish the Commissioner of Labor was still here -- is that you see that-- What's happening now is the workforce is starting to drive corporate location decisions. And so as the millennials move to places that they can walk, that are near Transit, the companies are now looking to follow them and go into those same places.

ASSEMBLYMAN JOHNSON: Right.

Okay, thank you.

Any other questions?

Mr. Auth.

ASSEMBLYMAN AUTH: Thank you, Chairman.

Hi, how are you, Mr. Kasabach?

MR. KASABACH: Good.

ASSEMBLYMAN AUTH: Thanks for your testimony.

I just want to ask you a quick question.

Someone else came in and testified about the tax credits and the ability to sell them if they weren't all being utilized by the particular company that acquired them. How do you feel about that?

MR. KASABACH: My general opinion of the tax credits is that if you're going to give the credit, you're doing it because you feel like that incentive is needed; and if that incentive is needed, but it's not a liquid incentive, then having a market for them makes sense.

I mean, I've been involved with the Low-Income Housing Tax Credit, the National Historic Tax Credit, and all of those have secondary markets for their for their credit, because you want the credit to be used. If you don't want the credit to be used, then don't offer a secondary market.

ASSEMBLYMAN AUTH: Great; thanks.

MR. KASABACH: I was just-- The point came up before about the net benefits too. I mean, another way is you can increase the change in the net benefits test and make it a more conservative test, also.

ASSEMBLYMAN AUTH: Thank you.

Thank you, Chairman.

SENATOR CRUZ-PEREZ: Thank you so much, Assemblyman.  
Assemblywoman Pinto Marin.

ASSEMBLYWOMAN PINTO MARIN: Yes, just--

I appreciated your testimony tremendously, because I think you brought up some really important points that I think we kind of skated through, but we never really-- Which was the ERG for housing, which is extremely important.

With regards to the tax credits-- So correct me if I'm wrong, but my understanding is that small- and mid-sized companies don't pay

CBT, so they have no choice but to sell some of their tax credits. Is that correct?

MR. KASABACH: I'm not familiar with that; but that sounds reasonable. And if they can't, then they're not able to take advantage of it, right?

ASSEMBLYWOMAN PINTO MARIN: Of course.

Okay, thank you.

SENATOR CRUZ-PEREZ: Thank you, Assemblywoman.

SENATOR OROHO: It was part of the bill -- that if you're an LLC, an LLP -- an escrow pass-through entity -- that you could also use it to offset your personal income tax. There were certain provisions for that; and depending upon the program and when it came in-- Because obviously, in 2013, there were a lot more pass-through entities that had started than when you originally-- And it was just for C corps before. So it really depended upon when the program came in.

MR. KASABACH: Right.

ASSEMBLYWOMAN PINTO MARIN: Thank You, Senator Oroho.

SENATOR CRUZ-PEREZ: Thank you for that information.

Thank you so much for your testimony, and thank you for coming.

MR. KASABACH: Thank you.

SENATOR CRUZ-PEREZ: Now I would like to bring up Maria Yglesias and Maria Del Mar Lopez. They're the Co-Founders of M&M Development.

Welcome.

**MARIA E. YGLESIAS:** Good afternoon.

And I admire your stamina, you know? Hard work, I see.

Thank you for having me and my partner, Maria Lopez, here.

It's my first time, and I'm duly impressed.

So we are -- Maria Lopez and myself -- are the owners of M&M Development. We are a Newark-based company that has built a career in building housing in inner cities and depressed neighborhoods; principally in two cities -- in Newark and Camden, New Jersey.

I am so happy that we are speaking right after Peter, because he spoke of the great use of the ERG credits to create housing in some of the more depressed neighborhoods in our urban cities. We have done so in Camden, New Jersey. Camden -- we have been working in Camden since 2009, building housing. And I think I can say that many decades went by where not even a single unit of market-rate housing was built in the City of Camden. And yet, the need for housing in that city is enormous. Most of the housing stock goes back to the 1800s; and they were not great houses to start with. A lot of them were frame housing -- attached row housing. And they are small; and by this by this time, they are in not very good shape.

So when we had the opportunity to get some ERG credits to rehabilitate a building in downtown Camden, it was an amazing opportunity. That building had been vacant for 10, 15 years. It started as a hotel in 1931; and it went through being converted into apartment housing, to shelter, to being vacant.

And we were able to create 32 units. It's not a lot of housing; but in downtown Camden, it's a good number of units, and it will serve a tremendous need.

I'm not only speaking in favor of those credits that allowed us to build a housing; I would like to say that we need more of those credits to keep on supporting the creation of housing in places like Camden and Paterson. And there are still many neighborhoods in Newark, New Jersey; because, honestly, there are no other sources of funding. This low-income tax credit -- that was mentioned again, and again, and again today -- has been a great source of funding for housing; but it's for low income housing, which tends to create -- to serve a need, but does not help to create mixed income housing, and to bring vitality and energy to neighborhoods.

So personally I believe that the EDA, with some of the programs, has made a tremendous contribution to our urban centers by allowing the creation of market-rate housing. It couldn't be done any other way.

SENATOR CRUZ-PEREZ: Thank you, Maria.

Mrs. Lopez.

MARIA DEL MAR LOPEZ: Thank you so much as well.

You don't know, but in this partnership she's the mouth.  
(laughter)

And I agree totally with her. We have created the mixed use of affordable and market-rate together. In my opinion, that is what creates a vibrant neighborhood -- to be able to mix the market-rate with the affordable housing.

Thank you.

SENATOR CRUZ-PEREZ: Maria, I-- Mrs. Yglesias, without this incentive, would you have been able to create that type of housing in Newark?

MS. YGLESIAS: No, no, not at all. Listen, I am not going to talk high-end housing; but for decent quality housing you need -- you need a lot of funding because the construction cost is high. The development cost -- the fees for permitting, and attorneys, and all that is considerable.

So to create a unit of housing today -- I think if you estimate it on the low end, we are talking about \$250,000. And then when you build housing in Camden -- or in certain neighborhoods in Newark or in Paterson, or in certain neighborhoods in Jersey City, for that matter -- you cannot attract a buyer at that price point. You need that subsidy, you know? And that incentive is the fact that somebody can buy a very good home at a discounted price that will incentivize them to move into those neighborhoods, into those cities.

We built over 50 units of housing in Camden without EDA and without New Jersey HMFA; and without our own funding, it couldn't be done. We would never have been able to build housing today without that funding -- like, to cover those caps.

SENATOR CRUZ-PEREZ: So, in other words, without this funding -- okay, you finished this round, and know some of this funding is going to expire.

MS. YGLESIAS: Yes.

SENATOR CRUZ-PEREZ: Are you going to be able to do more housing without this funding?

MS. YGLESIAS: No.

SENATOR CRUZ-PEREZ: Not at all?

MS. YGLESIAS: No. Right now, we have an RFP to build more housing in Camden. And again, we have been doing housing in

Camden since 2009, so we are very familiar with the market. We have been very successful. But I cannot see how we can build housing right now -- market-rate housing; and without gap funding, be able to sell it. Or, for that matter, even rent it, because that is the same thing.

SENATOR CRUZ-PEREZ: And I was going to go there. Some of the incentives that have helped other companies in Camden City have employed these people, which makes them a good candidate to be able to buy those homes that you're building.

MS. YGLESIAS: Yes, yes.

SENATOR CRUZ-PEREZ: So in fact, if those companies are getting -- employing the people in Camden City, and you're getting those incentives to create housing in an area like Camden City, that is badly needed. Because if you asked me today, "Nilsa, what's the biggest problem, as the Director of Constituent Service for Camden County" and the complaints I get in my office? It used to be unemployment; right now it is housing.

MS. LOPEZ: Right.

MS. YGLESIAS: Yes, and I have to-- I cannot help but say this, although I'm sure that you all know it. But, you know, jobs without housing will not benefit the town, because then people will have to go out. They will not be able to stay in Camden if they do not have decent, affordable housing. So they will go to Philadelphia, for example, right?

So you need economic incentive to create jobs, but you have to have the housing incentive to make sure that those young people, those educated people, stay in the towns that we want to grow.

SENATOR CRUZ-PEREZ: Thank you, Ms. Yglesias, for that.

MS. YGLESIAS: You're welcome.

SENATOR CRUZ-PEREZ: Senator Oroho.

SENATOR OROHO: (off mike) You beat me to it.

SENATOR CRUZ-PEREZ: Okay, there you go.

But of course.

ASSEMBLYWOMAN PINTOR MARIN: I can't go without saying -- I call them the *two Marias*, so--

I just want to say thank you, ladies; because you really do a phenomenal job.

And I know, Chairwoman, you've seen some of their work. They do amazing work with the constraints of the money and the budget that they have. So it is phenomenal.

But I just want to say -- you know, you said something that was very interesting -- right? Without the incentives for housing -- I mean, for jobs -- there can't be the incentives for housing, because one correlates with the other.

MS. YGLESIAS: Exactly.

ASSEMBLYWOMAN PINTOR MARIN: And I just want to let you know that, in particular, in Newark -- and this could be said for Camden as well -- if it wasn't for the ripple effects that we're having, and for the demand that we're starting to see now, we would never even get to the place that we're at today.

MS. YGLESIAS: Absolutely.

MS. LOPEZ: Absolutely.

ASSEMBLYWOMAN PINTOR MARIN: And I want to thank you because, you know, that has been, I think -- people downplay what

affordable housing really means; and it leads into workforce housing, and it leads into market-rate housing. And it is essential in order to attract talent to be able to fill the job positions.

So I just want to say to these young women, thank you very much.

MS. YGLESIAS: Thank you so much.

MS. LOPEZ: Thank you.

ASSEMBLYMAN JOHNSON: I just want to ask one question.

You mention Newark, you mention Camden; but you didn't mention Paterson -- or not Paterson *yet*.

MS. YGLESIAS: I have not gotten to Paterson yet; but I have my eyes on it. (laughter)

ASSEMBLYMAN JOHNSON: Yes.

It sounds like whatever model you're using there is working; so that may work up north, closer to where I am, for the people of the City of Paterson.

But thank you for--

MS. YGLESIAS: We have been thinking about it.

ASSEMBLYMAN JOHNSON: Okay.

MS. YGLESIAS: Thank you.

ASSEMBLYMAN AUTH: Ladies, thanks for the testimony; and great story.

MS. YGLESIAS: Thank you

ASSEMBLYMAN AUTH: So my only question is, have you considered doing a reality show for New Jersey? I mean we have so many

bad things, I figured you guys could be a great role model for New Jerseyans to (indiscernible).

SENATOR CRUZ-PEREZ: That's not on the bill.

MS. LOPEZ: That's a good idea. (laughter)

ASSEMBLYMAN AUTH: Thank you.

MS. LOPEZ: Maybe our next life.

MS. YGLESIAS: It's probably easier than building houses.

(laughter)

MS. LOPEZ: Yes.

SENATOR CRUZ-PEREZ: Well, Ms. Yglesias and Ms. Lopez, *muchísimas gracias*; thank you so much for your testimony.

MS. YGLESIAS: *Da nada; adios.*

MS. LOPEZ: Thank you; thanks.

SENATOR CRUZ-PEREZ: Last but not--

Is Gene Diaz here?

And last but not least, Mr. Diaz.

ASSEMBLYMAN JOHNSON: Mr. Diaz.

**EUGENE R. DIAZ:** Good afternoon.

ASSEMBLYMAN JOHNSON: You're last, but not least.

MR. DIAZ: Chairman Johnson, nice to see you.

Thank you very much; it's a pleasure to be here.

I greatly appreciate being invited down, and I hope that my comments here today are a good proxy for the balance of the private market developers out there who have worked tirelessly to help build the State of New Jersey and attract corporate businesses, as well as additional housing developments in the state.

For the last 30 years I've been an active developer in the State of New Jersey; and, at times, as a principal owner, have owned somewhere in the neighborhood of 25 million square feet of office product.

The last 15 years, our specialty and focus has been, really, on the redevelopment, rehabilitation, and repositioning of excess corporate facilities, to help fill the gap and rejuvenate those townships and those assets that have been left bereft by corporate downsizing and shifts out of this market.

Let me say, just to begin with, that I think globalization has made the fight for employees and for talent all the more competitive, and as competitive as it has ever been. We fight for jobs with China, we fight for jobs with India, and Taiwan, and London, and Europe. We fight for jobs state-to-state -- New York and New Jersey, to Carolina, to Florida. And we fight for jobs city to city, town to town, county to county, here in the state.

You only have to look at the recent Amazon struggles and bid process to see how aggressive states are getting for business, and to attract employers and employees to their state.

The latest project that Prism has embarked upon is the rehabilitation-redevelopment of the former Hoffman-LaRoche campus in Clifton and Nutley, New Jersey, on Route 3; 120 acres of land. And to frame this for you -- in 2013, when Roche announced that they would be leaving the state for California, the campus had peaked with about 10,000 employees, and almost 4 million square feet of buildings on it within its borders.

When they left, in 2015, they had demolished over 2 million feet of assets. We were down to about 1.4 million square feet of existing

buildings; and about (indiscernible), 6,000 remaining employees either relocated, were left, or were not asked or invited over to California. A devastating blow to two municipalities. The size of the site -- split by two counties, Passaic and Essex; and two townships, Nutley and Clifton.

As a result, Nutley was put on the state's list of *distressed municipalities* and has been receiving interim aid to help plug its budget gap. And the housing trades in the market slowed; restaurants and other retailers and vacancy rates on the Main Street in Nutley increased dramatically, as the number of people who were around to support those establishments were gone.

Well, the good news is, I think the Hoffman-LaRoche project, which we refer to as *ON3*, is a story of success; that from 2015, by the time we hit June of 2020, we will have gone from 6,000 people, to zero, back to 6,000 in five years. It could not have been done without the Grow New Jersey incentive program.

The companies that have located there, in total, so far, I believe have received somewhere in the neighborhood of \$140 million of total tax credits. They have filled up almost 1.1 million square feet of existing buildings; and are already constructing a quarter-of-a-million-square feet with Quest Diagnostics on their own facility -- a project contributing over \$190 million of construction, in general, to the economy, and employing hundreds and hundreds of construction workers.

If I look at the math, I think that the program itself, from its establishment, has a very good and solid econometric model to measure its success. I think if I boiled it down to 6,000 employees and the amount of

credits that these companies have been awarded, it's about \$28,000 per employee -- that's over a 10-year period -- or \$2,800 per employee, per year.

I think without giving you direct empirical -- I'm certain that the EDA could probably come up with it -- but just anecdotally, if you look at the township, and you look at the activity that's happened, and the amazing change in Nutley that's taken place, and in Clifton, with new restaurants opening up, new retail establishments coming in, and additional businesses, and housing trades again beginning -- you see the full impact of providing incentives for these companies to locate in New Jersey and bring their operations.

I would tell you that, 20 years ago -- I heard Mr. Kasabach mention this, and I think this is important -- 20 years ago, the people who we met with concerning a transaction in New Jersey were generally the CFO of the corporation. Invariably, today, that person who we sit with is Human Resources.

The analysis for most corporations has changed somewhat, a bit, from the cost of the real estate to the overall cost of the operations. Real estate, as a component of the GNA of most corporations, has gone down dramatically, over time. The employment costs, and other locational costs associated with operating a business, have increased and continue to increase.

So I think that these companies, when they are evaluating where to be -- it's not solely real estate cost; it is much broader. It is taking a look, holistically, at their organization; at where are they getting the best employees from; can those employees have and find housing; how much do they have to pay for those employees; are they getting the best and

brightest? I think, in New Jersey, what's keeping us in the game, thus far, is our educational system and the fact that, yes, we are probably still tops in one metric; tops in the country still in education, in terms of our labor base.

The program -- if I look at where we think that there is room and opportunity for betterment of the program-- It's been mentioned before about the sale of the tax credits. I think one of the limitations on the sale of -- or the usability of tax credits solely by C corporations creates an inefficiency in the market, and in a sense is costing the State money. Because those tax credits become more inefficient to the companies that can't use them directly, and have to sell them at a discount to their face value. So one way to look at the program is to say--

And today's corporate tax structures are very different; corporation structures -- the C corp is almost passé at this point in time. LLCs, S corporations, partnerships -- much more the norm that you're seeing from very, very, very, large corporations out there today. And I think depriving them of the ability to use those credits directly forces them to sell those credits. That's a market that creates a discount; therefore, they're getting less usability out of those credits. And that is probably requiring some limit, in terms of why you need more.

I don't have anything else to bring to the table.

I'm happy to answer questions at this point in time; specifically, generically, or not.

SENATOR CRUZ-PEREZ: Thank you so much, Mr. Diaz, for your testimony.

Any of the members have a question?

ASSEMBLYMAN JOHNSON: Seeing none--

SENATOR CRUZ-PEREZ: Well, thank you so much.

ASSEMBLYMAN JOHNSON: Assemblyman Freiman.

SENATOR CRUZ-PEREZ: Oh, okay.

ASSEMBLYMAN FREIMAN: I'm sorry; Just a quick question for you.

We've heard a lot about the incentives program; but one of the things we didn't talk about has to do the regulatory environment.

So we know there's a gap; so could you just-- As you worked with these companies, and then we think about the incentive programs helping New Jersey, and helping to attract the companies to come back-- Overlay that with the regulatory environment we have right now; and where does that fit in? Because we're here to help grow New Jersey -- setting aside that term for the program.

MR. DIAZ: The cost of doing business is a very complex interplay of issues. Employment costs, real estate costs -- the ease of doing business -- taxes, etc. These all roll up in a company's evaluation in, "Where do I locate?" I mean, *comparative advantage* is a very simple economic idea, right? And that is, those markets that do things incredibly well and efficient will grow the greatest. And I think if you overlay an environment that is more difficult, and/or more nuanced, and/or more complex for a company to navigate through -- whether that's in its permitting process, whether that's in its expansion process, however you look at it -- the natural flow will be to take that into account and begin to navigate towards those markets that make it easier in which to conduct business.

ASSEMBLYMAN FREIMAN: And if you were to look at our regulatory environment, saying, "All right, here's an area you could fix quickly," what would you point to? Is it a permitting process? You mentioned that, so--

MR. DIAZ: Yes, Assemblyman, I think one of the major issues that we have in New Jersey is, unfortunately, we're a home rule state. And I think one of the major complexities that we have to deal with is the -- in the townships that we have developed in, I'm always amazed at the number of people who will come out shouting against something as simple as -- we redeveloped Thomas Edison's historic invention factory in West Orange. A historically designated building that was 100 years old, where concrete was falling off of it and could hit people if they walked by.

People fought us for 11 years, and litigated to the state Supreme Court over its redevelopment. We finally finished; we have a third of the units rented. We're redeveloping the entire downtown of West Orange, mindful of this -- that the administration was highly cooperative; but some of the other people, and the avenues that allowed challenges to this to go on, were extremely hurtful, and took 11 years to bring a project to bear that the municipality itself wanted.

So the difficulties of home rule environment, and the fact that we don't have a-- The Grow New Jersey program is transparent; zoning regulations, development rules in municipalities are not so transparent. We may be the only state in the nation where, as of (indiscernible) means just the Mayor wants it.

ASSEMBLYMAN FREIMAN: Got it; thank you.

SENATOR CRUZ-PEREZ: Thank you so much.

Thank you, Mr. Diaz, for your testimony.

MR. DIAZ: Thank you.

SENATOR CRUZ-PEREZ: If we don't have another question, this meeting is adjourned.

And thank you much, Chairman

ASSEMBLYMAN JOHNSON: Thank you everyone for coming; and we'll see each other again at some point in time.

**(MEETING CONCLUDED)**