



Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY

"The role manufacturing plays in New Jersey, and ways to help strengthen this sector of the State's economy"

LOCATION: Wilson Music Building
Recital Hall
Rowan College of New Jersey
Glassboro, New Jersey

DATE: May 19, 1993
3:00 p.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Jack Sinagra, Chairperson
Assemblywoman Harriet Derman, Vice-Chairperson

ALSO PRESENT:

Senator John J. Matheussen, District 4
Assemblyman John A. Rocco, District 6
Assemblywoman Mary Virginia Weber, District 4

Christopher R. Berry
Office of Legislative Services
Aide, Joint Legislative Committee
on Economic Recovery



Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
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C O M M I T T E E N O T I C E

TO: MEMBERS OF THE JOINT LEGISLATIVE COMMITTEE ON
ECONOMIC RECOVERY

FROM: SENATOR JACK SINAGRA, CHAIRPERSON
ASSEMBLYWOMAN HARRIET DERMAN,
VICE-CHAIRPERSON

SUBJECT: **COMMITTEE MEETING - May 19, 1993**

The public may address comments and questions to Christopher R. Berry, Committee Aide, or make bill status and scheduling inquiries to Sharon Constantini, secretary, at (609) 984-7381.

The Joint Legislative Committee on Economic Recovery will meet on **Wednesday, May 19, 1993 at 3:00 PM at the Wilson Music Building Recital Hall, Rowan College of New Jersey, Glassboro, New Jersey.** The committee will receive testimony from CEO's and other business leaders in New Jersey on the role manufacturing plays in the State and on ways to help strengthen this sector of the State's economy. This committee meeting will immediately follow the Rowan College Foundation's first Rowan Forum entitled "The Role of Manufacturing in South Jersey".

Directions to Rowan College of New Jersey: From North or South, take the New Jersey Turnpike to Exit 2 and follow Rt. 322 East, which runs directly through the campus. Just after crossing the railroad tracks on Rt. 322, turn left into Lot A for parking. The Wilson Music Building is directly adjacent to this lot.

Or

Take Rt. 295 South to Rt. 42 South (Atlantic City). Continue on Rt. 42 South to Rt. 55 South, and continue to Exit 50A (Glassboro-Mullica Hill) for Rt. 322 East. Follow directions as above.

If lost, call (609) 863-5276.

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SENATOR MATHEUSSEN: Mr. Rowan, how are you, and all those who joined us today? First of all, I'd like to thank Senator Sinagra and Assemblywoman Derman for convening this Committee down here this evening.

My name is Senator Matheussen. It gives me great pleasure to be here today, and have the Committee here today with this testimony, because as you may know, we are in the 4th Legislative District. We are in Glassboro, which is part of my district. To have this area recognized with such an outstanding group of people to discuss what I think is probably the topic of the decade for this State, as well as for this nation, is truly an honor and I thank you, Chairpeople, for bringing it here today. Welcome all.

SENATOR JACK SINAGRA (Chairperson): Assemblywoman Weber?

ASSEMBLYWOMAN WEBER: I am extremely happy to welcome you all to Glassboro, and to our District 4. You are more than welcome. It's really great to be right here and not have to go two hours or an hour and a half up to Trenton. We have a lot of resources here, and we hope you'll come often. Thank you.

SENATOR SINAGRA: We have sitting in today, Assemblyman Rocco.

ASSEMBLYMAN ROCCO: I've been on a panel earlier, and it's certainly a pleasure to be here.

SENATOR SINAGRA: Assemblywoman Derman?

ASSEMBLYWOMAN DERMAN: I'm very happy to be here as well. I can't wait to buy asparagus on the way to the New Jersey Turnpike. (laughter)

SENATOR SINAGRA: With the introductions--

ASSEMBLYMAN ROCCO: We'll tell you where to go, Assemblywoman. We'll get you the right ones.

SENATOR SINAGRA: The stage is literally yours, Mr. Rowan.

H E N R Y R O W A N: Thank you, Senator Sinagra. As you know, I'm Henry Rowan, President of Inductotherm Industries. I'm delighted to have an opportunity to talk with you. I guess I could talk all afternoon about some of the programs that I think the Legislature could work on to improve the economic climate in New Jersey, but I'd like to summarize some of the things I said earlier and give a couple of thoughts that may be useful to the Committee. It is a pleasure, indeed, to meet with you this way.

Over the last 25 years, the elective government of New Jersey -- of the people, by the people -- has allowed the bureaucracy to get a stranglehold on businesses, and I think it's destroying the very fiber of the economy in New Jersey. What the government seems to have forgotten is that business -- any business -- is nothing more and nothing less than the people, themselves, in New Jersey who, as I said earlier, have banded together to make things, create things, or provide services. Alone, those people couldn't sell their talents, but by combining in business, they can sell their talents; they can thrive and make a living. So, a stranglehold on business then is, indeed, a stranglehold on people who elected the government that passed the laws, that set up the bureaucracies that are now strangling them -- sounds like the house that Jack built.

The first challenge, then, is to get the bureaucracy under control. How -- by controlling their finances. No bureaucracy should be able to support itself by taking the public under the guise of fees and fines, and growing unchecked and uncontrolled. Even if the intent was initially good, the effect is devastating. To drive home the point -- and I'll probably get in trouble for this one -- if you had within your body some cells in one of your vital organs that could take nourishment from your bloodstream, produce more cells, and grow unchecked by your body's control mechanism, you'd recognize you were dying, and you'd submit to the scalpel, chemotherapy, or

whatever measure is necessary to get rid of this life-threatening growth to save your life. I ask then: Why do you, the government, hesitate to show the same concern for the State's body that is suffering from this same affliction?

All fees, all fines, all charges by any bureaucracy -- any bureaucracy -- should go to the State Treasury. The Legislature should, by the budget process, control the size of the bureaucracy by determining each year how big they want that bureaucracy to grow.

Next, the government has got to get behind the people who form the businesses to provide the lifeblood of the State. Stop passing laws that stifle business, add to costs, and make New Jersey less competitive in world markets. Recognize that every job in the State depends on the wealth brought into this State by farming or manufacturing. Help New Jersey companies remain competitive in the areas around the world, or there will be no jobs.

Consider in each bill that you pass, will this bill make New Jersey more competitive or less competitive, and therefore, will it provide more jobs or less jobs for the people who make up the businesses of New Jersey? Ask yourselves, will the ECRA Reform Act release New Jersey from the terrible scourge or simply change the form? Will it attract industry and jobs, or drive them away?

As I said at lunch, if you pass the ECRA Reform bill, everyone will sit back, relax, and say we took care of the problem. You have not taken care of the problem until you separate the sale of property from the cleanup process. I'm for cleanup, but I'm also for the right of any American, any New Jerseyan, to buy or sell a piece of property instantaneously to a willing buyer or seller. I think that's a right that you have to protect. The cleanup should be separate; the cleanup should be done, but it should be separate. That is the essence of ECRA Reform, and is not in the present bill.

Will the tax bills that you've passed make New Jersey manufacturers more competitive in world markets so that they can sell more goods and provide more jobs, or will they add to the costs and thus reduce New Jersey's opportunities in national and world markets?

Get behind education. My suggestion is to phase in the voucher system so that as it is phased in, all New Jerseyans can have a shot at the finest education available. The poor schools will die and new, better schools -- some private -- will spring up. The quality of our education will leap ahead of other states and will offer a work force better able to compete.

Finally, free the EDA program from the stifling effect of the prevailing wage. Don't even consider prevailing wage for hospital construction. And if you're really interested in the good you can do for the people of New Jersey as a whole, send a message to the world -- "Make New Jersey a right-to-work State."

You have in your hands the means, the opportunity, and the obligation to our citizens to bring the State back to its former position of strength and leadership in creating wealth through industrial production.

Thank you very much.

SENATOR SINAGRA: Mr. Rowan, you may be interested in knowing that -- I know in the Senate, and I'm not sure what happened in the Assembly, or if the Governor signed it -- there was a bill sponsored by myself, and Senator Matheussen cosponsored, that would require on every piece of legislation that a jobs-impact statement be attached.

MR. ROWAN: That would be great.

SENATOR SINAGRA: That the impact of every single piece of legislation, its impact on business and jobs, would be attached to every single piece of legislation.

MR. ROWAN: That's great to hear. Be sure you recognize that the impact on jobs is sometimes very subtle.

Does an income tax on our sales, for example, affect jobs? You could say no, but if our price is higher, we get less work, and we lay off people instead of hiring people because we sell competitively in world markets.

SENATOR SINAGRA: The other thing that I've always grappled with, and maybe you can give me a-- This is a rare opportunity to be able to talk to you and I'm going to take advantage of it. As a businessman, and also as trying to represent people in the Legislature -- those that elected me -- how do we grapple with different issues of the day? Six years ago, there's no question that the environment was the number one issue on the majority of New Jerseyans' minds. Today, it's jobs and the economy that are the number one issue. How do we balance between the day of the issue and representing our constituents? You know, how do we do that as legislators? What advice would you give us?

MR. ROWAN: Well, I'm not a legislator, so I'm not sure I'm qualified to answer. But, like all things human, they become cyclic. Some years ago, PCBs -- polychlorinated biphenyls -- were the rage. I remember a railroad train in the Pennsylvania -- Philadelphia area that leaked a transformer containing PCBs, and all the residents whose children played along the railroad tracks were suing the railroad for the damage it had done to their children. Now, PCBs have never been established to have hurt anybody, anywhere, or at any time. Yet, this country spent \$20 billion eliminating PCBs from the environment, throwing away perfectly good transformers and capacitors; the fire companies taking capacitors down off the poles and discarding them in some landfill in order to get rid of the PCBs.

We substituted hydrocarbon oils -- petroleum oils -- which now, when the electrical components fail, blow up.

They've killed people; they've burned down buildings; they've destroyed industry; and yet, PCBs at one time were the rage.

Asbestos is the same thing. You all know the asbestos story without my going into it. It's a marvelous product, but if it's handled incorrectly, it can be detrimental. So we spent billions of dollars eliminating asbestos from the environment, instead of just not making it and letting time take care of it.

Now, I'm not answering your question exactly, except to point out that the emphasis the people put on certain items depends on their interest at the time. When the economy is good and things are going well, they get concerned with the environment -- these nasty companies that dirty up the environment -- and it's, "Let's clean it up, let's put them out of business, and let's take care of it." Then when they don't have any jobs because of the economic effect on those businesses, they say, "Oh, we have an economy problem. Let's do something about that."

Those same cycles, I think, affected this last presidential election, because we spent 50 years fighting an economic war with Russia. We won it. As the Cold War ended, the whole world fell into a recession and the President got the blame for it. We now have a new President. I don't know whether that's good or bad, but-- The public forgot about the great job that was done in this country fighting an economic war and winning it, but was concerned now that that war was over that, "Oh dear, we have to change from a Cold-War economy to a peace-time economy, and we don't have any jobs. Let's get a new man." So we have a new man.

I can't answer your question, but there are some philosophies there that you can think about. I think you have to try to educate the people. I think all too often I hear legislators talking about what they're for, but not analyzing the reasons they are for it, and trying to sell the people on their views on the matter.

Just for a moment I want to go back to PCBs. If you said, "Let's get rid of PCBs," that sounds good; dangerous things. But if you say, "Well now, how would you like to send me \$300 of your money to help with the PCBs?" "Oh, I didn't want to do that." So if it's going to cost the people money, they think differently than if they think someone else is going to pay for it. I think the people of this country -- probably all countries -- and the people of New Jersey think that when industry pays for it, it's free. One of the things I tried to get across at lunch was the recognition that when you tax business, they simply add it to their selling price, and the people pay it. And I don't care if you're making doughnuts in a bakery shop or induction furnaces for the world, the customers pay industrial taxes. So when you hang a tax on industry, you're really taxing the people and hoping they don't notice. And that's your problem. (laughter)

SENATOR SINAGRA: Anyone else have any questions for Mr. Rowan?

SENATOR MATHEUSSEN: Yes, I have a question. I'm a firm believer that it's business, and not government, that really drives our economy. I'm somewhat of a capitalist at heart myself, but at the same time I recognize that government can create opportunities, or create at least a passageway for business to operate more efficiently and to operate, certainly, more in a capacity which can earn dollars and create jobs. One thing I'm interested in, and I think the Legislature is interested in, is learning perhaps what tax incentives we can enhance -- that will enhance business growth and also keep business in New Jersey. Specifically, do you have any tax incentives that you think would be helpful, not just to large businesses, though, but also to small businesses, which seem to be a very, very important block of growth in New Jersey?

MR. ROWAN: I just happen to have a whole list. (laughter)

SENATOR MATHEUSSEN: And we didn't speak before this started, did we?

MR. ROWAN: No, we didn't. This is just part of my talk. Actually, I left them out at noon because I was running over the allotted time.

But you have before you right now, either in specific form or in discussion, quite a number of tax bills, each of which would help industry, all of which together would be a very powerful message to industry that: "Hey, guys, we're going to help you get efficient. We're going to help you get your costs and prices down and get more business."

SENATOR MATHEUSSEN: You are familiar, then, with what has been looked at, and was being looked at, in the Legislature. Any of those that you think are extremely important?

MR. ROWAN: Yes. The ones that I peeled out of the paperwork are the tax incentives for increased R&D, good stuff because this leads to next year's business. It may not help this year's jobs, but it will certainly help next year's jobs.

Accelerated depreciation to conform with the Federal standards; that's a Kamin bill. The first one is S-45, O'Connor; the third one, that Senator Haines introduced, is relief for S corporations. Generally, S corporations are small, and I think that's necessary so that an S Corporation is treated in New Jersey exactly the way it's treated in the Federal statutes.

Phase out the tax on business machinery and equipment. Now, a lot of that tax has gone, but a lot of that tax hasn't; for example, vehicles. Some people buy vehicles for personal use; some companies buy vehicles for their salesmen's use: trucks, delivery trucks, that type of thing. We use airplanes to bring customers into New Jersey, and with them sell literally millions of dollars' worth of product in other states. And yet, when we buy an airplane, 6 percent of

that goes to the country. So for our little old Lear, we had to send \$240,000 to the State of New Jersey to buy an airplane to go get some customers and bring them into New Jersey. It's not used as an executive perk; it's used as a working tool for industry. So that's a tax that certainly discourages people from using their imagination to find better ways of selling.

There's the A-238 Kamin bill to eliminate the tax on telecommunication equipment. Broaden sales and use taxes for all materials used in manufacturing operations -- kind of a catchall, but if it's used in manufacturing and you tax it, you run up the price of manufacturing and we don't sell as many widgets in Ohio or in Turkey.

And then Property Tax Reform, S-847, the Lynch bill -- and again, any property taxes that industry pays go into the price of its goods.

So those were the eight -- the seven, rather -- that I picked out of the information that you folks are already studying. The big one I talked about earlier is to improve the system of allocation of income tax so that tax on profits, on sales to other states, and for export are eliminated. Why should we tax the money coming into the State? Let's get it in here, get it turning around in the State, and then tax it. But don't tax it when it comes in, because you keep it from coming in. I think that's a very, very important one. It would reduce our prices on the products that we sell worldwide and bring more foreign money in, which is good for the State and good for the country as a whole. I don't think there's any single bill that could do more than that.

There is in the tax docket a proposal to double the weight -- double weight the sales factor in apportioning the corporate business tax. You may know that when we calculate our corporate business tax -- Inductotherm's tax -- we take the number of people we have outside the State and inside the State as a percentage. We take the amount of property outside the

State and inside the State as a percentage, and the sales outside the State and inside the State as a percentage. Add them together, divide by three and we come up with a percentage of -- is it 9.2 percent sales tax that we pay in New Jersey now, whatever it is -- the sales tax that we pay. So if we have no people outside the State and no property outside the State, and all of our sales go outside the State -- they don't, but if they did -- then we would pay two-thirds of the income tax of someone who only sells within the State. Therefore, our prices outside the State -- bring-in wealth -- would be higher.

So that's been suggested: to double weight the sales so that you would take two parts of sales, and then one of people and one of property. I would go further than that and simply allow the sales to be apportioned-- Total sales, let's see, outside the State versus total sales, times the tax rate, and that would eliminate any tax on that money coming in. Now, you might say, "Well, son of a gun, we can't do that because we need the taxes." But if we bring the money in, and we pay our people, and we pay for the goods and the services in the State, then that money goes as income into the other industries -- the support industries. It gets moved around two or three times, the so-called ripple effect, and that money will earn more taxes that way than not coming in.

If we lose a million-dollar order, as I indicated at lunch, because of being a couple of percent high -- and it happens -- then there's a million dollars' worth of business we don't get into New Jersey. That's 50 man-years of work in New Jersey, at \$20,000 a man-year, and that's including the ripple effect -- our people plus the support. So a small increase in price can sometimes cost us a huge amount of business.

I would carry that same allocation for out-of-state sales versus in-state sales to other taxes as well. I don't think you'd want to impose it on property taxes, because that might affect the township. But certainly on sales taxes and

other taxes that an industry pays, so as to get a kind of double whammy out of the advantage of selling outside of the State.

Those are the tax items that came to mind as I got ready for this session. Good stuff.

SENATOR SINAGRA: Thank you.

Any other questions? (no response) Thank you very much.

MR. ROWAN: Thank you for letting me talk with you, folks. I enjoyed it.

SENATOR SINAGRA: Dr. James?

HERMAN D. JAMES, Ph.D.: I was going to begin by saying, "Welcome to Rowan College," but I think you just met him. (laughter) It is my pleasure to welcome you, Senator, and the members of the Joint Committee on Economic Recovery, to Rowan College of New Jersey. I want to thank you for having this meeting here today.

We're always pleased to host committees of the Legislature; however, given the importance of the economic recovery of the entire State, I'm especially pleased to welcome you here today.

The first Rowan College Forum took place on our campus today. I feel the conference developed an agenda which confirmed some existing thoughts on how to encourage economic development in New Jersey, and identified some new ideas that should be considered.

We all appreciate the Joint Committee coming to Rowan College to take testimony on this subject. Phil Tumminia will present the major recommendations of the Forum to you for consideration in a moment.

I want to talk about economic development from the perspective of an institution of higher education in the State of New Jersey. First, let me indicate that Rowan College is embarking on a road traveled by few institutions of higher

education nationally. We're investigating the feasibility of identifying economic development as one of the main external activities of this college. We feel that our location, breadth of curriculum, outstanding academic programs, the possibility that we have the only residential undergraduate engineering program in South Jersey, and the encouragement we're receiving from the South Jersey corporate community, all point to the potential success of our involvement.

While recognizing that Rowan College is new to the economic development arena, I think a few observations are obvious. To be successful, there must be a trust between the public and private sectors that they both are working towards the same goal. We need to change the impression that New Jersey is not a business-friendly State. If the perception is not correct, then why not? And if it is correct, then let's change it.

There are a number of successful business incubators in the country, many associated with colleges or universities; however, given the limited resources available to higher education institutions in New Jersey, funding economic development activities is a problem.

I recommend that your Committee give consideration to the idea of providing seed money to those colleges and universities in the State that are playing a role in economic development of the State. This support is needed to pay for faculty staff time to assist companies in either their initial years of operation, or to assist them in their planning for success. Clearly, the goals should be to have stand-alone programs within five years.

The alternative I face as the college President, of course, is to charge students additional tuition for this activity, and I'm certain that we all would agree that would not be the right thing to do.

So, in conclusion, I note that the involvement in the economic development activity gives Rowan College an opportunity to provide leadership in an area that is vital to our State. The rewards for our efforts will be the revitalization of the region's economy. While we recognize that no single entity can make that happen by itself, we at Rowan College want to be part of the solution. We believe that we can make a contribution.

Again, I thank you for being here and having this meeting on our campus. Thank you very much.

SENATOR SINAGRA: Thank you.

Any questions?

ASSEMBLYWOMAN DERMAN: I have one question.

Doctor, how have the students who are graduating this year fared in terms of finding jobs?

DR. JAMES: Well, we haven't run a survey on the students graduating at this point, but we normally run a survey of the students going out a year later. Overall, I think that students are facing the same situation probably as we're facing, you know, throughout the State and the country. I know, in particular, we just did a survey on our elementary ed majors because, again, of tremendous concern about the pressures we're facing in elementary ed of individuals who would like to get into the college, and at the same time, we're unable to accept as many students as are applying.

We found in the survey that was just conducted that, of the graduates in '92 in elementary ed, approximately 50 percent did find jobs in the area of early childhood education or elementary education. The remaining 50 percent -- roughly a total of about 97 percent, so a total of 95 percent of the individuals -- are also employed in some capacity in the area of substitute teaching or temporary teaching. So roughly 95 percent of our graduates of last year in the elementary ed program are employed in some related fields of education.

I think our School of Business graduates also hold a similar type of success rate in employment opportunities.

ASSEMBLYWOMAN WEBER: Dr. James, on that survey, is that within the State or--

DR. JAMES: Just about all are within the State, and within this region.

ASSEMBLYWOMAN WEBER: Okay.

SENATOR SINAGRA: Thank you, Doctor.

DR. JAMES: Thank you very much.

SENATOR SINAGRA: Don, do you want to--

D O N A L D S C A R R Y: I promise I won't take any pictures of you. (laughter) Good afternoon, Mr. Chairman, and members of the Committee. My name is Donald Scarry. I'm a principal in New Jersey Economics, a policy-oriented consulting firm based right here in South Jersey.

I've been listening very carefully all day to the people I've been taking pictures of, and I've been listening carefully all day to these experts on manufacturing issues, on southern New Jersey, and on the process of economic development. I have some thoughts on the process and procedures of economic development that I'd like to share with you, and I will be as brief as possible.

I think one of the subtexts of this conference today is that we are seeking answers to some questions. What will New Jersey's economy be like in the 21st century? Will manufacturing essentially abandon the State more than it has in the past? Significant question: Will the service sector be leaving as well?

Many services -- for example, engineering services, design services, a lot of environmental services -- are tightly linked to manufacturing and can't exist without it. Will our urban sectors be excluded from economic activity? Will all the citizens of the State of New Jersey be full participants in the economy?

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There are no answers to these questions. But I want to point out very carefully that the answers can be whatever we want them to be, and we are creating them day by day. Despite having the right economic development programs -- whatever that means -- despite a forthright recognition of the need for manufacturing, despite a number of outreach programs, New Jersey's manufacturing base continues to shrink at a totally alarming rate. This situation has been taken seriously and has become the focus of increased attention. Each legislator has received in his or her office a study done by my firm called, "The Death Throes of an Industrial Giant," and another one called, "A Workbook for a Preliminary Review of Manufacturing in New Jersey." Sometime in the fall, we will be coming out with a specific set of policy recommendations to revivify manufacturing.

I would like to share a few thoughts and principles with you at this moment. What principles can we use to approach the future? First, we need to extend the economic planning horizon beyond the short term. Senator Sinagra asked Mr. Rowan, "What can we do to deal with the issues of the day?" One of the problems that we have as a planning entity -- the State of New Jersey -- is that our planning horizon is too short because it is politically determined; therefore, we are always dealing with the issues of the day, and not the issues of tomorrow.

If you are an Assemblyman, it's two years. If you are a Senator, it's four-four-two. If you are a Governor, it's four. If you hired me to give you some strategic advice, one of the first things you would say to me if you were an Assemblyman is, "Don, it's got to pay off the year before the election." No one is planning out in the long horizon.

Second, we have to provide the climate for personal economic growth for both workers and entrepreneurs. Whatever the future, it has to provide meaningful economic opportunities

for every citizen in the State. This will require massive investments in human capital. Jobs of the future will demand more and higher levels of human input. This climate will also require investment in a tax structure that accommodates business growth; there will not be one person too many and one business too few. The task before us is exciting and daunting.

The third principle of economic development that I think we have to look at is that we, as a State, should plan an economic footprint broad enough to withstand continual shocks, and deep enough to provide rock-solid strength. That means that we cannot become a service economy alone. We have to have a manufacturing base, and it has to be a strong manufacturing base. The broader our economic base, the more flexible and open to change our economy can be. Narrowly focused economies are at risk.

You take a look at Michigan when all they did was make cars. They were a yo-yo; everytime the national economy would go up and down a point, Michigan would skyrocket. Right here in South Jersey, Cape May County is too tourist oriented, so it experiences large amounts of unemployment. We need a broad economy.

How can we compete in the 21st century? The first thing we have to do in New Jersey is to move from passive economic development to an aggressive, targeted plan for our future. Since the earliest days of our nation, New Jersey has been located at the heart of our country's economic activity. Our location has been the core of our industrial heritage and economic strength. Our geographic gift has been supplemented by a vigorous, demanding, and productive workforce capable of making whatever the world needed, however complex and however hard to work. We have had 300 years of economic prosperity based on those two gifts.

However, there are some serious questions as to whether those gifts are sufficient to carry us into the 21st

Century. Technology has shrunk the world; the power of our location has diminished. Other people have become strong competitors to the productive activity that was once ours. The economic rebirth of the globe, coupled with new technologies of production, have placed our citizens in competition with countries, regions, and places that were once too remote to compete on the world scene.

We face a new global economy, a new set of economic circumstances. We face this world without a clear vision of our State's future. We have never had to have a long-range plan. We have been able to prosper without striving; economic power has always been ours. This complacency has to be changed. We need to identify those economic activities for which New Jersey's location is still an advantage. We need to make massive investments in our citizens. We're not too late to do this. There is no despair in this situation; only challenge.

Moving from passive to active economic development may be the single most crucial step in creating and shaping our economic future. An effective vehicle to start this transition, and only a vehicle, is to narrow the universe of prospective businesses we want to target for our industrial future. I note here in South Jersey that Atlantic Electric began that process for South Jersey last year.

What businesses should New Jersey want to attract? Why do we want to attract those businesses? What are our assets and to who do those -- who or whom -- do those assets make a difference? Which assets produce sufficient value added to allow an expensive location? A targeted list of businesses for New Jersey is more than an exercise in statistics; it is the first step in moving from passive to active, aggressive economic development. It is our first step into the future.

But we need more than a list of industries. We need an action plan, step-by-step guidance into the economic

future. We should create a statewide economic development corporation. This should be a public/private partnership. I want the private sector to put some money on the line. I want them to have a role in future economic development planning. I want them to be fuller participants. In fact, economic development planning is too important to be left to the public sector.

New Jersey has developed a land-use plan. Its purpose was to provide for a spatial future, and guidance regarding public investment. What about the industrial dimensions of the future? Have we left those to chance? Are we indifferent to the businesses that fill up our scarce open space? Not really. Do we have any idea what those businesses should be? Not really, either. New Jersey needs to plan its economic future as clearly as it has planned its spatial future.

To implement the economic development plan, the Governor should appoint a development counsel -- c-o-u-n-c-i-l, not another one, please -- a development counsel, c-o-u-n-s-e-l, in the Governor's Office to ensure that elements of the economic development plan become State policy. I would also propose that the public/private joint venture -- statewide economic development corporation -- be charged with the development of the long-range plan. That's what would be important about the development counsel.

There are some-- What happens when everybody has economic development programs? If you go to Trenton and you listen to people, they say, "We have EDA loans." I challenge you to find me a state in the nation where, if Mr. Rowan was going to build a new factory, he would not get some below-market inducements. I challenge you to find a state for me that would not come up with a labor program. I challenge you to find a state for me that would not do the curb cuts. There's too much emphasis in New Jersey on the productivity of

those programs; some of our programs are superior. I'm told our EDA is superior, but is it the best in the nation? I don't know about that.

Let's begin with four observations about economic development programs in general:

1) Many states have economic development programs similar to ours. That's not news to anyone on that side of the table.

2) More importantly, businesses don't respond to specific programs. They respond to a wide variety of location issues, including basic operating costs, business climate, regulatory environment, and positive and negative State-based economic development issues. No one moves to Alabama because they can get cheaper money there. No one moves to Michigan merely because they have better employment and training programs. When you make a business decision, it is an integration of everything that is available to you.

I want to speed up a little. The last point I'll make about economic development programs is: Most of our economic development programs are key to older business location theory. Modern business location decisions are much more complex and much more subtle than finding a place that will let you pollute, than finding a place where you can get cheap labor. No one who is moving out of New Jersey, who is moving out just to get cheaper labor, or just to get lower environmental standards, is going to be stable in their new location. No state in the nation is going to allow you to pollute.

Recently, the National Governors' Association held a corporate roundtable to discuss factors in industrial location. The factors the corporate participants identified probably will not surprise you, and they were in order of their identification.

Number one, an education system that can provide qualified workers over the long term. We do not have that in New Jersey. We have a public education system in our urban centers that is fiscally bankrupt, but it is also morally bankrupt. We turn out people from our urban centers who are functionally illiterate; do not have dress, demeanor, or deportment to take a job; do not understand the discipline of the workforce. This is an economic development issue that we have to deal with.

The other issue in New Jersey -- and again, this is not news to anyone in this room -- is that businesses are looking for efficient regulation, including timely processing of licenses and permits. I would submit to you that New Jersey's DEPE is the single most important obstacle to economic development in the State of New Jersey. I want to be careful when I-- I want to explain that carefully. I don't know of a business that wants to cheat on environmental regulations. I don't know of a business that wants to say, "Instead of one part per billion, I want to do two parts per billion." Businesses come in, they file plans, they achieve environmental standards, and they want their damn permits in the period of time that they're supposed to get them. And we do not get that in New Jersey.

Another point is the ability to work with the Governor's Office, and a feeling that business will be brought in on policy decisions that affect the business community. I submit that the business community sees much of New Jersey's government as hostile to business health. They are not brought in on business decisions and they should be. And then -- please do not kill the messenger -- their next recommendation is a predictable Legislature that will not impose undue mandates on the business community. New Jersey's Legislature, while being made of the finest individuals I have ever come across-- (laughter)

SENATOR SINAGRA: This Legislature?

MR. SCARRY: Yes, this Legislature has an alarming tendency, for example, to mandate the inclusion of this or that in Blue Cross and Blue Shield; to mandate-- For example, last year during the height of the recession, you passed the largest increase in New Jersey's minimum wage, ever. In fact, it was the largest increase in any state's minimum wage program since the inception of the minimum-wage program. The business community told you it would--

SENATOR SINAGRA: One correction. We did not pass that bill last year. We didn't stop it, but it was passed by the previous Legislature, and there was a movement to stop the implementation.

MR. SCARRY: I stand corrected.

SENATOR SINAGRA: Thank you.

MR. SCARRY: The State of New Jersey implemented it. Okay? That message-- Who was talking about messages? Was it Mr. Rowan? That was probably the most destructive message that the State of New Jersey could have sent out to the board rooms of firms in Indiana. I mean, I could imagine a firm in Indiana looking for an East Coast location and they hear about it -- and they may not even use minimum workers -- and they say, "Scratch that State. That's hostile to business."

And last, executive and legislative actions and attitudes that are viewed as minimizing risk and uncertainty, and that certainly isn't true in the State of New Jersey.

I will finish momentarily. What's missing in our State is a complete, integrated economic development program for New Jersey's future, a balanced plan that takes reasonable risks and benefits into account. We've attempted to plan almost every other alternative future we can envision. There is CAFRA; there is ECRA; there is the State Development and Redevelopment Guide Plan; there is the Meadowlands Plan. We have attempted to plan every future that we can. We have to create an equally clear vision of our economic future, and to do this we should do four things:

1) Target those industries we need to have for our economic security, and in back of that recommendation is, move from passive to active economic development.

2) Develop a long-run economic development plan that is the product of a public/private sector economic development corporation that has a planning horizon that is not driven by election necessities.

3) Make the investments necessary to implement that plan.

4) One that's been hit hard: Develop a rational calculus to judge the costs and benefits from the presence of any industry.

A keystone to our new approach to economic development: New Jersey needs a clear, articulated, cutting-edge calculus that compares incremental benefits and costs in environmental issues. We need to look the risks of economic activity squarely in the eye and develop a method of analysis that recognizes the reasonable risks compared with the reasonable projected benefits. We need to develop an incremental cost-benefit approach to environmental issues, a calculus that compares increments in benefits and increments in costs. As an economist: There's no free lunch.

This calculus, by the way, should be embodied in legislation. It should not be the product of idiosyncratic deals between government and individual businesses. This incremental calculus should also become a statutory basis by which rules and regulations are developed.

I want to thank you for your time. Those are my recommendations.

SENATOR SINAGRA: Any questions?

SENATOR MATHEUSSEN: I would only comment that that was very good.

MR. SCARRY: Thank you.

ASSEMBLYWOMAN DERMAN: Mr. Gillespie? Hello, again.

J O S E P H G I L L E S P I E, ESQ.: Good afternoon, again. Thank you for letting me be the token Northerner. (laughter)

I wish to thank the Committee for this opportunity to again appear before you. Some months ago, when I last addressed the Committee, the issue seemed to be how to attract more business to New Jersey. Now, with the lingering recession and the high unemployment rates, the issue is that of retaining jobs and manufacturing in New Jersey.

Much of what I can say on either subject is the same, although the tone may be a little bit more strident. The major issue facing high-technology manufacturing in New Jersey, I think, can be summed up in the phrase, "Will the last one out please turn out the lights?"

Let me start by saying, I'm not an economist; I am not a demographer, nor a statistician; I am not a futurist. I am, by education, a businessman and an attorney. I am the President of Boonton Electronics Corporation, which is a small high-technology manufacturer, which is also located in northwestern New Jersey. Boonton was founded 45 years ago in this State, and remains centered here. We manufacture RF and microwave test and measurement equipment, and electronic components.

Our largest customers have been military and military contractors. As a result, we saw our business fall 40 percent two years ago and stay there. For those who think the military recession started within the last year -- I have news for you. The small companies have been pounded for several years, not with falls of 15 percent or 20 percent, but with declines starting at 30 percent and going to 100 percent.

There are some 2000 electronics companies in New Jersey, and most of them are small. Many of them are manufacturers, and many of them are in trouble because of the decline in military work, continued equipment recession, or

cutbacks in demand by large customers. Those of us who survive have become experts in downsizing and short-term prioritizing. The electronics industry is the largest industry in the United States and has historically been our country's largest growth vehicle. By classification we are generally considered the second largest industry in New Jersey, although some claim can be laid to first place depending upon what is included in each industry category, and a stronger case can be made for electronics manufacturing itself.

The electronics industry in New Jersey is the fifth or sixth largest in the country. In its most restricted view, the electronics industry currently employs 80,000 in our State. That is down from 100,000 in 1989 and 107,000 in 1987.

Back to who should turn off the lights: Over the past few years, as the debate concerning health and manufacturing has been drawn, I've heard some experts say that we haven't lost our manufacturing capability, as we are able through productivity gains to create the same output with a much smaller work force. This point would be valid if our job loss were directly related to automation or direct productivity gains, but those jobs have been exported and we now buy the same products we used to make.

I'll confine myself to talking about the electronics industry, although conversations with other industries seem to indicate that some of these points are universal. Why should we want to retain high-growth technology manufacturing in New Jersey? Manufacturing pays substantially higher real wages than service jobs. Our industry's average wage is \$40,000, which ranks the highest of any honest business in this country. Manufacturing jobs create more support jobs than do service positions. That is known as the manufacturing multiple, which is estimated at various points at 5 to 1. Even if service predominates, the presence of substantial manufacturing will make the economy more resilient to downturn.

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If we want to learn anything from the Japanese and the Asian rim countries, look at what they targeted first; it was manufacture and still is manufacture. In the electronics industry we have a permanent \$20 billion debt deficit which we're paying in goods, not services.

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What is driving small manufacture from the State? The answer to that is in three parts: resources, overhead, and taxes. Resources: Resources in the electronics industry are first, a highly skilled workforce; and second, money. At the highest level, New Jersey has some of the finest technical universities in the country and in the world. We currently produce some of the best engineers and scientists anywhere.

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If we examine the graduate science and engineering programs, you will find many of them dominated by foreign nationals who, upon graduation, will take their skills back to their homeland. With the drive to concurrent engineering and seamless manufacture, the most effective solutions in locating high-technology manufacture is locating not high-technology manufacture where design is located, or design where high technology-manufacture is located; the concept that the U.S. can remain the research and development powerhouse without manufacture is flawed.

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At the next level down, our technical schools are producing poorer technicians than ever before, and with the end of the draft, the military is no longer a major source of trained technical personnel. Temporarily, the industry downsizing provides a surplus, but that will be exhausted. In the next few years, the skills that are required of technicians will increase significantly and small manufacturers, with limited capability to train personnel, will defer needed changes in their processes because these resources will not be available. All of the talk about apprenticeships and K-12 science and math education is wonderful, but stop talking. Put it in the hands of people who can get the job done, and do it.

At the production floor level, we are required to compensate for the success of our quality education by teaching courses like converting fractions to decimals. The issue of money is simple. You can forget the ads. There is no bank borrowing available to small- and medium-size companies coming out of the recession. Those who need money can't borrow. Those who owe are under constant pressure to repay, and therefore, must limit any investment in recovery. As I understand it, commercial banks were established to lend money to business enterprises, not invest in government securities. The current capital rules audit criteria government securities yields. We've little doubt about where the banks will invest.

In the electronics industry, direct labor costs are no longer terribly material. While wages are high, the labor content has been reduced by automation and improved methods.

Overhead: While direct labor costs may historically have caused the departure of manufacturing jobs from New Jersey, overhead will prevent their return. For purposes of this talk, I classify into overhead everything except direct manufacturing, design, and selling costs. Those costs within our control are reasonably balanced, but there is a class of overhead costs which are related to our being in business in New Jersey, and they are growing out of control.

First and foremost is health care. Our company, with less than 100 employees, has an average per employee cost of over \$5000, in part because we have a good program, and also because we have an aging population. This is in spite of the fact that we self-insure some portion of our employees. In 1987, our cost was eight cents per labor dollar. In 1990, when we instituted self-insurance, the cost was thirteen cents per labor dollar. I would say today it's fifteen cents. Actually we just got our bills in, and it will be sixteen cents per each labor dollar. Health care reform seems now to be addressing how to pay for extending coverage, but not how to make it more cost-effective.

Second, and almost as bad, is environmental regulation. Many years ago, before I joined the company, we employed a cleaning solvent in small quantities and dumped what little didn't evaporate down a drain into a dry well. That activity stopped in 1978, when those in charge were first made aware of concerns about the solvent. The company began a voluntary identification and cleanup program at this previously leased facility in 1985. The material is suspended above the upper aquifer and does not affect drinking water. To date, we have spent \$1 million and are nowhere near the 10 parts per billion required. It is also likely we will never get there.

While it's been as yet somewhat unique, many other small manufacturers can cite encounters with ECRA or clean water regulations that are just about as grim.

Then there is the general sheer weight of regulation, both Federal and State, the former affects the State somewhat equally. The regulations fall disproportionately on small companies and small manufacturers. Occasionally, lip service is given to simplified regulations for small companies, but it isn't meaningful. Interestingly, government, which is unhesitatingly suspicious of business, chooses to impose the heaviest burdens upon those who attempt to do the most for their employees. You aren't required to have pension and health plans, but if you do, you are required to comply with the rules and make reports. In the case of pension plans, that probably isn't bad.

As far as taxes are concerned, there's little I can say about New Jersey taxes which I didn't say at the last visit.

What can be done to retain manufacturing? The answer for New Jersey is easy to state, but difficult to implement. Fix the banking system to provide loans to small- and medium-size companies to permit them the transition from recession. In the absence of that, but nowhere near as good, continue the aggressive EDA programs from which many of us have benefited.

Implement an aggressive program to teach New Jersey children that technology and manufacturing are worthy pursuits. Bring K-12 science and math education to world class instead of competing with Portugal. Implement technology apprenticeship programs now, before we miss the digital-technology wave.

Get rid of bad laws and bad regulations. I think the best way to deal with this is by eliminating the concept covered by the phrase, "essential government services." With perhaps the exception of law enforcement, there are no essential government services. Regulations should be written to effectively monitor and control, not to create jobs.

We are about to move into the digital-communications era in telecommunications, television, and radio. The United States is the leader in its development, and New Jersey is represented in three of the four remaining schemes. We lost television production; we lost videocassette recorders. We never had CDs or digital audiotapes. It would be a shame if all we gained from this development was royalties and the right to buy products from overseas.

Thank you.

ASSEMBLYWOMAN DERMAN: Thank you. How do you feel about the possibility of defense conversion? Do you think it's feasible?

MR. GILLESPIE: For some companies it will be feasible, but it appears right now like everybody's running for the door at the same time and they're forming up a jam. There will be a tremendous loss of jobs; there will be a tremendous loss of technology. There aren't enough other things happening to absorb the workers coming out of the defense industries. There will be substantial dislocation.

ASSEMBLYWOMAN DERMAN: You're not particularly sanguine that it can be done effectively?

MR. GILLESPIE: I think some companies will do it well, but I think by and large there will be a tremendous dislocation.

ASSEMBLYWOMAN DERMAN: Senator, you have a question?

SENATOR MATHEUSSEN: You made a comment about the digital recording. Are we talking about manufacturing of CDs and manufacturing--

MR. GILLESPIE: Manufacturing and design. CDs and digital audiotapes were designed either by Phillips or Sony -- and/or Sony. We design VCRs; we manufactured and designed the first televisions. We are now in the process of doing most of the design work for the schemes for high-definition television -- digital-definition television.

Three of the four schemes have some basis in New Jersey. We don't have a television manufacturer in New Jersey; we could use one. It would be a shame--

SENATOR MATHEUSSEN: We have a very successful CD manufacturer here in New Jersey -- right here in our neighboring community -- which is Sony.

MR. GILLESPIE: Yes.

SENATOR MATHEUSSEN: One of their world-class plants is right here in the 4th District. They've been doing very well and the growth pattern has been excellent over the last few years.

MR. GILLESPIE: Yes, sir.

ASSEMBLYWOMAN DERMAN: Any questions? (no response)
Thank you very much.

MR. GILLESPIE: Thank you very much.

ASSEMBLYWOMAN DERMAN: Mr. Elegante.

R O B E R T E L E G A N T E: Mr. Chairman, Committee, I appreciate your having this hearing and listening to our input and comments. First, let me say we would second all of those comments that have gone before us, and would like that to be included in the record.

My name is Robert Elegante. I am the Director of Environmental Affairs for Wheaton Industries. We employ over 4100 people here in the State of New Jersey. That is two-thirds of our workforce. We have approximately 2300 across the country.

Wheaton is a private, family-owned business founded in 1888 here in New Jersey, in Millville, Cumberland County, as a matter of fact, which is where our corporate headquarters are located. We have 48 facilities in the United States; half in New Jersey: Cumberland County, Gloucester County, Salem, Cape May, Atlantic, Ocean, Camden, and Middlesex.

I believe you are all my representatives -- just about. (laughter)

ASSEMBLYWOMAN DERMAN: Excuse me. Where is your facility in Middlesex County?

MR. ELEGANTE: Middlesex County? We have one around Dayton, just above Cranbury. We can pick the rest of the cities off, but basically, almost all of you are our representatives.

We are the leading specialty glass and plastic packaging manufacturer for pharmaceutical, cosmetics, and personal care markets in the country. Our operations are located in 12 states and Puerto Rico: California, Florida, Illinois, Indiana, Kentucky, Maryland, Missouri, North Carolina, Nebraska, Pennsylvania, Virginia, and New Jersey. No slur with being last. Obviously, you are the most important.

The markets we serve are extremely competitive. As one of the other commentors mentioned, a few cents, or millicents even, on millions and millions of items is the difference between having and losing a contract, where 50 million units is a small order. Our competition is for manufacturers in the United States, as well as abroad, and quite frankly, abroad is giving us fits. We find ourselves in a worsening economic squeeze, with ever-increasing energy,

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health, labor, and regulatory costs, and increased competition south of the border with NAPTHA, as well as the other Pacific rim countries.

While in a few locations regulations are more stringent, I mean, we do have a facility in California -- most are not as time consuming. Most states and countries can get things done. In fact, the governmental bureaucracies facilitate and, in some cases, subsidize where we're talking overseas competition. Although we take a proactive-management stance, we are continually frustrated by the onslaught of new State legislation and regulations, no matter how well-intentioned or how well-meaning. Quite frankly, we're proactive environmentally. As Don mentioned, we're not fighting over whether it's one part or two parts, or five gallons or ten gallons. That's irrelevant.

This is tying up our manpower, our resources, and could be better allocated to additional R&D, expansion, improvement, upgrading, and further manufacturing jobs. In actuality, we believe this burden in many cases prevents us from taking a proactive, timely measure to correct any situations that may be deficient, either in actuality or the future, trying to meet what's coming down the pike.

We are well aware of the regulatory conditions that exist in other states. Heaven knows I am. About 60 percent of my time is devoted solely to New Jersey. I would have been here all day except I was hosting the DEPE this morning. Simply put, it is more expensive and difficult to do business in New Jersey. To remain competitive we must be able to respond quickly to changing business and operational requirements. Any significant delay places us at a substantial disadvantage, and, in some instances, will cost us the order, the market, or the customer. This, of necessity, forces our management to reevaluate our initial choices. We have everything here in this State as far as our manufacturing

facilities, and frequently do opt for implementations, modifications, or expansions at another location, in order to respond on a timely basis to our customers and the marketplace, particularly where there is a piece of equipment or a change that we could otherwise make, but it is illegal to do without getting a permit first. Some of the permit requirements are such that it takes six months just to get the information that's required for the permits, then we can submit it, and then we can take care of the processing time that we have. By the way, 18 months is not timely.

The Legislature might consider review of other states' and countries' programs for regulatory consistency from program to program.

As an educated opinion, if you comply with all of the regulations in one program, you will be out of compliance in another program. That is a given.

Provide for expedited review in permitting and for circumstances where permitting is not necessary. Generally speaking, most of the other states in the Union consider that if you make a change and it does not increase emissions, you do not need to file anything. In most states, you can put in a filter, a dust collector, a precipitator, without a permit. In fact, you can't operate the process if it doesn't meet requirements, so everything must, by law, be in compliance before you start it up. But you can't replace a broken scrubber without a permit first, which means two things: If it's broken, you can't operate, and there are provisions -- emergency upset provisions which you folks are working on -- similar to those that provide allowances in that range. Similarly, if it's going to be dirty going out, it would be only common sense to allow immediate replacement even if it wasn't identical, because the last one was bought 10 years ago. Quite frankly, you cannot do it identically, but even

replacement-in-kind gets questioned; with modern improvements things are not considered equivalent or equal unless they're identical.

Many states actively facilitate consolidated permitting with one-stop shopping -- clearly delineated, relevant informational guides. We need to reestablish a level playing field if all of us are going to prosper economically and viably in a revitalized New Jersey. Other locations foster, subsidize, or favor business and its industrial base. We don't really want to be favored, we just want to be equal with the rest of the states. We need to have that level playing field to be competitive.

If you want to get this message out in black and white, then the existing black and white printed word is currently found in the "New Jersey Register," in the New Jersey Administrative Codes. It is not in the pink advertising or the glossies, on a billboard, or in the mailings that get sent out to the states, because, quite frankly, I don't read those from the other states. I read their administrative code and their regulations, and that's what the decision is based on, not an economic development advertisement, quite frankly.

Legislative oversight is a great start. However, consider that the oversight begins with the legislative and Governor's Office staff review of proposed rule making, continues the review of the regulated community's comments, and scrutinizes any response that: "'blank' disagrees. No reason given. Independent 'X' proposing department's review would be helpful." Let's have an independent counsel looking over the shoulder, rather than having the-- I'd better not use that analogy. When significant discrepancies between the economic impact statements appear -- that is, between the one printed in the "Register" and those received in comments from the regulated community -- it is time for an alarm bell to go off,

because somebody's missed the boat, either accidentally or deliberately. The economic impact should be recalculated. Examples: pollution prevention, DPCC, and several other little gems.

The casual negligible social-impact statements reflect opinion, not necessarily that of the management; incomplete analysis; and are a reflection of the casual attitudes prevalent in the State bureaucracies; and an incomplete evaluation of the resultant effects of the regulated community, including the jobs just previously mentioned: cutbacks, layoffs and decreased expansions, DPCC, and pollution prevention, in particular.

I will second Mr. Rowan's comment in that the bureaucracies that proposed the law-- There is an advantage and incentive to having one that's 50 pages long with several hundred paragraphs in sections, because then you get to put down a penalty for every section and paragraph which generally has no relation to the consequences, importance, or significance of whether or not that particular passage is obeyed or in compliance with it, depending on what it is. Even the U.S. EPA for administrative paperwork, as well as OSHA, have categories for paperwork mistakes, oversights, omissions, discrepancies -- not so New Jersey.

No agency should profit from the fees. There is an incentive program out there: Gotcha, go get them, the more they bring back, the better they do, and it goes into their fund. It should be the sole job of the Budget Committee in the Legislature to allocate the funds for any bureau.

And by the way, the DPCC, I understand -- that little reg -- that gained 35 jobs. Unfortunately, they were all in the DEPE. We would encourage not netting out the job benefits with the amount of bureaucrats from the manufacturing. We'd like to be counted separately. We will stand up and be counted, or turn out the lights when the door is closed.

One that's coming down, I believe-- They're going to write new -- possibly new -- stormwater regulations just for the glass industry. We had a very nice visit. It's nice to have input to the Department. Hopefully, it was felt to be constructive on both parts. However, I question whether or not you really needed a whole segment and separate law for six sites in New Jersey, because that's all that's left of the glass industry. We are in South Jersey because that's where our main raw material -- sand, and sandmining -- is. We are watching with great interest the decisions on sandmining in New Jersey. Up to now, it's been relatively break-even with some of the utilities and the raw materials.

We do have a glass facility in Missouri, and we just entered a joint venture recently with the Republic of China. The government is a partner in making products. It does have its benefits.

Be careful with the understanding that through oversight you can repeal, change, or revise regulations, particularly with things like the Cleanwater Act. You may get caught up in not being able to undo what has been done in terms of antibacksliding, relieving, or changing things. Once you do it, it may be permanent, indelible, and unchanging. So we may not have that convenience.

Basically, flat fines and flat fees: It's nice to have the fees broken out, but there is an incentive, if you have a fee for every report and every study, to continue that ad nauseam, thereby bringing in more income again. So if it's not liked, let's have another study. It's only money.

When we talk about permit fees, by the time you get it and any other information the Department may require, it does not matter that that's a half million dollars worth of engineering study. That is part of the cost of the permit, not counting the few dollars that I do pay for the actual piece of paper, which is substantially higher than most other states, by the way.

I'm interested to see -- we all are -- what the operating permit program with the Clean Air Act is going to come out with, and how that's going to change the way permits are processed and the fees that we currently pay. Now, presumably, that will replace them. We'll be interested to see what the charge is compared to the other states that are taking the Federal minimum guidelines. I think it's \$25 or \$26 a ton.

Flat fines, let's look at what comes out. It's all nice that there's a fine for everything, but don't assume that there has been a study relating the quantity of the dollars to the significance of the presumed violation or oversight in the regulation. So, oversight needs to look at that.

We're just going through the departmental oversight costs and I had one of my contractor's consultants comment, "Boy, I wish we could get away with a 370 percent mark up on the actual costs."

Basically, that concludes my comments. I'll be happy to entertain any comments. I tried to stay away from war stories. You've probably heard enough of them.

ASSEMBLYWOMAN DERMAN: One thing you mentioned that I found very interesting, that compliance with one set of regulations automatically caused you to be out of compliance with another set of regulations. Can you cite a specific example of that?

MR. ELEGANTE: I could. Not necessarily here, chapter and verse, but I'd be happy to send it to you.

ASSEMBLYWOMAN DERMAN: Would you contact? That would be very--

MR. ELEGANTE: We're talking about where they are contradictory. In effect, you get into a problem with doing one thing, and you're out of what you would have to do in the other. Yes, I will make it a point to get that to you, Assemblywoman.

ASSEMBLYWOMAN DERMAN: Thank you very much.

MR. ELEGANTE: Thank you for your time.

ASSEMBLYWOMAN DERMAN: Mr. O'Donnell, is he still here? (no response) No? Ms. Berenato Weeks. (no response) No?

You don't look like Ms. Berenato Weeks.

J A M E S L E E S: I don't?

ASSEMBLYWOMAN DERMAN: It says here, Rita. (laughter) And it says Ms.

MR. LEES: I am not Rita Berenato Weeks. (laughter) Put that to rest right now.

My name is James Lees. I'm Vice President of Marketing for Atlantic Electric. I just want to start by saying I guess you've heard my company mentioned here a few times today. We'd like to think that we are aggressive, if not progressive, in economic and business development here in southern New Jersey.

I think the thing that we focus on the most-- You just heard a gentleman from Wheaton Industries. He's one of our very largest customers. He employs about 4000 people in our service territory, and I think you heard a saga of what he's faced with. But more importantly, I think what you ought to understand is the flexibility that a company like Wheaton has, as many of our large customers have, to be able to pick up and move out of the service territory. In fact, Wheaton has done that in the past, and I think their most recent move a few years ago was down into the Sunbelt -- Alabama, or something like that.

So I think you're dealing with something here that's very, very serious. In the case of Wheaton, you're dealing with at least 4000 jobs. You're also dealing with the families behind them, the aunts, the uncles. And you're also dealing with the ancillary facilities, the gas stations, the dry cleaners, the food stores, that depend on that revenue that's generated -- brought into the State and paid in the form of

wages to their employees. Much more from a very selfish point, they also pay about 4000 different electric bills which, to us, is extremely important.

As indicated, I am with Atlantic Electric. We are an investor-owned electric utility covering the southern one-third of the State of New Jersey. I'm here today to speak to you with one little sliver, one little request that I have from you, and I certainly won't go into the many issues that we've heard covered by the other speakers.

As I've indicated, we've recognized the importance of promoting a healthy business climate in all of New Jersey. A few years ago we established an Economic and Business Development Department. It's headed by a Manager, Mr. Kenneth LeFevre. His job is to attract new business to our region. We've advertised southern New Jersey and New Jersey as an ideal place to live and to work. We make relocation less costly. We work closely with the State, county, and local governments to maintain an inventory of available business sites in our region, and for that matter, throughout southern New Jersey.

Just let me digress for a moment and tell you that we're blind to whether it's southern New Jersey or whether it's New Jersey; to us, they're all the same. It's all beneficial to us. You should also know that we're blind as to whether it's an electric customer or it's a gas customer. The fact that we move somebody in here and he creates jobs, in fact, helps the electric company as well, because ultimately those people will become our customers in one way or another.

In the area of business retention, we cooperate with all the utilities in this State, all the State agencies, and the Business Enhancement Program to keep existing employers on sound financial grounds. Other officers like myself, as well as managers in Atlantic, are actively involved in such organizations as Southern New Jersey Development Council, the Southern New Jersey Chamber of Commerce, and so forth --

anything we can do to be out and to be with our customers, and help them to stay viable and economically sound in their business efforts.

And finally, we're able to provide a new economic development rate, through the courtesy of the New Jersey Board of Public Regulatory Commissioners, which provides economic incentives to commercial and industrial customers who locate in our service territory and bring with them permanent employment.

With the utilities, customers, and regulators working together, this type of economic incentive will help to stimulate the economy here in southern New Jersey.

It is in this spirit of cooperation I'm here to talk about this to you today. A deterrent economic development in New Jersey exists in the electric utility rate-setting process. The BRC -- the New Jersey Board of Regulatory Commissioners -- has adopted a methodology called, the "Hourly Cost Allocation Methodology," which is a method that allocates the cost that utilities incur to its various customers. This Hourly Cost Allocation Methodology that they imposed upon us, I believe about seven years ago, in fact imparts a greater cost responsibility to the high-use customer, what we call the high-load-factor customer.

High-load-factor customers, ladies and gentlemen, are essentially your large commercial and large industrial customers. So what we've done, we've taken and placed more of a cost responsibility and a cost burden, through this methodology, on those customers. What that does is, it raises artificially, in our belief, the cost that we must charge -- the rates that we must charge to our large commercial and industrial customers.

When you look at the mix of customers in Atlantic Electric's service territory, we have a very, very high percentage of residential -- what they call a high saturation of residential customers -- and a very, very small saturation

of commercial and industrial customers. So what we've done is, we've taken this cost and put it on a very few commercial and industrial customers; whereas, if it were spread equally as appropriately, on a cost-causation basis, back on to the customers who cause the cost-- We're spreading it over a great number of residential and small commercial customers, which would have a very insignificant impact on their electric bill.

The result is, as I indicated, these large customers bear more of the cost that they are responsible for. That puts them at a competitive disadvantage in the power-cost portion of their operating costs, relative to other utility jurisdictions. When I say that, I'm not talking about the Midwest. I'm talking about Maryland, Pennsylvania, New York, and Delaware, just because these jurisdictions do not use that type of methodology to allocate costs.

The major reason for adopting this cost-allocation methodology by the New Jersey regulators is it provides, in their opinion, a high-cost price signal which they believe discourages the user of the consumption of energy. It is looked upon as a method of forcing conservation on customers.

Ladies and gentlemen, I have to tell you that it does not work. You're dealing, in many cases, with customers that have plants and facilities that may be 30, 40, 50 years old. The cost of bringing those, or making those facilities so efficient as to absorb this type of cost, it just isn't there without completely rebuilding the plant. When they go to think of rebuilding the plant because of the other things you've heard here today, the option is not to rebuild it in New Jersey, but rather to close here and either put the facilities into another existing plant or somewhere out of the State of New Jersey.

We don't think that's the proper way to impose conservation upon our customers. Commercial/industrial customers create jobs. They stimulate economic growth and they

certainly generate tax revenues. And if we continue to allow New Jersey's major employers to pay higher electric rates due to an allocation of cost, discriminate against constant or high electrical loads, they will eventually relocate or go out of business.

Therefore, Atlantic Electric strongly recommends that the regulators in this State, or this jurisdiction, recognize that a more appropriate method of assigning costs to customer groups exists, and it would certainly help to make this State more competitive.

I'm certainly not here to request you to legislate any kind of action, to mandate the BRC to do anything. What I'm really asking you to do here is to lend your verbal support to Atlantic Electric, to the other major electrics in the State of New Jersey, in urging the Board of Regulatory Commissioners to, in fact, move away from this cost-allocation methodology and, in fact, go to a methodology that more fairly distributes the cost, but most importantly, makes us more competitive with our neighboring states.

I'd just like to offer this to you: I've heard many people speak today. As I indicated in the beginning, Atlantic Electric is very active. We want to be very progressive in this area. If there's anything we, as a company -- any resources that we can provide to you in your investigations or in your work, or anything, by either contacting myself or contacting Mr. Kenneth LeFevre, we would be more than happy to try and oblige.

I'd be glad to answer any questions you have, and I thank you for your time. I know it's late.

ASSEMBLYWOMAN DERMAN: Thank you.

Do you have any questions?

SENATOR MATHEUSSEN: Yes, I do.

Have you made these suggestions to the BRC, and if so, what has their reaction been?

MR. LEES: Yes, sir, we have made those suggestions to the BRC. We did it in a filing back in, I believe, '92 -- late '92. It was put off the agenda and that is, in fact, when they approved the economic development rates that I'm talking about. But they're only rates that are in effect for four years and then they go right back to the normal rate. The Board chose not to, for whatever reason, deal with the issue at that point in time, so it was rejectd from the filing. We will be filing again, seeking the Board's approval to change the methodology. What I'm here asking you to do is to lend your verbal support to that effort.

ASSEMBLYWOMAN DERMAN: Could you share with us your correspondence on that?

MR. LEES: Yes, ma'am.

ASSEMBLYWOMAN DERMAN: That would be wonderful, if you could.

Assemblywoman, do you have any qeustions?

ASSEMBLYWOMAN WEBER: No.

MR. LEES: Who do I--

ASSEMBLYWOMAN DERMAN: Have you been giving cards out from OLS? (speaking to Aide, Mr. Berry)

Okay, he'll see you get them.

MR. LEES: Fine. Thank you.

ASSEMBLYWOMAN DERMAN: Thank you very much.

MR. LEES: Thank you.

ASSEMBLYWOMAN DERMAN: Mr. Sinclair, last, but not least.

JAMES SINCLAIR: Thank you. I'm Jim Sinclair from New Jersey Business & Industry Association, and in fact, I am going to be brief because I have to go off to someplace. But, gee, this is my opportunity to give you 10 quick things -- my ideas on what is going to help out. This is really appropriate that I'm sitting here and doing this today. I won't give you all the tax stuff. I know people from the Association have

been talking to you about the tax package, and all that. I'm going to talk basically about the environment and environmental policy, a lot of things you've heard from Mr. Elegante and the fellow from Boonton Electronics, and what we heard all day today.

About two years ago, I was in front of one of the environment committees -- and I think it was the Assembly Environment Committee -- and we were discussing a particularly bad piece of legislation that the Committee was going to move out. I tried to bring up the economic impact of that piece of legislation, and the Chairman of the Committee looked at me and with almost the back of his hand, said to me, "This is not the Economic Development Committee."

ASSEMBLYWOMAN DERMAN: I wonder who that was.

MR. SINCLAIR: Well, it's not the person who went off to his final reward at the Meadowlands. It's the other Environment Committee, I think, and I won't mention names.

I would like to quote Scott Weiner, and I'm not going to bash the Department of Environmental Protection. I love the people there and we work with them. When they can be helpful, they really try to be helpful. They have a 4000-person bureaucracy there. It's the toughest job in State government, maybe one of the toughest jobs in the country, to manage that. Scott Weiner has said, "Environmental management is policy-driven," and I said that this morning in my remarks. I love this statement. I've been thinking about it and what it means, and what he means by it. He means that it isn't scientifically driven. We don't know enough about the science of the environment to make rational scientific and engineering decisions that would make Mr. Elegante happy -- you know, exact things. Environmental management is policy-driven.

In New Jersey, we have developed bad environmental policy through a political process. The good news in this is that we can undo it. All we have to do is have the political

will to undo it, which I know because I'm a realist. I know it's a lot harder to do that than to say it. Although Mr. Rowan probably wouldn't believe that, because if it's bad policy we should just undo it because it's going to help create jobs. You see played out before you -- this is the '90s -- the impact of that environmental policy.

So let me quickly give you my 10 items. Actually, it's 11 items because I was thinking we also should be plugging Assemblyman LoBiondo's bill, which says that you get a tax credit for putting in new pollution equipment. Actually, you don't get a tax credit. You don't have to pay the sales tax on the new pollution equipment, and there's going to be a hell of a lot of it next year with the Clean Air Act. So on one hand we want to meet the requirements, and this is something that's going to be helpful. It's not going to, you know, really, really be helpful, but it's going to be somewhat helpful. We ought to put that in the package.

Okay, quickly the 10 items: We ought to invest some money in fashioning a workable and sensible environmental policy that includes in it economic growth and jobs, and looks at the economy as part of the environment -- puts people back into the environment. I'd like to have some words that we put in all the environmental statutes that say, you know, consistent with economic growth, or things that add a policy directive to the people in the bunker, because they look to what the law says.

I've implemented laws before. Implementing what you want to do is not an easy task. The people who do the laws look at how big the envelope is, what it is being asked to do, and then within the letter of that -- perhaps not the spirit, but within the letter of that -- they perceive and invent the world. So we need to put some guidance into our environmental regulations that economic things are important, too. Now, we don't have to go overboard, but I think some guidance -- and that should be an ongoing policy of the State. That's one.

Two: We ought to reduce the size of the DEPE. We ought to have a goal; let's cut it down by 25 percent. It's something to work towards, but let's not just say that. Let's spend money to figure out how we can do that. You know we're talking about reinventing government; let's pay for the expertise.

You know, the Department-- You may or may not know this, but the Department of Environmental Protection has been going through a reorganization. Well, what is the basis of their reorganization? What do they hope to achieve? What were the goals? What was the plan? What did they have to get out of it? All we know is that they were reorganizing in some way, in the bunker talking to themselves. We ought to figure out: How many jobs did they eliminate in their reorganization? I don't know. We ought to have a goal, and we ought to pay for the help on the outside. It ought to come out of the fees, and we ought to map it out. The same way where industry -- in this pollution-prevention mode where we're cutting down emissions-- Well, we ought to cut down employment. The Department ought to come in and say, "Aha, this year we were able to reduce the number of employees by 500 and still give you a good environment, and do things." So that's two.

Three: How do we do that? Well, we know how to do it. By privatizing, by certifying, by taking decision-making things out of the hands of bureaucrats and certifying them. Let's define what the role of government is. Let's define what the role of the private citizens is, and let's do it more in the marketplace. I mean, that may sound like rhetoric to you, but I think that there's really a practical way to proceed with this that would help us in the end. Okay?

I have this little thing here that says, "Federal, State, County, Local." Let's figure out how to avoid the duplication in what we do. There's something called -- you may not know this -- the County Environmental Health Act.

Basically, what it does is allow counties to do what the State does. Not to do it instead of the State, but to do the same thing. So what we have in some counties, like Union County, we have people setting up bureaucracies whose only purpose is to shake down industries for moneys on air permits. Make them fill out the forms. They don't do anything for this thing. It's only an extortion shakedown exercise. So if DEPE wants to have the counties do it, then DEPE ought to stop doing it.

We're going to be talking about something that you probably haven't heard of called the Environmental Subcode of the Uniform Construction Code. And, is this a good idea or a bad idea? I really don't know. I know that the Construction Code works well. This is a good system; it works at the local level. It's a wonderful system. People don't have a lot of complaints about it. If we can take some of the permitting process from DEPE and shift them down to the municipalities where you can get permits a lot quicker over the counter, whether they're wetlands permits or something like that, that's fine. Let's do that, but let's not duplicate it at the State level. Let's not-- Let's say, "Okay, if they're going to do it there, then we're not going to do it at the State level." You see, we don't need duplicate systems. If we think this is the best place, then let's do it there. Let's think about that. I'm open to looking. I'm going to the hearings and will examine it. That was four.

Five: This is my favorite -- site mitigation. Years ago, we talked about how to fund the cleanup of hazardous waste sites, and industry had to kick in about -- a maximum of a half of 1 percent of the corporate business tax to clean up these sites. We have paid close to \$200 million into this pot. Do you know how much money is spent on the cleanup of sites? Zero. Zero has come out of that pot. All of that money has gone into the Treasury. That was not part of the deal. That was not part of the deal. But why are you just hearing about it now?

Also part of the deal was that there was going to be oversight -- ongoing oversight over the whole site-mitigation program -- that we were going to have a process of audit. I don't mean accounting audits. I mean real audits of the cleanups. I'm not talking ECRA now. I'm including ECRA, Superfund, and the State's Spill Fund, all those things -- looking at the management, the scientific processes, where the money goes, and the legal problems that we have, and be able to look at this and address this on an ongoing basis. Instead, we have not had that at all. This is a mysterious thing which is spending \$2 billion. It's a \$2 billion program now that's heading towards a \$5 billion program without any oversight. It's all in the Department. It's all, who knows what? I don't know what. I mean, occasionally they publish a telephone book full of stuff and you can buy it now, but who reads it? I mean, where is the ongoing knowledge that we've gained in the process?

And do you know what we're facing right now with the municipal landfill question? We're addressing that from scratch. All these people have no idea what the program is about and are going through a learning process. And we're going to face it again. We're going to face it with the funding. It's going to be an additional tax on business. We ought to go back and visit that. We need oversight over the entire site-mitigation program.

The Business & Industry Association has made recommendations in the ECRA reform to put in that oversight; build it right into that. I think that's something that's going to save us millions and millions of dollars. This is an easy one. It winds up helping the Department because the Department doesn't have any friends. Nobody came in and said the Department was wonderful today. It doesn't have any support mechanisms. There are no support mechanisms for the Department. This would be a support mechanism if you had an oversight group of people that was working with them.

Six: Federal standards. Why do we have to exceed the Federal standards on any of this stuff? Why do we have to have different New Jersey rules? Why can't you pass a law, which they've done in other states, that says New Jersey cannot exceed published Federal standards unless you go through an elaborate process to justify it? And maybe there are times when you want to justify it. I'm not saying the Federal government is right all the time, but let's have to justify the exceedance. Let's not go for-- This is an easy one. This would be good and it would be helpful.

Seven: Data. We have spent billions of dollars -- well, maybe not billions -- we've spent a lot of money giving the State data in reports, a frenzy of data collection, but very little data usage. Why can't we give credit for what we've done? Why don't we know how clean the Delaware River is and measure that against what our goals are? Why don't we know what it is that we've done with the air? Why don't we have a set framework of information so we can measure our progress so that we can say -- instead of always going from crisis to crisis -- that at some point we can point to and say, "Hey, we spent a trillion dollars in New Jersey on pollution control equipment, and this is what we've done"? You can see this measured so that we know, and let's work with the same set of data.

This is the pollution-prevention problem, you may have heard, in revising the pollution-prevention law. You said in the law that they have to use 1987 as the baseline year, and the Department in their regulations said, notwithstanding what the Legislature said, "We're going to use 1991." And why? Because Hal Bozarth said this morning that the Chemical Industry Council shows that from 1987 to date, they're already at 48 percent reduction on total emissions. They're only 2 percent short of what the goal is in the program. Now, here we go.

Eight: Please-- In the old days, I used to go in and argue for the increase in fees because we thought the Department needed more staff. If they have more staff then you can get the permits. I was wrong. You ought to take back that responsibility. It should be a part of the appropriations process. You ought to give them money to do it. They ought to justify how much staff they need, the money to go into the Treasury and, for God's sake, all that fees and penalty stuff should go into the Treasury. It shouldn't go back into the Department. That is the worst system.

ASSEMBLYWOMAN DERMAN: Senator?

SENATOR MATHEUSSEN: Through the Chair, that is a reversal, because I can remember the Association just up until last year making that very argument.

MR. SINCLAIR: Yes. We have worked with the Department.

SENATOR MATHEUSSEN: I'm glad. No, I'm glad you brought it up, because I've heard several people before you today testify to that exact same request, but I distinctly remember NJBIA--

MR. SINCLAIR: I am guilty.

SENATOR MATHEUSSEN: I'm not accusing you of being guilty of anything, Jim. I'm not saying that at all. What I'm saying is, I want to be certain. And it's fine to reverse your opinion. There's nothing wrong with that.

MR. SINCLAIR: I've gone in three times and testified for increased ECRA fees. I've supported the air pollution increase in fees, but it's really gotten out of control. We need to bring it back into control once again to help the Department, because the Department looks like the bad guys in it. You know, they look like bad guys and they're not. They're good guys. They're only trying to carry out your policy. You're the boss. I mean, that's the case, and so it's time to, you know, take their allowance back.

Nine: A good-actor policy. We ought to have a good-actor policy in this State instead of treating people like potential felons. We ought to say that Keith Campbell and Atlantic Electric and all these companies are good actors. Thank you for having these jobs. Thank you for investing in pollution control equipment. Oh, we see that you violated a parameter on your permit. Well, what are you going to do about it? We shouldn't slap them with a \$15,000 fine because they're five days late on filing a report that shows that there's no pollution. And that's the law right now.

We need a policy-- Steve Madonna, by the way, has put forth a policy on criminal stuff -- a good-actor policy. We ought to have, generally, a good-actor policy on all environmental violations. We ought to have real people in the Department of Environmental Protection make real decisions about whether you have ducks on your pond that are causing your pollution or not. I mean, that's the way it should be. It shouldn't be, you know, a limit is a limit is a limit, because the world is not all the same and there are extenuating circumstances. We want to encourage people to come here and build. The companies we have, we want to keep.

The last item is number 10. You could do away with ECRA. You could eliminate it; you don't have to reform it. There's no reason to have ECRA. I can't think of one good reason why we should have ECRA. You can't do it politically, but you could do away with it. You could do away with the State's Right-to-Know Law. Why do we have it? We have a Federal Right-to-Know Law. It's duplicative. You can reform it, and please do it. And that's where you'd go, but you can do away with it. We don't need it. There is no reason that it exists.

Pollution prevention: You need to reform it because we see this as a positive way of patting ourselves on the back. This is a positive kind of thing. I want Hal Bozarth's

Chemical Industry Council guys to broadcast to the world that they've reduced the amount of emissions going into the environment by 50 percent. You should be applauding them for doing that.

Joint and several liability: I brought this up the other day. Joint and several Liability in Superfund comes from New Jersey out of the Spill Fund. There's nothing religious about this. This did not come down from Heaven. You can change that. You could change joint and several liability in the Spill Fund. You could send a message to Congress that, "Hey, we woke up in New Jersey." We could deal with this and build a system where people pay for what they pollute, you know. Great policy change -- great message.

Clean Water Enforcement Act: You need to kill that, and don't forget the caps on the legal fees. You need to revisit that. You're probably not going to do it this year, but next year, please. You ask anybody out there, this is a terrible Act.

Other areas where you could cut back, other areas that are too stringent that we know now after about good programs. Toxic Catastrophe Prevention Act: A wonderful program but it is overregulated. We could revisit that and we could make it into a more workable program easily. It's a good program and its got great people in it, but it's where we could do something.

DPCC, as Bob Elegante said, we could do away with that, absolutely. And that is a really overblown program, where people are mapping out -- doing aerial mapping of waterways, doing the work for the State for them. For what reason? I mean, we ought to have a sensible program. We ought to have something that allows sensibility.

That's it.

ASSEMBLYWOMAN DERMAN: Thank you very much. I just want to tell you that, you know, Assembly Warsh is now Chairman

of the new Regulatory Oversight Committee, and he cannot wait to get started. I'm sure you'll be an early visitor there.

MR. SINCLAIR: Yes. But we need to use that tool judiciously because--

ASSEMBLYWOMAN DERMAN: Well, I'm glad you recognize that. He feels the same way, also.

MR. SINCLAIR: Yes.

ASSEMBLYWOMAN DERMAN: Thank you, everybody.

(MEETING CONCLUDED)

