



Committee Meeting

before

JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY

"Factors influencing business retention and expansion,
and the attraction of new business to the State"

LOCATION: East Brunswick
Public Library
East Brunswick, New Jersey

DATE: February 17, 1993
10:30 a.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Jack Sinagra, Chairperson
Assemblywoman Harriet Derman, Vice-Chairperson
Senator Peter Inverso
Senator John H. Adler
Assemblyman Steve Corodemus

ALSO PRESENT:

Christopher R. Berry
Gregory L. Williams
Office of Legislative Services
Aides, Joint Legislative Committee
on Economic Recovery





SENATOR
JACK SINAGRA
Chairperson
ASSEMBLYWOMAN
HARRIET DERMAN
Vice-Chairperson

SENATE
JOHN O. BENNETT
PETER INVERSO
JOHN H. ADLER

GENERAL ASSEMBLY
STEVE CORODEMUS
JOSE F. SOSA
WILLIAM J. PASCRELL, JR.

New Jersey State Legislature
JOINT LEGISLATIVE COMMITTEE ON ECONOMIC RECOVERY
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COMMITTEE NOTICE

TO: MEMBERS OF THE JOINT LEGISLATIVE COMMITTEE ON
ECONOMIC RECOVERY
FROM: SENATOR JACK SINAGRA, CHAIRPERSON
SUBJECT: COMMITTEE MEETING - February 17, 1993

The public may address comments and questions to Christopher R. Berry or Gregory L. Williams, Committee Aides, 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, February 17, 1993 at 10:30 AM at the East Brunswick Public Library, East Brunswick, New Jersey. The committee will be taking testimony on the factors influencing business retention and expansion, and the attraction of new business to the State. This discussion will also focus on the general economic conditions in the State and on steps the committee can take to further bolster the economic recovery that is currently underway. This meeting is the first in a series of similar hearings the committee will be conducting throughout the State over the next several months.

Directions to East Brunswick Public Library:

From the North, N.J. Turnpike to Exit 9; take Route 18 South about 2 miles to County Road 535 S (Cranbury Road); continue to third traffic light to right on Ryders Lane; continue 1/4 mile to left on Civic Center Drive to parking lot #2 or #3;

From the South, N.J. Turnpike to Exit 8A; after booth, turn right on Forsgate Drive (Hwy. 32) to traffic light and right on County 535 (Cranbury Road); continue north about 7 miles to traffic light at Ryders Lane; left at light and continue 1/4 mile on Ryders Lane to left on Civic Center Drive to parking lot #2 or #3.

The library is located in the municipal complex.

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SENATOR JACK SINAGRA (Chairperson): Good morning. I want to thank everyone for attending this morning. This is the first in a series of out-of-Trenton testimony having to do with the economy and things that we, as a Committee, are looking at to help business, small and large, to prosper, not only in 1993, but looking more so toward the future of what New Jersey has to do to become more competitive for both job retention and for the attraction of businesses.

This morning, if you would like to discuss-- We have a series of about 10 speakers. Steven Goldin will be our first speaker. Good morning.

S T E V E N E . G O L D I N: Thank you, Mr. Chairman and distinguished members of this Committee. On behalf of the Board of Trustees of the Woodbridge Economic Development Corporation, Mayor James E. McGreevey, and the 93,000 residents of the State's fifth largest municipality, I am very honored to be testifying here before you today about the success that we have achieved in Woodbridge Township in retaining, expanding, and attracting businesses.

Just three weeks ago, as was recorded in The Star-Ledger, we announced the creation of 1200 new jobs in Woodbridge, with a combined payroll of \$25 million, and \$600,000 in new property tax revenue. As a result of our efforts, since our establishment in March of 1992, operating with only a \$45,000 start-up loan from the New Jersey Economic Development Authority, we created jobs at a cost of \$38 each. No other economic development organization in the State of New Jersey, indeed few in the country, can claim those kinds of results.

Commerce Commissioner Barbara McConnell, an early and active supporter of our efforts, has stated: "While there are similar corporations around the State, this one has been extremely successful in a short period of time." In fact, I now regularly receive invitations to speak in municipalities

throughout the State about how we have achieved such dramatic success so quickly in Woodbridge Township.

I firmly believe that private, nonprofit, local economic development corporations are critical to the State's ability to retain, expand, and enhance business. Based on the results achieved in Woodbridge, I submit that these organizations, when established following EDA guidelines modeled on organizations like ours, should be funded by EDA, with an initial start-up grant of \$100,000. Subsequently, those organizations which demonstrate that they were directly responsible for job creation during their first year of operation, should receive a second round of EDA financing equivalent to \$250 per job created. EDA operational financing subject to a designated formula allows the staff and board members of these corporations to focus their full efforts on job creation, without diluting their attention with fund-raising efforts for operational support. They would, of course, be free to supplement these EDA moneys with moneys raised privately among the local business community.

The success or failure of a local economic development corporation rests on three legs: The stature and level of commitment of the board of trustees -- and our Board includes senior executives and CEOs from: Amerada Hess; the Rouse Company; Merck; Supermarkets General; Wilentz, Goldman & Spitzer; Jacobson, Goldfarb & Tanzman; Bankers Savings-- It rests on the support of the mayor and the municipal council, and the talent of the chief executive officer of the organization. We have been able to recruit to our Board some of the top people from some of New Jersey's largest corporations. I must emphasize that the membership of an economic development corporation is not simply a rehash of the membership of the local chamber of commerce. The typical local chamber of commerce has, at best, mid-level executives on its board, and what you must have on the board of an economic

development corporation are CEOs, CFOs, COOs, going down as low as executive vice presidents, if it is a large organization.

We also have a Mayor in Woodbridge who, as a former Merck employee, understands the thinking of the business community, and two of the nine members of our Municipal Council, from each side of the aisle, sit on the 15-member Board of Trustees of the Woodbridge Economic Development Corporation.

Finally, the organization CEO must be able to speak the language of business with the chairman of a \$200 million company with the same ease with which he speaks the language of government with DEPE officials. The CEO of an economic development corporation must be an entrepreneur, and it is essential that he or she have substantive private sector experience in order to have credibility with business clients.

It is also critical that an economic development corporation have a very tightly defined focus and mission, and not stray from that. Because you are operating with such a limited budget, and consequently a limited staff, you have to make some very difficult decisions about who you are going to be able to help and who you are not. We, for example, focus strictly on manufacturing firms; firms that are looking to do warehouse or distribution facilities. We have chosen that because we feel that those kinds of businesses create the highest paying jobs, and also, uniquely, can take advantage of the specific opportunities that we have available in Woodbridge Township in terms of a very well-trained, blue-collar labor force, and probably the State's premier transportation network. That means that we say no regularly to retailers who seek our help. It is not easy to do that, and we also say no regularly to businesses that perhaps may be only \$5 million in sales and are going to create five new jobs. With the same investment of staff time, we can work with a \$150 million company that is going to create 70 new jobs. Again, the reason

we have to do that is simply a limitation of staff based on limited funding.

I have outlined some other topics that I think might be of interest to you. The programs that we offer are, in fact, largely EDA programs. In addition, we are doing some new things. We are in the process of setting up a multibank community development corporation, which has been done probably most successfully down in Dallas. First Fidelity New Jersey has a community development corporation, but its focus is principally on housing meeting Mount Laurel requirements and so forth. A multibank CDC is comprised of approximately seven to eight banks which contribute capital into a pool. Those moneys are considered off the books from the perspective of the bank regulators. They also get CRA credit for that investment, and the bottom-line benefit is, they can earn a potential 20 percent return on those moneys.

What we do is screen deals. As deals come in, for example, and a company, let's say, \$10 million in sales is looking for an \$800,000 loan, and they have a bank that is willing to make them a \$650,000 loan but that \$150,000 is the missing piece, a CDC steps in, spreading that risk among the seven or eight member banks, and makes the loan for the difference. That loan can take the form of subordinated debt, or it can take the form of an equity investment, which is something a bank can't do directly. You have some winners and some losers, but overall the history of these multibank CDCs shows a 20 percent return, and no banker is going to scoff at that. So we hope to be the first community in the State of New Jersey to put one of those together. We are in the process of doing that now, with the assistance of First Fidelity.

We participated, late last year, in New Jersey Bell's Business Retention and Expansion Program, and frankly, it has not been the success that we had hoped. The reason is, it requires an intensive commitment on the part of the Board of

Trustees to go out and interview businesspeople in the community, and the catch-22 of having a Board of the stature that we have is that they honestly don't have the time to go out and do five or six 40-minute interviews. They are very involved at a level that is appropriate to their expertise, but that is just not the kind of thing you can expect when you have a Board of the stature that we do, and we do not have the staff to go out and do those interviews. So that is a project that has not been as successful as we would have liked. Again, I think the most effective way to do that is through economic development corporations' staffs, as opposed to asking board members of an economic development organization.

Some of the other things we are involved in which will create jobs in the intermediate future are: development feasibility studies for municipally owned land in a municipality. We are involved in a major traffic study for the Metro Park area, which is looking at the development impact of a 3500-car parking deck. We are involved in our waterfront redevelopment in the municipality; the reconstruction of our Main Street; and the construction of a new town hall and public safety complex.

My experience during the past 10 years in economic development in the public and private sectors has been that there are three reasons that more businesses do not take advantage of some of the great programs that the Department of Commerce and the New Jersey EDA offer. The first is, they simply don't know about them, and that is a direct reflection of the fact that our Department of Commerce budget is pitifully inadequate and should be an embarrassment to all in New Jersey who say they are serious about economic development.

You have all probably heard of the place wars, and it is a war; it is trench warfare. There are states out there that have offices right here in New Jersey, that are recruiting businesses away right out from under our nose. Our Commerce

budget just isn't enough to do what needs to be done. We have three representatives that cover the whole State from the Department of Commerce in the capacity of account executive, if you will. It is totally inadequate. Those people operate out of a single office down in Trenton. They should be regionally based, with regional offices interspersed throughout the State.

The second reason that businesses do not take advantage of these programs is, when they do solicit information, because of the modest staff levels in Trenton, there isn't the time to probe for the specific needs of that business. Consequently, the poor businessperson receives a pile of documents this high (demonstrates), only this much of which may be relevant to his or her needs. He or she is faced with running the day-to-day operations of their business, and don't have the time to wade through that, so they become discouraged and push it away.

What we have done is take all of those documents and distill them into what we think is a corporate-wooing type of brochure which really just gives the businessperson the essence of the programs that are available, enough so that he can say, "That is what I am interested in." Then he calls us and we come in and learn about their business, learn about their needs. Then we say, "Here is the specific program that is right for you. Now we will take the next step and be your account exec with the people at the State.. We know them; they know us. We have credibility with them. You attend to your business. Let us be the ones to deal with the folks from the EDA and the Department of Commerce."

But again, that kind of attention takes manpower, and that manpower costs money. If you want top results, you have to have top people. Those people typically come from the private sector, and they are not inexpensive.

Finally, follow-up: The failure of businesses to follow up when they do receive that literature often stems from

the fact that their initial contacts, after receiving the literature, with the requisite departments, are a source of frustration. I have been doing this for a number of years. Sometimes I still don't hit the right place in the first few tries. Despite the efforts of Commerce and the EDA to more clearly outline who does what in their organizations, I think there is some room for improvement down there, and I think they would agree. But again, the best way to provide that kind of seamless interface between the State and the local level, are these local economic development corporations.

Confidentiality is critical to a businessperson. If you are having problems in your business, you don't want your competitors and customers to know. Likewise, if you see a market opportunity, you do not want to telegraph your intentions to your competitors. You go to a bank, everything is private. But if you go to a governmental -- an economic development organization operated as a governmental entity, there is a duty to disclose on their part, and no businessperson in his right mind is going to deal with an entity that potentially may disclose their operations. The advantage of having a private economic development corporation is that there is no duty to disclose, and the businessperson can deal in confidence. That's critical.

Fast response is essential. We are working with a company now that is expanding their facility in Woodbridge Township. They have heavy manufacturing machinery coming in from Europe at the end of this year. It is critical that they get construction started now. They were held up with the DEP on a permit matter. We were able to assist them through the Department of Commerce in getting that permit issued in a timely fashion.

Finally, credibility, I think, is critical. Having been, again, both in the public and private sectors, I know there are a lot of good people in government who are as good as

anyone in the private sector. But just as there are people in the private sector who aren't top-notch, we have some of those in government, too. Unfortunately there is a perception out there in the private sector, which is unfounded, but nevertheless exists, that generally speaking, people who are working in government are not really qualified to assist them. So again it becomes critical that the CEO of that local economic development organization have credibility with those businesspeople. You know you have that credibility when people start to make you offers to join their companies. If that is happening, you know you have that kind of credibility. That's crucial. That is why I say that, in my opinion, it is essential that someone in this position have substantive private sector experience, so that you know the way a businessperson thinks, that you have had P&L responsibility, and you understand the time element, the time differential that the private sector operates on, in large part because it doesn't have to achieve consensus versus what happens in the public sector.

Finally, some specific recommendations: I think our Department of Commerce budget has to be dramatically increased, not on a percentage basis, which is, I think, a politically easy way for people to say that we are making a commitment. I am talking about an absolute dollar basis. Look at what your competitors are in terms of states. Look at what they are spending in absolute dollars on economic development efforts among all of the agencies in their infrastructure that are targeted for economic development. How are you going to compete if you are spending 50 percent less in absolute dollars, when, in fact, because your target market may perceive that your offering as a State is less attractive, even though it may not be, their perception is that it is less attractive? That means you should be spending even more than those

competitors who have, in the minds of your target market, a more attractive offering.

I think that local economic development corporations should receive operational funding based on performance, initially start-up capital of \$100,000, and then a formula of approximately \$250 per job created. I think there needs to be greater integration of efforts at the State, the counties, local economic development corporations, and the public utilities that have economic development operations. That cooperation now is really dependent upon personal relationships that are developed among the executives from each of those organizations. I think there is an opportunity to formalize that to a degree, so that there is more of an even playing field.

Frankly, one of the reasons we have been successful is because we have strong relationships with individuals in each of those levels of government. Other communities may not be as fortunate. They need an introduction initially. Everyone wants to be successful, including the folks at Commerce and the EDA. We have managed to make them look good in the things that we have done using dollars that they have invested in us. They were willing to take that risk initially because they knew some of us in past lives; they knew we had a track record of success. Just because someone doesn't have those kinds of relationships doesn't mean that their organization should be penalized.

Finally, I think there is a real opportunity to create county-based economic development corporations. One of the things that one must constantly guard against, as a local economic development official, is to not cannibalize your own State. I think that county-based EDCs provide a greater opportunity to avoid falling into that trap. Some of the counties, including Middlesex, have economic development arms within the county government. The one here in Middlesex is

critically underfunded, but again I submit the fundamental problem is that it is part of government, and as such, structurally, will never be able to be truly effective because of the issues of confidentiality that businesses are concerned about. So I would recommend that that be broken out as a private corporation.

Finally, I would be remiss, as someone involved in economic development in the State of New Jersey, if I didn't mention ECRA. I will simply mention a specific deal in Woodbridge that sadly is going to result in a loss, long term, of many hundreds of jobs.

I have a Fortune 50 company which has a manufacturing facility in Woodbridge with 350 jobs that pay an average of \$35,000 each. Those are good jobs in Woodbridge, which has a median household income of \$45,000. The parent corporation decided that they needed to expand capacity for that product line, and they have approximately seven plants around the country for this particular product line. They would like to expand the Woodbridge facility. The small manufacturing company across the street is willing to sell to them for a price that they consider reasonable.

The problem is that in order for the deal to go through, he has to do Phase 2 environmental testing. He has never contaminated the site, but he doesn't know what is there from the previous owner. When he bought the property, as we hear all the time, these kinds of tests were not done. The problem is, he is unwilling to even do the tests, because if anything is found, he then has an obligation to clean up the site. He can continue to operate there now and draw his \$100,000 a year salary and his \$50,000 a year profit, and he is happy with that. He would also be happy to sell them the property for a million dollars, but the deal is not going to happen because, as ECRA is currently structured, if you test and you find something, you have to clean it up.

So this company, which has a -- this particular division which has a mandate to expand capacity this year, is going to have to expand a different plant elsewhere in the country. As a result, long-term, this plant will be phased out, because it is clear now that there is no expansion capacity and the plant will be inefficient relative to larger plants elsewhere in the country. That is a concrete example.

Just a couple of weeks ago, I was down at EDA, and I was trying to structure a deal where EDA would guarantee the cleanup costs above a certain level of this target acquisition site, if anything was found. Unfortunately -- and I understand their perspective -- it would have been an open-ended commitment, and they could not do that deal.

What needs to happen is, the laws need to be reformed, so that in a situation like that the testing can happen. If nothing is found, the deal goes through, or if the contamination is minor, the deal goes through. If the contamination is major and the sale would trigger a cleanup, and the owner decides he doesn't want to go through with the sale, he can continue to operate his business without being required to do that cleanup.

That is the extent of my prepared remarks. I would be happy, at this time, to entertain any questions or comments from the Committee.

SENATOR SINAGRA: Any questions, Senator?

SENATOR INVERSO: I just have a comment: I was very impressed with your presentation. You have done a lot since your inception back in March of '92. I am reading your brochure.

I am just curious. Obviously the strength of any effort like this rests, as you have indicated, with the expertise of basically the private sector experience of individuals involved with the economic development corporation. How many people do you have on staff?

MR. GOLDIN: Me, part-time. (laughter)

SENATOR INVERSO: I am amazed, then, at what you indicate you have accomplished and the things that you have looked at to see if you could get some initiative on them. You have given us a lot of food for thought. I was very, very impressed with your presentation. Good luck to you.

Your comments about ECRA certainly go to the heart of what we are looking at with regard to ECRA reform. I don't know about that specific item, but we ought to at least keep that tucked away.

I am just curious: What was the initial funding capital that you received from the private sector corporations that joined your--

MR. GOLDIN: Initially, we didn't receive anything. We got those moneys from the EDA -- actually received the moneys in July of '92. It was money to raise money. It helped us to produce this brochure; it helped us to rent offices, and things like that. We are just now, as the year as begun, started our private sector fund-raising drive, and from initial reaction I am very confident that we are going to be fully funded by June of '93.

SENATOR INVERSO: So the schedule that I looked at in this paragraph here relative to private sector contributions is just beginning to materialize?

MR. GOLDIN: Yes that is correct.

SENATOR INVERSO: Thank you.

SENATOR SINAGRA: John, anything? (no response from Senator Adler)

ASSEMBLYWOMAN DERMAN: I have a question: You talked about the multibank CDCs. Is there any legislation required to circumvent any-- I have to believe there are regulations that probably exist now, hopefully on the State level, not the Federal, that stand in the way.

MR. GOLDIN: The challenge -- the regulatory challenge -- regarding the multibank CDCs is that the different banks that participate are regulated by different Federal agencies. The challenge then is-- One challenge is to get them to come into this organization in a way that does not violate the regulatory requirements of the Feds, so there is nothing we can do about that.

The second challenge is the business challenge. That is that every bank has different underwriting standards for commercial loans, and you have to get them to agree on some baseline uniform standard. Again, it is something that is just evolving here. My exposure to it has been limited through the Council on Urban Economic Development in Washington. We are going to be bringing in a fellow named Jim Reid from the Southwest Dallas Corporation, who was really the pioneer in establishing these things. That is really the extent of my knowledge.

I know they can be done. I know they are very effective economic development tools. We will see as the year progresses, as it unfolds in Woodbridge for the first time here in the State of New Jersey, if there are any regulatory hindrances that are unique to this State.

ASSEMBLYWOMAN DERMAN: Also, with respect to the Department of Commerce, if they had additional funding, what role do you see them performing that they are unable to do now?

MR. GOLDIN: Several things. One is, I think that EDA has recently established an office, which is an outreach office to communities that want to establish local economic development corporations. Christy Van Horn is doing a fine job, I think, of doing that, but she is a one-woman band down there. If she is getting as many calls as I am, there is no way that she can help all of the communities that want to start these things.

So I think they would want to expand the operations of her office. I think they would want to put more account execs -- as I call them -- out in the field, people who just like-- People who work for banks who are doing business development are going calling on potential customers. They are going calling on that \$5 million manufacturer of precision parts and saying, you know, "Why don't you automate your line -- your manufacturing line? There are things that you can do out there for a relatively nominal sum." The person just didn't know about them, or they knew about them but they didn't think they could afford them.

I think our advertising budget, tourism, I mean, that is sort of a sidebar. But major industry? Our budget just isn't there to advertise -- to do things like this on the State level. We rely on the State to do the out-of-state attraction. We don't have that kind of a budget. It is very expensive. And then what happens is, they will call up and say, "We've got a client who is interested in Central New Jersey. We think Woodbridge would be a good place. We would like you to meet." They need a bigger budget to be able to do that more effectively to bring those people in from out-of-state, and that means opening offices out-of-state. It means staffing those offices; it means promotional materials. Other states are flying people in. They are flying company executives in. They are putting them up in hotels, all those kinds of things which I do not believe we are doing now.

Again, it is a catch-22 in tough economic times. Some people may think those are perks, or superfluous. Now is the time to invest. Now is the time more than ever when you have to spend those kinds of dollars. "You've got to spend it to make it," as my grandfather used to say. If we want to make it and the currency is jobs, we are not spending nearly enough.

ASSEMBLYWOMAN DERMAN: I also found interesting the point you made about the duty to disclose. I really hadn't

heard that mentioned before, that that could be an impediment to working with a public entity.

MR. GOLDIN: Absolutely.

ASSEMBLYWOMAN DERMAN: I don't know if there is anything that could be--

MR. GOLDIN: There isn't. You know, the other thing is, you have situations in towns where you have a strong mayor who also controls the council, and those are towns where things happen and you don't have these problems. When you have a situation where you have a mayor and a council that is a truly independent council for purely local political purposes, these things can be used to local political advantage. No businessperson wants to get caught up in that. The EDA doesn't want to get caught up in that. That is always going to exist. That is why businesspeople would rather not get involved if it is not a private entity.

SENATOR SINAGRA: Assemblyman Corodemus?

ASSEMBLYMAN CORODEMUS: Mr. Chairman, thank you.

One of the charges of this Committee, sir, is to try to gather information from all of our witnesses and hopefully transfer it to other communities and incorporate that in with the State programs. Having lived and worked in the Woodbridge/Perth Amboy area for 30 years, I am really thrilled to hear that you added 1000 jobs to the Woodbridge community. Perhaps some of the members of the Committee are not familiar with the dimensions of the Township of Woodbridge. It is a very large town landwise. It must be some 50 miles or so. It must have a population of, what, 100,000, 200,000 people?

MR. GOLDIN: About 100,000. We are actually the fifth largest community in New Jersey. People are surprised to hear that.

ASSEMBLYMAN CORODEMUS: Woodbridge has enjoyed, for the last century, a strong manufacturing, retail, transportation base. I would like to know how you were--

These new jobs that came to the area, were these new businesses that came to the area?

MR. GOLDIN: It is a combination of things. We worked with, as I mentioned, one company before that has been in Woodbridge for many, many years, and, again, a company based in Chicago, Woodbridge Sanitary Pottery and Gerber Plumbing, that said, "We need to expand a plant. Which one are we going to expand? We have one in Alabama, two in Indiana, and one in Woodbridge."

ASSEMBLYMAN CORODEMUS: They were existing.

MR. GOLDIN: They were existing. Of course, the one in Woodbridge was probably the least likely candidate initially because of the permitting time, and because of a number of other factors. We were able to expedite that permitting time. We were able to do something that was very critical, and that was, we are the first suburban community in the State of New Jersey to offer a five-year tax abatement, which is permitted under a State statute passed in January of '92. It has always been done in the big cities. But what we were able to say to them was, "If you come to Woodbridge, you will pay no property tax your first year; 20 percent your second year; 40 percent," etc., etc. up to the sixth year. On the present value basis, when you discount that money each year back at, say, 15 percent, that was worth a substantial amount of money to this corporation. It meant that all of a sudden Woodbridge was price-competitive with Alabama.

ASSEMBLYMAN CORODEMUS: May I ask you: Could you perhaps describe a new business that came to the area, not an expansion of an existing business, a new business?

MR. GOLDIN: We had a company called Jake's Products, which moved from New York City. I believe they were in Brooklyn. They manufactured molasses and things of that nature; a typical small company that just got sick and tired of dealing with all the bureaucracy of being located in New York

City. They purchased a 43,000 square foot industrial building in Woodbridge. They renovated it; moved out here; got an EDA loan for \$1.5 million. We are working on a customized job training package for them with the Department of Labor. The newly hired employees, as well as the employees they already have who are to be retrained, will be paid up to 50 percent of their salaries for up to, say, six months, however long the agreed upon training period is.

We expedited their approvals. We helped them locally in terms of finding some employees. Again, that is a company that went from 20 jobs where they currently are-- As they move here, they will immediately go up to 35, and within two years there will be 75 jobs there.

ASSEMBLYMAN CORODEMUS: Do you have any idea if the new employees at this plant, or the enlarged facility you previously described-- How many of those are Woodbridge residents?

MR. GOLDIN: We thought about a requirement that in order to get tax abatement -- this was not a tax abatement deal -- that we would stipulate that a certain percentage had to be Woodbridge residents. We want to see how the program works first. We are actually going to do our first two tax abatements this month. I have handshake agreements with the CEOs of each of these companies that Woodbridge residents will get preference. In fact, one of the reasons they chose Woodbridge was because of the breadth and depth of our labor pool. Their feeling is that given two equal candidates, they would be more than happy to hire the Woodbridge resident. But we have operated simply on a handshake basis up to this point.

ASSEMBLYMAN CORODEMUS: Many of these people on your Board of Trustees I know, and I know them because they are former Perth Amboy businesspeople. Perth Amboy, on the other hand, where I work every day, is a town much smaller in population, perhaps 30,000 or 40,000, and geographically about

a mile square, not unlike the towns in my legislative district Long Branch and Asbury Park.

How would you suggest that we transfer your ideas and successes in your redevelopment corporation to towns such as Perth Amboy, South Amboy, Long Branch, Asbury Park, which do not have that base that Woodbridge has? That might be an unfair question to you, but--

MR. GOLDIN: No, no.

ASSEMBLYMAN CORODEMUS: --you are familiar with these areas, perhaps as well as I am. You know, what could we talk to Perth Amboy, in your experience, to get them back on their feet?

MR. GOLDIN: It is a question that I have been thinking about, because I have been asked to address the Metuchen Chamber of Commerce this evening about this very subject, and Metuchen is a very different town than Woodbridge.

You know, to steal the old Army slogan, "Be all that you can be," that is really what it is all about. If you are Metuchen, you are not going to aspire to be a Woodbridge. You don't have the industrial base; you don't have the corporate asset base that Woodbridge has, which is really, you know quite an incredible base. But each community has its own unique advantages. Every community has its own business leadership; its own political leadership.

The idea is to get all those people at the same table to sit down and understand that, you know, when it comes to job growth, especially in these times, I think everyone has smartened up in the public sector and said, "In the '80s we came to be antidevelopment, because development was booming and development brings some ills with it." But what we found out in the late '80s, early '90s, was that antidevelopment also means no job growth. So what we say now in Woodbridge is, "We are pro jobs." I think that is the important realization that has to happen in a community of any size: the public and the

private sectors sitting down at the CEO level and saying, "What can we do to help your company grow, and we are sincere about that? That means that if we have, on the staff level, 15 days to review your application, we are going to get it done in three." Those types of commitments, I think, are critical.

Again, it is a "Be all that you can be" scenario. Every community is unique. The basic framework is one that can be applied in every community in the State of New Jersey, no matter how large or small.

ASSEMBLYMAN CORODEMUS: Thank you, Mr. Chairman.

SENATOR SINAGRA: Just one last question: Much of what I have heard, and one of the basic tools you use is EDA loans. Do you have any suggestions on what may or may not need to be changed? Does the process work? Is it efficient?

MR. GOLDIN: Well, we have used, as I mentioned, the tax abatement and permit expediting. Export assistance is something again. We are simply relying on programs that EDA offers -- management consulting. We offer a couple of scenarios for management consulting. We formed a strategic alliance with my alma mater, the Columbia Graduate School of Business, with both the faculty there and students. For smaller companies, the opportunity to have a student consulting team-- Typically they have three years of work experience before business school. These are students who are going to go on to work for McKinsey and Bane, and Booz Allen, the kinds of firms where you are paid thousands of dollars. It is a chance for a very small company to get their kind of expertise inexpensively. The next step is to hire a faculty member.

SENATOR SINAGRA: Did you not pick Rutgers only because you wanted to go back to your alma mater? Is there a particular reason?

MR. GOLDIN: We don't earn a fee on that.

SENATOR SINAGRA: I understand. I would much rather have heard Rutgers, but go ahead.

MR. GOLDIN: My wife is a Rutgers alumna.

The faculty at Columbia are also available on a negotiated fee basis. Finally, if a company is sophisticated enough, our own Board members have spent time consulting with CEOs of the smaller companies -- medium-size companies actually, or key staff people from larger organizations.

The customized job training-- We work directly with Middlesex County College, the Institute there. We hope to expand that relationship this year, and also the Department of Labor.

In terms of financing with the EDA, we recently have reached out to some of the major banks, most particularly the National State Bank Constellation. George Zoffinger, probably due to his former involvement as Commerce Commissioner, has been very helpful in providing me, personally, through the bank, with credit training. So, when I am looking at deals, I can tell if a businessperson is honest. I can tell if the company has potential -- market potential. I can tell if it is in trouble, if there is truly turnaround potential.

Once I have made those basic ascertations, and I use my basic business school background in looking at their financials, I am now going to take this formal bank credit training and look at their financials through the eyes of a banker. So when I bring a deal to a bank, before going to the EDA-- First we are going to try to take the deal to a bank. Perhaps Company A's bank is having some internal problems, and that is why the bank cannot extend their line of credit or make the loan. It has nothing to do with the company. If he needs an introduction to another bank, and if I have a pool of banks, whether it is First Fidelity or Constellation, I have relationships now with their senior commercial bankers and I can pick up the phone and, again, I have credibility with them, and they are going to sit down and meet with this person because I say that their business meets all these criteria.

In cases where the banks cannot make the loans internally, for whatever reasons, we have the option of bringing in the community development corporation to fill the gap. We have the option to take them down to the EDA, and first we try to do just the guarantee on the loan. Finally, as a last resort, you look to the EDA for a direct loan, or if the deal is large enough, for bond financing.

But I think the folks at the EDA -- I think, in my opinion -- are probably the best government employees in the State of New Jersey. They are truly outstanding. I always tell clients that they are comparable to private sector employees. EDA's loans carry points, just like the private sector does. For a large company, some of the companies we dealt with in the \$150 million to \$200 million range, their cost of capital is lower than EDA's, but it is the smaller companies that don't have the credit ratings, or don't have the access to capital, where EDA financing is critical.

The procedure is slightly more cumbersome than going to a bank directly, but not unduly so. I would say that the additional time element is about 25 percent, not unlike going to the HMFA on the residential side when you are looking to get people loans through the HMFA. It adds about an extra month to the process. If a person doesn't have a choice of anywhere else to go to get financing, it is not a steep price to pay. Again, their concern, though, is always time. "I've got to do this now, because if I don't get this pilot plan up in six months, I lose the chance to go to Company XYZ and sell my product and then potentially get a bigger contract." Timing is critical.

I don't know the internal workings of the EDA well enough to say what specifically they could do to speed up the process. I would say the programs are fine. More speed is always better, however it would be that they do that.

SENATOR SINAGRA: Okay. Thank you. Are there any other questions? (no response) Thank you very much.

MR. GOLDIN: Thank you very much.

SENATOR SINAGRA: Ted? Good morning.

Z. THADDEUS ZAWACKI: Good morning, Mr. Chairman. Good morning, Committee.

This morning I am here on behalf of the New Jersey State Society of Certified Public Accountants, which approximates 13,000 professional people within the State of New Jersey.

SENATOR INVERSO: May I interrupt you? Would you like us to stand and salute to that? (laughter)

MR. ZAWACKI: No, sir. Senator, you may be seated for the rest of the time.

SENATOR INVERSO: Thank you. That's my leader.

MR. ZAWACKI: For a couple more months only.

As a Society of CPAs, we strongly support the enactment of legislation authorizing "S corporations" and also LLCs. I think it is time that the State of New Jersey becomes competitive with our neighboring states. New York has it; Pennsylvania has it; Delaware has it; and I think we are just lagging behind. I know the State Society has addressed this issue for about 15 years hence, and it seems that we have been fighting a losing battle. Every time we go back to the archives and pull out some of our information, it is the same old thing -- double taxation. Where is all of our business going but across the rivers to the other states that give a small businessperson an opportunity to reinvest in their own companies by utilization of an "S corporation."

I mentioned to avoid double taxation. Just as an example, the State of New Jersey does not recognize "S" presently, so therefore if you elect "S" status, and you are doing business in the State of New Jersey, or you are a New Jersey corporation, you have a flow-through provision on the

Federal basis whereby it would flow through to you on your individual tax return. On the State of New Jersey, you have to file a New Jersey corporation business tax, or be taxed as a straight "C corporation."

You have a two-edged sword here. You are paying tax on the income that is derived and also you would be paying personal income tax if there was a dividend declared. For example, if you have a New Jersey business that has a \$1000 profit in the year 1992, presently they would pay a tax at the corporate level on that. If it was not distributed in '92, there would be no personal income tax. Let's say in 1993 the same corporation has a \$500 taxable income. They would pay a tax on a straight corporation business tax return. And let's say they determine that they are going to distribute approximately \$2000 to their shareholders, whatever number that may be. Under the New Jersey base which you have, they are under the FIFO -- first in, first out. It is not coming from earnings and profits that you accumulated that current year, but it goes back to the built-in profits that were there. So with the first in, first out method, you would take 1992's income, and that is where the distribution would be made. So you would have a double taxation there. You have it on the corporation itself, and you also have it on the individuals.

When dealing with a small business -- and I am a sole proprietor; I have my practice in Point Pleasant Beach, and I reside in Holmdel-- I think most of the local practitioners who deal with small businesses-- It is a detriment to us, or I should say to the taxpayers themselves, not to have an "S corp" within the State of New Jersey. When you sit down with the individuals to map out how they are going to do their business, either as a sole proprietor or a partnership or a corporation, you explain the different choices they have and what the pros and cons of them are.

The biggest question that usually comes to us is, "Why don't we have a flow through? Now, I don't know if I am going to do business within the State, or maybe I will not expand it, because I am getting a double taxation here." When you tell them that they have to file a CBT tax, a lot of our businesspeople do not understand this. "Why do we have a flow through on the Federal level and not a flow through on the State level? Why do we have to prepare this return?" You know, it is just additional costs that are coming out of their pockets.

I have found, throughout my time in public practice, that the people who have elected us have just resolved themselves to the fact that this is the cost of doing business, and that they want to plow money back into the utilization of an "S corporation." Also, on the preparation of the financial statements, I think when you go to the bank itself, the banks take a look at this and ask, "Are you a 'C corp' or an 'S corp?'" They feel that with an S corp the people are going to be plowing profits back into the corporation, as opposed to, as they visualize it, a "C corp," where the shareholders would like to take the money out of the corporation. So it is a different scenario here as to what the thoughts are dealing with third parties out there, when you go for loans and things of that nature.

One of the other items that we are looking at under an "S corporation" would be that we would like to see the "S" be elective within the State of New Jersey, whereby you could either elect an "S" status or not elect an "S" status, even though you elected an "S" status for Federal purposes. It would really depend upon some of the items that may be given consideration.

For instance, if you have a straight "C corp," which is now being taxed for State of New Jersey purposes, if you elect an "S," what happens to the net operating loss

carryovers, if there are any? Are they frozen? Are they passed through? Do we take it to reduce some of the taxable income? It is my understanding that the proposed bill-- There may be some tax that is going to be assessed at the business level -- at the corporation level. Do we take the net operating loss and go against this tax, or do we just freeze it and it is lost forever? What happens with the new "S" selection, if it is made? Do we have a flow through completely to the individuals and tax that at their ordinary income rates, or are we going to be taxed at a corporate rate in addition to a flow through to the individual rates?

Some of the other items we had considered here -- and I will just throw this out for your purposes -- are some of the credits that could possibly be issued within the State of New Jersey. An investment tax credit-- You know, let's plow some money back into the State of New Jersey itself. All right? I think each one has to give and take in this economic situation. If we had investment tax credit, it would behoove the individuals to expand within the State of New Jersey, because it would reduce some of their taxable income, or some of their tax that is going to be paid. But there are going to be, possibly, jobs created if we need some new equipment. If you give an incentive to deal with the people within the State of New Jersey, it may behoove us to give an investment tax credit.

Jobs credits: What about a jobs credit? If we do have people who are hiring from within the State of New Jersey, why not give them the benefit of the doubt? With these new jobs coming in, you are also going to pick up some additional taxable income, which is going to go back into the coffers of the State of New Jersey.

Research and development: How about a credit for that? Basically now, we are not in an industry State, I don't think. I think we are in a white-collar or professional status. How much more can the State of New Jersey keep on

having professional businesses come in, as opposed to having manufacturing or warehousing or anything of that nature? That is the basis of the taxing entities. I think without manufacturing concern or warehousing or trucking or something like that-- How many more attorneys, how many more CPAs, how many more engineers can the State of New Jersey have, when you are going to have to go outside the State to look for other jobs?

Also, what about child care credit? We have a number of people who are employed who have two jobs, and there are credits given to them on their individual returns. There are a "X" number of dollars that are being paid out there for child care, either to nursery schools or to baby-sitters or things of that nature. I think this, on a broad spectrum, should be given consideration when looking at the taxability of the "corporation" or a LLC or something of that nature.

I talked to some of my peers who practice in the Mercer area, and the southwest area of the State of New Jersey. They say there are a number of businesses that have gone over the river into Pennsylvania because of a more liberal "S corporation" status. They have a flow through, just like at the Federal level. They also have a lesser tax base. A number of people in New York have said the same thing, and up around the Bergen County/Passaic County area. A number of these corporations that could have been in the State of New Jersey but did not have favorable tax treatment, went over the river to New York, because they have a favorable "S corporation" status. Even though they do have a small tax, it is predicated upon almost a flow-through basis on the Federal level.

So, I think it is important that we take a look at the "S corporation." I think it is a viable source for small businesses to get their feet back on the ground in the State of New Jersey. I think it is important because a lot of people look at the "C corporation" as only being for the Fortune 500

companies. When you say, "Let's incorporate," well, "We don't want to be on the Exchange." That's a big thing within the State of New Jersey. Well, you tell them that they don't have to be on the Exchange, but this is the type of tax they will be paying. Well, some of them understand it, and some of them do not. So I think if we can incorporate the S corp, I think this would give the small businesspeople a better understanding as to what the State of New Jersey is trying to do, and also create -- all right? -- a better environment for the small businesspeople.

I think that if you look at statistics, the people who put on most of the jobs are your small businesspeople. I can look at some of the clients that I service, one in particular, a moving and storage company. Because of the downturn right now, they had to let a number of people go, but they do put them on in peak time, for instance, March through October. They do hire people there. Now, if they had the election to be an S, I am sure they would probably put on a few more people, or if there were some job credits involved, because they would be getting something back, and we would be plowing it back into the economy itself.

When considering the "S corporation" legislation, I would like it if you would consider having the legislation conform, as closely as possible, to the Federal tax law. I think what we are attempting to do is to reduce the complexity of the taxes and make them simple, so all of us can handle them, and they are in layman's terms. I think the less complex it is, the better off we are all going to be.

I want to thank you for all of your time. I wish to extend to you, and to the Committee itself, the fact that if there is anything the Society of CPAs can do, for whatever end, we would be more than happy to cooperate.

Are there any questions I can address or answer?

SENATOR INVERSO: Yes, Leader. (laughter)

MR. ZAWACKI: Senator?

SENATOR SINAGRA: No tough questions, Senator Inverso.

SENATOR INVERSO: You know that there are "S corporation" bills and LLC bills in place -- both of those bills. I wonder if you could -- although I could probably discuss this with you privately -- review those and determine what provisions of those bills you think ought to be altered to make them better bills in the sense of, you know, simpler, fairer, and that type of thing? If you would get back to us, I would appreciate that.

MR. ZAWACKI: We would be more than happy to. As a matter of fact, we have an ad hoc committee that has been formed, and we are going to be working with the Division of Taxation to address the "S corp" taxation, and also the LLC. We will be working very closely with the Division of Taxation.

I believe, Assemblywoman Derman, that we have provided some information on the LLC in conjunction with the Bar Association just recently. So I know we are moving right along on the LLC. We would be--

SENATOR INVERSO: The LLC?

MR. ZAWACKI: Yes.

SENATOR INVERSO: Assemblywoman Derman initiated the LLC on the Assembly side.

MR. ZAWACKI: That's correct.

SENATOR INVERSO: She was kind enough to have me initiate it on the Senate side, so our bills are identical at this point. So we would have to consult with each other, with your organization and others, to--

MR. ZAWACKI: We will take a look at the bills at your discretion and give you our input, from wherever.

SENATOR INVERSO: Good. Thank you.

MR. ZAWACKI: You're welcome.

SENATOR SINAGRA: Senator Adler?

SENATOR ADLER: Do you have a sense of what percentage of growth the State can anticipate in terms of jobs if we pass some sort of "S corp" bill for State tax purposes?

MR. ZAWACKI: I don't have it off the top of my head. I would have to go back and do some research on it.

SENATOR ADLER: If you could give us just a gut-- You know, after talking it out with people, give us a sense of how many hundreds or thousands of jobs you think this would generate.

MR. ZAWACKI: Well, just taking it from the area down around Philadelphia, and across that segment, I know, from talking with about a half a dozen CPAs in that area, that they have a number of clients. They probably have 500 to 1000 jobs that are sitting in Pennsylvania that could have been New Jersey's. You know, as I go around to the different chapters within the State, I try to get a feel for that. But I know talking to the practitioners down in that area that they had said it was a choice between New Jersey and Pennsylvania. They flipped over to Pennsylvania because of the "S" status. That was somewhere between 500 and 1000 jobs there. They were manufacturing, as a matter of fact -- manufacturing and transportation jobs that went over there.

SENATOR ADLER: Do you have a sense of whether there would be a net revenue gain or revenue loss to the State if the State had some "S corp" status recognized in the State tax law?

MR. ZAWACKI: I think what we would try to do, Senator, would be to make it revenue neutral itself, either imposing a minimum tax on, let's say, the corporation itself as a flow through, but you also have to-- One of the items that we had considered, going way back to about 15 years ago, was the minimum tax that is being paid by a corporation. All right? We now presently pay \$25 and \$50 for a foreign corporation. Back in December, I had a meeting with the Division of Taxation, and I asked them, "What kind of costs do

you incur to keep these people on the books and records?" It is approximately \$280, so you are losing money.

We had suggested, going way back, taking up the minimum of a domestic corporation and a foreign corporation. Make it \$300. At least cover your costs. So that is another avenue that we have pursued. You may even want to consider that.

SENATOR INVERSO: There's something about CPAs. The ledgers like the ledgers balanced, right? (laughter)

MR. ZAWACKI: That's correct.

SENATOR ADLER: One of the questions I have is: If we can anticipate a certain amount of job growth and we are going to tax the income on these new jobs, to what extent can we incorporate that into our calculation of a revenue neutral change in tax policy?

MR. ZAWACKI: We would have to take a look at that for you.

SENATOR ADLER: Well, I think that is something that is an important consideration.

MR. ZAWACKI: Right.

SENATOR ADLER: Whether we would have to raise taxes too much on other businesses, whether it is for the fee, or whether a direct tax or an increase in the CBT. If we can incorporate within that calculation the anticipated revenue increase based on the new jobs created by "S corp" status here in the State--

MR. ZAWACKI: I think there are many ways of approaching what is going to be needed to carry the burden for the State of New Jersey. You could either impose a charge on the shareholders, for one; for each number of shareholders file a certain amount. Increase the minimum on an annual report, or something of that nature. There are many ways. You know, just going back to the archives looking at some of the proposals with

have made-- We will definitely take a look at them and come back.

SENATOR ADLER: Great. Thank you.

SENATOR SINAGRA: Okay. Anything on the--

ASSEMBLYWOMAN DERMAN: Yes, I would like to comment. I have spoken to people from Treasury, indeed, the Treasurer, and he is not that receptive actually to "S," because, Senator, he is not of the view that it will create jobs. He wants to be shown that it will, and we do not have any information available on it. I think he is much more receptive to ITC and R&D.

I think you know Martin Davidoff, who has the misfortune, or fortune, of being both a CPA and an attorney. He has been standing in for me, and has done an excellent job. He has done some revenue forecasts that I just happen to have with me, fortuitously. The elimination of the corporate level tax would mean \$150 million. We have to find a way of making this revenue neutral. That is why we thought of going to the New York model, which is the difference between the highest corporate rate and the highest individual rate.

We are hopeful that by having some additional revenue enhancers, in other words, expanding the nexus to out-of-state taxpayers and cleaning up Allied Signal and so forth, that we might be able to come out almost revenue neutral. But in terms of job creation, that was not factored in.

MR. ZAWACKI: I know that Marty does an excellent job. I have been in touch with him on this "S corp" itself, and we have been working hand in hand with the State Taxation Committee at the State level. There were a number of questions posed to Marty by the State Taxation Committee. I think there is going to be a concerted effort here by the Society and the legislators, and also the Division of Taxation. I think that is the only way we can get a halfway decent bill through.

ASSEMBLYWOMAN DERMAN: If you had to prioritize, which would you rather see, "S corps" or ITC and R&D and so forth?

MR. ZAWACKI: I would prefer to see "S corps" with some limited credits. I think one hand would take care of the other hand; really, I do.

ASSEMBLYWOMAN DERMAN: We were talking about possibly incremental credits. In other words, if there was an incremental expenditure of purchases or R&D that there would be a credit, maybe we would be able to provide both.

MR. ZAWACKI: I think what would happen with your "S corp" and getting more business within the State of New Jersey-- By doing that, you could enhance a jobs credit, because the more people you put on -- employ -- you could utilize a jobs credit and you are going to have tax flowing from the income that they are generating.

Also, another way to do it would be on the investment tax credit, whereby if we want to expand operations within the State, give the entity the ability to reinvest within the State of New Jersey, as opposed to picking up and moving to the southern belt, or the southeastern belt, of whatever the case may be. Give them some incentive. Give them a break in the tax to reduce some of the tax that is going to be paid into the State of New Jersey.

But I think another consideration, as I said before, is, take a look at that minimum tax. I think we are behind the eight ball on the minimal tax here -- \$25 and \$50. You look at some of the states. You know, they are looking at, I think, a minimum of \$200 down south and everything. You know, it is costing us \$280 to keep them on the tax rolls.

ASSEMBLYWOMAN DERMAN: I think, also, the bill I introduced provides for a per shareholder tax, too, because in the "S corporation" context you are used to counting shareholders.

MR. ZAWACKI: That is correct.

ASSEMBLYWOMAN DERMAN: And there wouldn't be the same antipathy to saying, "Okay, you know, \$25 per shareholder; \$50 per foreign shareholders," or something to that extent. But I think Treasury also favors increasing the minimum tax, something I would really like to avoid, obviously.

MR. ZAWACKI: I think there is a catch-22 there.

ASSEMBLYWOMAN DERMAN: Just one quick question on the child care credit, which has become so important lately and has so much notoriety associated with it. I was looking at one of the bills that has been introduced, and, as we talked about before, if we were to track the Federal bill-- That present Assembly bill provides for 10 percent of the available Federal credit. It could be as little as \$48 for somebody earning over \$28,000.

ASSEMBLYMAN CORODEMUS: A year.

ASSEMBLYWOMAN DERMAN: A year. That is not very much for one child. Two children, \$96. Under \$10,000, \$72. So, what would you suggest? Of course, it also depends upon the loss of revenue and how much money we have. But this is a very important area.

MR. ZAWACKI: As we discussed prior to the meeting itself, take a look at a 25 percent or a 50 percent credit with a minimum that they could be allowed under individual returns predicated upon their adjusted gross income. But you know, as you brought up, the \$48 and the \$72, and things of that nature -- okay? -- how difficult is it going to be to take this credit? Let's try to simplify the preparation of this credit, as opposed to the format the Internal Revenue Service has for the child care credit.

I would take a look at that based upon the adjusted gross income, having a minimum amount of credit given to the taxpayers, and also giving, maybe, a better proportion, either 25 percent or 50 percent of what the child care credit would be on the Federal return.

Again, I would like to pass this by my experts, my technical people at the State Taxation and Federal--

ASSEMBLYWOMAN DERMAN: I would very much like that input.

MR. ZAWACKI: Fine.

SENATOR SINAGRA: Do you have anything, Assemblyman?

ASSEMBLYMAN CORODEMUS: Yes, Mr. Chairman. I was going to ask you to partake in a dialogue where I would be the devil's advocate, because I agree with many of your initiatives. But I think you understand from the comments from the different Committee members that prior to convincing our colleagues in the Legislature about the importance of an "S corporation," R&D credits, job credits, etc., we have to explain to them and we have to explain to our constituents how they, the taxpayers, are going to come out ahead. I don't want to be accused of supporting a bill, for example, subchapter S, favorable treatment. It would be hurrah for the corporations, hurrah for the taxpayers, but it would mean a net revenue loss for the taxpayers that they have to make up. I don't believe that to be the case, but the case must be made that that will not occur; that, in fact, jobs will create--

The other night my wife and I were discussing our personal financial affairs. We are probably in need of an accountant -- Senator. (laughter) We were saying how hard we had been working.

SENATOR INVERSO: You've got two to choose from here.

ASSEMBLYMAN CORODEMUS: We have both been working for, oh, 15 years, and we are both making more money now, but we both have less money to spend. Then I came across this article that said that New Jersey income growth is the lowest in the country at 3.8 percent.

Perhaps this will be an unfair question but, do things, in your opinion, like the sales tax reduction from 7

percent to 6 percent, and other types of things-- What does this mean to someone like my wife and I?

MR. ZAWACKI: Well basically, if you look at the sales tax reduction, that probably would give you an opportunity to buy a little more. I know that if your wife is anything like my wife, when that went down it also enhanced her position to go out and shop -- as they say, "Shop till you drop." You know, that happens quite frequently.

But I think the overall tax position within the State of New Jersey has to be addressed. I think a good starting point would be at the corporate level. I think what you have to do is enhance the State of New Jersey by getting more businesses in here; getting the people -- getting more people in here to work. I think what is going to happen is, if we continue the way we're going at the present time, we are going to be all professional people, with no one to service us out there. That is the unfortunate thing. I think you are going to find that a lot of them are going to cross over the river, go south, or something of that nature.

ASSEMBLYMAN CORODEMUS: Perhaps it is obvious that many of the people here on the Committee are professional people, and yourself a leader in your profession. Would it be fair to say, in your observation as an accountant, that over the many years of your practice the net take-home pay -- the disposable income -- has continuously been on the downswing over the years as a result of all the tax increases, or are people about the same as they were in the 1950s?

MR. ZAWACKI: I think the amount of take-home pay has been diminished. I can remember when I first got out of school and started practicing, there was no sales tax. There was no personal income tax. The real estate tax was high at that time, but it is even higher now. You know, I just look at some of the people who are on fixed incomes. It costs them "X" number of dollars to maintain their homes or to go out and put

bread and butter on the table, and things of that nature. I think the dollar has been diminished within the State of New Jersey because of the additional taxes that have been put on.

ASSEMBLYMAN CORODEMUS: I appreciate the latitude you have given me, Mr. Chairman, but it is not often that we have the President of the Society before us.

SENATOR SINAGRA: Wait until you hear my next questions. (laughter)

ASSEMBLYMAN CORODEMUS: It is important that we get this on the record.

SENATOR SINAGRA: I want to tell the other side of the aisle that there is nothing political in my next question. I think this Committee--

SENATOR INVERSO: That's half of this side of the aisle.

SENATOR SINAGRA: Well, no. I think we would be remiss if we didn't ask you an important question that probably most of America will ask as they watch T.V. tonight. Most of what I think the President will indicate this evening has already been pretty much leaked and is almost common knowledge at this point.

My concern is not-- I think we all agree across the country that addressing the deficit is something that we need to do and must do. My concern, especially considering the charge of this Committee, is, how would you say New Jersey would fare under the proposed changes in the tax structure? What will this mean to this Committee that is trying to create jobs and looking at tax cuts? What does this do to the middle class of New Jersey?

MR. ZAWACKI: I think what is going to happen here is that New Jersey will definitely have to become competitive, because I think the businesspeople are going to be looking for their best dollar value out there. They are going to look to continue their operations where they can get the best people to

help them grow and expand their businesses, and they are also going to look to where they can keep most of their dollar in their pocket.

I think this is going to have a drastic effect upon the middle-income people, and I think New Jersey is middle income. There are a lot of wealthy people in the State of New Jersey, and there are any number of people who are below the middle income. I think basically the average take-home is probably classified in the middle-income portion here. I think the State of New Jersey is going to find it more difficult to make ends meet if all these plans go through that our President has proposed.

SENATOR INVERSO: You know, I would like to follow up on that: Certainly we are at a juncture here in New Jersey where if the Federal government does as it has indicated it will do, take more money out of the discretionary dollars that individuals have available to them-- I believe we are coming out of this recession. The question is, with what strength? I guess that makes it a question of our State budget; that we have to be very cautious that we do not overly project revenue growth so that it is overly so optimistic as to be unrealistic.

We are going to be, as I see it, between "a rock and a hard place," because the Federal government will be draining more dollars out of our State at a time when we need to put more dollars into the economy. So, we in New Jersey, if our revenue stream is increasing, need to adjust some of that so we can generate dollars back into the economy.

The ideas of these credits-- I may disagree with you on one point, Ted. If I had to choose between an "S corporation" and these credits, I think I would take the credits, because I think the credits are more stimulative; at least I think so. Ideally I would like to have both. If you could come up with a revenue neutral proposition, I think that would be the best of all worlds. But I think we in New Jersey

have to be very sensitive to the need to allow our people, our businesses, more dollars for expansion and growth, just maintaining the status quo, because the days ahead are going to be bleak with regard to dollars leaving New Jersey.

So, this is a-- You know, we have to-- Talk about balancing the ledgers. We've got to kind of balance our ledger here in New Jersey so that the Federal drain does not cause New Jersey to be hampered and to be hurt. Hopefully some of those dollars will come back to New Jersey through, you know, construction efforts, whatever will generate some jobs. But we are really at a crossroads here with regard to how our State goes as a result of the Federal--

SENATOR SINAGRA: Quite frankly -- following up on what Senator Inverso said -- I was rather optimistic and also thought that maybe the projection of revenues were realistic. Initially everybody said, you know, they weren't going up. Then we look at the figures, in getting out there and talking to people.

I know at some point tonight during the President's speech, I am going to ask my wife for her credit cards and I am going to cut them all up. (laughter)

ASSEMBLYWOMAN DERMAN: Let me give you my cards, Jack.

SENATOR SINAGRA: I really question whether that, because of New Jersey's tax structure, where we have an income tax; where we have a sales tax; where we have some of the highest property taxes in the nation-- It is my belief that the middle class is totally tapped out. I mean, I am not saying that anyone else in this country can afford it, but considering our tax structure, I would say that we are at a tremendous disadvantage at this point.

MR. ZAWACKI: I would have to agree with you, and also Senator Inverso. I do take exception to the credits themselves, because I think the credits would be placed upon the existing businesses presently. I think what we are trying

to do is get more businesses within the State of New Jersey. I think the easier we make it for the businesses, and it becomes competitive to come into the State-- I think we look forward to having people come in and the start-up of new businesses. I think from there it would grow. You know, you don't have to do the credits immediately, but I think if there was a potential of doing the credits within a year or so, or giving them some incentive, I think it might flow that way.

I think New Jersey is in a tough situation right now, especially depending on what will come out of tonight's meeting with the President.

SENATOR SINAGRA: Questions anyone? (no response)
Thank you.

MR. ZAWACKI: Thank you. I appreciate your time.

SENATOR SINAGRA: Glen Paterson, Executive Director, Department of Policy, Planning, and Economic Development, City of New Brunswick.

G L E N P A T E R S O N: I would like to thank the Committee for inviting me down here and giving me this opportunity. I have prepared some remarks for the Committee. I have copies of them available here, if you would like them.

My understanding was that you wanted to hear about what was going on in New Brunswick and where we see some of the problems in our economic recovery.

New Brunswick's economy has been moving forward in a lot of areas, but it has had some problems in certain others. I hope the Committee was able to see the article that was in last Sunday's New York Times about the expansion of health care in New Brunswick in terms of our hospitals and the University of Medicine and Dentistry. I also brought some copies of this article along.

We have five health care projects which are either currently underway or where we are about to break ground in the next year or so, which are going to create \$130 million in new

construction, 1100 construction jobs, and 476 permanent new jobs in the city. Right now going on in the city, there is over \$150 million worth of construction underway, creating over 1600 construction jobs. In a lot of areas, New Brunswick is doing very, very well. We are attracting investment to the city. It is mostly related to Rutgers, the hospitals that are there, and our downtown area.

This activity has not spread to all of our economy. One of the problems we have encountered is a lack of access to capital for small businesses. We have many small businesses in the retail, service, and manufacturing areas, which cannot get the dollars they need to expand their businesses. We are encouraged that Governor Florio and the Legislature have established the Garden State Venture Fund to provide public funds which will be matched by private funds to create venture capital for businesses in New Jersey. We think that will help out a lot, but it does not address the circumstances of most small businesses which are not looking for venture capital, but which are just looking for a loan.

We are encouraged that EDA has set up a Small Business Loan Program to provide that capital on a statewide basis. We think that will be helpful. One of the impediments that we have seen, is that banks are reluctant to make commercial loans to businesses that are only seeking \$25,000, \$30,000, \$40,000. Banks usually look upon this as a profit deal, and the fees you generate off of a loan that size just aren't very significant. It doesn't make a lot of sense, sometimes, for the banks to get involved in that area. That is why we feel it is very important that the Community Reinvestment Act be maintained in its current structure, to encourage the banks to get involved in lending to small businesses, specifically in urban areas.

Another impediment we have noticed is a reluctance to lend in urban areas. I think a lot of this stems from unfamiliarity on the banks' part to the urban areas. Most of

the banks are no longer headquartered in downtown urban areas. Most of their commercial lending operations are located out on the Route 1 Corridor or, you know, other places. A small businessman comes to them seeking a loan. Maybe his business is located in downtown New Brunswick or in the Jersey Avenue Industrial Corridor, or someplace like that. Bankers just do not seem that familiar with the area and they are concerned about the perceptions of urban areas which, in reality, I do not believe are as negative as they are made to seem in the popular press.

We would like to get them more involved in the urban areas; get them familiar with them, and I think they will find there are a lot of good lending opportunities in the inner cities. To counteract this, the City of New Brunswick, under Mayor Cahill-- We have enacted a couple of programs to try to get around that. We have created a small business loan pool of ourselves which has been in operation for a couple of years. I believe you are going to hear some testimony after mine from one of the people we have given a loan to.

We have nine banks that have joined our consortium. They make loans ranging from about \$25,000 up to around \$100,000 to small businesses based in New Brunswick which will create new jobs there, and create new tax ratables for us.

The city gets involved in providing a 50 percent guarantee of those loans. This will split up the risk of the loan nine ways, and we can cut that in half again with our guarantee. This encourages the banks to make loans that they are not otherwise going to make in the city.

From talking to other loan pools that are going on in the State, we think ours seems to be somewhat unique, in that we are concentrating on working capital loans, rather than loans to purchase a building, or so forth.

SENATOR INVERSO: May I ask you a question?

MR. PATERSON: Yes.

SENATOR INVERSO: How much is outstanding in that category?

MR. PATERSON: How much is left in the pool?

SENATOR INVERSO: No, no. How much have you lent out?

MR. PATERSON: We have lent out about \$125,000, I believe it is, so far. We have a capacity to go up to about \$900,000.

SENATOR INVERSO: And that \$125,000 is spread among several companies?

MR. PATERSON: Yes. We made three or four loans. To date, we have three or four others which are in process right now.

SENATOR INVERSO: Okay. And the city guarantees 50 percent of it, so they wouldn't go belly-up. You don't have any collateral? This is all working capital, right, so the city would stand--

MR. PATERSON: The loans usually have to be collateralized. We are usually looking for personal assets.

SENATOR INVERSO: So you are getting guarantees -- personal guarantees?

MR. PATERSON: Yes. The banks do require that. That is one of the things that we would like to see the banks loosen up on a little bit. We are providing some guarantees. Go a little lighter on the collateral because the entrepreneur, the small businessperson trying to get his business going, doesn't have a lot of that.

SENATOR INVERSO: But New Brunswick's share -- its 50 percent guaranteed -- is also collateralized?

MR. PATERSON: Yes.

SENATOR INVERSO: Okay. Thanks. Sorry to interrupt you.

MR. PATERSON: That's all right.

We have also been involved in supporting the Business Intervention Center, which is a small business incubator

located in the town, which is supported by Rutgers, and also by funds from us. They have about 15 companies located in the Business Intervention Center, ranging from biotech firms to chemical firms to educational software firms.

ASSEMBLYWOMAN DERMAN: Mr. Paterson, I just want to tell you that I toured that facility.

MR. PATERSON: I hope you had a good time. We have been very, very impressed with the job they have been doing out there. They are creating a lot of small companies which we think are going to expand and create a lot of new jobs. They also create new industries in New Jersey. I think it is very important that the State support this incubator in New Brunswick, and other incubators throughout the State, and help to create more. We think they are very, very beneficial.

I was speaking to the Director of the incubator last week. He informed me that of the 17 or 18 companies they have had out there over the last two or three years, only two have failed. That is an extraordinary success rate for small businesses. I believe something like 80 percent of them go out of business over a five-year period. They have been very, very successful in keeping these businesses going and growing.

SENATOR INVERSO: Just what happens in the incubator approach?

MR. PATERSON: They provide a package to someone who is looking for a start-up. They provide shared services to lower the business' overhead, such as: conference rooms, copying machines, receptionists, phone systems, and things like that.

SENATOR INVERSO: So, administrative and support services are shared.

MR. PATERSON: Yes.

SENATOR INVERSO: Okay.

MR. PATERSON: They also provide technical assistance to the people in the incubator in terms of creating business plans and obtaining financing.

SENATOR INVERSO: Who are "they"? Who would they be?

MR. PATERSON: That would be the incubator manager, Mr. Jeff Milanette. He, I believe, is the only staff person left out there right now. He can provide that sort of assistance to them.

One of the other things they can do is rent a really small piece of space. They might rent something that is no larger than this set of tables here. Rather than having to go into a normal building space and rent 1500 square feet of space, when they only need 500 square feet, they can rent 500 square feet of space. That lowers the business' overhead. It has been very successful there, and is something we really encourage the State to support.

Lending in inner cities and depressed areas is a challenge that needs to be met by both the government and the private sector. The government certainly can't do it alone. One of the ideas that has come out in the last six months or so, is the expansion of a community bank such as the South Shore Bank in Chicago, which is being shown as a model. These would allow microloans to be made to small inner-city entrepreneurs. For example, in New Brunswick, we are trying to look at doing something like this. There are people who are street peddlers who have a truck that they sell off the back of. They pull up in a city park, you know, and they sell off the back of it. The city government doesn't like that it is an unsightly kind of use. These operators do not have access to the capital to get into a store. They need a special kind of loan. This community bank, I believe, could provide a source to provide microloans of maybe only \$5000 or \$10,000, so they could get a security deposit together on a small space and buy some inventory and become store owners, instead of street peddlers.

I think that would do a lot to defuse a lot of anxiety and resentment that is felt in the minority community over the

lack of access to capital. A significant problem, I think, that we all face is that in minority communities there is-- They probably have a very justified feeling that they are shut out of a lot of the traditional lending avenues, and that they are having a very difficult time buying a stake in their own communities. That is a great desire in these communities, and they are having a very difficult time being fulfilled.

One of the problems in fulfilling all of this is sort of the lack of communication between the small businessperson and the banks. We have noticed in operating our small business loan pool that people come in and they are not prepared to provide the documentation and deal with the terminology and so forth that comes from normal banking practices. A lot of good ideas are lost because of this, because the entrepreneur who has the good idea just gets frustrated.

There are a lot of agencies out there to assist the small businessperson to become more sophisticated: The Minority Business Development Center in New Brunswick; the Rutgers Small Business Development Center. The Department of Commerce offers small business assistance in my Department, Policy, Planning, and Economic Development. They all have very limited staffs, very limited budgets. This is an area, I think, that needs to become more visible and better funded on the part of the State, so that these people who are out there who have good ideas-- There are a multitude of good ideas out there on how to start businesses. People often run into a roadblock when they try to get into getting a loan from a bank. That is partly their fault. They need to become more sophisticated, more educated, as to how to present themselves to get a loan.

On the other hand, the banks also need to be more user friendly -- for lack of a better term -- with the client who comes in there who is not sophisticated. We are letting an awful lot of public investment that is in the inner cities, an

awful lot of people who are in there-- We are letting them down because we are not communicating with each other and getting the dollars out to them.

Mayor Cahill has directed my Department to set up a series of seminars -- we have been doing this over the last two years -- to create -- to get more information out to the small businesspeople on how to write business plans and what financing opportunities are available to them. We have been doing these in both English and Spanish, and they have been very, very successful. There is a great desire on the part of the small businesspeople to learn more about how to get a loan from a bank, how to expand their businesses, how to get better control over their businesses' finance and so forth. We would like to see something like that maybe done on more of a statewide basis, to let the people know how to do things.

In terms of infrastructure, transportation is a big issue for us in New Brunswick. Many employable people in New Brunswick do not have access to a car. They rely on trains or buses to get to their work sites. New Jersey Transit is a very, very important player. We would encourage New Jersey Transit to expand their routes to job centers, both in New Brunswick and in the surrounding suburban areas, so that people who are in New Brunswick can get to job locations conveniently.

New Brunswick, along with Middlesex County, has established a free trolley service which runs from our downtown area out to our industrial area. It was originally established to create access to the Board of Social Services, which was moved into an outlying area of New Brunswick. It also goes to our industrial area, and every time there is a mechanical problem or something with the bus and it is not running on time, our switchboard lights up with people who need this bus to get to work. There are a lot of businesses out there that are employing low skill workers. There are not a lot of jobs out there which are entry-level, low skill. There are a lot of

areas in New Brunswick which do have that and they are not adequately served by mass transit because they are a little out of the way. That is where you get the cheap rents to do those kinds of businesses. Having mass transit access to these areas is very important.

Work force training is also very important. Some statistics have been bandied around lately that the average worker will change careers eight times over his work life. Many times a worker is going to be forced to change his career, as the industry they are in fades and another one starts up. That is a very critical component in order to make New Jersey's economy strong, and New Brunswick's economy strong. There needs to be a partnership between government and private industry in doing this. Government-run training programs, I think, have been shown to not be overly successful. I think there is a history there of training people for the wrong jobs. The private sector needs to be closely involved in this doing the training. The private sector needs to have security that if they invest \$10,000 in worker training, that this worker isn't going to hop to the competitor and so forth. There needs to be some sort of a security mechanism to make them feel safe that if they are making this investment in worker training, that they are going to get the payoff somehow.

Since I am from New Brunswick, I will say a few things about the urban areas. We do need special assistance. We house a lot of tax-exempt uses which benefit the entire region -- major hospital facilities. In New Brunswick, we have Rutgers University, the government office complexes, and so forth. We also provide many of the social services, such as: drug treatment facilities, homeless shelters, and other such things, which serve a regional population. This makes it more difficult for urban areas to compete with the East Brunswicks, the Plainsboros, and the West Windsors in terms of economic

development. We do need assistance from the State in order to be able to compete on a level playing field.

One of the things I would hope the State would be able to do-- I understand there is a bill in front of the Senate now to expand the Urban Enterprise Zone Program. We would encourage passage of that bill. We think that would be a fantastic benefit for the State of New Jersey. New Brunswick does not currently have an urban enterprise zone. We would love the opportunity to compete for one. We would also love to be one of the cities designated to be eligible. If anybody wants to add our name to that as a city that would be designated as eligible-- We just want the opportunity to compete for that. That is very important for us, competing with suburban areas, and also competing with other urban areas. We often have companies that come to us which are looking to locate in New Brunswick or in Newark or in Jersey City, and we are not able to offer the incentive package that Newark or Jersey City or Camden are able to offer from the Enterprise Zone. That is a very important package of incentives to businesses.

That concludes the remarks that I wanted to make.

Access to capital is a big problem out there -- transportation, worker training -- and we need enterprise zones and other economic development stimulus packages from the State.

ASSEMBLYMAN CORODEMUS: A quick question, Mr. Chairman? You are experienced working with the Department of Commerce and the Economic Development Authority. One of the earlier witnesses mentioned that there is a lack of field staff to meet with people such as yourself and overburdensome paperwork for applicants for loans. Has that generally been your experience?

MR. PATERSON: I wish there would be more field staff. The field staff there are have been very helpful, very cooperative with us. There is a limited number of staff down

there. I would hope that there could be more. They could come up to New Brunswick, come to Paterson, or wherever, and become more familiar with our cities and what is going on in them, so we could have a closer relationship.

In terms of red tape, there probably is a little higher degree of red tape than if you walked into Fidelity or MidLantic to get a loan. The flip side of that is, if you walked into Fidelity or MidLantic with a lot of these loans, you couldn't get a loan. I don't think it is overly burdensome. You always wish things could be more efficient. I don't think they try to throw up more red tape than they have to. They do have a fiduciary responsibility to look out for where the funds are going. I would like to see it made as efficient as possible, but I don't think they are creating an excessive amount of delay in the projects.

A lot of the businesspeople who are going into these programs-- A lot of these are not aware of what the paperwork requirements are of them.

ASSEMBLYMAN CORODEMUS: Excuse me. Do they typically handle that themselves, or do they have an attorney or an accountant helping them?

MR. PATERSON: It depends on the person. If it is a small manufacturing company, they are usually large enough to have help. If it is a small retail establishment, they might be doing it on their own. Usually they always have an accountant. They may be trying to cut some costs, you know, and get by without a lawyer, and so forth, and that makes it difficult because they don't talk the same language. Sometimes it might be more worthwhile for them to hire an attorney and pay \$500 or \$1000, or whatever the fee would be, and get the loan. A lot of times things do get frustrated in that process.

My experience has been that a lot of businesspeople expect that-- They want you to use, you know, the second

mortgage guys on late night T.V., who say, "Walk into my office, sit down, and 10 minutes later I will say yes."

ASSEMBLYMAN CORODEMUS: Nobody says no, right?

MR. PATERSON: Yes, no one says no. There is a lot of paperwork involved. You have to show a lot of financials, your history, what your collateral is going to be. Those questions are asked for a reason, and that reasoning needs to be better explained, a lot of times, to the businessperson, why this is necessary. There needs to be training to help the businessperson understand why this is happening, to make him sophisticated in the ways of the banking community, and to allow him better access to those dollars.

ASSEMBLYWOMAN DERMAN: I just have one question: To your knowledge, have any entrepreneurs in our area -- here in Middlesex County -- utilized the Garden State Venture Fund?

MR. PATERSON: I don't believe the Fund is fully funded yet. I have talked to several entrepreneurs who are very, very interested in the Fund. We have put them in contact with the people involved in raising the dollars. I think they are very hopeful about getting some dollars out of that. That is high risk venture capital that is going in there, and they are not going to have to provide the types of collateral and so forth you would have to get for a bank loan. That is what is needed out there. A lot of times there are some very good start-ups which have already collateralized everything they have. They then go up to the next level in order to expand their business, and they are shut out because they lack the capital. They need equity partners. I think this is an excellent source.

SENATOR INVERSO: Mr. Chairman, I think we ought to have the Committee Aides get us whatever details there are on that program. I know when we first had our meeting and Mr. Hughey appeared before us, I asked him a question about that type of program. He indicated that one was going to be

forthcoming. I haven't seen any details on it. Has anyone else seen any details on it?

ASSEMBLYMAN CORODEMUS: Is this the Fund where the State put up a million dollars or so and they are supposed to get venture capitalists to fill out a \$25 million portfolio? (Senator Inverso nods affirmatively) I had a client who was concerned about that. I called myself and I can corroborate what the gentleman states. They have not found the investors yet to fill out that Fund, so right now it is adrift.

SENATOR INVERSO: I would like to see what the parameters are once the funding is in place, in terms of getting it going. It could be an interesting source of seed--

ASSEMBLYMAN CORODEMUS: Sure.

SENATOR INVERSO: --capital for, you know, somewhat risky operations where the banks close their doors.

MR. PATERSON: Personally we have had people come in to us who would like to locate in New Brunswick, who are looking for that type of capital. I think they have some excellent ideas. It is a needed source.

SENATOR INVERSO: I was familiar with a similar operation in Massachusetts years back. It was a great stimulus to business ventures up in the Massachusetts area. They had, of course, their designated economic development parks and areas that they steered the businesses to, so they had a little bit of clout in locating them, in siting them, because of the loan of the capital. We all recognize that there could be a great deal of risk involved with that. It is the kind of money you ante up, and if you never see it again, you know, you are not going to go and shoot yourself. But, it can be a tremendous source, because there are so many people out there who just can't get that start; can't get that initial capital break from a bank, or anyone else, and this could be a good boom. But I would like to see the parameters of it.

MR. PATERSON: Yes.

SENATOR INVERSO: I know in Massachusetts there were some problems. Everything was going fine, and they were pushing the money out the door to show that there were results and that there was action. Many times that money being pushed out the door was not carefully crafted in terms of, you know -- and that was a problem.

SENATOR SINAGRA: Thank you.

MR. PATERSON: Thank you very much.

SENATOR SINAGRA: Rick Clinton? Is Rick Clinton here? (affirmative response from audience) No relation?

R I C K C L I N T O N: Oh, yes. You'll hear another member of the family talk tonight. (laughter)

Mr. Chairman, Committee: I thank you all for inviting me here today. Just a quick note. I am Cofounder and President of a company, Intellipro. We are a software development firm, which Glen alluded to earlier. We are also a subchapter S firm, so I guess a lot of this stuff is starting to dovetail, probably at the bottom of the food chain. I mean, we are the guys who are down there trying to start the business; trying to get things going; trying to make the jobs happen -- that kind of thing, from the start-up end, if you will, not the existing companies that want to expand, but from the very early stage of an idea moving into a business reality.

We are a technology-based firm, and most of the comments I will make today pretty much come from that viewpoint. I am not at all familiar with manufacturing, you know, but I do see a great potential in New Jersey for technology-based firms. I think in terms of a lot of business growth, New Jersey is on a par with places like Silicon Valley; with Route 128 in Massachusetts. I mean, we certainly have the leading firms in certain areas of the world -- health care, biotechnology, the information sciences, and the like. There is lots of R&D here in the State. We have renown universities and colleges. We have a very well-educated work force, besides

the fact that we are well situated. I mean, there is a lot going for the State.

One of the questions is: Well, why isn't this spawning the kind of business activity, the new business formation like we see in places like California, Massachusetts, and some others? I am not going to pretend to have the answer. If I had the answer, I would be consulting for you guys and making a lot more money than I currently am. But there are some events, let's say, that I can point to over the three years that we have been in business that, let's say, indicate a certain environment that may not be most conducive to business start-ups.

For example: Why is it when we originally went looking for funding as a two-person initial start-up, that it was easier for me to get a bank 3000 miles away in California to assign a loan officer on a recommendation from a friend; to assign a loan officer to review an application and to actually talk to us, when, at the same time, I couldn't get my bank, which was in my town, which was participating in the EDA program, to even consider accepting a loan application? That is a problem.

Why is it that-- You know, I read, by accident one day, that there is a bill before the Legislature that is designed to license software developers. There is going to be-- I don't know what happened to it, but being in the software business, that is my ECRA. You know, why? I just, you know, I guess because I haven't heard from it and nobody has hit me with any kind of--

SENATOR SINAGRA: It must be in the Assembly. I don't know.

MR. CLINTON: A third type of thing is -- again, anecdotal, but when some representative of the State comes to visit our business incubator and walks into our office, which is obviously a very small confined space for two people, the

first response -- or, the first comment is, "What are you going to do for me?" Somehow there is something amiss here.

Now, these taken individually or as a whole are not going to kill a business. Entrepreneurs are pretty thick-skinned people -- the fact that they are willing to jump ship and, you know, give up good jobs and go out and try to make things happen. There is not a lot that people can put in their way that is going to keep them from doing it.

However, on the other side, there are a lot of people out there who maybe are on the bridge, or on the edge of the cliff looking to take that jump, and just won't do it because there is not an environment that is conducive to actually going out and trying to start a business.

Glen, I think, made some very good remarks previously, and I think it is the number one problem that is confronting, not only small business, but most of business today, and that is access to capital. Where do you get funds to actually make things happen?

I am very encouraged. The Garden State Venture Fund was brought up, and I am very encouraged to see that happen. We, in fact, at Intellipro, have been in touch with those folks since, I guess, the bidding process went on as to who is going to manage the Fund. I mean, it is something we are very interested in, because I think it has a lot of potential to help foster and spawn business creation in the State.

The EDA program: I was very excited when I saw that the Governor had made the announcement that there was going to be funding available. The problem is, I think sometimes, that if you are looking specifically at funding technology businesses, or people who are in technology-related businesses and are trying to get started, many of the evaluation criteria, if you will, that banks use for judging the quality of a loan, just don't stand up in businesses that are based on technology. Many of these businesses are people businesses.

Our assets, our resources, are the people we hire. That does not show up well on a balance sheet. The first comment we get is, "You are very highly leveraged." Yes, we are going to be very highly leveraged. I mean, that is a fact of the business. We do not use lots of equipment. Many technology/information science type businesses, even some areas of biotech, if they don't require large analytical type instrumentation, it is the researcher, it is the person who is sitting in the lab, generally sparsely equipped, but using a lot of intellectual properties and assets, that are making things happen.

So, in setting up programs where you are going to try to promote business, if you are targeting technology-based businesses, I think there has to be more of an understanding on the part of both the State, but I think more so getting that idea across to the banks, and anyone else who is responsible for making the loans happen, that, "Hey, you have to look at this in a new light." We don't want to be in the real estate business; we don't want to buy office blocks. That is not our business. We make, you know, in our case, good software. I think there has to be an awakening or a reappraisal of, how do you evaluate that?

Laws and regulations: Like I said, you know, we, as entrepreneurs, I think as a whole, will find a way around anything. I mean, in many cases we are resigned to what is going to happen out there. You give us the environment, and we'll figure out a way to work in it. I think that shows by all the start-up and entrepreneurial activities in places like China and Moscow. I mean, New Jersey doesn't come close to setting up as many regulations as I am sure those places have. People who want to start businesses will do it, but that doesn't mean that you can't make it easier. As I mentioned, the licensing of software developers which, you know, being in the business since there has been a computer software business

basically, is not-- It doesn't seem to have any relevance really doing good business at all.

There are some good programs that I have seen. I believe there is a bill relating to health care and trying to help small businesses to be able to have better access to health care for their employees. That is a good regulation. That is a thing that is going to help us. The other side of that is, don't tell us the way we have to deliver health care because we do need flexibility. We do need to be able to go out and actually tailor things that fit the environment we are working in at the time.

State support: I think the State is doing a lot of good things, especially through the Commission on Science and Technology. I did mention a comment up front where somebody came in and asked what we could do for them. I hope that is one-off-a-kind comment that doesn't really reflect the attitude. If you look at the programs the Commission has funded, like the incubator program-- I certainly encourage the continuation of that, because I think it does provide some level of comfort for somebody who does want to go out and start a new business; to go into an environment, you know, that is perhaps a little kinder and gentler, if you will, than just jumping out into a cold office space with no one around who is really sharing the same problems.

Glen mentioned the idea of getting relatively low cost office space and being able to get a small space, or share facilities. That is important, but I think it is more important that you have a dynamic environment where you have a lot of people in the same boat, all trying to work out, in many cases, problems that are similar. It does foster, I think more of an appreciation amongst these businesses, and also the people who come to visit them, of what is going on. It is just the extra push, I think, that can help a small business to get moving.

I believe the Commission has also financed a program-- Was it the SPIR liaison, Mike Miller, who works down in Washington and helps small businesses in New Jersey go after what they call Small Business Innovation Research Grants through the various agencies? It is a very important program. It is a rather complex fund, or program, to get through. There is a lot of background information that one needs to know to get into it and participate successfully, but as I understand it-- I know we have won two grants with the Department of Education and the Public Health Service, which is another nice way to get some seed funding when other sources are basically shut down. I know there are a lot of other New Jersey firms that have participated and have done well. I certainly would encourage making sure that those programs continue.

A program that was in force, and I guess has since, I don't know, not been funded recently, was the venture match program that was designed to bring informal investors together with entrepreneurs in the hope of trying to get a lot of this informal seed funding, to help to push small business. That has been closed. I was sorry to hear that it was, because I think it could be a good source of funding for small businesses. There is a program at MIT that does a similar type of thing, and it has been very successful. I know there is also one on the West Coast now. If it ever does come up, I would hope that it would get reconsidered. I don't believe it is a large expenditure, but I do think it could help a lot of people get started.

Going back to Glen's remarks earlier, just to play off a model that I think works, we are a New Brunswick-based company. Early on, when we realized that there were a lot of brick walls, let's say, in terms of trying to get funding, we learned about the Small Business Loan Pool Program in the city. We applied to that program. Coming to it, you know, they had rather rigorous and stringent requirements in terms of

how they were going to do lending. In fact, I think up until that time -- and the program was in effect for about a year or so-- No loans had been made up to that point.

That's fine, because I don't think anyone is looking for a handout. If they are, they shouldn't be in the start-up business, because it is not the way things happen. When we went to the city, one of the questions-- You know, we certainly had our capital requirements, and they had theirs. "What are you going to do to help bolster business in the area?" We said we were going to create jobs; we were going to expand our business; and we were generally going to participate in the local economy. But with the relatively modest loan we were able to get, I think we mentioned we were probably going to create two jobs. We ended up creating six, three of which were direct hires out of Rutgers University.

We increased sales two-and-a-half times each of the two years subsequent to getting that loan, so we certainly were growing the business. I know daily we all eat, drink, shop, everything else in the New Brunswick area, so I think it is the classic multiplier in effect. Things are working, to say nothing of the fact that of those six people we hired, four of them bought new cars; two of them bought houses. So, it does work. I mean, these things are happening. We are in business a year later simply because they gave us a loan, and we are looking to add another six to eight people this year.

So, programs like that do work. I think, you know, even though it is on a local level, looking at the way it is set up and the way it is designed to work jointly with the banks, with the community, and also with the firms, I think perhaps there is a model there that could be played off into a larger State type of program for this type of activity. I would encourage you to look at that.

Again, I am very happy with the programs I do know the State is doing coming out of the Commission. I hope it

continues. As I said, entrepreneurs are pretty hardy people and they are going to succeed no matter what. But I think the State can do a lot to foster more of that type of activity, in terms of setting an environment that really promotes people starting businesses of that type.

Thank you.

SENATOR SINAGRA: Thank you very much.

We are going to take a 25-minute break. We will be back at 1:00.

(RECESS)

AFTER RECESS:

P H I L I P K. B E A C H E M: First of all, Mayor, congratulations on a wonderful library.

SENATOR SINAGRA: Well, thank you.

MR. BEACHEM: Having served as a Mayor for 10 years in Franklin, not too far out, we tried to replicate your complex here, but didn't do such a good job.

SENATOR SINAGRA: It really is something the whole community is proud of.

MR. BEACHEM: Do you want me to go?

SENATOR SINAGRA: Yes.

MR. BEACHEM: Okay. In talking to Chris (Committee Aide), he indicated that this was an informal thing, so I decided that the best thing for us to do was just to come here and give you a little overview of what we think the major issues are. I am representing the New Jersey Alliance for Action. You should also be aware that I have had the pleasure of serving in a number of different capacities, one as a public member of the Economic Development Authority, which is doing a lot of interesting things in this arena. I am sure you are

going to hear some testimony, based on your list, or probably already have heard some, about capital, and things of that nature.

The Alliance for Action is a nonprofit, nonpartisan organization. We are located in Middlesex County, in Edison. We have been in existence for about 18 years. We started about 1973, '74, very much mired in the same recessionary problems that we have today, but with the goal that it would be an organization that would look to get things done. Over the course of the 18 years, we have essentially carved out a niche for ourselves in the arena of infrastructure and infrastructure-related issues. This could take us into anything from transportation to sewers to wastewater to solid waste to water supply, ports, airports, what have you.

One of the things that we continually hear representing not only the business side of this issue, but also the construction labor side, many of which are members of the Alliance as well, is, in the arena of infrastructure, there are a lot of things that need to be done in our ability to attract and keep business in the State of New Jersey. Many of the things that the State of New Jersey has done, both in this administration and in past administrations, have been very positive; things like the creation of the Transportation Trust Fund, the renewal, lifting the cap, and all those types of issues.

But there are some very serious problems, as we see them, related to our ability to keep and attract major employers in the State of New Jersey. Principally among them is the issue of sewer moratoriums. Most people are not aware of it, but at any given day, depending on who you talk to at DEPE or who you manage to secure a list from, you will find in the State of New Jersey anywhere between 225 and 250 municipalities that are on existing sewer moratoriums, which means that when the measurements were last taken, the plant

that treated that particular municipality exceeded its permitted capacity, in which case any developmental activities that are contemplated for that particular town are really put into a very confiscatory mode.

There are a number of examples that we can give you of major industries, major employers in the State of New Jersey, some of whom would love to expand in this State and, in fact, want to expand, but are prohibited from doing so simply because their sewage is sent to a municipality or to an authority that is under a moratorium. Even though they have all the local planning board and zoning board approvals that may be necessary, they cannot put a shovel into the ground because of the confiscatory role of the sewer moratorium, which says basically: "You can't do any construction until you have that moratorium issue resolved."

Now, a number of years ago in the Kean administration, the Legislature had the foresight to create a New Jersey Wastewater Treatment Trust. That is an independent authority that is pumping a sufficient amount of money, or I should say, a significant amount of money into this issue, but not enough. They probably are the model in the nation in terms of resolving the sewer moratorium issue, but they are constrained simply by the fact that they can only match the Federal dollars coming in with available moneys that they receive through the issuance of general obligation bonds.

So, from the perspective of this issue, there is simply about a \$4 billion backlog, and just not enough money to catch up with this issue. But from the perspective of major employers, it seems to us that the ability for an employer to properly plan an expansion program that may take more than a number of years, it is simply put into limbo from year to year, depending on whether that town is on a moratorium or not.

On the other side of the issue there are a number of municipalities and authorities that have taken advantage of

financing; have gone and made their necessary improvements; and have been relieved of sewer moratoriums. I can tell you a couple of examples in Sussex County. For instance, the town of Newton, which is a relatively small town-- They were on a moratorium, were able to get advantageous financing through the Wastewater Trust Fund program, were able to do their improvements, which created jobs, but also, in the process they relieved a significant amount of commercial development that had been on the books but not yet put into place because of the moratorium. That resulted in a significant amount of tax revenues that came into the Borough of Newton, as well as a number of jobs for the economy.

From the perspective of our organization, the old axiom, location, location, location-- Well, New Jersey has one of the best locations in the world, in the sense of where we are located. But the real issue in today's environment, which is now a global marketplace, is really competitiveness, more than anything else. I think that unless we are able to look at these capital issues, these capital construction and infrastructure issues, on a long-term basis, we risk the possibility that we could lose the competitiveness advantage that we may have.

We are starting to see a lot of serious issues that are cropping up already, some of which are very controversial politically. Most recently, and still existing, is the issue of Port Newark and the dredging there, but there are 180,000 jobs at stake and a \$20 billion business that is in a very precarious situation simply because we cannot get the necessary permits to dredge the waterways to a sufficient depth to allow these container ships to get in.

It was ironic that on the front page of yesterday's Star-Ledger, there was a large story about the Honda export program, while at the same time these particular ships are in the very precarious situation of running aground because those

lanes have not been properly dredged to the depths that allow us to attract the business over and above other ports where they have deep water channels.

So, the issue of infrastructure and its importance to the economy of New Jersey is something that our organization has been interested in and concerned about for some time. About three years ago, we created a foundation as a separate corporation managed by the Alliance, to do more in-depth studies on the importance of these subjects to the economy of New Jersey. The first phase of that study, which was done with the assistance of some nationally recognized consultants in this arena, resulted in the publication of our "New Jersey Infrastructure Study," and I have left a copy there for all of you, as well. I believe you may have received one in the mail earlier.

The slide show that I would like to take about 10 minutes to show you, is really a summation of the pertinent points and findings of that report. There are a couple of things, however, that I think bear repeating. One is that the relationship between business productivity and infrastructure development is a very direct relationship and it can be translated into monetary gain, which we have done.

The other link, however, does not seem to come across as vividly as we would hope, and that is the relationship between infrastructure investment and environmental improvement. We have currently analyzed that approximately one out of every four dollars that we spend for infrastructure improvement is going toward some environmental enhancement, and that point does not always come across. It could be a cleanup of a hazardous waste site; it could be a wastewater treatment plant, or something of that nature. But we have tried to make that point here.

My final thought is, the New Jersey Capital Budget and Planning Commission, which at one time had a much more vocal

and prominent role in this whole issue of capital expenditures, I think, deserves another look. I think that particular agency, when it was first created -- and I believe Bruce Coe was its first Executive Director -- had a very significant and prominent role to play in mapping out for the Legislature some course of rational investment policy when it comes to infrastructure issues, because we are talking about pretty hefty price tags in most cases.

I would encourage you, as a Committee, to relook at that agency and see whether or not it can be brought back to the stature that it once was. It could be, in our judgment, a vehicle to coordinate most of these investment type policies so that there is at least some linkage between what one department is doing and what another department is doing. You know, there are plenty of examples of departments that would like to move capital programs, but as they go through the process, believe it or not, they can't even get a permit from another department of State government to do the capital programs they are trying to do. So, some type of coordinating policy in this particular regard, I think, is necessary.

Finally, in the arena of the Wastewater Trust Fund, I think you have a very viable entity there. Since it is an independent authority, that entity ought to be looked at either for expanding the type of programs that it funds, or looked at for some creative ways to maximize some of the limited dollars that you provide, as a Legislature, either through General Obligation funds or just through permit fees. I think that Bob Shinn has a series of bills in that would already do that.

That's about it, as far as my opening remarks. I would like to show this 10-minute slide show, which will kind of put it into perspective. Then I will be happy to answer any questions you might have. Hopefully this will work (indicating machine). Chris and I tested it out, but-- (witness presents slide show)

I think that says it better than I probably could have. I guess the important point we want to leave with you as you tackle this issue is really, what is the best mechanism? I think -- and I am being repetitive -- taking a look at the Capital Planning and Budgeting Commission might be the most appropriate way.

Are there any questions? (no response)

SENATOR SINAGRA: Thank you.

MR. BEACHEM: Okay. Thank you.

SENATOR SINAGRA: Mr. Frawley?

R O G E R F R A W L E Y, ESQ.: Good afternoon. That is a hard act to follow. I don't have a slide show.

MR. BEACHEM: Sorry.

MR. FRAWLEY: Actually, Jack gave me a call yesterday and talked to me about the hearing, and asked whether I had any concerns I would like to bring up. In speaking to him I said, "Yes, there is one that came up, actually at a Bar Association meeting in October -- successor product liability." It doesn't seem to have generated, I think, the attention that it probably deserves. I mentioned it to Jack and he said, "Well, why don't you come and talk about that?"

So I did. I got my stuff together. I am going to apologize for not having a formal presentation. I will be as articulate as I can under the circumstances, but I pulled my information together, and I am not even sure if you are aware of the developments in the area.

Traditionally when a company sells a business-- If a corporation sells the stock of their corporation to another buyer, when a buyer buys the stock he buys the assets and liabilities as well, whatever happens to go along. If he buys only the assets out of the corporate shell, under the traditional ruling he gets the assets, but the liabilities remain with the corporation. If somebody had a product liability case or something against that corporation, their

recourse would be to sue the corporation and hopefully get some bit of that pot of money that was paid in.

Since 1981, in New Jersey anyway, that has been eroded. There was a case called the Ramirez case in 1981, which held essentially -- I'll boil it down; I can give you a more detailed presentation later -- that if a successor company comes in and buys the product line, even though they just buy the assets-- If, in fact, they buy the product line of a selling company and the business associated with that and essentially continue the same business-- If I buy the machines that make the tables and I continue making the tables and selling them under the same trademark, then, in fact, I do buy whatever liability is affiliated with that. That comes up when-- If a machine tool company, for example, manufactured a machine and sold it in 1972 and it is being used, and that company then sells its assets, let's say, in 1980, and a worker using the machine that was purchased in 1972 hurts himself, he can sue the successor company for his damages -- for whatever happens to him. The successor company, Company B, that came in and bought the product line, would be liable to that worker for product liability action.

The law has been eroded even further, until last August there was a case which held that a purchaser who comes in and buys some of the assets of a selling company -- not a product line, not an ongoing business, but some of the assets -- and uses those assets in his own business, not even to manufacture the same product, he can be held liable in product liability for injury suffered by a worker using a machine that was sold before the assets were sold to the successor company.

I realize that this is not as articulate as I would like it to be, but what is happening is, the old traditional theories that somebody should respond in negligence, or that people are liable for their mistakes, is really being eroded to the point that you are responsible if you buy a piece of

equipment whether or not you ever actually made the product that was put into commerce that injured the person. I think we should take a good look at this, because I think we ought to at least go back a little bit toward the more traditional rule. It is very difficult to encourage -- to advise clients, for example, if they are going to buy a business in New Jersey-- "What would my liability be?" Well, I don't know what their liability would be. I can't tell you that if you buy assets and not stock you don't have any liability. There is no way for me to quantify the liability.

SENATOR SINAGRA: What do other states do?

MR. FRAWLEY: There are approximately 10 states that go along in this direction. Other states -- the other 40 states in the Union -- have the traditional rule. If you buy stock, you buy liabilities. If you buy assets, you don't buy liabilities.

But anyway, as I say, it is very difficult. I can't say that any company is not coming to New Jersey because of this rule, but it seems to me to just sort of be another nail in the coffin. It is very difficult to advise a company that is looking to locate in New Jersey by buying a New Jersey manufacturer, for example, that they are not going to have this problem. You just can't do it.

In the Bar Association we asked one fellow to go through all the ways you could try to help a company that wanted to buy assets. "How would you advise them?" His advice was, "Drop back 15 and punt." He said, "I have no idea what to tell them to do." The only advice you can give a company is basically, "Pick and choose your assets. Try not to maintain the ongoing business," but even then-- The law has been extended by the lower courts -- not the Supreme Court of New Jersey but the lower courts -- to the point that they would really have some liability.

ASSEMBLYWOMAN DERMAN: Oh, this is not a Supreme Court?

MR. FRAWLEY: The ruling in the Ramirez case -- the key case -- was a Supreme Court of New Jersey ruling. There were two intermediate cases at the Appellate level, and the most recent case was at the Superior Court level.

If you would like, what I could do is put these together for you. It would show the progress of it and where it stands right now, and why I think it is a problem. Do you have a recommendation here? I would like to move back close to the other level, just because it is easier for me to advise clients, and I think it also encourages-- I look for the cite. Somebody had described capitalism as "creative destruction." I went through my marvelous collection of quotations, but I couldn't find out who said that.

As a family business or a small business, you know reaches the end of their rope and it is time for them to sell and get out, you need to be able to encourage people to come in and buy those businesses and put the assets to a better use. What you are doing is discouraging that. What you wind up with is comparable to what you have in the ECRA situation, where a company can't afford to go out of business and can't afford to stay in business. I think if you encouraged job growth and encouraged companies to come in and revitalize dying companies-- You really need to take a good look at that. This is a small aspect, but I think it is one that can be resolved fairly easily.

Are there any questions? (no response) Okay, thanks.

SENATOR SINAGRA: Harriet, any questions?

ASSEMBLYWOMAN DERMAN: No.

SENATOR SINAGRA: Great. You'll send us--

MR. FRAWLEY: I'll put together a package for you and send it to you. I hope it will be helpful.

SENATOR SINAGRA: Thank you.

ASSEMBLYWOMAN DERMAN: Thank you.

MR. FRAWLEY: Thank you.

SENATOR SINAGRA: Roger?

ASSEMBLYWOMAN DERMAN: I'm cold.

R O G E R W. E M I G: Pardon?

ASSEMBLYWOMAN DERMAN: I'm complaining that I'm cold.

MR. EMIG: Well, this is my first day out of a sick bed, so I just feel like-- I've got chills, and wow! I've had the flu for five days. I was wondering how much the temperature has gone down since they came in and turned the heat up.

ASSEMBLYWOMAN DERMAN: Really!

MR. EMIG: Because it has gotten colder.

ASSEMBLYWOMAN DERMAN: Not in East Brunswick; that doesn't happen.

SENATOR SINAGRA: Oh, quiet. I'm going to call Arnie, and your credit cards are going out tonight, too. (laughter)

MR. EMIG: At the risk of being too formal at an informal session, I think I will just spend a few minutes reading through the testimony. Okay?

SENATOR SINAGRA: Okay.

MR. EMIG: It will be easier for me, and probably easier for you. Then I can answer any questions.

John Heldrich, our Chair, cannot be here today, and I was selected to come and represent him. He is out of the country, although since I was out sick, I don't know where he is, but I am sure he is in a nice, warm climate.

SENATOR SINAGRA: Maybe we should go find him.

ASSEMBLYWOMAN DERMAN: And join him.

MR. EMIG: Yes, maybe we should go and join him.

Why I am here today is to explain the State Employment and Training Commission, and what our role is as the statewide agency in promoting employment training and education in New Jersey; also, how we fit in with business retention, business appreciation, and business expansion in the State.

The Employment and Training Commission is really a bipartisan group of 34 members -- business, government, labor, and community leaders -- who meet once every two months to discuss-- Our mission is to design and to help implement a world-class work force readiness system for New Jersey. We have been, basically for the last three years, working on that mission with the six departments that deliver employment training and education in New Jersey.

As part of the Commission, six of the members are the Commissioners of: Education, Higher Education, Labor, Community Affairs, Human Services, and Commerce and Economic Development. What we have done with those six Commissioners-- Each Commissioner has basically provided a senior staff person, either an Assistant Commissioner or someone at the chief of staff level, to work with us as the staff on almost a daily basis, to design better programs for employment training and education. We have made several recommendations to the Governor and to the Legislature, and you have passed legislation over the past few years for us. I think we have moved forward in a lot of different areas in employment training and education.

What we found is that New Jersey, and America, are currently experiencing some fundamental changes in the economy. These changes have come about as a result of increasing global competition; the acceleration of the introduction of technology in the workplace; and a growing skills gap between workers and the demands of the workplace.

The Commission has focused its energy on addressing the implications of these changes on current and future workers. To succeed in global competition, you need to provide a business climate which encourages high wage/high skill jobs within our State. As business restructures itself, government and education must form a strong partnership with employers and workers to generate high performance workplaces staffed with

highly skilled workers. The Commission has been encouraging such partnerships.

In many ways, New Jersey is at the forefront of efforts throughout the nation to create an economic climate capable of meeting the challenge of the global economy.

Some examples of this leadership include:

* The Work Force Development Partnership Act, which you, as the Legislature, passed last July, which provides direct support to existing, expanding, and newly located businesses through the Office of Customized Training, to provide skill training to workers to help New Jersey firms maintain their competitive position. This Act also provides for the retraining of workers who have been displaced through structural changes in our economy, through a voucher program. Our mission in this Work Force Development Partnership Program, which you will be very interested in, is that we are responsible, legislatively, to evaluate this program. We have already begun to do this evaluation. The design of it and the implementation of it is a \$50 million program each year. You voted to, you know, redirect this money from the U.I. Trust Fund. We are extremely interested in seeing how an evaluation of that program works.

The first report will be due to the Legislature in December. As I say, we are already working on that report.

* The Commission's Unified State Plan for New Jersey's Work Force Readiness System provides a long-term framework for better connecting and more effectively focusing the way schools and firms train workers over the course of a lifetime. This Plan was also shared with you. We have 21 action steps in that Plan, and we have been working on that, as well.

The Plan emphasizes, in general, comprehensive career education, beginning at the elementary level to prepare students for change. It recommends the introduction of

competency-based education for all of our students which defines curricula knowledge in terms of specified vocational outcomes. It provides a variety of bridges between school and work to establish the opportunity for lifelong learning within and between careers.

One of the things we are working on right now, which the Governor mentioned in his State of the State Address, is a Youth Apprenticeship Program. We have gotten together with Education, Higher Education, and Labor to design such a program for youth. That will be forthcoming within the next few weeks.

* The State Plan also emphasizes customer choice in the selection of career and training opportunities and recommends the kind of private school regulatory legislation currently being developed by the Education Committees of the Legislature. That is in both the Assembly and the Senate.

* It encourages the formation of education business alliances to ensure that occupational education and training are relevant to employers' human resource needs.

* It establishes an agenda to retrain workers both on the work site and in the classroom.

* It recommends that education, in addition to the three Rs, provide a curriculum that instills problem solving, teamwork, and other basic skills, thinking skills, and personal quality skills required to compete in the 21st century workplace.

Collectively, the action steps and long-term framework of this Unified State Plan are providing, and will provide when fully implemented, one of the main elements for fostering economic growth in New Jersey -- a high skill work force. An essential ingredient for economic growth is government/business alliances in support of high performance workplaces; that is, workplaces that produce high value added from high skill workers. Without this ingredient, high skill workers are not enough to sustain the long-term economic health of our State.

Several initiatives are underway within the higher education and government community to encourage high performance workplaces. Advanced technology centers -- which you heard about this morning -- industry-based research and technical assistance, and financial support are all geared to increasing the skill level required in the workplace.

Since the end of World War II, America grew through an economy that sustained high wage/low skill manufacturing and service jobs. The global economy does not allow that luxury to continue. Without high skill workers effectively utilized in high performance workplaces, New Jersey and America cannot maintain the standard of living we enjoyed for the past 50 years.

This Committee can further foster New Jersey's economic recovery by encouraging and supporting initiatives and programs aimed at increasing the skills of the work force and high performance workplaces within our State.

From the work force perspective, your continued support of initiatives to train existing workers, retrain displaced workers, and provide bridges between school and work -- especially in the school-to-work transition of our young people -- can contribute significantly to these efforts.

On behalf of Mr. Heldrich and myself and the Employment and Training Commission, I welcome questions. Do you have any? (no response)

Well, that gives you a brief overview of what we're doing with the Commission. We are working on some specific issues. One of the issues that is currently in the Education Committee is the proprietary school legislation. What that would do is, it would consolidate the oversight administration into one, of all vocational training in the State of New Jersey. It would provide some sense of stability. There have been a lot of problems in New Jersey, as in other states, with the Federal loan programs. This would solve that, because it

would have a consumer protection fund. I know you get letters all the time on this. So, we're trying.

ASSEMBLYWOMAN DERMAN: Have you ever considered the feasibility of an adopted school program by corporations?

MR. EMIG: Yes. That is one of the serious things we are considering, Adopt a School. I, personally, went down to North Carolina, where they have that. They have Adopt a School; they have Adopt a Corporation, both ways. It works very successfully. I have gotten all the details on that, and we are going to make some recommendations.

ASSEMBLYWOMAN DERMAN: Oh, really? I would be very interested in that.

MR. EMIG: Okay, and that will be this year. Okay?

SENATOR SINAGRA: Thank you.

MR. EMIG: Thank you.

SENATOR SINAGRA: Mary Ann Connors.

M A R Y A N N C O N N E R S: Hi. Two familiar faces here. Who am I speaking to, Jack Sinagra? I think I met you at one of the presentations the Governor was at. And, Harriet Derman, weren't you on the Fairleigh Dickinson Tax Institute Forum?

ASSEMBLYWOMAN DERMAN: Oh, a long time ago.

MS. CONNERS: At another incarnation, I was the Director there for many years, so it is like, again we meet.

ASSEMBLYWOMAN DERMAN: Exactly.

MS. CONNERS: I don't know who else I will be speaking to, but--

SENATOR SINAGRA: Everybody has already left. The early morning Senators have gone.

MS. CONNERS: Their brains are just so filled with knowledge they couldn't handle any more. I don't blame them.

ASSEMBLYWOMAN DERMAN: Well, we started this morning.

MS. CONNERS: Well, this is going to be very informal simply because only yesterday was I aware that I was going to

be speaking today. So what I would like to talk to you about, in general, is what I am doing down at Middlesex County College.

I am the Director of a unit. It is a sort of a set-aside unit called, "The Institute for Management and Technical Development." It has been in existence for almost seven years. I have been on board for a little over a year. Its mission -- if we can call it that -- is to provide training and development for business and industry, in the State very specifically. Of course, our clients are in Middlesex County. We do a whole wide range of things, and I was told to come with any ideas or suggestions and any positives or negatives. I think the good news is that the Institute, under the auspices of the Middlesex County College, is doing a terrific job in terms of serving both the individual business or professional person and the county through its public seminar programs. I'm sure if any of you are residents of Middlesex County you have gotten the tabloid, and you know the range of programs we do.

That particular bulletin is designed to assist the individual. Sometimes he or she is supported by their organization; other times they pay on their own. We train upwards of 4000 people in the course of a year in 200 programs, just in the public individual format.

The other part of what I do -- and perhaps you are more interested in this -- is the customized training, where organizations come to us, or we telemarket to them, since we are a rather aggressive lot at the Institute, and we try to tap into them, see what needs they have, and put together a training program for them. As you can imagine, a lot of it is basic skills targeted toward improving the math and verbal skills, and the English skills, particularly of the folks of the immigrant population who may be working in some capacity in the manufacturing divisions of various corporations in the county.

We do a lot of that, but increasingly we have done some very sophisticated technology training. Probably most of what we do is, in fact, the high technology training. Then we do management development things, total quality management, familiarizing people with ISO 9000, standards, and whatnot, all of this with a view toward keeping county and State businesses and corporations competitive and productive. I would say a good half, maybe over half, of what we do is that. So, that is the good news, and I will be happy to tell you anything you would like about the specifics of the programs, but if you look at the material I have presented to you, a lot of it may already be familiar to you. But again, I will be happy to answer any specific questions.

More recently, with the passage of the legislation, I think, in August with the Department of Labor -- the legislation that is designed -- the WDP legislation -- we have been asked to come in, as an approved vendor, to provide training to specific corporations. Currently we have gotten two contracts: one with Johnson Controls in Edison, and the other with Prospect Industries, and we have a couple more we are working on. They have gone very well. I have a couple of concerns. I think one of them is, the customized training area is working very well, but I know from talking to my boss, the Vice President of Academic Affairs at the college, and also the Dean of Continuing Education, that the legislation that applies specifically to the individual unemployed, is fraught with all kinds of paperwork.

I have been associated with academic institutions for 13 years now, so I am pretty good at pushing paper around. But I see not only -- very specifically for the individual, the unemployed, that they are very, very frustrated. They come to us. They need a lot of handholding, as you might understand. They do not understand the way the system works. I'm not sure I understand the way the system works, but I usually know a tad

bit more than they do. We now have a process that we have put into place in the college, and I think it works very well, but I think it is very tedious for these people and they are very frustrated. I think sometimes they feel like they are in a catch-22. "You know, I'll go through three hoops and, oh, my goodness, I didn't realize I had a fourth hoop to go through." I hear a lot of that. So that is one thing that I see. I don't know who was here earlier today, but I have no doubt that probably other people have expressed that view, too.

The other end of things, where we have clients with whom we have been working and for whom we have delivered training-- Very often they have limited training dollars. They will come to us. In many cases, they are expanding their business. They realize that their work force needs higher technology training, and perhaps some improvement with their language skills, but they have limited training dollars. We will suggest that perhaps they might want to tap into the dollars that are there to improve the work force.

They come back to me and are very frustrated. Again, I think they feel like, "Oh, I cannot pass go." It is like this is a board game and they don't quite know the rules. We try to give them as much information as we can. I have to say that the Division of Customized Training is doing a super job in keeping us current with whatever is coming out of Trenton, but I think the individual client -- in this case I define client as the individual businessperson -- who is trying to process these applications, is very frustrated.

Once they get the approval, it is, like -- the training is amazing. It goes so fast it makes your head spin. So it sits down on a desk in Trenton somewhere. You know, we keep saying, "What's going to happen? What's going to happen?" It's like nothing, nothing, nothing, and then all of a sudden it happens, and we start the training the next day. That is kind of what happened with Johnson Controls.

So I think the Institute is poised and ready to deliver more training, but we do hear a lot of frustration. We try to cut through some of the red tape. We try to identify a key player in Trenton; try to call them; try to find out for our client what is going on. In this case again, the client is the corporation or the industry we are talking about.

I see more of this happening in the next couple of years. I would appreciate anything that you folks can do to try to cut through that red tape.

The other thing, very specifically, for the Institute-- We are being asked to do high technology training, and we do. We are very lucky. We have some excellent technology laboratories. For those of you who have been given a tour of the new Technical Services Center in which my offices are housed, you know that the laboratories there are very sophisticated. I am happy to report that much of the industry in the county, through us, has accessed that technology.

But, when we are working with the formula that is dictated by the Department of Labor, the margin, in fact, for us, is very slender. It does not really address the overhead. We are very happy to do that, but thank goodness we have other clients who are paying the full freight. If we are going to be asked to do an increasing amount of this technology training -- and I would assume, from reading the newspapers and from all of the kinds of speeches given by Presidents Bush and Clinton-- That is the reason, I think, why they came to Middlesex County. As a matter of fact, President Bush spoke right outside of my office at the Technical Services Center. What they talked about was this high technology training. He was using my office for the Secret Service. It was really interesting for a week. We were very much excited, of course, at the prospect of having him there. But I think we are delivering the kind of training that these two gentlemen are talking about. In other words, hopefully we are going to get

to a point where we have high technology and high skill/high wage. We are right here in the middle of it, and we are delivering it.

But -- to get back to my original point -- the formula that the Department of Labor outlined for us in the customized training area, is very slender. Hal English sits on our Board of Advisers. He is a good friend of the Institute, and I have expressed this to him from time to time, as well as Robert White and a couple of other people. I would like to be able to see a little bit more flexibility there. This training is expensive. The machinery on which the training is conducted is very expensive. We would like to get a bit more. That is just my personal view; I am not really even speaking on behalf of the college. But I see so much of this going on, and I think it will be more in the future. But as I say, we also have customers who are paying the full freight. So that is one thing.

I asked my staff this morning, since I was kind of putting this together rather quickly at the last moment, if they had any suggestions. I may be incorrect, but one of them suggested that-- Currently I think the formula does not -- the formula for customized training -- provide moneys for assessment. In fact, if we are supposed to deliver good training, we need to do an assessment. Right now we kind of back into the assessment. It is kind of embedded in there, but we have to be kind of careful how we phrase it. But I will tell you, it is very difficult to put together a program that makes sense to train workers either in technology or in basic skills, if we do not first go in and assess where their level of achievement is, so that we can go from there and hopefully get them from where they are to wherever the company needs to have them.

So, I bring good news and bad news. Maybe it is not bad news; maybe it is just information. Do any of you have any questions of me?

SENATOR SINAGRA: The Institute-- Is that something that most county colleges are doing now, or is this unique to Middlesex County?

MS. CONNERS: I think they do it in a variety of ways. As I say, I am actually a resident of Morris County. From what I know of the community colleges in the State, I don't think anybody is doing it in quite the way that we are. We have been focused. We have been lucky. My superior, John Bakum, who is the Vice President, and has been for some time -- Vice President of Academic Affairs at the college, I think saw, years ago, the need to have this kind of organization housed under the auspices of the college, but set aside. I think the view -- and I think rightly so -- is that a college sometimes is bogged down with a lot of red tape. What we don't want to create is the morass, I think, that exists already in certain places in Trenton. I don't know. I actually never stepped foot in Trenton, but I have this view of Trenton with all these desks and all this paper piled up high.

I think if you go through a college system, very often you do have a lot of red tape. That is exactly what he didn't want to have. He thought that industry would be impatient with all of that. The whole idea was that we would be right there, self-sustaining. We try to meet the needs of business. We turn around programs very, very quickly. We don't want to give them more training than they need. We want to give them just the amount of training that they do need. It is not about getting them through a program that would have credits on the other end, you know. So, it is set aside that way. I think other community colleges have it.

SENATOR SINAGRA: Trenton?

MS. CONNERS: Trenton? Probably.

Other community colleges have it set up a little differently. I don't want to say that they don't do it, but I

think they probably do it under a variety of different scenarios. I think we probably do it better than anybody else, though.

SENATOR SINAGRA: We heard testimony in Trenton a while back, and one of the criticisms was -- I have forgotten who the speaker was -- that our county colleges just were not focused.

MS. CONNERS: But we are.

SENATOR SINAGRA: They tried to be everything to everyone.

MS. CONNERS: I think that is true in some cases. Perhaps they do not have the luxury that Middlesex-- Middlesex is one of the largest, and in some places it is felt to be the best. I can say that coming out of Morris County.

SENATOR SINAGRA: Oh, I hope you would.

MS. CONNERS: I have a lot of respect for Morris County, but I am very impressed-- I have only been here for a little over a year, and I am very impressed with Middlesex. But I think that that focus is what John Bakum felt was needed in Middlesex, because what happens is, you have a lot of folks that you have to contend with. By having it focused with one division with two arms, that is, the group that does the public seminars for the individuals and the group that does customized training, we are very focused. I report directly to him. I am not constrained by much of anything, except that I have to meet my expenses, and I have to, hopefully, generate some revenue. We have been off grant for about two years now. For awhile, I think we did have State funding, but it is off grants, and has been since I have been there.

I don't deny that that is a proper criticism, but not of Middlesex. Perhaps the other county colleges either do not have the dollars or do not have the vision, perhaps, or perhaps they just don't have the personnel. Maybe they are scrambling to just get people through the credited programs, and certainly

this year has seen a tremendous resurgence of people coming for both credited and noncredited programs to Middlesex. All you have to do is go into the parking lot and try to find a parking spot after 8:30, and you would know what I am talking about.

So I think that Middlesex, if you will, is a prototype of how it ought to be. I have been to a number of places, and again, I am very impressed by the lack of red tape we have and the vision that is there, and the tremendous support. Far too often in this kind of role that I have, people feel like orphans and have to justify their existence. That is not at all what I have to do. All I have to do is go out and serve industry and serve it well; make some money and deliver quality training -- and do more of it.

That's it.

ASSEMBLYWOMAN DERMAN: Do you have any specific recommendations for legislation that are necessary to implement job training programs?

MS. CONNERS: I think there is already a lot of legislation. That is sort of my view. I have read some of it, and tried to become familiar with what was passed this past August. My feeling, just as a practitioner, somebody who is on the other end, who is an approved vendor to deliver the training, is that in terms of the customized training area, it is being done very well with the suggestion that I already made, which is that there is not quite enough money as I would like to see.

We are talking about our overhead, our staff doing this. That is the one suggestion. I don't know that you need legislation in order to implement that. I do see that with some hard work and a lot of working together -- the various parties -- that the programs that you put into place for the individual unemployed, can work. I don't think you need more legislation. We are beginning. We just hosted, at the Department of Labor's suggestion, a meeting which brings

together many of these people in the four-county region, to try to hammer out different scenarios so that this red tape can be cut through. We just did that two months ago. I am hosting another meeting in April, at the suggestion of the Department of Labor, in concert with the Department of Commerce and Economic Development, again, to bring people together, businesses in this case -- small to medium-size businesses -- to try to give them the information they need so they can tap into these dollars if they quality.

So I think the mechanisms are in place. I am not an advocate for more and more legislation. I just think what you need are more opportunities for people to talk and try to work these problems out. That is my suggestion at least.

MS. SMARTH (Assembly Majority staff): May I ask--

SENATOR SINAGRA: Go ahead, Debbie.

MS. SMARTH: The Department of Labor-- Before you mentioned the formula they were using--

MS. CONNERS: Yes?

MS. SMARTH: --and you said that they should probably be a little bit more flexible. Are they going to handle the changes through a regulatory scheme, and have they already made, based on you bringing the problem to their attention-- Has Hal English, or any of those people, mentioned that this will be coming down the pike?

MS. CONNERS: I am not the first person who has mentioned this to Hal, I'm sure. He was in my office the other day, and I always make my pitch. I have to tell you, not having worked very much with Trenton or the Department of Labor, because I was in the private university and college sector over the past few years, I had to really look to my staff, one of whom had worked for one of the departments down in Trenton. She had been doing this. Even before the legislation was passed, we already were a vendor the Department of Labor looked to. That mechanism and that formula have not

changed. It pays adequately, I think, for instruction. It really does a good job. If I have an instructor currently who is making \$50 an hour delivering statistical process control training for Johnson Controls, he gets that. I get about 10 percent of all the instructional costs, plus there is a fudge factor of 8 percent, or 10 percent, somebody told me.

That does not begin to cover the handholding that I have to do. What I did tell Hal, now that I am more knowledgeable having gone through my first contract and on to the second, is that the only way we can make ends meet as a vendor, is to do a plug-in. Basically, have the thing on a computer and simply plug in the cost. I spent almost a week before I finally got it. I kept saying, "But we have to assess. We cannot do this training without assessment," and everybody said, "Well, you have to kind of back into it." I said, "Define backing into it. What is it you mean? Why can't you use these words?" which are acceptable in what we do.

So I finally got with it, and I said to Hal, "If I have to do this in the future" -- and certainly we look forward to the opportunity to serve and recruit and retain business in Middlesex County -- "I think this is a fabulous way to do that. I think we really offer a great deal at the Institute." But I am going to have to do it in a plug-in fashion. I cannot spend the kind of hours that I spent trying to do this, because we just don't get enough money. We would like to continue to be self-sustaining. You know, we would like to be the way we are now if we get more of these, and I think we will, because I think we are unique among the county colleges in the State in that we can deliver technology training, which is very expensive.

We have had innumerable test times. What they are doing is, they are trying to bring 130 people on board. In order to do that, they are having to send them to us for an assessment. We tell them that they have, in fact, passed, so

they can go through the next couple of hoops so that they can be employed. Once they are on the payroll, we then go in and deliver the specific training. In this case, it is SBC training. It is wonderful to be a part of it. I mean, you know, they now have, I don't know, 24 people on, and they didn't have anybody. It happens very fast, you know.

The other thing that I offered Hal was that sometimes the people who apply for the jobs -- many of them are unemployed, because they go down to Employment Services to recruit these people. They do not have the basic skills they need. They need a little bit of extra help, perhaps a math refresher, so that they can then pass the basic skills math test, get employed, hopefully, if they can go through all the hoops, and then have the SBC training. And as I said, we are poised and ready to deliver the math refresher which will help them to pass that test. We already do it for clients like Bristol-Myers Squibb. But there is nothing now, I don't think, in the legislation that provides that. I say it is a shame to just throw all those people away. Say they have to reach a score of 30. Take the ones who got somewhere between 20 and 30, give them maybe five hours of refresher -- lots of times they just forgot how to do fractions -- and then have them take the test again, and hopefully they will eventually be employed.

Again, we were trying to recruit people -- or they were, from Middlesex County. I gather that they have thrown their net out a little further into other counties in order to get people who can basically pass this test. I'm saying, maybe they don't have to throw the net so wide. Maybe we could just give them a little additional training.

So, we are trying to improvise. It is something you just sort of do as you go along. I am not quite sure that I know what the solution is.

SENATOR SINAGRA: Anything else? (no response) Well, thank you.

MS. CONNERS: Okay, great. It was good to see you.

SENATOR SINAGRA: We'll come down to visit you one of these days.

MS. CONNERS: Absolutely. We give tours all the time.

ASSEMBLYWOMAN DERMAN: Was Ray Lee Dunkle at your facility?

MS. CONNERS: No, she is now at Mercer.

ASSEMBLYWOMAN DERMAN: But had she been there?

MS. CONNERS: Yes, she, in fact, was. Yes, she was at Middlesex. Right.

SENATOR SINAGRA: I guess that's it.

(MEETING CONCLUDED)