

Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON

ECONOMIC RECOVERY

"The State's ability to retain and attract business"

LOCATION: Committee Room 9
Legislative Office Building
Trenton, New Jersey

DATE: January 28, 1993
1:00 p.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Jack Sinagra, Chairperson
Assemblywoman Harriet Derman, Vice-Chairperson
Senator Peter Inverso
Senator John H. Adler
Assemblyman Jose F. Sosa



ALSO PRESENT:

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

Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
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JACK SINAGRA
Chairperson

ASSEMBLYWOMAN
HARRIET DERMAN
Vice-Chairperson

SENATE
JOHN O. BENNETT
PETER INVERSO
JOHN H. ADLER

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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 - January 28, 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 Sandra Nitzberg, secretary, at (609) 984-7381.

The Joint Legislative Committee on Economic Recovery will meet on Thursday, January 28, 1993 at 1:00 PM in Committee Room 9, Legislative Office Building, Trenton, New Jersey. The committee will address the State's ability to retain and attract business, and will receive testimony from the following: Mr. Joseph Gillespie, President, Boonton Electronics; Mr. David Kehler, President, Public Affairs Research Institute of New Jersey; Mr. James Shriner, Vice President, PHH Fantus; and Mr. Michael Smith, President, M.F. Smith and Associates, Inc.

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SENATOR JACK SINAGRA (Chairman): Good morning. (Aide takes roll call)

MR. BERRY (Committee Aide): Senator Adler?

SENATOR ADLER: Here.

MR. BERRY: Senator Inverso?

SENATOR INVERSO: Here.

MR. BERRY: Senator Bennett? (no response)

Assemblyman Pascrell? (no response)

Assemblyman Sosa?

ASSEMBLY SOSA: Here.

MR. BERRY: Assemblyman Corodemus? (no response)

Assemblywoman Derman?

ASSEMBLYWOMAN DERMAN: Here.

MR. BERRY: Senator Sinagra?

SENATOR SINAGRA: Here.

The first order of business today is to adoption of rules of this Joint Committee. They have been distributed to everyone. Are there any questions of the rules of this Committee?

SENATOR INVERSO: I have one objection, Mr. Chairman. I can't see voting by rule that makes you God.

SENATOR SINAGRA: Oh, that's says--

SENATOR INVERSO: Oh, that's Gov. I'm sorry. (laughter).

SENATOR SINAGRA: Oh, that's Gov, not God. G-O-V.

SENATOR INVERSO: In that case I'll move the approval of the adoption of the rules.

SENATOR SINAGRA: Do I hear a second?

SENATOR ADLER: I second.

SENATOR SINAGRA: Do we need a roll call?

MR. BERRY: No.

SENATOR SINAGRA: No, no roll call.

I want to welcome everyone here today. The Committee has discussed different ways that we need legislatively and as

a group to encourage the economic recovery, and business development in the State of New Jersey. We felt there would be no better way to hear from that group than to have someone come in. We have three guest speakers today that are actually in the business of selecting states and sites for major corporations. I would like to ask to come up now, Mr. James Shriner of PHH Fantus to give the first presentation today.

JAMES SHRINER: Thank you.

Thank you very much for the opportunity to talk to you about what we found within New Jersey and how New Jersey compares to other areas. The purpose of our comments we hope are interactive through this, and if you have any questions please ask them as we go.

We are going to be discussing business retention and attraction. Obviously you can't attract anything if you don't retain what you have, and retention will be the key to attraction. We're going to be talking in three primarily areas. First, we'll put historical perspective on the comments what we are going to be making. Then, we're going to be talking about the expectations of what companies are expecting, and finally some of the ideas that we have on what can and should New Jersey do in this particular situation. (begins slide presentation)

This will be the only slide that is this small and difficult to read. I apologize for it.

You may ask yourself what is PHH Fantus' creditability in this particular issue? That is certainly important to define early on. We are an international management consulting firm that focuses on geopolitical and geoeconomic issues. Those are companies that are looking at how their operations may be impacted by political issues, whether it's between states or between countries, and how it would be impacted, on the economic side of it.

PHH Fantus was established in 1919. So we have been doing this for over seventy years -- business location. We are not new people into this. In that time period, we have done over 8000 projects. Of that, we do about 300 projects a year.

These are for corporations we helped locate; most recently the BMW Company. Where in the world should they put their manufacturing capacity and expansion? That ended up in South Carolina. We have done it for Honda, Mitsubishi, Toyota, a number of major organizations; with UPS on their relocation from Greenwich Village -- Greenwich, Connecticut, down to Atlanta. Across the gamut, we've done this in Europe and Asia, as well. We've worked with major organizations. We also have worked with smaller organizations, and that's important because they're also the lifeblood of the community.

How does PHH Fantus plug into the overall structure? PHH Organization is our parent company. They're a Service 500 Company. They have about \$2 billion in revenue. So they're certainly not new to it. Our sister company, PHH US Mortgage is headquartered in Cherry Hill. They employ over 500 people at that particular location. They service \$9 billion worth of residential mortgages there.

So we have a major role in New Jersey, but we also are a major international corporation with offices throughout the world. We've got various operating companies, and PHH Fantus, as I mentioned, has an extensive list of companies throughout the world. The involvement is from strategic through evaluation and actual implementation.

Our experience within New Jersey also-- These are just some of the representative companies that we have worked with within New Jersey. As you can see some of them are as small as with Aris Isatoner, to the largest one, AT&T. BMW -- they are headquartered in New Jersey with their North American operation.

I won't necessarily talk about what we have done with each and every one of these, but I will highlight, for instance, Hitachi. Their particular venture was-- They came to us and said, "Where in the world should we put our research facility for high definition television?" There had been dissension in the organization: Should it be on the East Coast or the West Coast? We helped them focus on what was going to be best for their organization, and ultimately put them into Princeton. They are doing some world leading research in Princeton on high definition television. That is happening here.

For instance with Sea Land, should they stay in New Jersey with their headquarters; should they be going somewhere else? As we recently saw, they are going to stay in New Jersey, moving out of the Edison facility and into an area out near the intersection of 287 and 78.

Certainly with Merck and their decision to keep their headquarters in New Jersey and move it from Rahway out to the Readington area-- MacMillian Books-- We helped MacMillian Books decide to move out of New York in the late '50s, and then they came to us several years ago and said, "Should we stay in New Jersey?" -- in southern New Jersey across from Philadelphia.

As with all good organizations they had to evaluate, should they be in New Jersey or would they be better off somewhere else? We ultimately helped them select a location about a mile from where they currently were, and they've been very successful there.

On the flip side, you see Georgetown Associates. Most people won't know who they are. That is the real estate group for the limited-- They took a master lease on the building at Newport Center in Jersey City. The State was intimately involved in putting together the public side. We helped Georgetown identify what things they had to do to go after and

attract business. So what businesses should they be going after? How should they do it on the private side? The State came to bat and helped get First Chicago to locate there and USA Network to go in that particular facility. So we got intimate knowledge of what goes on in New Jersey.

We have worked with a lot of different companies here, and certainly we feel that gives us a unique perspective. Also, within the last ten years we have talked about the number of projects that we worked. In the last 10 years we looked very closely at New Jersey over 100 -- 113 times for projects. From that level it got down to some very detailed interviews and identification of sites on about 36 of those projects. Unfortunately, most of those projects did not come to New Jersey. New Jersey was a candidate, but they tended to go elsewhere.

We'll talk about some of the reasons why they went elsewhere and some of the areas that they did go into. Now, from a historical perspective, we'll step back for a moment and-- How does this tie together? Are we talking incentives? Are we talking economic development programs? What are the issues, and how do they develop?

I want to emphasize that the legislators are a very important portion of this process. They've got to create the programs and tools, but they can't be the drivers in this particular situation. They can meet with companies, but they can't go out and take the active role. Typically, that falls into some other position.

In many areas this is the responsibility of the Governor. The Governor has taken, in many cases, a very active role. Going back to the late '70s, Jim Hunt in North Carolina was one of the leaders in creating aggressive economic development programs. He took it underneath his wings. He contacted many companies, and North Carolina really blossomed under his leadership. He needed the tools from the

legislators, he needed that interaction, but he was the one that focused the activity. Martha Layne Collins also in Kentucky was a leader in doing this as you probably read at the time when she attracted Toyota, Sumitomo, and a lot of other Japanese companies and American companies. Everyone said "She's going to drive the state into bankruptcy. She's giving the state away." She had a much larger vision for the state. what the state could give; what the state was going to get. And in return, the State has not gone into bankruptcy. They have been very aggressive and the states surrounding them are scratching their heads and wondering what they should be doing.

Currently, if we switch from that past to the current, there are not many Governors that are very active we would call to you attention. Not to emphasize any political party, but just to give your an idea the type of leadership that's going on, Carroll Campbell of South Carolina has made a dramatic move into economic development, certainly by landing the BMW project.

That is not the only project that he has gotten to go down there. He helped Hoffman-La Roche put a big R&D facility in the state: Headquartered up here and doing their R&D down in South Carolina. You can just go down the list of all of the companies both international and U.S. companies that he has gone after. How has he done it? He's probably up in the state as often as any Governor, meeting with companies and talking to their CEOs and saying to them, "We think you can do better in South Carolina."

Here are the programs that we can provide to you. When was the last time that your Governor has sat down and talked to you like I'm talking to you? So, he creates a very persuasive program. It's not that he's acting only in New Jersey. He's going out after companies, whether they're in Germany, sitting down with Eberhard vonKuenheim, with BMW and

telling him what he can do, or if he is sitting down with the people in Taiwan with the plastics operation there, he is interacting with them one on one. Bob Casey--

SENATOR INVERSO: I'm sorry, can I interject? This is probably an unfair question, and if it is I can understand you're reluctant perhaps to respond. I think it's important what we're dealing here in New Jersey. If you we're to provide us on a scale of one to ten how would you rate the involvements of Governor Kean to Governor Florio as with the last two Governors?

MR. SHRINER: We would rate them as nonplayers. We just have not seen them as visible participants both with Fantus or with our clients. We can't think of any clients that said "Gee, the Governor has sat down with us." We worked several projects currently that are confidential and other Governors know about it, and New Jersey does not have a clue what's going on. Did you have any other--

SENATOR INVERSO: That's your experience--

MR. SHRINER: Absolutely.

SENATOR INVERSO: --with your particular company's perspective with your involvement with clients that were considering locating here in New Jersey over the last four years or so?

MR. SHRINER: Yes. So that is-- There will be some other parts to that. I think certainly that the focus on this Committee is a tremendously positive first step in doing that. I mean we couldn't have said that six months ago. We didn't have this type of--

SENATOR INVERSO: I appreciate your candor. It was a very difficult question to respond to. It's interesting because we have to know where we're going or what needs to be done.

MR. SHRINER: Building on that, I would say that there is also a group of Governors that have been, what we have

classified them as stone throwers. So as I said, a nonplayer. I guess that is more positive than some of the Governors that we characterized as stone throwers. For instance, Evan Bayh of Indiana had run under a program that his predecessor had given Subaru, Isuzu, and several other companies too much in the way of incentives. He stepped in and said "I will not give incentives to any company." About the third year of his term he was in there swinging away for the United Airlines program. He ended up righting them with \$300 million in incentives to get them to go to Indianapolis.

So, we had a gentleman that ran under a program similarly down in Louisiana. We had Buddy Roemer in Louisiana who ran under a program that the government was too easygoing on business, and he put some programs in place that hindered them. Evan Bayh has changed his particular opinion, and we ended up having to help consult with them, how you can actually provide the funds.

There is also John Engler out of Michigan and Jim Edgar out of Illinois. The two of them have said, "Let's step back and not do anything for industry, and they'll have to come to us. If nobody gives anything, or nobody does anything, by default they will come to our state." What a terrible approach to economic development. You've got businesses scratching their heads saying, "What type of message is that for us?"

So, you got the very progressive and active states and Governors, and you've got people, the zero on the scale that people are actually going out there and trying to prevent businesses from being successful. So, New Jersey is kind of in never-never land. They haven't been an active participant, but they also haven't been somebody which has pursued noneconomic growth.

So, we talked about Governors being keyed. Mayors can actually be very keyed as well. There are going to have much more localized focus. Some of them are more than happy if you

go into the area because they know that their residents of the city are going to be employed. So, mayors can be active. Staff positions within the State-- Oftentimes this will be the Commissioner of Economic Development. It will be some other person and I must say, as a follow-up on your question that Barbara McConnell has been taking some significant strides in that area. She visited our office about eight, nine months ago on the BMW project. Prior to that time, no one in our organization could remember anybody coming in to talk to us about it. No, this is not unusual.

Typically, we'll have on the order of 10 Governors from across the country come into our office, whether it will be in New Jersey or Chicago, sit down with us and say, "What can we do to be more aggressive?" We'll probably have about 50 mayors from across the country coming in -- and these are mayors of big cities that we're talking about; bigger than what are in New Jersey anywhere. They're taking time out of their day -- they're bringing business leaders along with them trying to find out what they can do to have business be more active in their particular area. So, New Jersey has taken some steps. We don't feel that it's enough certainly, not that nothing has been done.

The programs that we're going to be talking about typically fall into some general areas. There is the infrastructure improvement. Those are the improvements that water, sewer, and roads built. They create public jobs and although they may benefit a particular company, will also benefit everybody who lives in the area. There will be tax abatements and tax credits. That's a hot topic. Nobody likes to pay taxes. Companies are very sensitive to those particular issues. In the overall impact of things they're probably not as useful as you might think.

There is also the opportunity for reducing the price of land, subsidizing the cost of land, or in fact giving

companies land free of charge, because that's an asset most states have plenty of, and the return on being able to give free land is multifold. Finally, training dollars are the absolutely crucial. The key to the United States' economic liability is its work force. Are they going to have the skills to be competitive on a global basis? The states have to get involved in it. So, we'll talk a little bit more how that impacts it.

Now, why is the public private partnership important? First of all, when we're working for companies, they're facing global competition. They're competing for markets, market shares, and they're competing for work forces. So, when they come to you and say, "We're thinking of consolidating. It's not necessary because they think that New Jersey is a terrible place, but they're in a competitive situation. When they come to you and say, "We need a break on the taxes," or, "We need the utility cost cutback," they are not doing that because they want to necessarily put more money to their shareholders' pocket. They're doing it because they've got to be competitive, or they are going to be out of business.

We are seeing it every day: The fact that Pratt and Whitney is downsizing significantly; Boeing is downsizing. Boeing has a tremendous backlog, yet there have to cutbacks. It's because they have to be competitive on a global basis.

Ultimately, when we are talking about shareholders, who are the shareholders? They are you and I, whether because you own shares of stock in that particular company, whether your pension plan has money in it, or if you are in a mutual fund, we are the people that are demanding the companies be more aggressive, and they're coming to us for assistance on it. It's not something that they're thinking that is going to benefit them independently, and individually. They are going to be creating jobs, or keeping jobs. What are these creative

pressures that you're finding? You're finding mergers and acquisitions. Companies are going out of business, or they are acquiring companies. That is important.

The business climate is important to this particular element of it. As companies downsize, they are going to be saying, "Where is it easier to do business?" If New Jersey is creating a climate for -- to be difficult for a company to do business, quite likely they are going to decide to close that particular operation and do business in a state that is easier.

So, there has got to be somebody who's going to end up potentially losing jobs. Why should it be New Jersey? If you can prevent that from happening-- There are going to be decentralization spinoffs, and there are also going to be operating benefits that these companies are going to be looking for. Can they be more efficient? Gee, New Jersey has seaports, eastern time zone, wonderful benefits for European companies. It's got a tremendously good work force. You've got a lot of-- We actually -- and I'll tell you, Jim and I are both New Jersey residents-- We have a lot to offer, but we have to make sure that we're maximizing what we have to offer for these people.

We are talking about the general business environment. Every one of us can affect it, whether it's through regulatory and legislative issues, or whether it's the way we talk to companies. It's the way we work with companies. Every one of us can impact our own business environment.

Now, communities -- if we're talking about the State or if we're talking about Trenton, Princeton, or any of the towns -- communities are facing the same competition. They're trying to retain existing business. If they don't retain it they can never attract another business to make up for the jobs that they lost. They are also looking at expanding the

businesses that they have. Not everybody is willing to expand, but if you have the company there, it's just a perfect jumping-off point for them to expand their operation.

Finally, they're looking to attract new companies. If you do the first two right, you retain existing businesses and help them expand. Almost by default you are going to attract other businesses. They are going to see that it's going to be a good place to do business.

It is not a zero sum game. We're not talking about it's either going to happen in New Jersey, or it's going to happen in Pennsylvania. The problem is that the world has changed. It's a much different place. The water has disappeared. We're electronically connected. We can get from one place to another via air service almost instantaneously, as well. So it's not a situation of whether or not Trenton is going to get the job, or Scranton is going to get the job, or Des Moines. It's a matter, are the jobs going to be in Princeton or are they going to be in Brussels, or are they going to be in Mexico City?

It's a global competition. If the companies are successful, they are going to grow and continue to grow. So, you're not taking away from somebody. You're actually building on this as an opportunity.

So, through cooperation, what we're going to be talking about these various elements, through cooperation businesses are absolutely going to win. If businesses win, the communities are going to win because they are creating jobs. Businesses are paying taxes. They are bringing in other support services. It's going to create capital investment in the area and infrastructure investment. It's going to create an economic vibrancy which is going to draw and act as a magnet for other companies to come into the area.

Now, what's going to be happening in the '90s as we see this going forward? We will use some of these examples.

Job creation is absolutely crucial. Where are these jobs going to be created? Right now we see a downsizing, but that's not going to continue. There is going to be an increase. These jobs may not have a tremendous increase in manufacturing, but they may have more of a service benefit to them. You are going to see an integration of facilities. Manufacturing, R&D, marketing, all of these are probably going to be much more closely tied.

Some of these areas-- Does South Carolina or does Louisiana have the research skills that are necessary? Do they have the high level of jobs that will draw some of these manufacturing jobs? That's a key concern of businesses that are looking into these areas.

Business investment: Where are they going to be putting their investment? This is the whole idea of property taxes. You have to realize that we understand property taxes here, but the rest of the world has a very difficult understanding of why? If I invest-- If I am BMW and put \$500 million in South Carolina, why are you going to be taxing me \$10 million or \$20 million for my investment?

It's a disincentive for me to put jobs into a state. It's a disincentive to invest in a state. What you're doing is saying, "Gee, we'd really like you to employ 10,000 people because you're going to pay wages and not have to pay property taxes on it.

So, you have to be concerned how your tax structure is viewed. Other states are also in the same situation. There are going to be community infrastructure improvements that are either driven by the companies that go into an area or the community, just to handle all the congestion, etc. that falls through it.

There are going to be shared risks and rewards that companies-- When we're talking about incentives they are not looking for a handout. They're saying, "I'm going to be

sting \$500 million into a particular area. I want you to
some of the risks. I'm going to be employing your
le. I'm going to be paying taxes to you. I want you to
be a participant in this particular program. I will show
it will be worth your while. If you don't have the
-set of participating and sharing the risks and rewards,
are going to be left out."

Together, the communities and businesses are going to
and what is the impact? When we're talking about it --
annual impact -- these are general terms; some of them will
exceed this. But if you are looking to creating office
or jobs, you are looking at an economic impact to an area
about \$150,000 per job created, so that if you create 100
office jobs in a community, you are probably looking on
order of a \$15 million economic impact to the local
conomy. We will talk a little more, a little later on what
impact is; whether it's tax dollars, wages, or some other
elements.

Manufacturing is certainly creating on the order of
100,000 per job created, so that if you're talking about
creating about a hundred manufacturing jobs, it's a \$50 million
impact. Most states are targeting manufacturing jobs rather
than office. If you get a 100 manufacturing jobs it's three
times as better than the service jobs. You have to have a mix.
You can't focus on one or the other. If you focus entirely on
manufacturing to the exclusion of the other, you are going to miss on
the other counts. There is an economic multiplier that's very
important to it, but it's a joint effort in this particular
area.

Now, how does-- And I apologize for the size of this.
What is this local financial impact? This is listed as a
profit organization. This was actually the impact of CARE.
CARE is the not-for-profit organization that had started after
World War II. You saw the big blue CARE stamps to offer relief

to Europe. It's now a humanitarian organization that employs something like 10,000 people worldwide, almost 200 people at their headquarters. They had been in New York City from 1946 until currently. Their Board said to them, "Are we best served by being in New York? Can we further our mission in another location?" So the management of the organization said: "Should we be here? What's the advantage of being here? What's the advantage of being in New Jersey?"

We did look at New Jersey, and we looked at some other areas. We put together the pros and cons. We actually went to the business community in this particular case and wrote letters to fifty major organizations with holdings in the State of New Jersey and said: "Do you have approximately 60 by 100,000 square foot building that you might consider donating to a not-for-profit organization, getting a tax benefit from that, and also helping the community out?" We had eight or nine organizations come back to us and talk to us about some of the alternatives. It really didn't go very far, but they did talk to us.

Ultimately, CARE decided to go to Atlanta. Atlanta is giving them a building and renovating the building for them. I think, it's a 100-some-odd-thousand square foot building that they're going to walk in, and the keys are going to be given to them. The community is going to help with fund driving, and fund-raising for them so it can help pay for the relocation so they can continue to put their \$400 million a year into programs.

What does that mean to Atlanta? Atlanta has a pretty broad vision of what they want to be -- how they want to be viewed in the world economy. They feel that CARE is going to bring some synergies to them. CARE has a high name recognition. They want Atlanta's name tied to that. So they're both going to benefit.

But as a organization they are going to be employing about 200 people. The first column that you see very small there, is what the first year's impact is. The second column is the 10-year cumulative impact of this particular organization. So they're going to be employing about 200 people. The related employment are some of the service jobs that may be created. These are pretty conservative numbers. They're going to try to keep their headquarters count down, as opposed to some organizations. You can see that their payroll, the first year is going to be some \$10 million. That payroll is going to many residents of Atlanta that didn't have a job or have upgraded in skills, and other people have rolled into the economy to replace them. You can see that it's going to be over \$100 million over the 10 years.

They are going to be paying taxes. Their taxes are fairly small given the fact that they're a nonprofit organization. They particularly don't pay taxes. They will be paying some taxes to the community, and that's going to be several million dollars over 10 years.

There is going to be the ancillary functions. There are going to be construction dollars created. They're going to have conferences there -- they're going to have people flying in and out. Those people who fly in and out may very well be thinking of putting an operation somewhere. They are board members that actually are with corporations and say: "Gee, I'm impressed with Atlanta. Maybe we should be looking at that as a location for our operations?" So, you have this multiplier. It's going to be worth close to \$250 million to Atlanta over ten years.

Let's say that they made a \$10 million investment in CARE. Does it seem like a wise investment to invest \$10 million for a not-for-profit organization and get a \$250 million return over ten years, not to mention all these other issues? They certainly thought it was worth it. Now that's for a nonprofit.

Let's talk about a corporate headquarters. In this particular case, this is UPS. UPS is United Parcel Service. They employ about 250,000 people worldwide. They had been in Greenwich, Connecticut since about 1974. In the early '80s we looked at the issue of should they stay in Greenwich or should they go elsewhere? And we said you probably should stay in Greenwich, because you have some other issues that are going on.

But it's not atypical for a corporation to revisit a location issue every five to ten years. So that I'm sure in five to ten years from now, UPS is going to come back to us and say: "Is Atlanta still the appropriate place for us?" So there aren't any permanent conditions.

So it's an ongoing situation. Atlanta is going to work like crazy over the next five years to make sure that UPS says hands down: "Should we go someplace else? No, Atlanta's the best place for us." UPS had in their headquarters some 800 people. How is that going to affect Atlanta? The location that they end up going--

It's happenstance that we're talking about two locations that went to Atlanta. That's not a trend necessarily. Should they be anywhere east of the Rockies? The finalist locations on this ended up being Cincinnati, Kansas City, Denver, Dallas, Atlanta, and Baltimore; a pretty wide range of alternatives. The final three locations were Dallas, Atlanta, and Baltimore. Very close attention was paid to them. The management team visited these and met with the business leaders. When they met, they we're unknown.

This is also probably going to be something unusual to what you might be thinking. We walked into Dallas, Atlanta, and Baltimore and met with the government leaders and the business leaders and said: "This is a client of PHH Fantus. We cannot tell you who they are. We can't even tell you-- We'll give you their first names, and that's it. You're not going to

have a last name. You're going to know it's a service business. We're not going to tell you other than it's Fantus's creditability and that it's a good company that you would want here, but for competitive reasons we cannot tell you who this company is."

We don't want Federal Express to know what they're doing. We don't want the postal system to know. We don't want anybody to know what they are anticipating. This is a strategic move that they're considering. We certainly don't want the employees of the company to know because they're going to speculate that they lost their job. They'll speculate in all the negative situations. So it's very typical to sit down with a company and to negotiate the entire package, if there is an incentive package, to commit to all sorts of things and not know who you're talking to.

In the case of UPS, we went through the entire process, did most of the negotiations, and about 9:45 we scheduled a call with Zell Miller, the Governor of Georgia, and said: "We're going to have one of the top level people of this company call you under the guise of talking about some tax issues." We knew that they were going to telling him that they were going to Georgia, but we couldn't tell the Governor that.

He called and Governor Miller answered and said: "Hello," and the gentlemen at the other end said; "Hi, this is Oz Nelson." He didn't know who Oz Nelson was. He said: "I'm Chairman of the United Parcel Service." That was the first time he had heard who he was actually talking to. And Oz said: "In fifteen minutes we're going to be announcing to our employees that we're coming to Atlanta. We're not quite sure of the particular site, but we want to be coming here to Georgia." We think that it's mutually beneficial.

The Governor had to make a decision at that point. Was he going to say: "Gee, you know we really want you here but everything that we talked about is being held back," or, "Do we

want to go forward?" He snapped at it. His people had briefed him on what they wanted to do as a state. And he said: "We're going to do everything we can do to make you successful." They put together a videotape where the Governor was on it, welcoming the employees: "We want you all to move down to the state."

Now, that's not unique to this. In Pennsylvania we worked with Lord and Taylor on their distribution center. We put together a very aggressive-- They ended up going into Wilkes Barre, Pennsylvania. There were a number of very aggressive incentives that were provided for: tax abatements, loans, infrastructure improvements -- well over \$10 million.

All of that was negotiated on the Governor's behalf with his economic development program. He did not know who the company was. They were going to announce it on a Monday morning. The President of May Department Stores called the Governor and said, on Friday afternoon about 4:30, the people that you have been negotiating with, are the May Department Stores. I know that there is a lot of concern on your part. I know there have been a lot of bankruptcies. We're a very strong organization and we hope we will be able to continue forward. The Governor had to look at his package: Did he want to extend it to this type of organization? On that same conversation he said, "Absolutely, you know we realize that--" He didn't know who May was. May owns a huge department store company.

The Governor meets with a lot of various companies and he didn't know. He said, "I'm comfortable but this is what we're going with, and we're going to continue with it." It created a distribution center of 500,000 square feet probably growing to a million-and-a-half square feet, employing 200 to 300 people, growing to over 1000 people potentially.

SENATOR INVERSO: Excuse me. Do you have any examples that you can share with us where New Jersey was a finalist in

the running, so we can determine if you have that information, why it was? What were the variables that made New Jersey not selected? What you're telling me is very interesting. It is very general, and I understand all that, but it seems to me from a focus standpoint, in those situations where we were a contender, fortunately, we were a contender but we weren't a finalist. Why?

MR. SHRINER: Okay.

SENATOR INVERSO: Maybe you're prepared to discuss that later on.

MR. SHRINER: Right, I hope to talk about some of the points in just a couple of minutes. If I don't address all of those, please ask me.

SENATOR INVERSO: Okay, okay, I didn't mean to interrupt you. Make sure you're going to head to that. That's of interest to me.

MR. SHRINER: The point I wanted to make about the financial impact with UPS that we put up here is they're going to create 800 headquarter jobs. What is a headquarters? What is that going to do to impact on the area? Well, they're going to add additional jobs. They're going to be bringing in tax dollars. They're going to be having conferences.

They have two 20,000 in and out air trips a year. So, what's that going to do for the air service? There are probably going to have more flights going in and out of Atlanta. When they're considering Atlanta they're going to say, "Gee, I really can get in and out of Atlanta easier." They will continue to increase the demand. If you don't have the demand, the airlines are not going to put the flights there.

They're going to, over the first 10 years of their operation with a headquarters, put into Atlanta's economy \$2.2 billion. It seems like the things that Atlanta came to bat for this particular company is going to be well worth it.

I can also tell you when Atlanta first met UPS not knowing who they were, their team said, "We really want you here. We think this is the best business climate, but we're not going to give you anything."

Number one, that's not the best approach because who knows what the company is looking for in setting a negative attitude. In the end, there were plenty of things that they provided as useful to the company. They may not have viewed them as an incentive, but they were to the company. They were an incentive to the company.

So, it's also how you position yourself. They ended up getting this, but it was despite their own actions. So, those are points that we'll bring up.

Now, finally, this is-- We're saying a manufacturing client and you can see the impact. This is the financial impact that we put together for BMW. BMW, as you know, started the process back in '89 and wondered where in the world should they add capacity: "We think we need capacity. Where should it be?" We helped them look at a number of low-cost alternatives.

It certainly would have not brought the plant to the United States. It would have been into Eastern Europe, maybe Mexico. They certainly would strongly consider Asia. The United States is not a low-cost area. There are some other things that are brought to it. It brings a tremendous market, and in the end, if we're going to be a global player, we need manufacturing capacity in the United States. It brings a high level of skill to the process.

If BMW is saying quality is what we sell on, you certainly-- How can you produce that in Latin America the quality side of it? You can do cost, but you can't do quality. There are a lot of issues that brought it to focus in the United States.

There were 255 communities in the United States that were viable candidates for this particular operation. There were a couple of them in New Jersey, but New Jersey was not a strong player. One of the six finalists was up in the Seneca Falls, New York area. So, that it's not as if everything was focused in the southeast. Ultimately, the two finalist locations were Anderson, South Carolina and Omaha, Nebraska.

It ultimately shifted to the airport location, not a community, but a airport location midway between Spartanburg, and Greenville, South Carolina. The financial impact over the first 10 years of operation -- this is conservative to South Carolina -- is going to be over \$6 billion.

So, you may have read all sorts of reports on what South Carolina provided to the company. That's a toss-up. They're going to be putting \$40 million into the airport. The company absolutely would not have gone to that site if they did not improve the airport. So, you can say: "Gee, that \$40 million is going to BMW." They are going to be bringing freight into that location. Everybody else in the community, and even North Carolina is going to be using that airport.

North Carolina, as it goes-- When Jim Hunt was the Governor at the time he threw his support behind South Carolina and said: "We're not a player in this, but we want it to come to South Carolina because we're going to benefit." That is a very hard position for some Governors to take: to admit that they might not be the political entity getting the project, but overall they are going to benefit if it goes there.

They threw their support behind it, and that \$40 million is going to improve the airport for everybody. It's also, the infrastructure. It may be \$20 million or \$30 million of infrastructure improvements that are going to be developed. That's going to be providing water and sewer that may run five to six miles to the site. All along there, those are potential industrial sites that companies can go into and build off of.

As they improve the road system there, it's not just BMW employees or company officials that are going to be driving on it. Everybody is driving on it. So, those are well spent dollars.

The training dollars that are going into it, BMW intends -- and they're making a major investment to operate there forever. But, you can never take that training away from a person. These are residents of South Carolina that are going to have that training skill for life whether they're working for BMW or not. It's a skill that the state has felt that they had to put into the hands of their residents, so they can be employable.

So, you can just go down the list of incentives, and sure, the company maybe didn't have to spend dollars and the state did, but ultimately the state is benefiting because each of those dollars directly benefits them. BMW is putting \$6 billion in the economy. Pretty wise investment. Carroll Campbell responded to the press's comments: "What incentives did you offer?" And he said: "Let me give you a lesson in mathematics here. Zero plus zero is nothing. Zero times whatever you want to make it times is still nothing. If BMW doesn't come to the state we don't get anything. If they don't come here we don't give them anything. If they come here the advantages that their bringing to the state are multifold."

It really takes a visionary to understand how the economy is being driven. Those are the people that are going to have jobs. Now, these may not be people right off the unemployment rolls; some of them will be. But maybe many of them are going to be underemployed, as everyone quotes them as being. Those people are going to move into the new job. They are going to, in turn, bring other people up the economic curve.

So, suppliers are going to say: "Gee, I should be closer to BMW. I'm going to go there." Other companies are

saying: "If BMW can go there why can't I go there?" It has to be a much broader vision how jobs are going to be created. What are these going to be rolled into? Either infrastructure improvements-- We've talked about the water and the sewer, but let me tell you, the police service is going to be increased.

When we helped Toyota go to Georgetown, Kentucky, one of the first things that they did was they negotiated-- We helped them negotiate a very aggressive incentive package. They came back in and wrote \$1 million check to the school system and said: "We can't afford not to have our people educated." There are going to be some costs associated with bringing a company in. There is going to be a stretch on the economy.

I can tell you that within New Jersey, the fire truck up there, (referring to slide) is a very important example. In New Jersey with a company that located their headquarters here, New Jersey had their hand out: "What are you going to do for me? What are you going to give me? You're coming here. We're going to need two more fire trucks. We're not going to pay for it. We want you to pay for it as a company." So, they stand there, keep on saying: "What are you going to give me? Who's going to pay for this?" That has caused, and I will not tell you the company's name, but it's caused them to reconsider an additional investment in the State. When they talk to other people they are going to be warning them by saying, "You've got to be careful when you go in here," because it's a matter not people looking as an advantage. It's what are the roadblocks to success in here.

So, it will stretch the public sector, the public safety. There may need to be some police added. Most of the states that are active in economic development are looking at this as an opportunity: "We're creating additional jobs.

Not just jobs, we're going to have more police. We're going to have more fire-- You're going to be paying taxes. Maybe we can even reduce taxes, if you're putting these dollars in here." Everybody is going to be better off. They view it in the macro instead of the micro perspective on this.

It's absolutely crucial as to what your economy-- It's something that we can control, and it's not just the elected officials. As a taxpayer, if I'm sitting there saying: "Gee, I'm writing letters every day saying to the elected officials, don't give this company, don't give that company anything--" It's a matter of how jobs are created in the broader perspective.

Sometime the legislators have to take a tough line on this and may cause them not to be reelected. It's the coal mining mentality, that we're going to go on strike because we're going to lose dollars, but future generations are going to benefit from it. I may be out of office, but it's going to make my successor's job easier. I am going to expect them to take the hard line to make for other people a better place -- an easier time of it. So, it is difficult.

SENATOR ADLER: Can I ask--

MR. SHRINER: Yes, go ahead.

SENATOR ADLER: Going back to your example of one town sort of trying to extort from a business, "We want you to pay for fire service. We want you to pay for the fire trucks, or to pay for some school ball field," something like that. Have you found a way where towns surrounding the town where the business is located or where a county or where the State has stepped in to help meet the town's infrastructure burden? If you could talk about that for a second.

MR. SHRINER: Absolutely.

SENATOR ADLER: I think the town has a legitimate concern, not in terms of that example, but in terms of its property taxes and things like that.

MR. SHRINER: Absolutely. And one of the vehicles that's being used to do that -- and we can talk about some of the pros and cons of it -- is what's called tax increment financing, or TIF. What you're doing in that, and just a quick summary of how it works, a company will go in and you can make projections as to what their tax revenue flow is going to be over the next 10 years, so that if you've got a vacant piece of ground or if you've got an empty building and they're going into it, you know what your tax revenues are for that piece of property.

Let's say it's \$1000 in property taxes. If they go in there -- and it's usually negotiated how much they're going to pay -- but they may say, "Instead of paying \$1000, let me go in there my taxes are going to be \$100,000." Well, you take that \$100,000 and say over the next 15 years you're going to be paying \$1.5 million in taxes. So the community will then float a bond for probably \$1 million using as a guarantee, payment the company's tax stream.

Now it's not really a tax stream because they're paying a tax in lieu of -- they're paying a fee in lieu of tax, but that's basically the bond payment. So the company is guaranteeing that bond payment so that the community is borrowing \$1 million. They put that \$1 million into infrastructure improvements immediately and then the company pays it off over time through the additional taxes that they're bringing into an area.

Now, this is something that Carroll Campbell, convened-- Well, the Legislature was in session. He brought three bills to the Legislature. He did a lot of lobbying on this, and it passed unanimously. Each of the three bills passed unanimously to attract BMW or any other company that would make a substantial investment. So, any program that you're putting in place, should not be company specific. It should allow you to use it as a tool to attract other companies.

But in this case, I believe they put together a package worth about \$25 million to pay for the infrastructure improvements. The vehicle was a multicounty industrial park, so that the industrial park is in one county, but several counties will benefit from it so that you bring these political jurisdictions of counties together and they share the tax revenues; one county isn't getting 100 percent. They may get 80 percent and the other community 20 or maybe a 50/50 split on it, but it allows them then a method of going in tax increment financing. There are a handful of states that do this. North Carolina tried to pass it last summer, and it became a political football. They're going to be readdressing that issue this legislative session and hopefully it's going to pass, because it really allows them the method to go out.

Now, it's not necessarily the county. For instance, in Nebraska, the city can also do a TIF -- tax increment financing, and you can-- There are all sorts of ways of structuring it. In Illinois you can do it as well, I believe. It's a very good way of being able to transfer these hard costs that impact a community early in a project for the time they're actually seeing the effect of it later on.

So, as these questions come up, as I said, please ask them.

SENATOR INVERSO: Are those financing arrangements ultimately guaranteed by the taxpayers of the jurisdiction, whether they be counties, municipal, or a combination?

MR. SHRINER: Obviously they're in the circuit somewhere, but the company-- When I mentioned that you negotiate a tax payment, you're not paying a tax payment. What they do is guarantee that they're going to make a certain payment, because, let's say, BMW doesn't invest \$500 million. They're still on the line for the next 10 or 15 years to make a payment into the community. So it can't absolutely be a tax payment, yet they're on the line. The community and the state

have to look at the wherewithal of the company or the group to actually make that payment. There is some risk.

SENATOR INVERSO: Obviously, if five years down the road the project goes belly-up or the company goes on bad straits and other properties already collateralizing other debt, ultimately the taxpayers are the ones who are going to have to ante up, I suppose.

MR. SHRINER: They're usually in one of the lien positions on our first or second positions. Do they want to own the building? No, but at least it's not just--

SENATOR INVERSO: But you mentioned one of the states it went into the Legislature, and it didn't go through. What were the impediments? What were the deficiencies that that legislature sought with this kind of arrangement?

MR. SHRINER: To my understanding it was a special session to put it together and they had both parties agree to it. But it was a close race between the Democratic and Republican gubernatorial candidates, and the two parties split on the issue.

SENATOR INVERSO: So it became a political football, rather than a problem with the intricacy of how to develop such a financing legislation.

MR. SHRINER: Absolutely. All the votes were lined up. It was almost a unanimous vote. I've talked to Senators on both sides, and they all agree that it split on party issues and they hope--

SENATOR INVERSO: Okay. Nothing inherently wrong with the proposal or the mechanics of the proposal or any liability ultimately, just strictly politics?

MR. SHRINER: Absolutely right.

So, we'll talk a little bit, and I want to make sure that we have enough time for questions and the rest of the agenda. What's the rap on New Jersey? What's perception and reality? We all have our particular view of it, and I'll be

talking about some of these. They're somewhat in rank order, but not necessarily, because they do vary by portions of the State; northern New Jersey will have a different ranking than southern New Jersey. The service or distribution sector will have a different view of it than R&D facilities and manufacturing, but very high on the list we would rank attitude and business climate in the State. You have to step back and ask yourself, "Are we a viable candidate for manufacturing? Do we have a customer focus in place?"

As I said earlier, before Barbara McConnell had visited our office some eight or nine months ago, we never saw anybody from the State.

SENATOR SINAGRA: Excuse me. Has she been there since?

MR. SHRINER: We've had phone conversations with her and her Department. They have not been quiet. No, she hasn't visited us since. If we had called her up and said, "Would you come visit us?" She would have said, "When?" But they played a much more active role on it. I would have to, if I'm speaking for them-- I'm not sure that they feel that they have significant or enough tools in place to do other than come in and make us feel good.

There are also the issues of who's the point in this area, and whether it's us? We know how to get around in a particular area. If we're doing a project, if I might step back a moment: How do we approach a project? We work with a company to identify what's going to make them successful. Do they need to be considering an expansion, a relocation, or a consolidation? Is that an issue, and if it is, let's take this to the location side of it, "Gee, we really need to either expand here or somewhere else, or move into a particular area." Then we'll go out and look at what might best meet their particular needs.

As we take it down each particular level, it's a refinement. It's a screening process. We're trying to

eliminate all the areas that don't work until we get to a handful -- four or five areas -- that seem to be very good, and then it's a process of maximization. What's going to make the company most successful?

When we're doing that, we're talking to various political leaders. We're talking to business leaders. We're actually going out and interviewing people. In most states, they have a leadership in place that we can call the state, we can call the city. It's our choice. We can call the utility company and say to them, "We really want to talk to these five or six people. Would you please set up those interviews?" They'll set them up for us. If we want to, they'll drive us to them. They'll do whatever. They've got a budget to do this, and they may not know who the client is, but they're proactively marketing their area.

In New Jersey, as I said, we know our way around. We don't like to work in New Jersey. We have to do it because we want our client to be successful, but we grit our teeth before we go into New Jersey, because there's nobody here that we can work with. We can't make one call; we have to call everybody ourselves. We have to arrange the meeting. We'll have to call two or three politicians and try to get them together. We'll have to call various business leaders and try to schedule it.

SENATOR INVERSO: Can I ask you a question? Have you heard of an Office called the Office of Business Advocacy?

J A M E S L O T H I A N: We've heard of them, and we've called. Basically, the type of things that we've been trying to accomplish, as Jim mentioned -- setting up appointments and gathering together data and materials and things of that nature -- at least in the instances when we looked into it, we couldn't get those types of things done.

SENATOR INVERSO: Have you had any contact or any communication with that Office in pursuing proposals or prospects of companies--

MR. LOTHIAN: In the past we have. I know I've heard the name and that calls were made to try to get those type of things set up.

SENATOR INVERSO: But your experience is they're not proactive in this?

MR. LOTHIAN: They are not proactive. Usually what it boils down to is when it comes to developing this type of data, it's not just for a consultant working with a client. It would be with a company.

SENATOR INVERSO: Yes, exactly.

MR. LOTHIAN: Let's face it, in this day and age the whole process is a very peer to peer type of thing. You talk to companies operating in the area to get a handle on an area. You could imagine, Jim Shriner calls up on the phone and says, "Well," you know, "I'm Jim Shriner. I'd like to speak with your VP of Finance or your HR person," or something like that. Can you imagine 99 percent of the companies in New Jersey would say, "Well, who?" There's nobody to establish the bona fides to sort of pave the way in order for those types of interactions to occur.

SENATOR INVERSO: Have you ever mentioned this to Barbara McConnell since you've now had contact with her in the recent past?

MR. LOTHIAN: As a matter of fact, yes. I sat in on the meeting when she did come up to our offices, and some of the difficulties that we've had in the past in working in New Jersey, we did talk about them with her.

SENATOR INVERSO: Good. Good to hear this.

Thank you.

ASSEMBLYWOMAN DERMAN: Have you ever heard of the Office of Economic Development in New Jersey?

MR. LOTHIAN: The Office of Economic Development? Yes.

ASSEMBLYWOMAN DERMAN: Has anybody from there reached out to your office?

MR. LOTHIAN: I don't believe so.

MR. SHRINER: I should add a qualifier on it. First of all, I failed to mention Jim Lothian is from our organization. I'm talking about the company side, and Jim is going to be able to talk about the various interactions with the programs, but our organization-- We have some 70-plus people in just the location side of doing our type of work. Oftentimes the interaction with these various groups is at the consultant level in our organization, and so when we're talking about our feedback from these people, its our consultant saying, "You know, I know I have to go to New Jersey, but it's going to take me an extra four days because I have to set up all of these things." They do talk to these people.

I can't tell you how often or the specifics -- and I don't think Jim can either -- because it's at several levels below us on where the interaction on those types of inquiries is, but when we're talking about inquiries from the Commissioners, or from the Governors or mayors. They're coming in and talking to everybody in the organization and making that particular approach. We're talking about a number of Governors stopping in to talk about it. They may not have a project in mind that we're working on, but they're trying to build that relationship. Why? Because our clients control a lot of jobs, and they want their state to be successful.

MR. LOTHIAN: One point is, Jim may have mentioned, it goes even below the Governor level. Literally, we receive hundreds and hundreds of visitors from various economic development organizations, from the local level to the county, to the utilities, to the State. In many cases the purpose is to establish a liaison. Many of these organizations are also doing this on relationship building basis with corporations.

What they want to do is for the corporation or a consultant to have one point of contact. When they come in they say, "Okay, here is who you call, no matter what you need." You want to set up employer interviews? That's fine.

Call this person, they'll make sure it gets done. You want to talk about assistance or incentives, you call this person. They'll make sure it gets done. You want to talk about taxes, you want to talk about whatever it might be, whatever you might do, there is a process -- an economic development process, I guess you might call it -- that's extant in these areas.

ASSEMBLYMAN SOSA: Mr. Shriner, I'd like to get back to why your organization doesn't have a warm and fuzzy feeling about New Jersey. Is it a concern of yours that there's a bureaucratic problem, or is it a concern of yours that there is a personality problem or an individual problem within the departments? I don't mean for this to be a political football that I'm throwing -- I really don't -- I'm just trying to get at whether the bureaucracy that exists is too cumbersome, or it is not thorough enough to be able to promote itself and market itself effectively to organizations like yourselves in businesses?

MR. LOTHIAN: Could I answer that, because I've worked most recently on a couple of projects in New Jersey?

It's not a warm and fuzzy feeling with New Jersey per se, but it's just a recognition that the process is not in place in order make it a smooth process -- this process of location or relocation, or whatever the issue might be in the strategic sense for our corporate clients.

Now Jim mentioned earlier that we've done a lot of work in New Jersey. Over the last ten years we've looked 136 times, or something like that, at the State, which means we've had to work in the State. We do what we have to do in order to make our client successful, okay? But human nature being what it is, it's sort of like the kind of thing, New Jersey has to be considered here, but if you had your druthers, you're going to go where it's-- The normal person is going to go where it is a lot easier.

If you think about it in terms of not a consultant that does it every day and that's their job: Think about it in terms of a company that is going to establish a facility or relocate or something along these lines. For many companies, that's a once-in-a-lifetime proposition. Nobody in the company has ever done it before. Nobody really has any basis for how to do it, or what may be done. The President of the company may come in and say, "Okay, Joe. You're the Vice President of Finance. You handle this." That person really might have no idea where to start, and when they get into this process, they're going to find that there are areas that are going to make that job very easy; very, very, easy. They will promise to do whatever it takes to get you into that community or into that state, and it depends on the level of the economic development organization.

But you can imagine, human nature being what it is, you can make a case for an area and if it's easy to do, that's where certain organizations are going to tend to gravitate -- to those areas that make it easy for a company.

ASSEMBLYMAN SOSA: You mentioned in your earlier comments that companies in their strategic plans basically assess themselves every five or ten years. When you arrange for marriages between companies and states, and relocations, you're obviously consulting with them on an ongoing basis. The relationship doesn't go away after they've put that first spade into the soil.

I guess the point that I'm trying to drive at is, with the relationship that you have with other states, do you also consult with them to make sure that they are doing what it is that you think -- and the corporations and other businesses think -- need to happen for the incentive to remain five, ten, fifteen, twenty years, so that they don't keep hopscotching all over the country?

MR. SHRINER: Absolutely, and one of the things that we'll be doing-- I just have, hopefully, a few more minutes to talk about some of these things, and then Jim is going to be talking, I guess more focused, on that. Absolutely. You're trying to create this marriage. There's no guarantee it will continue but if you put everything in place, then how can it not?

The companies make tremendous investments in time and actual dollars. They don't want to pick up and move the operation every five or ten years, but they do have to make business decisions, and if they're in an area that isn't being responsive to them, they may have to bite the bullet and move on. So, yes, there are things that states can do. And it's business retention: How can you attract if you can't retain what you have? So, it's absolutely crucial and hopefully we'll come back to that particular point.

ASSEMBLYWOMAN DERMAN: Excuse me, can I just ask one more question while we're on this?

MR. SHRINER: Yes.

ASSEMBLYWOMAN DERMAN: It seems clear that what's important here is also developing a rapport, almost, with your company; that you have a first name basis with individuals in your company and the appropriate individuals in State government.

We have a new "jobs' czar" in our State, Bob Hughey. Do you know him? Have you heard from him?

MR. LOTHIAN: No.

MR. SHRINER: No. But it is important to--

SENATOR SINAGRA: Can I just follow up on that, because I'm still troubled by your number one reason on the list of shortcomings of New Jersey when people are looking at us, which you indicated in some sort of order of priority was attitude. I really want to hear what you mean by attitude as far as the companies that are out there looking at us, not just professional companies, but other companies.

We were under the impression that Bob Hughey -- the Governor had chosen him to be that focal point -- has been put in that cabinet level position. Okay? We don't have a Lieutenant Governor, and obviously our present Governor has not in any way gone out to attract businesses on a personal basis like other Governors have. It's disturbing to hear that, you know, as Harriet says, "Is he filling that role? Is he supposed to do that role, or has he helped the situation?"

MR. SHRINER: Yes, as Jim's mentioning it. Certainly we talked about a Governor being able to actually act in that leadership position. For some Governors that's a priority of theirs, and others it isn't. But somebody has to take that leadership position, and they can't do it by themselves. They have to have a team in place.

I also want to mention that, yes, it is important to have a relationship with us, but it's our business to make sure that the right answer is found. It's not a company's business necessarily. They don't know how to go about it, and so more importantly it's this attitude that significantly impacts companies, because in some of these other points that I'm going to talk about, the very next one being environmental-- Now when we're talking to these companies, they have no intention of going out there and polluting. They live in the area just like you and I do. What they want to do is have a policy in place that they can achieve and that is reasonable, and each state implements it differently.

And one of the raps on New Jersey is, it's extremely difficult to do business in the State from an environmental standpoint. Louisiana, as I mentioned, with Edwards, when he was in there, people thought it was the "cancer row" and all these chemical companies were causing cancer, etc. So Roemer ran under the platform, "We're going to get tough on business." It cost them billions and billions of dollars worth of investment. It cost them jobs with these companies. The companies were trying to be environmentally sound and safe, but

the Governor kept shifting the policy. As soon as you thought you put in tens of millions of dollars on this environmental program, nope, you've got to go after this best available controlled technology, and the target kept shifting.

So, within New Jersey, you've got ECRA and RCRA and all these other regulations and restrictions. So if a company wants to move out of a facility, even if they're leasing it, they could be in the environmental liability stream here. An office user may have never put anything into the soil in this particular building, but if they move out, they may have responsibility in that risk stream.

One of the problems that you have here is that companies have downsized quietly, but if they pull out completely, they're exposed to this environmental liability. They're not going to put any more dollars into their operation. That operation may be operating at 10 percent capacity. Nobody else can move into there because they just don't want that environmental liability exposed. They're kind of waiting and hoping that some new technology will be unveiled that will allow them to be successful-- They're trying to operate within their means, and the State also has to help them be able to do it.

South Carolina, on the BMW project, said, "We'll appoint one point person for you to work with. You've got to follow all their environmental regulations. You've got to follow building and zoning, but we're going to provide that person to help usher you through government, and we'll expedite it." You know, there was a guarantee from them that if you submit the permit it's not going to sit on somebody's desk for three weeks until they get around to it: "If we have to, we'll go out and bring somebody in temporarily." That permit will be addressed immediately, because the sooner you're on stream, the faster those jobs are created. You know, is it a bureaucratic approach where I want to make sure I have my job and so I'll do

it but I'm going to do it slowly, or are you responding to the customer's needs? Customer's needs are to be able to get something done quickly. Most companies assume it's going to take them over a year to get an environmental permit whether for expansion or new construction in the State of New Jersey. In other states, it may be three to six months, or even less than three months. They're all intending to do the right thing. Have you allowed them or given them the mechanism to do the right thing?

I also want to talk about another drawback: the view of labor, the cost of labor, the attitude of labor, the skill of labor. Some people say, "Gee, the workers here aren't very good." We would disagree with them. So the perception out there may be a labor issue. We don't think it is in reality, so that may be something that has to be built up -- the fact that the labor is very good. There is good labor here.

Now, from a training side, though, there is probably a fundamental difference between employee training or education from the north and the south. You look at test scores. Everybody compares them. Every one of the low scoring states is down in the south. All the high scoring states are up in the north. Yet, all the high school graduates, whether they're from the south or the north, do equally well. I'm sure that you've had in your own businesses people that have come out of the south, and they're very capable. So, somehow the south is training, and their graduates are doing very well in the university systems and going forward, but why are their test scores lower?

Well, it's probably the difference that in the north they put their primary focus on public education, getting the people educated from K through 12. In the south, their focus is, "Well, we'll get you educated, but we'll get you a job. We'll provide you the training for a job so that we'll get you through school, but once you're through school and the

employers are there, we're going to train you. We may spend \$10,000 or \$20,000 training you for that job, but you're going to have a job." In the north, they say, "We don't do training." It's the company's responsibility to train their employee, and it's this minimum hurdles.

Time and again you'll talk to a company that has an operation in the north and one in the south. What's the productivity in the north versus the south? Usually the productivity is higher in the south. Maybe that's because they've received the training that they need. It's ongoing continuous training. It's not a one-shot deal that when you graduate from high school that you've got the training that you need for life, or you graduate from college you have the training that you need for life. No.

That training is going to be job specific, and it's going to be ongoing. From now until the day you retire you're going to have that training. Who's going to pay for it? Who's going to be providing it? Well, in some areas the companies are even willing to say, "Well, we'll pay for it, but do you have the system in place? Do you have a vocational system in place? Do you have training facilities that can train an NG (phonetic) operator? Or can you train me in statistical control systems? Can you provide the programs that I need to get the Baldrige Award?" Very often, they're not in the north. If you want them, you have to put them in place. You're going to have to pay all the start-up costs to put them in place for yourself, and each company is going to have to do it individually.

Typically, the people south of the Mason-Dixon line have put those in place as a public program. It's probably a bad rap on the labor force of New Jersey, but it's probably correct in the view of training.

Taxes also are in that perception versus reality. You know, the taxes are going up and everybody said, "Oh, my gosh, I'm going to leave the state." Connecticut faces the same

thing. Property taxes are implemented there, and companies use it almost as the straw that breaks the camel's back.

Nobody likes to pay taxes. You face that every day -- people complaining about taxes. Well, somehow you're paying for the services that you're receiving. And so companies-- In the overall scheme of things, taxes represent 1 to 2 percent of their total operating costs. It's a rallying point.

I can tell you that we were working with a company that Carroll Campbell, Governor of South Carolina, had called on, and when the taxes went up a couple of years ago, he convinced this Fortune 50 company that they would be better off with their headquarters in South Carolina. He said, "Look on the surface of it. You're paying higher taxes in New Jersey than you would in South Carolina," and, you know, presented a very compelling argument for it. We went in there and said, "Well, you know, taxes aren't the only issue." We put together all of the other operating considerations: how they were going to get their vision accomplished, how were they going to remain competitive? Internally, they had their own staff spend two months evaluating the tax differentials. You know what? As it turned out, they would have paid significantly higher taxes in South Carolina than in New Jersey. But it was the appearance of it.

Now some of these states that appear to be low-cost states are also having to look at raising their taxes because they have to provide the services, and they've come to us and they've asked, "How do you think it's going to impact business if taxes do go up?" They're sensitive.

The key is they're sensitive to the fact that businesses have to be comfortable that they're receiving the services in return for the taxes that they're getting. So here, the perception in New Jersey is that taxes are too high. In reality, it's probably not true. But how do you get that message out to people? Maybe you do have to provide better services for the taxes people are paying.

SENATOR SINAGRA: On that note, could we get into what you feel that this Committee can do to make New Jersey more competitive with other states -- a few recommendations?

MR. SHRINER: Yes, I think that we'll be touching on that momentarily on some of these issues.

SENATOR SINAGRA: Okay, because we're kind of running short on time.

MR. SHRINER: Yes, okay. I'll spend about two minutes, and then we're going to Jim.

SENATOR INVERSO: Yes. Could I ask, in getting into that: I'm sure you've done a matrix comparison of -- I want to use the word cost -- you used the word facts and impact up there in terms of creation of jobs as a result of a company coming into a location, but there has to be some assessment of the State of New Jersey vis-a-vis the other 49 states -- it used to be the world because it is a global situation to confront, but as to where New Jersey stands. I mean a company of your reputation and size should have something like this.

I'd like to you hear you touch on that at some point in time, because you talk about perception up here and they say perception is reality. You said there's a perception that the tax structure in New Jersey was prohibitive, that when you sit down and you look at it more closely, when you weigh other costs -- the cost of power, let's say; the cost of water supplies -- that all comes into this formula of what makes a state conducive for a business to locate in. If you have that, I'd love to see that. Maybe you don't have it with you.

MR. LOTHIAN: Let me answer that. There are out in the marketplace a myriad of checklists, if you will, or matrices or models that compare all 50 states ad infinitum as far as the relocation or location characteristics are concerned. The point is that they all deal in averages, and depending upon who is doing the matrix and what the objective of the matrix is, whether it's to sell more magazines or what have you, they can make them say any type of things.

The difference is, in an organization such as ours, we work on a project-by-project basis. When you look at averages that say, well, the average taxes in New Jersey are such and such, and the average taxes in Arizona for a specific project for a specific company are such and such, the averages have no bearing. You've got to look at how many people-- Up front, when the project is being scoped out and the strategic aspects of it are being developed, you've got to ask what are the key issues? We know that taxes on a regular basis equal 1 or 2 percent of the bottom line, but skills and technology transfer, or something of that nature, is the primary driver in the project. Or maybe it is electric power costs, or maybe it is the availability of certain other infrastructure elements. On a project-by-project basis, you're going to find that it doesn't really matter what the averages are.

All you have to do is look at what's happening in the State. I mean, on any given day there are businesses closing, businesses moving out, new businesses coming in, and businesses expanding. They can only do that because for them the conditions are right.

SENATOR INVERSO: Okay. I accept that.

SENATOR SINAGRA: Jose?

ASSEMBLYMAN SOSA: Mr. Chairman, I have to run to another meeting, but before I leave, if I could request our guests to submit to the Committee-- Forget about averages then. I think what we really want to focus on is what -- as you described as perception to reality of the business world -- is out there on New Jersey. If we could provide to PHH Fantus what the Department of Commerce is, how it's structured, how it relates to State government, if you could come back to us and perhaps in written form-- I know you are going to touch on some of these things probably today, but in written form, give us your ideas on how, perhaps, some of those operations can be streamlined to make your job a better one, in order to sell the

State of New Jersey in that relocation process. It think it's critically important for you to be able to have a better understanding of what we're all about.

I may be absolutely wrong, but I don't sense that you have a total, total understanding of how some of those departments sort of work with each other. I would venture to guess that some of us don't either.

SENATOR ADLER: That may be our fault.

ASSEMBLYMAN SOSA: And, again, it's not criticism, John, at all, but I think it benefits all of us. Maybe they can help us in looking, perhaps from an outsider's point of view.

SENATOR ADLER: It's our job to market.

ASSEMBLYMAN SOSA: Right, and maybe they can help us in looking, perhaps, from an outsider's point of view.

SENATOR SINAGRA: Thank you.

MR. SHRINER: Absolutely. Okay, just a couple of points to rap up. I want to give to you a little bit of feedback on what some of the others states are doing, and then we'll talk about what we think that you could be doing as well.

Connecticut is tackling this issue head on right now. Weicker is saying that he wants to-- I guess his pitch is, there are no stonewalls in Connecticut. He's trying to make it a probusiness area. He's talking to a lot of companies. He's asking: "What can I do to help you?" He's putting some programs in place for them just to keep jobs. Even if they're downsizing, he may be putting some dollars in to help them be successful in the state. They're in the process of taking that head-on, and we're actually helping them take that head-on as well.

In New York, they've got some programs, more than you might think. They have tax abatements. They have property tax freezes. They have industrial development bonds -- Prudential did a \$1 billion bond through them. They've got cheap power.

They've got moving assistance. There are a number of programs and tools that they can call upon to use. So as much as they seem as they're not very aggressive, they have been able to put together some pretty good programs.

In Pennsylvania, they probably have by far the most tools. Casey and his people have been able to use them. They've got the Sunny Day Program which does infrastructure improvements. They have PIDA, which is the industrial development authority for infrastructure improvements. They've got tax abatements. They have loans. They have tremendous training programs to put dollars into it. So they are being very aggressive.

Maryland is also just starting to address the situation. Almost every one of these states we have been involved in, in some form, helping them either on a state basis or a regional basis, put together the programs and then checking on how the programs might be evolved. You can't do everything from day one. So it's an evolution in how you can respond to them.

Delaware certainly has some favorable taxes, but they're kind of poorly positioned, and don't have a lot of people. They're not somebody you really need to put much thought into as primary players at this particular point.

The last point I want to make before Jim talks about where your opportunities are, is that you're going to hear words like claw back and guarantees. Certainly, the people in New York were very bitter with GM announcing the Tarrytown plant closing. They're saying "Gee, we would have never given you these incentives if we knew you were going to close it after 10 years." Well, that's kind of the wrong attitude. They had those jobs for 10 years, and they benefited from those jobs for 10 years. The company 10 years ago didn't ask for those with the intention 10 years from today we're going to be closing. No company does that that we've ever been associated with.

The business climate does change, and you have to understand what are you suggesting to a company if you're suggesting that you want a claw back, a guarantee. Well, you don't trust them, number one, and if the business does change, what is your guarantee? Is there a guarantee? If they go into bankruptcy, you're going to stand in line with the rest of them. So you make sure that you understand what message you're sending out with some of these. This really rolls into where are you, compared to some of the other people, and how do you take the first step?

MR. LOTHIAN: As far as, where is the State of New Jersey, the opposing question really has to be asked: "Where should New Jersey be?" In that context, the State has to be asking itself a number of questions: Is, in fact, the State willing to do business along these lines? Do they have the tools to be creative? Are they flexible as far as responding to various and sundry types of situations? Inherent in some of these other things, are sort of mom and apple pie types of issues as far as fairness, consistency, and what have you are concerned.

Where can the State go from here as far as this process is concerned? There's sort of a generic process that the State really has to be looking at. I guess, it would have to be addressed first at the Legislature, but the first part in that process is really education: educating the constituency, whoever the constituency might be for the Legislature, and that includes other branches of government and the community at large.

Across the State there is very little recognition, if you will, on how this process works. How are jobs created? How are jobs lost? I think more important in the context of what we're talking about, is how important economic development actually is -- the whole context, or the concept of an economic development process and how that can assist this relocation

process and decision-making process that goes on in creating jobs. So education is one of the first keys. I guess if you had to-- You say before that, there has to be a recognition that perhaps there is a problem. Certainly the existence of this Committee shows us that.

In addition, at the same time as the education process is going on, there's got to be an assessment process: taking a cold hard look, not in terms of averages necessarily -- "Well, how do we put ourselves in a matrix with the other 49 states?" -- but for what we're trying to do to create jobs in various areas, what are the advantages and disadvantages of operating in a State such as New Jersey? That can't be done across the table, basically, by talking to people. You can get a handle on some of the things, some of the issues, but as we talked about, when you get down to an individual project and it gets that specific, the issues for one specific project may not be the same issues, even within the same industry for another company or another operation. Part of this assessment practice also -- or the assessment process -- involves getting a handle on what are the best practices in the various issue areas that you are talking about: the program such as tax increment financing and how are other states attacking many of the issues that we're talking about?

Once you get this assessment and education process underway and well along, you move into a strategy/program phase. I guess, developing a strategy -- how we move ahead. The response would tend to be, "Well, we know we have a problem. Let's just run around and try and attack it." That's not really how it's got to be, or how it should be looked at. There should be a process that involves an economic development strategy for the State; looking at the pros and cons of various strategies, and what makes sense.

A very important consideration, as far as involving a strategy, is that we're not talking about just attraction, but

you've got to think in terms of retention also. There is a huge industrial and business base in the State of New Jersey. You cannot just develop programs that are going to appeal and affect the new firms without, in fact, affecting the firms that are already here. We're talking about those issues of fairness and equity again.

Getting into the programs -- the actual economic development programs -- whether that talks about the organization or however the programs might be structured, flexibility is probably the biggest key. One of the words -- the watchwords -- that we hear coming back is flexibility. They are, in fact -- these economic development organizations, these Governors, these state organizations, the local organizations, the utilities -- totally flexible. The first thing that they'll tell you is that they can assist you with whatever you have to do. Some of them will bend over backwards and break their backs in order-- They will run into situations that they haven't seen before.

Consistency is the next one. It can't be a one-shot type of issue. Any strategy, any economic development strategy, cannot be the type of thing that stops -- that changes every four years, or however long the term of office is for a particular Governor, mayor, or whoever is involved as far as the political jurisdiction. It has to transcend politics, and it has to transcend time. It's got to be continuous, and there has to be dedicated resources to it. It is not inexpensive. The commitments of time and money are large, but in order to play the game, those commitments have to be made.

As Jim mentioned earlier on: "If you don't play, you don't win." Zero times zero is nothing. If you're not playing the game, the State will continue not to be a player as far as many of these situations are concerned.

Then, of course, once all these programs are in effect, then implementation becomes a key, and that's an

ongoing kind of thing. Just like the strategic plans of corporations, it is not the type of thing that you put into place and it is locked forever. It is the type of thing that has to be constantly reviewed and refined and changed in response to how the business climate changes; and as things change, whether it be legislation or cost or conditions across the community, so there is a generic process involved here. You can attack it all, or you can attack pieces of it.

In addition to our relocation work that we do with corporations, we also get involved in economic development work with communities. Many of these places, like the State of Georgia, for example, are in the middle of redesigning their incentives and assistance policies -- how they affect various types of businesses. Indiana just recently went through a process where they reviewed, and have since revamped, parts of their whole economic development process. One of the things that you are going to hear as you get more and more into this, probably, is the whole issue of public and private partnership, and privatization as far as economic development efforts are concerned, and there is a move in a number of states going into the private sector.

Other states are just getting into the process. Rhode Island is an example; Maryland is another example. They are taking good, hard looks at their business climates and the operating climate within their states. That includes everything from the thing that is directly affecting an operating company, whether it be labor availability or skills or the wages they pay, the site availabilities, all the way up through the state legislation; many of the things that would affect, or could be affected, by the legislature as far as tax changes and legislation and regulation in the state.

So there is a process here, but I would reiterate, too, that without-- It goes back to the zero-some game again. Without playing the game, there is no chance as far as getting

many of these things in and being a player for many of these projects.

I would congratulate the Legislature on the existence-- This, in fact, can be the start of a large step forward as far as economic development is concerned in this State.

MR. SHRINER: Absolutely. We would conclude by saying that, as Jim mentioned, we are very positive that this Committee exists and that steps are being taken, but I think you have to decide what you want to accomplish. You may have done that already, and I am not privy to that, but you can't do everything at once. You have to put together an assessment of what you have, where you think you want to go; plot out that strategy, and then create a program. This is a program, as Jim has mentioned, that is not inexpensive. You can't spend \$3 million this year and \$2 million next year, and if you don't get four companies by the third year you can walk away from it. You have wasted all of your dollars. It is a program that is going to have to have continuity to it, and it is not going to be a program that you can underfund. You have to be able to go out and go after the projects when they are out there. It was not uncommon on the BMW project for several of the losers to spend close to a half a million dollars in trying to attract that particular project. But what it did do was bring the community together. It acted as a focus for other projects to come along. So those, in their view, were dollars well spent, but they had to have those dollars to spend, and they had to be able to spend them when they needed them.

So, in recap, you've got to identify what you want to do, plot out a strategy to do it, and then commit to continuing to do it.

Thank you.

SENATOR INVERSO: Question: You mentioned privatization. Are there any states that have privatized their economic development effort?

MR. LOTHIAN: There are some that are moving in that direction. Utah is an example. West Virginia is a state that is now in the process of looking at privatization. There are commitments at the top levels of state government to move along those lines. Florida is another state that has started to privatize some elements of their economic development effort. There are some others. I am not familiar with all of them.

SENATOR INVERSO: How do you view that effort vis-a-vis your organization?

MR. LOTHIAN: We view it in the positive sense. The results are what count. There is a recognition on our part that it takes a public/private partnership in order for economic development to work. It cannot just be the public side that is going to make economic development work. It takes both, working together.

SENATOR INVERSO: But isn't it true if a state-- They think it is not, but it seems to me that if a state privatizes--

MR. LOTHIAN: Right?

SENATOR INVERSO: --it means then that they are putting the bucks into that effort, an effort parallel to the effort that companies like yours are expending. You are engaged by the private sector to help them in locations; to help them in dealing with the bureaucracy, with all the governmental entities that come into place. If a state privatizes, does that alter the process, from your standpoint?

MR. LOTHIAN: No, not at all, because they are in the business of attracting and growing within. That process basically stays the same. They can improve it. They can improve the wherewithal, the information, the data resources that they can supply, the ability -- the logistics ability to handle prospects, the data base potential to be able to track their prospects, etc., the marketing, etc. Those can all be improved. They can be improved either under the guise of public or private sector. It really doesn't matter.

If the truth be known, for consultants such as ourselves, every economic development organization in the country would portend to be a competitor of a location consultant per se. But that--

SENATOR INVERSO: I am just wondering in those states that are either looking at it or--

MR. LOTHIAN: It is not viewed as a negative or a positive. What is view as a negative or positive is how they do the job. It doesn't really matter.

SENATOR INVERSO: From the State's perspective certainly that is the bottom line, I should think.

MR. LOTHIAN: And it would be from outside also, the company's perspective or a consultant's perspective. You know--

SENATOR INVERSO: Has your organization made any privatization overtures to any states?

MR. LOTHIAN: What, to actually do economic development? No.

SENATOR INVERSO: No?

MR. LOTHIAN: Given what our primary business is, we would not be able to. There would be sort of a conflict.

MR. SHRINER: We have to remain objective.

MR. LOTHIAN: Absolutely.

MR. SHRINER: You're right, that situation, "Gee, can't you act as a business recruiter for an area?" We absolutely do not touch that, because we feel, as a managing consultant--

SENATOR INVERSO: That the world is your oyster. Okay.

ASSEMBLYWOMAN DERMAN: Mr. Chairman, I have a question, if I may. When we are finished with this, it is our hope that the State of New Jersey will be world-class when it comes to attracting, retaining, and expanding. So I just want to ask you-- This only requires, really, a succinct answer. Which state, do you believe, has the best liaison system

between the state government and attracting business and so forth, so that if we wanted to emulate that model, we could?

I believe there may be some confusion, for instance, right here in the State of New Jersey, whether business would contact the "jobs' czar," or the Commissioner of Commerce, and so forth. What state has the best liaison system, that you know of?

MR. LOTHIAN: You wouldn't really be able to answer that fairly, I don't believe.

ASSEMBLYWOMAN DERMAN: All right, give me a few then.

MR. LOTHIAN: Well, there are a number of states that have sound economic development -- and I put "economic development" in quotes -- operations extant that are operating. The concept of economic development in those terms -- let me talk in terms of regional, if you will -- initially began basically in the southeast and in the deep south states. They were sort of the forerunners of economic development, if you will.

It tended to move over into the south central states; moved up into the center of the country. As it has expanded now, it has taken root in the midwestern states. Now, only lately, are we seeing a lot more attention being paid in the two coastal areas, if you will, moving up into the Middle Atlantic and New England states.

It would be difficult, as I said, to sort out and say, "Okay, this is the best." For various things-- Different states are good for different types of activities. I don't believe there is any one state that you could point to and--

ASSEMBLYWOMAN DERMAN: Well, throw a few names at me so I can have some research done to try to replicate what they have done.

MR. LOTHIAN: Some of those states that work -- North Carolina, the Carolinas-- Kentucky is very strong in economic development.

MR. SHRINER: North Carolina, for example, that was a strong program that HUD had put into place, and then Martin, through his first term, was able to ride along with that program. That program is not a good program for today's needs. So, if you look at it, that is a great program for 10 years ago. It is not a great program today. For instance, in South Carolina, it is a great program for today. I am not sure it is a great program for four years from now, because that state is always evolving. Kentucky had a bit of a letdown between Collins and the current administration.

SENATOR SINAGRA: Can I read into that -- you know, from your comments and with Harriet's question -- that the states that do the best, or that are the easiest group of clients, are those that have a direct involvement of the Governor, with that high level position? That seems to be what you're saying. What you just said was when there is a change of Governors and somebody else takes over, that they seem to fall down, or they are not as active.

MR. SHRINER: That's a pretty good generalization, with the exception that you can then have-- If you don't have an active Governor, you can have an active regional. For instance, in Nebraska, Nelson is not an active Governor, but, for instance, Omaha, through the Chamber, is tremendously aggressive. That is why they were second place and almost got the BMW project, strictly because of the Omaha Chamber, not the State of Nebraska. The State of Nebraska put into place those programs, but that didn't come from the Governor. It came from the Omaha group.

For instance, in North Carolina, we talked about how they are not necessarily the model for today. Yet, if you look at Charlotte, an extremely aggressive area in going after projects, they are making a lot out of nothing.

MR. LOTHIAN: The Greater Dallas Chamber--

MR. SHRINER: Absolutely. The Greater Dallas Chamber. Texas has absolutely nothing. If you look at Texas training programs for the entire state, it is something like a million dollars. Yet, Dallas has been able-- Their partnership there has been able to attract a significant number of major organizations.

So, you have to have something that is strong. If you are pushing a state, then you have to have it at a higher level than a regional group.

ASSEMBLYWOMAN DERMAN: Similarly, which state seems to have the most available resources at its command; a pot, if you will?

MR. SHRINER: Well, Kentucky has certainly put together some very aggressive programs on the service sector. On the industrial side, it may be a little softer. Ohio has responded to them. They have put programs in place, but I am not sure they have the leadership to actually implement many of those programs.

ASSEMBLYWOMAN DERMAN: I notice, for the record, that you have not mentioned Arkansas.

MR. SHRINER: No, absolutely not. Not to cast any aspersions on the President, but the Arkansas success was from the local level. That was a local push. There are some very good local people there. They maximized very limited resources, and were very successful. His focus was not economic development within the state.

ASSEMBLYWOMAN DERMAN: Thank you.

SENATOR SINAGRA: Senator Adler, do you have any questions?

SENATOR ADLER: No. I think the Assemblywoman was asking the right questions. Our goal here is to figure out what we can do, and the best way to do that is to copy other states that are successfully doing that. So I guess by pointing out the different states and different regions, like

Omaha or Dallas, you are giving us some places we have to now investigate to get the information from them as to how we can proceed; how we can apply their experiences.

SENATOR INVERSO: We have no travel budget, Senator.
(laughter)

SENATOR SINAGRA: We have no budget.

SENATOR ADLER: I have a full tank of gas.

SENATOR INVERSO: May I -- a follow-up question I raised earlier: If you could, at some future date, provide the Committee with a comparison of clients that you have had, looking at New Jersey -- which opted not to come to New Jersey-- If you could critique that as to why--

Now, if was just a matter of someone's preference of where they wanted to live-- You try to remove the subjective. You know, if you could give us some of that-- I would like to hone in on that aspect, because there has to be-- Sometimes the reject was because we weren't cooperative. It may be because everything is project specific, as you said, in terms of the comparisons. That would help, I think, if you have some case material you can share with us, without necessarily divulging who the clients are. You know, we would leave that up to you. That might be helpful, I mean, if that kind of a comparison were available to us.

MR. SHRINER: Okay.

SENATOR SINAGRA: To follow up on that, if it would not be improper, maybe it would be good for us to contact-- You indicated that of 100-and-something, you actually did site work for 36. Of those, not many of them have stayed here. Maybe those which got down to that final decision making-- I would be interested if I would be able to talk to a few of those, and what actually went into the final decision not to come here.

MR. SHRINER: Sure. That, I think, would not be a problem. As I mentioned, we can tell you somebody that

MacMillan Book Clubs talked to. Chanel, when they were considering possibly going to Pennsylvania, and ended up buying a building across the street and expanding in Piscataway. Merck, their decision to stay in New Jersey with their headquarters. Even the people at Hitachi, why they picked New Jersey versus Massachusetts or California. There are a number of those opportunities to talk to them.

SENATOR SINAGRA: Good. Thank you.

ASSEMBLYWOMAN DERMAN: On a negative note, I learned today that if each job generates \$500,000 in revenue--

SENATOR SINAGRA: Manufacturing.

ASSEMBLYWOMAN DERMAN: --each manufacturing job, and if it is true that we have lost-- I have heard rumors that we have lost 100,000, 200,000. Let's say we have lost 150,000 jobs in the last few years in New Jersey. I calculate that we have lost revenue of \$75 billion to the State.

MR. LOTHIAN: Economic impact.

MR. SHRINER: Impact, not necessarily-- Part of that is revenue, but--

ASSEMBLYWOMAN DERMAN: In economic-- I understand. Correct.

MR. SHRINER: Vibrancy, absolutely.

ASSEMBLYWOMAN DERMAN: It is very distressing.

SENATOR INVERSO: Well, you know, it will be interesting, too, to see vis-a-vis our sister Middle Atlantic states as to the trend in manufacturing versus service. Obviously, we have been trending in that direction. What manufacturing growth has occurred, if it is occurring in states that we would consider to be sister states, that would be very, very disturbing. It is disturbing enough to lose them going elsewhere, but if we are losing them to our neighbors, that is particularly disturbing.

Do you have any information on that, that you could supply to us?

MR. SHRINER: Pennsylvania is a very strong competitor.

SENATOR INVERSO: Well, of course, the western part of Pennsylvania is so much different, you know, than the eastern part. But I am thinking more of New York, I guess eastern Pennsylvania, Delaware, Maryland -- I guess south and eastern New York; the New England states, Massachusetts, I suppose, too. I consider them more like us than western Pennsylvania, for some reason. Maybe I'm wrong, but if I were to have to characterize it, I would say western Pennsylvania is very dissimilar to Massachusetts.

MR. SHRINER: Right. You're right with western Pennsylvania, but many of the companies that are looking at Pennsylvania are looking in eastern Pennsylvania. These companies would have typically looked at New Jersey, but they are skipping over New Jersey because of cost. Pennsylvania is still a three- or four-hour truck drive into New York, or some of the other markets. So they are going to eastern Pennsylvania, and you're seeing a resurgence in Scranton and Wilkes-Barre, and Allentown even. You can just drive in that area and you can see all of the buildings that are going up. They have benefited from that.

SENATOR INVERSO: They benefit from the road going right across the--

MR. SHRINER: Absolutely.

ASSEMBLYWOMAN DERMAN: But you also indicated that when South Carolina attracted a particular business -- I don't remember whether it was BMW -- that North Carolina wasn't that unhappy. There was a regional focus. There was a feeling that it would inure to the whole region. So maybe if New York City attracts business, we shouldn't be that unhappy. At least it is in New York City and hasn't gone to Atlanta, because there would be some, you know, ripple effect, and hopefully those people would choose to live in New Jersey.

MR. SHRINER: Absolutely.

ASSEMBLYWOMAN DERMAN: I don't know if we should be thinking on a more regional basis.

MR. SHRINER: You're right. In that particular area, you're talking on a regional basis with Connecticut and New York and northern New Jersey. But similarly, down in the southern part of the State, you are talking regional with Philadelphia. If they are in Philadelphia, maybe a lot of people are going to live in New Jersey and pay New Jersey taxes, and service companies are going to locate in New Jersey to service the Philadelphia companies. So, your viability is tied to the viability of those regional areas, absolutely.

MR. LOTHIAN: There is precedent for regional types of groups. For example, we recently worked on a project with the Greater Washington Board of Trade. This organization covers the District, plus Maryland and Virginia. It is able to bring players from that entire region together and to supply data and assistance covering that entire region.

ASSEMBLYWOMAN DERMAN: To your knowledge, is there anything in effect in the tristate area, here on a regional basis, in the Camden/Cherry Hill area of New Jersey?

MR. LOTHIAN: Not that I am aware of.

MR. SHRINER: One of our consultants used to do economic development work in Camden.

MR. LOTHIAN: Yes.

MR. SHRINER: So, I don't know, maybe we took the only person who was doing it.

ASSEMBLYWOMAN DERMAN: Okay. Thank you very much.

SENATOR INVERSO: Thank you. You gentlemen would be willing to come back at some future point, right? There is a lot of content to what you do. We could probably schedule one session with you.

MR. SHRINER: We enjoy what we do, so sometimes we get a little--

SENATOR ADLER: Harriet, maybe one thought is, after we get our ideas, bring these guys back and let them consider our ideas to see whether they will fly or not.

ASSEMBLYWOMAN DERMAN: Great.

SENATOR INVERSO: Yes, that's a good point.

ASSEMBLYWOMAN DERMAN: Is Mr. Gillespie here? (affirmative response from audience) Would you join us, please? (pause here as video equipment is removed) Thank you, Mr. Gillespie, for waiting, in the semi-dark, as well.

J O S E P H G I L L E S P I E: I am adjusting my eyes.

I have a short statement to read, if I might, inviting questions along the way. Let me first say that I would like to thank you for the opportunity to appear here at the Joint Committee to address the issue of business attraction and retention, and the related issue of job creation and job retention in New Jersey.

Before addressing these, I would like to talk about the electronics industry and Boonton Electronics. Depending upon which SIC codes you use, the electronics industry is either the number one or the number two employer of the State. At a minimum, there are 90,000 employees in this State in the industry. That is down from 107,000 employees in 1987. The average individual pay of approximately \$40,000 is the highest in the manufacturing sector.

New Jersey can lay claim to being the foundation of the industry, or at least a partner in that foundation, and I would cite, of course, Thomas Alva Edison. The electronics industry is the nation's largest employer, with over two million employees, and for a considerable part of its history has been the major driver for innovation and economic growth. The American Electronics Association, of which I am the New Jersey/Pennsylvania Council Chair, has a membership of 3000, mostly small companies, and is the nation's largest electronics trade association.

For the most part, our industry has, and is providing high value and at high paying jobs and has been, and is, an excellent citizen and, for the most part, is environmentally responsible. Our industry nationally, and in this State, has continued to lose jobs to Japan and the Asian rim countries, as technological advances made here are manufactured there and exported back to our country. I will not hold myself out as an expert on international trade and trade barriers, but it seems universally accepted that technologically equal or superior United States' products are often unduly burdened when competing in Asian markets, particularly in Japan, and when seeking opportunities in this country with U.S. operations of Japanese-owned companies. While U.S.-owned electronics firms operating overseas usually source 50 percent to 60 percent of their materials locally, Japanese companies in the United States source 20 percent to 25 percent locally, despite just-in-time manufacturing principles that are employed by the Japanese. We have a permanent \$20 billion electronics goods deficit with Japan, and growing deficits with the Asian rim countries.

Boonton Electronics is a small, publicly held manufacturer of high technology RF and microwave test and measurement equipment. For all of its 45 years, it has been located in Jersey. Its current employment is 74, and it generates just under \$8 million in revenue a year. Its primary customer has been, and is, the United States military and military contractors, where our equipment is used in the manufacture and test of avionics, communications, and radar systems.

Because of the cutback in military spending, particularly for instruments, our business has declined some 40 percent from two years ago, and our work force has declined a similar amount. We have spent the last two years diversifying our product and developing commercial markets. Boonton's

current headquarters were built in New Jersey 10 years ago, with the assistance of EDA loans, which permitted our company to maintain its base in northern New Jersey. That investment has paid off for all of the parties.

New Jersey is fortunate to have some of the finest technical universities in the United States, and, therefore, in the world. Within these environments there are laboratories devoted to research and development in such areas as: microelectronics, advance materials, communications, and wafer fabrication. As important are the facilities devoted to new manufacturing methods, including incubator plants and automated micro assembly. These facilities are helping small companies to develop new technology and learn new manufacturing principles and techniques.

We are also fortunate to have at least two of the research facilities working in digital communication and next generation flat panel displays. The digital arena promises to be the next big commercial opportunity in electronics. First, the digital sale of the telephone providing universal access, high quality, and low cost. This perhaps will be followed by digital audio for the U.S. market. Finally, there will be digital high definition television. The digital research spawns business opportunities for small companies, including my own. The largest opportunities will come to the manufacturers and from manufacturing of the consumer products that result from that research, which, if history is the teacher, will be in Asia. Much of the manufacturing will be automated and will require manufacturing workers with skill sets which are higher than they are today. The cost of labor won't be a major factor, but the availability of that resource and the cost of overhead will be extremely important.

With regard to the resources, for the electronics industry the most important resource is a well-trained, qualified work force. New Jersey has the technical

universities which have accepted the challenge to maintain and improve their already high quality. We have a structure of junior colleges and technical schools which must upgrade their training to provide first-class manufacturing personnel. The recently established funding to improve work force skills under the Work Force Development Partnership Act, if properly used, should help substantially. In addition, we need to enhance education in science and technology in primary and secondary schools, and stress that manufacturing is a prestigious and essential job.

Boonton's instruments are used in the laboratory and in manufacturing to test the performance of RF and microwave products and some of the digital hardware now being developed. These instruments incorporate leading edge technology. Within a few years, our manufacturing people will probably be working in a surface mount, automated assembly environment where they will need the skills to test computer controlled equipment and maintain their operation, rather than working in a hand-assembly and troubleshoot environment. There will be fewer, but higher paying jobs. The issue will be whether they will be here or someplace else.

The other resource that is needed is money. Small to medium-sized companies cannot get bank borrowing, and if there are business downturns, the banks look to shut off existing credit. The efforts of the Economic Development Authority have helped a great deal, but they cannot replace that borrowing.

I would like to address the cost of doing business: There was a time when business located near their markets or near their sources of materials. High technology electronics businesses sunk roots near the technical universities which educated their founders, unless the cost of doing business there made the location uncompetitive. To us, environmental regulations, health costs, commutation, and even housing costs are part of the cost of doing business. Most of them find their way into our overhead.

For example, the cost of employee health, which in our company is \$5000 to \$6000 per employee, is two to three times that of South Carolina. Whenever the State mandates changes in regulations affecting business, it affects overhead. Therefore, laws and regulations affecting business should be evaluated for their impact. The general consensus is that small business is the job creator. It must also be agreed that regulations fall disproportionately heavily on small companies, those with less than 500 employees, as the amount of paperwork does not generally change with the size of the company.

It is my belief that our State economy would be best served by inducing responsible manufacturing to locate here. Manufacturing pays higher wages and creates more related jobs than do service functions. This is the manufacturing multiplier.

I would like to address taxes, if I might. Business always targets taxes, and I won't break with the tradition. Most of the discussion seems to center around the division of profits between government and business. Both seem to recognize, somewhat reluctantly, that the other has to get something. The other issues seem to deal with fairness, incentives to invest, and burden on assets.

I won't make any suggestions on the division of profits, but I will address three points for consideration: Domestic international sales corporations' disks, which are established under the Federal Internal Revenue Code to induce export business by providing a partial tax deferral on profits, are fully taxed under New Jersey law.

Another area that does not directly affect our company, but does affect many small companies in our State, is the double taxation of profits of S corporations. I believe New Jersey should be brought in line with Federal tax laws and those of adjoining states.

SENATOR ADLER: That's my bill.

ASSEMBLYWOMAN DERMAN: Excuse me, it's my bill.

MR. GILLESPIE: Congratulations, Senator, and Assemblywoman.

SENATOR ADLER: Actually, yours is a sending bill; mine is a full bill. Yours would bring down the corporate tax rate to just the level to capture the gap between the corporate tax rate and the individual rate. Mine would be, eliminate the taxation for corporations, letting a pure pass-through for just taxation of individuals. They're tough bills. Mine does what he wants to do.

ASSEMBLYWOMAN DERMAN: Except mine is likely to pass. (laughter) With all due respect, mine is a compromise and perhaps more realistic. It would be like a New York system. It would tax the difference between the highest corporate rate and the highest individual rate -- that gap. If I had my druthers, I would recommend Senator Adler's bill.

SENATOR INVERSO: I would rather see a flow-through. I would like to see it just-- You know, we recognize S corporations much like the Federal recognizes S corporations. I think my bill is your bill, which is different than his bill. Do you have a bill, Jack? Maybe we can discuss yours.

ASSEMBLYWOMAN DERMAN: No, but I also know what a disk is. How about that?

SENATOR INVERSO: The message is there, though. You're absolutely right. We're out of pace. We should bring those two together.

MR. GILLESPIE: Thank you.

I would be somewhat remiss if I didn't take this opportunity to voice support for excluding business personal property from local taxes. Income taxes--

SENATOR ADLER: We did that. Didn't we do that?

SENATOR SINAGRA: We did that already. We have taken care of that already.

MR. GILLESPIE: Yes, I think you have. I am just saying, make sure--

SENATOR INVERSO: Make sure there's a change.

MR. GILLESPIE: That's right. That's correct.

SENATOR SINAGRA: In the Senate we took care of it.

SENATOR ADLER: We voted on it; that's all I know.

MR. GILLESPIE: I guess in closing-- I will say one other thing: All the trade zone legislation which is now pending, I guess, is positive and will help induce affected corporations to locate in New Jersey. I don't envy you with the difficult task of balancing the need for immediate revenue and need to produce a long-term nurturing environment for companies to create jobs. Whatever can be done to nurture high technology and related manufacturing in New Jersey will yield enormous returns.

SENATOR SINAGRA: Does anybody have any questions?

ASSEMBLYWOMAN DERMAN: I have a question: Do you seem to feel that we should focus on manufacturing in terms of job training?

MR. GILLESPIE: Absolutely.

ASSEMBLYWOMAN DERMAN: Rather than generic job training, job creation?

MR. GILLESPIE: Absolutely.

ASSEMBLYWOMAN DERMAN: Well, certainly what they testified to before in terms of dollars generated would, you know, indicate that.

MR. GILLESPIE: That was the first time I had seen anything of that magnitude. We have generally used a factor of five to one as a determinate that manufacturing jobs do create other manufacturing and other service jobs, in a multiple of five to one. Service jobs create, I think, something like three to one, or three-and-a-half to one. So there is more to be gained from having one manufacturing job enter the environment.

Since most of the research and development is being done here on what is the next generation of electronics, it seems only appropriate that New Jersey share by gaining the manufacturing benefit here. Anything the State can do to induce more high tech manufacturing in New Jersey will benefit the State. I can only see that as a pure positive.

ASSEMBLYWOMAN DERMAN: In terms of the high definition TV which you mentioned, is there anything we can do to make sure that those jobs do not emigrate to Japan?

MR. GILLESPIE: We can train a work force that can manufacture TV sets. We can train a work force that can manufacture in a high tech microcircuit environment, so that we have people who are capable of running automated systems. If we-- I guess the comparison I have seen is that the average 15-year-old in the United States is receiving the same level of science and mathematics education as a 10- or 11-year-old in Japan. Much of that-- Sometimes, at that point or thereafter, it is elective. We can't have people who are not science and mathematics literate, because they will not be capable of learning how to do the next generation manufacturing. So we need to stress those things. We need to stress them now; we needed to stress them five or ten years ago.

You asked the question, if I might, Assemblywoman-- You asked a question before about other states, what other states are doing. When I was sitting back there I was fascinated, because I would answer that one question about what are states doing to develop high technology by just simply saying Texas TILT. Texas has a program for inducing high technology to occur in Texas to get manufacturing in Texas. They have established an organization called TILT, which is very closely related with the electronics industry. If you need some information, I would be happy to get it for you.

ASSEMBLYWOMAN DERMAN: Yes. Thank you very much.

To your knowledge, does any other state allow for the deferral of tax from a disk?

MR. GILLESPIE: Not to my knowledge, no.

ASSEMBLYWOMAN DERMAN: That would be interesting to--
I don't know how much it would cost us, but--

MR. GILLESPIE: Approximately 9 percent. I think if you divide the numbers up, you would get 9 percent of 50 percent of the profits, and then 16/17ths of it, I guess-- It becomes a strange number; not a very large number.

ASSEMBLYWOMAN DERMAN: Not as good as it used to be. The Senator is saying it is not as good as it used to be, but for those companies that have it, it can still justify a trip to the Bahamas for a Board of Directors' meeting.

MR. GILLESPIE: That's a fisk fail. I wish we had a fisk; we have a disk. We don't have to go there.

SENATOR SINAGRA: Are there any questions?

SENATOR INVERSO: Yes, I have a question: Are you, through your Association or through your own experience, at this point, satisfied with the level of technical training or technical education that is coming out of places like NJIT, Rutgers University, Princeton? You comment on the younger age groups not having the scientific bent because of orientation. What about at the higher ed level? Are we still being competitive?

MR. GILLESPIE: We are extraordinarily competitive. Most of the engineers who work in our plant are graduates of New Jersey institutions and hold some graduate degrees from New Jersey institutions. The disappointing side of the education of the technical universities in New Jersey, is that many, or most of the graduate students are citizens of other countries, and are going to take the technical skills that they learn at our universities back with them. So the manufacturing will follow them, because they will sink their roots back where they came from.

SENATOR INVERSO: Do you see that as a-- (remainder of question indiscernible; Senator speaking off mike)

MR. GILLESPIE: I think it is deeper than that. I think everybody who has talked to it has said it is deeper than that. It is essentially an education problem in K through 12. We have to teach children that science and mathematics are important. Barby cannot go around and say that mathematics is bad, or hard to do. We have to teach our children that it is important, and we have to stress those things. And we have to have the best science and mathematics teachers in the primary and secondary schools, so that when the people arrive in the universities they are well-trained; they are capable and qualified, and are interested in going on.

SENATOR INVERSO: Pass that on to the Chancellor, or the Commissioner, excuse me -- the Commissioner of Education.

SENATOR SINAGRA: Well, thank you.

MR. GILLESPIE: Yes, sir.

SENATOR SINAGRA: Dave Kehler, Public Affairs Research Institute of New Jersey.

D A V I D K E H L E R: Good afternoon, Mr. Chairman and members of the Committee. My name is Dave Kehler. I am President of the Public Affairs Research Institute of New Jersey. We are a nonprofit group in Princeton concerned with New Jersey public policy issues. Prior to taking this position, at some point in the past, I was an aide to a Governor of another state, and worked on economic development issues. Immediately before coming to New Jersey, I was working on the West Coast, where I was involved in analyzing economic development activities of the states in the northwest.

It is a great pleasure to be with you today, and I appreciate the invitation to speak before this Committee, whose work I think is vital.

What I am going to do is suggest an agenda of things that can be done by New Jersey to improve our economic climate. I think there is quite a bit we can do. Some of these things are going to cost some money. However, in other

publications sent to you by the Public Affairs Research Institute, we have identified ways of cutting costs in State government. If we get into any questions about that, I will be happy to discuss those cost control ideas, because I think we can reorder some of our spending priorities to ensure that we do what is needful to improve our State's economy.

I am going to speak about six specific areas: The first of those will be foreign trade; the second will be infrastructure improvements; the third will be scientific education; the fourth will be environmental regulation; fifth will be taxes; and sixth will be small business development. But before I get into those, I would like to talk about what I think are the strategy principles that New Jersey ought to consider in devising an economic development program for the State.

The first of these is that our economic development efforts should be balanced. They should be balanced in a variety of ways, both in terms of the needs of our population-- Some people have greater skills than others. Some people have greater capacities to develop skills than others. Some people are more suited to manufacturing positions; other people are more suited to be accountants or attorneys or bankers, and the like. And we have to make sure that we provide an array of opportunities for all of our citizens in New Jersey.

Another perception of balance is that we need to have opportunities in all segments of our State -- north and south and central -- so that we don't skew our economic development. So, a sense of balance is important.

The second principle is that we should build on our strengths. New Jersey has some tremendous strengths. Perhaps other witnesses have spoken about weaknesses, but there are some strengths that we need to recognize. We are the center of a number of dynamic industries. We have one of the greatest

ports in the world. We are close to a large city which is hemorrhaging jobs, some of which are going to come across the Hudson and find their way to some locations in New Jersey. We have some very outstanding institutions of higher education.

We have strengths on which we can build, but also my third principle is, we need to attack some weaknesses, and the weaknesses I am going to suggest today are going to be public policy weaknesses; things that other speakers have identified as barriers. Ideas are afloat in New Jersey to remediate these problems, and I think we ought to get at them. So that is my third principle. We ought to attack weaknesses.

We need to be realistic. We need to be realistic in terms of our circumstances in the world. This is a dynamic and competitive economy; that we're not strictly competing with New York or Pennsylvania. In some respects we are competing with the entire world. In other respects we are competing with the entire English speaking world.

There is a large financial institution in New Jersey and every night work goes from that financial institution on a plane to Jamaica, in the West Indies. That work could be done by workers in New Jersey if it could be done on a competitive basis in terms of cost and performance.

In this white collar service area, we're competing with places like Ireland and Jamaica. We need to recognize that. We need to be realistic in terms of the trends in the national and world economies: that there are some sunrise industries developing out there where if we take concerted action and we plan our efforts, we can be part of those. We need to be realistic in terms of the notion of other people are thinking the same way too.

Fifth, we need to participate-- The first speakers talked about the need to have an economic development strategy for New Jersey. I agree completely. It's important that in developing that strategy, we have the participation of

environmentalists, labor, business, and people of all levels of government and civic organizations to make sure that we devise strategies that are in the best interests of all.

Okay. Those five principles should guide our efforts in what I think are six areas for consideration for this Committee. First is foreign trade. We're building on a strength here. We have a port.

We have circumstances developing in other parts of the world that matter a lot to us. One of those is European Economic Integration. Another one is North American Free Trade Agreement. Mexico is one of the major trade partners of New Jersey, one of the seven largest trade partners of New Jersey.

There are things that we can do now to insure that we improve our ability to export and to attract foreign operations. I am going to suggest some of them that I've seen work in other places: One, is trade missions. Trade missions are groups of people, businesspeople and government people going to a particular market and explaining to the Taiwanese, or the Dutch, or the Germans, what our products are and how we can do business with them in a way that will be beneficial for them.

Trade missions also can attract business investment to our State. The second approach is sister municipality agreements. Sister municipality arrangements would establish, for example Camden, as a sister city with Brussels, Belgium let's say: where people -- businesspeople, government people -- will spend some time in Brussels from Camden, people from Brussels would come to Camden to visit, and there will be some sense of what we have to offer each other. Between these two things, we can learn something about foreign markets.

I would like to give you an example. People in Washington State grow a lot of apples. When I was in Washington State, it was discovered that the apples were not exportable to Japan. There was some question why people in

Japan weren't buying apples. After, there was some trade missions and some municipality, sister city arrangements. When it was set up, it was found that apples were too tart for the taste of Japanese people. So, after learning that, the apple growers began to do some horticulture experiments to devise sweeter tasting apples which became exportable then to Japan.

If we don't learn about other peoples' needs and preferences to products, it's more difficult to export our products to their countries. We ought to establish foreign trade offices. During the Kean administration one was established in Tokyo. I don't know that was the best place to have a foreign trade office. It would make more sense to have foreign trade offices in sections of the world where we have a greater propensity to do some exports. Those would be, in my view, Mexico and Europe.

We ought to promote trade co-ops so that small businesses who don't necessary have the wherewithal to develop the expertise within the company to export to other countries could benefit from the bundling of their products in co-ops nurtured by our State government.

Finally, we ought to enhance language education in New Jersey so that our people can speak with people in countries to which we would like to sell things. One way of doing that is relying on our community colleges where evening programs could be set up, funded by the State government to have very, very low-cost language education. So this tremendous deficit we have in the United States of a lack of multilingual skills can be attacked here in New Jersey.

I think that foreign trade builds on a strength. Our port builds on another strength. We have things to sell that we make here. It builds on an opportunity, North American free trade agreement and European Economic Integration. We ought to move aggressively to make New Jersey a better trader.

The second is one where the Legislature has already taken some action and that is infrastructure improvements. These are key, and not just for developing construction jobs. The issue with the infrastructure improvements is the better the quality of the infrastructure, the more productive private capital is.

We have a study, published about a year or two ago done by a group called the Foundation for the New Jersey Alliance for Action-- That study identified infrastructure needs in New Jersey in the tens of billions of dollars. Interest rates are low now. The cost of construction is low because of unemployment in the construction industry. Infrastructure improvements improve the competitiveness of New Jersey by making private capital more productive. Now is the time to act on it. You've taken some action on it recently.

The importance in targeting in the next capital budget those dollars is to make sure that they are allocated on a basis of maximum contribution to the State's economy, not necessary for other reasons: not to spread them around on a fair share basis to every region of the State, but try to target those dollars for the maximal opportunity. I would suggest it's a good time to look to more borrowing for additional infrastructure improvements because like the commercials says: "We have to pay for it now or later," and now is the better time to do it because of favorable circumstances in the bond market.

The third area is one where our previous speaker has given you some good input, I think. That's scientific education. Once again, we're building on a strength. New Jersey is the home of the telecommunications industry in the United States and the pharmaceutical industry in the United States. We're second only to Texas in the chemical industry, and we're second only to California in biotechnology

industries. We have an array of public colleges, and there is a clear nexus between developments in technology industries and higher education.

Anyone who spent any time in Northern California can see the synergies between the outstanding University of California at Berkeley science effort, Stanford University, and also CALTECH. In Washington State, where I worked before I came here, there was a clear relationship between the development of computer related industries and the University of Washington.

The largest software company in the United States is headquartered in a suburb of Seattle. Everyone knows about the founding entrepreneur of that company, Bill Gates. Few people know that his wife, Mary Gates is a Regent and was, at the time of the founding of the company, of the University of Washington. Microsoft has been able to develop the company it is, because of the talent being graduated from the outstanding scientific computer related programs at the University of Washington.

We have some strengths here too. Our strengths are those centers established by the Commission on Science and Technology. In your research on things that are good about New Jersey in terms of economic development, those centers ought to be at the top of the list. We have, through the centers, been able to attract some of the outstanding scientists in the United States. I think there is a lesson here and I am going to encourage you to consider going much much further in this direction.

Scientists who are members of the National Academy of Sciences -- these are the leading academic scientists in the United States -- there are eleven of them at Rutgers University. Of the 27 leading public institutions in the United States, there are a total of 323 members of the National Academy of Sciences. Eighty-two of them are at the University

of California at Berkeley. So, of those who are located at public universities in the United States, 25 percent of them are at one campus of one university, the University of California at Berkeley. The second ranking university is the University of California at San Diego. The fourth ranking university is the University of California at Los Angeles.

We're not doing badly. We're eighth. Rutgers is eighth with eleven of these scientists. We're doing better than some universities with a great reputation such as the University of Michigan or Ohio State University. I think this is an opportunity. These centers we established through this Commission in 1985 have attracted some leading scientists.

The Legislature ought to create endowed positions for the explicit objective of attracting members of the National Academy of Sciences to New Jersey institutions. That should be the objective.

We heard earlier about the development of high technology in Texas. We have a great model here in the development of the University of Texas where endowed positions at that university were able to attract outstanding scholars quickly to that state's system. We need to do that here. We ought to go further than this. I think we ought to establish as an objective that we'll raise Rutgers' position to the equivalent of the University of California at Berkeley, which is the greatest public institution in the United States.

Now, I know as legislators you get some feedback on public institutions of higher education, and sometimes there's a criticism that research emphases are pursued at the expense of undergraduate education. I think that can be counted, in my proposal, by stipulating that those people who would be attracted to these endowed positions would have as a requirement that they would teach a course, open to undergraduates.

We would have a couple of things done there. We would be exposing our students to the greatest minds in various fields in chemistry, biology, and physics. At the same time, we will be building on our emerging strength in these centers which have already been established in New Jersey.

When I was in Washington State, the principal objective of economic development had a focus on the port's development; the Port of Seattle being the closest port to Japan, and making the University of Washington the greatest public university in the United States. The payoff is pretty strong. Washington is the greatest net exporter of goods of any state in the country. The Seattle area has become the new Silicon Valley. It's a strategy that works. I think the emphasis on scientific higher education in New Jersey should be paramount here.

The previous speaker talked about the question of getting New Jersey kids into scientific disciplines in New Jersey institutions of higher education. Well, you could attack that too. One of the things you might do is give a scholarship, a complete free ride to any New Jersey student who would score above 700 on a scientific achievement test. You might want to establish special scholarships for graduate students for New Jersey residents who would pledge to work in the State, in their field. Rutgers is actually an important element in economic development in New Jersey and potentially a real powerhouse for us. We need to view our institutions of higher education as implements of a strategy that will pay off in the way in which it has paid off in Northern California and the Seattle area, in the development of technology industries.

A comment was made by the previous speaker about the two-year colleges, once again potentially great in terms of technical training for workers actually contributing now in some areas. One of the things that you might want to do is think about clarifying the mission of the two-year colleges.

Those missions at present are quite diverse. Then tying them more closely into a State system-- In some instances, kids who complete courses in the community colleges find that their courses don't transfer to the State university. We need to have protocols on that. We also ought to question whether it's appropriate in terms of developing the two-year colleges to their maximum potential, to tie their funding to a property tax base which is not a dynamic base.

You've heard already discussion about the importance of K through 12 math and science education. I won't duplicate those comments because this has been a long day, but I would like to say, I also concur with that completely. That needs to be much much stronger in New Jersey. We'll be making as a society decisions about science and technology and policies, and having citizens who are not particularly literate in this may not result in the right decisions being made.

In terms of environmental regulations, we need to balance between the need for manufacturing and need for environmental quality. I think what we need in order to get that, is some sort of consensus about environmental policy in our State. It's highly unlikely that will emanate from the Legislature. It seems to me that the business community ought to be making some suggestions about what environmental policy should be in this State.

It's quite easy to criticize some of the legislation we have adopted. It's been wrongheaded and perverse in some instances. ECRA, for example is a profoundly antiurban program. Maybe ECRA should be suspended in cities. Maybe it's completely unrealistic in some parts of New Jersey to assume that territory, land that has been degraded for 200 years is going to be remedial to a status that it had in 1700. ECRA ought to be changed, at least as it applies to historically manufacturing centers in cities.

The absence of flexibility in the administration of laws is something one wouldn't find in many states. I am speaking in this regard of the Clean Water Enforcement Act where perhaps some greater discretion ought to be given to DEPE and its administration. Somehow or other we have to come up with some consensus on how clean is clean? We have to make sure that the ongoing efforts to improve the productivity of DEPE under Commissioner Weiner are fostered and encouraged by all parties concerned.

Taxes, I agree with the first speakers. Taxes are a relatively a minor cost of doing business for most businesses. Nonetheless, some tax issues that really require immediate action. The one I think is the S corp issue. New Jersey is not competitive with our neighbors. Our deviation from Federal policy is not in our long-term interest, and it makes things more difficult for the most dynamic sector of our business community, and that's the small business community.

The second issued you might want to consider is a credit for research and development. We are a home of many scientific oriented companies. There is a Research and Development Council. It has made some suggestions about tax policy changes to foster R&D in our State. I know that they're continuing their interest in this, and you might want to speak with them to learn what they think would be the benefits to our economy from their ideas.

The third, and perhaps the most fundamental one is that taxes on payrolls are taxes on jobs, and anything increasing a payroll tax is potentially a job killer. So as you, members of the Legislature, consider a wide variety of tax issues, payroll taxes are the taxes most directly impacting the number of jobs that may be available in our State.

Finally, small businesses are my sixth area: We can do some things that don't cost very much money to help small businesses. One is we might set up as New York State has, a

retired manufacturing executives volunteer corps. We have a lot of large manufacturing companies, many of them have had early retirement plans. So we have some bright vigorous people with recent experience in manufacturing areas who could lend, on a volunteer basis, their expertise to smaller or perhaps start-up companies who are involved in manufacturing.

Second, we could expand our incubator program. New Jersey Institute of Technology has one in Newark. Why don't we have small business incubators in all of our cities? We certainly have a lot of vacant industrial facilities in our cities. Incubators are successful in Pennsylvania in a number of ways. I've seen them on the West Coast work very well too, and they don't cost that much to set up.

Third, we can follow Washington State's example and set up purchasing and trading co-ops for small businesses, so they get the advantages of economies of scale that are available to large companies as well.

I, too, can talk all day about economic development ideas. I will be happy to do so if you would like to hear some more from me, but why don't I stop now and if you have any questions about things I said or anything I've ignored, I will be happy to answer you.

SENATOR SINAGRA: Pete, is there anything you'd like to ask?

SENATOR INVERSO: I'll pass at this point. You gave a lot of food for thought, Dave.

ASSEMBLYWOMAN DERMAN: It certainly would be advantageous to have more high tech high schools. I think New Jersey only has two at the current time, right?

MR. KEHLER: Well, I think that since we spend a great deal of money on K through 12 education in New Jersey, we ought to have very high standards as well. We could establish all sorts of programs for high school kids who display an aptitude. We could have a special summer school for them at

Trenton State, Rutgers, or New Jersey Institute of Technology, or all three of them for high performing young people who might get interested in sciences.

We have a problem with some of the smaller schools. They are so small they can't have all of the necessary laboratory equipment, but we could make some arrangements so that at least some regional high schools would have very very outstanding laboratories and special programs and have some kind of sending arrangement between schools. I think that science and math education is crucial for the future of the State. Any reasonable effort that we might make to improve that, is going to have a long-term payoff.

SENATOR INVERSO: I have been working closely with the community college sector in our area, one of which of course is in fact the State has particularly reneged on its funding commitment to the community colleges. I was before a meeting of the Trustees with one of the county colleges.

MR. KEHLER: Yes.

SENATOR INVERSO: And they asked about possibly new State dollars and I said, "Well, it's like, there are only a quantifiable amount of dollars available. The question is how do we get more allocated in that sector? It seems to me that the aspect of enhanced scientific and technical curriculum, would be a way to provide grant dollars that may not come out of the educational pocket; it coming out of another pocket but helping them enhance their stature in the community. They also have an identity problem.

MR. KEHLER: They do.

SENATOR INVERSO: The question of structure of-- They have no real identity or purpose of mission. In some respects they are trying to be all things to all people. That isn't going to provide them with their most opportune pursuit, and that is to provide that linkage to the four-year college sector and the aspect of the protocol that you touched on. Something

that I've been looking at as a mission is insuring that attending a community college will have a guarantee of transferring, of course, if you are going on to a four-year college, at least at New Jersey colleges.

MR. KEHLER: You can make that happen through legislation. Legislation to that end ought to be adopted, I think. The community colleges are disadvantaged in the budget process by their blurred mission, no question about that. The community colleges ought to be perceived in my view, in particular, as engines of economical development. That should be strengthened. In terms of the competitiveness of higher education for other funds, I'd just say based on my experience on the West Coast during the last recession I was out there, the number one budget issue in Oregon and the number one budget issue in Washington was how to insure that adequate funds are provided for institutions for higher education, so that they will be the absolute best. The thinking was that any sort of diminution of their funding would cripple those states.

There is a different perspective about public higher education in the west. When the Morrill Act was adopted in 1867, that set up the land grant colleges.

SENATOR SINAGRA: Did you vote for that, Pete?

SENATOR INVERSO: Did I vote for that? Oh, that was my bill. That was my bill. I know Harriet's got a counterpart to that somewhere.

ASSEMBLYWOMAN DERMAN: I didn't have that in my bill.

MR. KEHLER: The states in the west began a strategy--

ASSEMBLYWOMAN DERMAN: If I did, mine would have passed.

MR. KEHLER: --that used the state university as a integral part of development of their state's economy. The places that has gone furthest with this is California, and obviously they're the biggest economy. They're the biggest state university system and they are the best public university

in the world. They have created out of that tremendous wealth for their state and the development of a lot of businesses. The east coast wouldn't do it.

SENATOR INVERSO: But Dave, isn't that system starting to fray a little? I have no firsthand knowledge.

MR. KEHLER: I could talk at great length about the University of California. I lived in Berkeley for a while. I've done research out there.

SENATOR INVERSO: Maybe because of the funding; maybe because of propositions on the ballots. I don't know. I understand the system is started to be beleaguered. So they had a great system but prospects don't look good going forward. That could be because of I&R, because of funding, or who knows what it's from.

SENATOR SINAGRA: Is a message here when it comes to education that we are willfully shortsighted; that we really don't have a plan for economic growth for the future? What you're really talking about is a vision.

MR. KEHLER: That's right.

SENATOR SINAGRA: Is it we have to make the commitment today; that commitment today, tomorrow, and for the next literally ten years before we see the fruits of it? We have to, as a Legislature, have that foresight because one of those things when I first became a Senator and being close to Rutgers, they indicated, I think, in higher education we ranked 42nd in the nation per capita spending. We are just at the bottom of the list.

MR. KEHLER: We're in the bottom ten. It's the single most important legacy this Legislature could leave for New Jersey: To devise a strategy for economic development that would incorporate some of these elements I'm talking about. The greatest long-term payoff, the thing that will make New Jersey vital and dynamic, and an economy well into the future, is strengthening science education in institutions of higher education and making sure that we have the best that there is.

There should be no other standard for considering Rutgers' situation than the University of California at Berkeley. There should be no other standard for considering the NJIT situation than CALTECH. There should be no acceptance of anything other than the best. We're a rich State. We, in my view, have a malapportionment of our expenditure priorities. I've addressed them elsewhere. We need to get a lot smarter about how we handle this situation.

SENATOR INVERSO: Dave, which publication was that?

MR. KEHLER: That was. I have it back here. I brought one along just in case.

SENATOR INVERSO: I have to mark one-- What is your opinion -- and you indicated before you began that some of this will cost money -- to achieve the enhancement of the scientific educational programs and pursuits? What kind of dollars do you think they are talking about?

MR. KEHLER: I would endow professorships at one-and-a-quarter million dollars apiece.

SENATOR INVERSO: These are the endowment shares.

MR. KEHLER: Absolutely.

SENATOR INVERSO: One-and-a-quarter million dollars each.

MR. KEHLER: Apiece, apiece. I would do ten one year, and ten the next year, and ten the next year.

SENATOR INVERSO: Twelve million dollars.

MR. KEHLER: Yeah, that's what I would do. The first year I would do some in areas of chemistry. The second year biotechnology because you develop greatness in sciences in a university with clusters of scholars working together. That's what we have to do. We have to develop clusters in various fields of physics, clusters in various fields of biotechnology, various fields in chemistry. We have to go at it on a concerted consistent basis.

SENATOR INVERSO: From your experience out in California, you have a protocol that one could utilize in determining how these endowment seats or chairs would function in a sense?

MR. KEHLER: Absolutely right.

SENATOR INVERSO: You also mentioned a teaching component to those chairs.

MR. KEHLER: Yes, I think that's an important part of it.

SENATOR INVERSO: Say someone was going to consider one-and-a-quarter million dollars to create an endowment chair at a university to attract professor so and so. It would be hard to accept unless you know what professor so and so will in essence translated in regards to the economic pursuits that we are interested in. What will he do? Is he coming to New Jersey to develop a department of writing, creative writing or his he going to be-- What is he going to be doing? Is he going to be generating scientific papers, literature, research, transfer of technology? What is it they will be doing? We need a protocol for each one of these.

MR. KEHLER: Absolutely right. I think that's a great point. I wouldn't suggest we spend a dime on endowing a professorship of sociology, let's say, or philosophy. Even though I did study that stuff myself. State universities shouldn't be emphasizing that. We should be trying to attract members of the National Academy of Sciences, okay? So, I'm talking about a specific pool of great scientists.

Second, we have a model, we have a framework for doing that and that's this. This is the Commission on Science and Technology. They have targeted areas, and they have been so on target in identifying those that were discussed by the prior speaker, where we made some headway. This was a brilliant thing. It's gotten off the ground very well, and we ought to build on it. Creative writing, no way. That's nice to have undergraduate instruction on that but--

SENATOR INVERSO: Exactly. That's the whole point. So, is that the annual report or statement? (referring to Commission Report)

MR. KEHLER: That's the annual report of the Commission of Science and Technology.

SENATOR INVERSO: They address the possible endowment of scientific chairs?

MR. KEHLER: No, they don't.

SENATOR INVERSO: Not specifically?

MR. KEHLER: No they don't. Through these centers be able to attract some leading scholars and they made some headway in transferring technology to technologically oriented companies in New Jersey. This has gotten off to a good start. What I'm suggesting is, let's do the best in the country. This is smart; this is future oriented, and we have a good track record.

ASSEMBLYWOMAN DERMAN: You've talked before about purchasing and trading co-ops.

MR. KEHLER: Yes.

ASSEMBLYWOMAN DERMAN: Is there anyway you can think of that we can encourage this to come about?

MR. KEHLER: We could set it up and run it out of the Department of Commerce. Anyone who would like to participate, any small company below some threshold size, who would like to participate, could sign up and participate. We could determine things that might be purchased through a co-op: computers, software, pencils, railroad ties, or whatever might be necessary. Sure. That is something that the State government could do and do easily.

SENATOR SINAGRA: Thank you very much. It's been very enlightening.

MR. KEHLER: My pleasure.

SENATOR SINAGRA: Thank you, everyone.

(MEETING CONCLUDED)