Governor-Elect Christie

Report to the Transition Team

Subcommittee on Economic Development & Job Growth

1/14/2009

Respectfully submitted by its Chairmen:
The Honorable John McCormac and Dennis Bone

Subcommittee on Economic Development & Job Growth

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EXECUTIVE SUMMARY OF RECOMMENDATIONS

I. Taxes – Signaling a Change in Direction:

A. Institutionalize tax restraint:
- Call for super-majority legislative approval to be required to enact any new or increased taxes, and support a constitutional amendment to institutionalize this discipline for the future.
- Direct that the Division of Taxation undertake a detailed study of data uniquely available from tax returns of the actual impacts of tax policy on out-migration, business formation and employment in our State, and to issue such Tax Policy Impact Report annually thereafter.

B. Eliminate the "investment and employment tax" on New Jersey corporations:
- Propose legislation to enact "single sales factor" reform to level the tax playing field for New Jersey-based and out-of-state companies doing business here. To address budget concerns, a multi-year phase in of the reform, a tact taken in several states, should be considered.

C. Allow "temporary" taxes to expire:
- Temporary income tax and corporate tax surcharges are set to expire this year – let them expire.

D. End "double tax" on S-Corporations:
- Propose legislation to eliminate the corporate minimum filing fee/tax ($500 and $2,000 annually based on receipts) on S-Corporation owners.

E. Make small business tax policy an engine for economic growth:
- Propose legislation to enact many of the business incentives found in our corporate tax law for small businesses which pay business taxes via the owner's/partner's personal income: (1) permit a 20 year loss carry-forward of business income net operating losses into future tax years; (2) permit small businesses to bundle different forms of income and losses, such that profits in one business are taxed even if losses are sustained in another; and (3) establish a flat business income tax rate, similar to the corporate tax that encourages entrepreneurship.

F. Repeal redundant administrative policies:
- Propose legislation to eliminate the cumbersome UEZ rebate regulations that require UEZ -based businesses to pay sales tax and then apply for a tax rebate on formerly tax exempt purchases, saving both the Division of Taxation and businesses significant resources needed to administer the program.

G. Consider temporary employer payroll tax relief:
- Lobby our federal congressional delegation to secure Federal UI fund assistance, as was received in 2009, to reduce looming payroll tax hike and consider giving a temporary rebate of a portion of employee income taxes paid by workers below a certain wage.

H. Create a new 20 percent manufacturing investment business tax credit to compete with surrounding states.

I. Enhance the competitiveness of our film and digital media tax credit:
- A modest expansion of NJ's tax credit caps to $50 million (film) and $10 million (digital media) will maximize our ability to capture more projects in the expanding entertainment market.

J. Use business tax credits to incent higher education partnerships

K. Provide "Angel" investors tax credits for investments in New Jersey high tech start-ups.

II. Develop a Balanced State Plan:

A. Reconstitute and elevate the State Planning Commission and appoint a cabinet-level Executive Director with the charge directly from the Governor to support the Lt. Governor in working with the Commissioners to update the State Plan in a manner that breaks down the "silos" between their respective (and often contradictory) capital investment priorities and regulatory regimes.

III. Achieving Regulatory Balance:

A. Review Existing State Regulations: Under the supervision of the Lt. Governor, regulations that pertain to development and construction projects and industrial activity should be subjected to the following review:

1. By Executive Order, within 90 days, the Departments of Community Affairs, Transportation and Environmental Protection should be directed to identify those regulations that impede responsible economic development due to (i) insufficient or contradictory guidance or (ii) that exceed legislative intent or (iii) that exceed federal standards or those of neighboring competitive states without well-documented cause.

2. Rules that are identified as impediments to responsible economic development should be redrafted within 180 days. Redrafting of the rules can be achieved by either:
   a. allowing the Partnership for Action 45 days to provide front-end input to the rule writers regarding implementation and application of the rule, then having the Department re-draft the rule with the Lt. Governor reviewing and approving the final rule proposal prior to publication in the NJ Register; or
   b. assigning staff from the Lt. Governor's office (i.e., transferred OAL staff) to the Departments to assist in the redrafting of the regulations. Re-drafted rules would then be submitted to the Lt. Governor for review and approval prior to publication in the NJ Register.

3. Once approved by the Lt. Governor, the new regulations should be deemed ready for promulgation pursuant to the Administrative Procedures Act (APA).

B. Empower the Office of Administrative Law; Revise the Administrative Procedures Act:

1. **Upgrading the OAL:** The rulemaking functions of the OAL should be transferred to the Lt. Governor (Secretary of State), with the Administrative Court system remaining in the Department of the Treasury. The new OAL under the supervision of the Lt. Governor should be charged with the responsibility to:
   a. Review the substance of proposed regulations for conformity with enumerated criteria that institutionalize the requirement for "balance."
   b. Exercise authority to disapprove or modify a rule proposal, which shall take precedence over the Commissioner of the applicable department.
   c. Ensuring compliance with the requirements of the Administrative Procedures Act.

2. **Certification of Conformance:** Before a proposed regulation can be published in the New Jersey Register, the Lt. Governor should certify that it meets the enumerated requirements of the APA and that the substance of the regulation is:
   a. consistent with legislative intent;
   b. does not conflict with the State Plan or other inter- or intra-agency regulatory schemes;
   c. is understandable and can be implemented without undue burden; and
   d. if the rules exceeds Federal standards or those of neighboring competitive states, that the stricter standard is statutorily directed or merited based on a cost/benefit analysis.

3. **Streamline the APA**: The APA also should provide for improved timeliness and flexibility to allow proposed regulations to be amended after the public comment period, without having to repeat the adoption process from the beginning.

C. Untangle the Permitting Quagmire:

1. **Centralized Permitting**: Separate the permitting functions from the rule-making and enforcement functions of the applicable agencies and consolidate the permitting functions under a single permitting executive located under the Lt. Governor's jurisdiction in the Dept of State or in the Governor's Office.

2. **Connecting Silos with Reporting Lines**: Alternatively, the existing department-based permitting model could be augmented by establishing a permitting executive at the deputy commissioner level official in each department. Their responsibilities would be to:
   a. Develop policies and procedures to streamline the permitting process; and
   b. Reduce the backlog and maintain acceptable turnaround times going forward.

However, in order to infuse the process with the over-arching priority to achieve balance in the administration of the permitting process, we recommend that each of these deputy commissioners also have a dual reporting relationship to the Lt. Governor.

3. **Process Recommendations**: Other recommendations to streamline permits related to economic development include the following:

   a. New Jersey should follow the trend of other states in moving away from a "command and control" approach to permitting, and implement a more user-friendly, IT-based system. State agencies should be directed to review the permits they currently issue to identify permits which:
      i. can be administered through expedited processes, such as E-Permitting and Permitting by Rule pursuant to which standards are established, company executives certify they are in compliance and oversight is achieved through inspections and audits; and
      ii. may be obsolete, are no longer necessary or cost more to administer than the benefits they provide, and thus should be eliminated.

   b. Develop a system of consolidated and contemporaneous review of multi-jurisdictional permits to accelerate the process, eliminate redundancy among different levels of government and ensure more consistency.

   c. Large, complex projects with significant potential employment and/or investment impact that require permits from multiple state and local agencies should be assigned State "account officers" reporting to the Lt. Governor, to shepard such projects through the process.

   d. For suitable projects, permit writers and their superiors should avail themselves of their authority under the doctrine of "Waiver of Strict Compliance" that notwithstanding a regulation, a permit will be granted because it is a common sense decision.

4. **Adding Resources – Private Sector:** Explore ways of extending the Licensed Site Professionals (LSP) concept to encompass other suitable permitting functions administered by the DEP, DOT and DCA.

5. **Backlog Triage:** Assemble an emergency team of expert resources to tackle the startling backlog of pending permit applications. The mission of this initiative is not to "approve" projects but to provide applicants with the courtesy of reasonably expeditious answers – yes or no.

IV. Economic Development Programs & Resources:

A. The EDA is a very effective organization.

B. Marketing:

1. **Starting at the Top:** Commence a campaign by the Governor and Lt. Governor to a targeted list of CEOs and other decision-makers – a religously-adhered to commitment to make four calls each week, two to "prospects" and two to "incumbent" companies.

2. **Partnership for Action:** Create a small but potent partnership involving public/private entities (PPEs) to plan and execute business development and corporate outreach strategies, relying on a mix of public funding and corporate finanical support.

   a. **Overview:** Organize as a 501 (c)(3) with a board of directors serving staggered terms who are selected by the Governor with state legislative input.
   b. **Targeting/Outreach**: Begin with a recommended targeting strategy to identify the industries and projects that the State most wants, and can realistically attract.
   c. **Relationship Management:** Once prospects are identified, continue on with an "account management" role, serving as project coordinator with responsibility for understanding and pursuing all of the actions required for New Jersey to successfully capture the jobs and investment at stake.

      i. *Executive Coordination & Leadership*: Designate a senior "front office" executive acting as the clearly-empowered agent of the Governor and Lt. Governor to manage the work of a highly focused Cabinet Coordinating Council including Treasury, EDA, DEP and DOT, with involvement of other agencies on an as-needed basis.
      ii. *Marketing*: The Partnership for Action should provide professional and independently-funded marketing expertise, managing outreach strategy and execution to bring NJ aggressively back into the marketplace for jobs and investment, both domestically and worldwide.
      iii. *Account Management:* The account management system should be organized around industry clusters to assure the account managers understand the needs and competitive issues confronting their respective industries, and can develop the kinds of networks of relationships that will assure NJ is plugged into important industry trends.
      iv.

   d. **Funding/Staffing:** The Partnership for Action should be funded with a blend of public and private funds, starting with public "seed" funding which is phased down to a minority of total funding as private funding is phased-in.

      The Partnership should be managed by a CEO and skilled professional staff recruited from within industry and the ranks of professional economic development organizations nationally.

   e. **Organization/Governance:** The Partnership for Action should consist of:

      i. *Senior Corporate Executives* from the State's targeted industries also should serve as "eyes and ears" for the Governor and Lt. Governor with respect to market intelligence, and as "ambassadors" in communicating with their peers about the advantages of locating in NJ.
      ii. *State Officials:* To assure sharing of ideas and outlooks among public and private sector leadership, and to create the essential linkage between the actions needed to coordinate policies, prospects and projects are carried out by the applicable State departments.
      iii. *Higher Education:* We also recommend that the Partnership board also include a representative of the New Jersey's colleges and universities.

C. Consolidation of Economic Development Functions:

1. **Near-Term Options:** Consolidate all State-related financial incentive programs under the EDA, which is already the central point of contact for the majority of State incentives programs, including the Business Employment Incentive Program, the Business Relocation and Retention Assistance Grants, the Economic Recovery & Growth program and others. Specifically, the following should be centralized:

   a. **New Jersey Redevelopment Authority:** Business loans to urban areas.

   b. **Board of Public Utilities**: Energy related grants.

   c. **Labor and Workforce Development:** Customized training grants.

   d. **Casino Redevelopment Authority**: CRDA grants.

e. **Other Program Consolidation**: The operations and resources of the Capital City Redevelopment Corporation be consolidated in the EDA.

f. **Consolidate Funding Sources**: Access funding available from the Business Enterprise Investment Program Act of 2003 and use for technology company lending and other priorities.

3. **Longer-Term Options:**

a. **Coordinating Other Development-Oriented Funding:** Other financing activities of multiple State entities should be examined for potential consolidation, or, at a minimum, better coordination to align them with the new Administration's policies and priorities. Such entities include the Housing and Mortgage Financing Authority, Environmental Infrastructure Trust, Office of Smart Growth, Delaware River Port Authority, Port Authority of New York and New Jersey. A Task Force should be established so that each granting entity can meet monthly with the EDA to coordinate plans and information on upcoming awards and potential allocation of financing to make New Jersey a more attractive location for companies in the market.

b. **Streamlining Grant Payments**: The State Treasurer should review this operation and potentially dedicate specific employees within the Division to work solely with the EDA to provide the necessary verification necessary to facilitate the actual disbursement process to assure issuance of checks within specified deadlines.

D. Incentives Programs:

1. Place-oriented and Targeted Investment Incentives:

a. **Garden State Growth Zones:** Create special zones to induce investment and job creation in designated urban areas where (a) there is a level of disinvestment and other objective measures that demonstrate the need for special intervention to facilitate and leverage private investment; and (b) where notwithstanding these economic deficits, there are basic locational or other advantages to suggest that public investments are realistically capable of making a difference.

b. **Fine-tuning Recently-Enacted Programs**: Recently enacted programs are widely regarded as important additions to the incentives tool box, but require fine-tuning to be most effective.

i. **ERGG:** The State should consider dedicating resources (perhaps incremental retained revenues received from other EDA financed projects) to provide for credit enhancement to enable ERGG projects to obtain financing. In addition, ERG grants should be made available at higher levels (i.e., in excess of the current 20% of project costs maximum) in the GSGZs,

ii. **Urban Transit Hub Tax Credit (UTHTC):** Asses whether the program's geographic eligibility should be expanded to make the credit available, at some level, to transit-oriented projects in smaller cities and older suburbs to more broadly promote the same kind of dense "smart growth" investment.

2. Employer-oriented incentives:

i. **BEIP**: Dedicate BEIP grant funding in order to maintain the business community's confidence in this program.

ii. **BRRAG**: The BRRAG program is ineffective and should be overhauled. The Administration should support a concept the EDA is considering to scale the amount of the tax credit to the number of jobs at stake, minimizing the budgetary impact by spreading the increased credit value over multiple years, and requiring new capital investment and an extended period of job retention commitment.

3. Efficiency/Accountability: Continuing attention should be given to exercising more discretion in evaluating the amount of BEIP grants needed to "win" new projects on a case-by-case basis, with relatively less emphasis on a formulaic determination of grant amounts. Similarly, the ERGG and

UTHTC programs both require "net benefit tests" to further assure that the State is getting an appropriate return on its investment.

4. **Other State Programs:** Our Subcommittee also has consulted with the EDA, site consultants and businesses on ways of assuring that the State's other incentives programs are as effective and efficient as possible. This effort should be continued by the Partnership for Action.

5. **AARA/Federal Stimulus Funding/Programs:** An immediate and detailed review is needed to evaluate the status and uses of the Federal funding that has been made available or is pending to assure that the funds are being deployed in the most cost-effective, productive and timely manner feasible, and in accordance with the Governor-Elect's priorities as to how to best stimulate our State's economy and ease fiscal stress.

V. Small Business: Recommendations addressing the concerns of small business employers can be found in our sections on tax policy, regulatory reform and consolidation of incentives. Additionally, we note the following:

A. **Incentives:** We recommend program application and reporting requirements for incentives be crafted with an eye to making them "small employer friendly." Also, incentives in areas most important to small employers, such as tax credits for new hires, equipment purchases and capital improvements should be considered.

B. **Affordable Health Insurance:** Push for legislation allowing for the purchase of health insurance across state lines, thereby giving employers more options when purchasing group plans.

C. **Create the Office of Small Business and Entrepreneurship Support and Outreach within the Governor Elect's "Partnership for Action" utilizing the NJ Small Business Development Centers (NJSBDC):** The Office would represent the interests of small employers in incentive and regulatory programs and oversee provision of assistance to small employers. We recommend the existing SBDC network serve as the outreach vehicle for the new Office.

D. **Repeal the Estate Tax**

VI. Higher Education – Need for Synergy with Economic Development:

1. **Provide higher education a seat in the Partnership for Action.** Charge the individual holding that seat with responsibility for coordinating the activities of the higher education community in economic development and growth initiatives.

2. **Oversight Council:** Establish a higher education "Economic Growth Council" to bring together academic, government and business representatives charged with coordinating higher education initiatives focused on economic growth (in some respects, this is similar to the Education Subcommittee's recommendation to create the 'New Jersey Council on Education for the 21st Century').

3. **Stregthen the Full Portfolio of NJ's Higher Education Assets**: Move towards the "Centers of Excellence" concept that uses input from employers on their workforce needs and strategic investments by the state to develop new curricula, educational programs, and facilities to build focused strengths in their higher education infrastructure and to prepare a highly qualified, home-grown workforce.

4. **Incubators:** Strengthen the state's commitment to "incubator pods" linked to targeted industry sectors through the use of appropriate incentives.

5. **Targeted Incentives**: Explore the implementation of higher education incentives such as:

   a. Formulas for income tax credits to parents whose children/dependents matriculate in New Jersey colleges and universities.
   b. Vested personal income tax credits for graduates of New Jersey colleges and universities who work in targeted industries in businesses located in New Jersey.
   c. CBT Credits to businesses based on:

      i. Number of New Jersey students engaged in work/study programs and in full-time internships
      ii. Number of "permanent jobs" created for graduates of colleges and universities

iii. A metric for a tax credit for businesses providing Lab space or other physical plant sharing with colleges and universities.

iv. Additional funding to colleges and universities pursuant to a formula, that demonstrate they have successfully:

- Developed specific work-study programs in the "targeted industries".
- Developed specific programs to share their lab and physical plant with New Jersey businesses in the targeted industries.
- Advanced collaboration between start-up and/or very small business (some economic or employee count threshold), where colleges and universities provide MIS and other infrastructure support.

6. **Key Role for Community Colleges:** Strengthen New Jersey's commitment to and reliance on the state's two-year community colleges, placing strongest emphasis on their critical role of educating students in programs of two years or less with highly focused skills that prepare them for entry level jobs and more advanced technical jobs in areas where the state has employment needs.

7. **Business Recruitment**: Involve the higher education community in business recruitment and retention efforts.

8. **Performance Measurement:** Track progress with relevant metrics aligned to the state's priorities and tie appropriations methodologies to bear a relationship to performance.

9. **Begin with High School**: Put initiatives in place to encourage high school students to attend college and launch their careers in New Jersey.

VII. Infrastructure:

A. Replenish the Transportation Trust Fund (TTF): Ensure that we do not lose federal dollars because of our inability to match.

B. Specific Infrastructure Recommendations:

1. **Utilize Licensed Site Professionals:** Expansion of LPSPs for infrastructure permits and allowing department "self-certification" would significantly enhance the timeliness and reduce the cost of infrastructure projects.

2. **Streamline the procurement process**: We urge the immediate engagement of the contractor community to help identify a workable Design Build (DB) procurement process.

3. **Encourage public-private partnerships**: Public-private partnerships (P3s) in infrastructure projects can bring creativity, efficiency, and capital to address complex problems and needs.

4. **Provide financial inducements for early project completion**: An enhanced incentive matrix for safely expedited projects should be considered.

Economic Development & Job Growth

The Challenge: Like so many Transition reports of the past, this report begins with a recitation of NJ's strengths, and properly so. NJ enjoys enormously valuable assets that have historically been the source of growth, income and opportunity for the State's residents and businesses. Our enviable location and access (via roads, rail, air and ports), educational resources and talent base, and a legacy of business leadership and invention have been, and continue to be, the essential ingredients of prosperity. Yet, our ability to continue leveraging these assets to produce growth and opportunity is being challenged by chronically high costs and regulatory burdens. The fact that NJ now consistently receives among the least favorable rankings nationally on tax and regulatory burdens, costs-of-doing business and similar measures, is telling us that we cannot take our business assets for granted. The challenge is now well documented.

- In 2008, the Tax Foundation found for a 3rd consecutive year that NJ taxpayers had the heaviest state and local tax burden in the country, finding that NJ residents pay 11.8% of their income in state and local taxes vs. the national average of 9.7%.
- The Tax Foundation's 2009 State Business Tax Climate Index ranked NJ as the worst business tax climate in the nation, with the highest property taxes, the 2nd highest personal income tax, 6th highest corporate income tax, and the 9th highest sales tax in the country.
- A near unanimous 91% of the 1,400 respondents to the 2010 NJBIA Business Outlook Survey agreed that the state's tax policy is worse than other states, and a 2008 survey of U.S. corporate executives conducted by Development Counselors International found NJ was considered one of the five worst states in which to do business, citing high taxes and costs of doing business and onerous regulations.

These are not statistical abstractions. We face an increasingly complex market in which NJ must compete every day to attract and retain jobs and investment. Businesses have increasingly more viable choices, nationally and globally, and our poor job creation performance relative to the competition, both in attracting new employment and retaining the jobs we have, is telling us that we need to do better.

- A recent Rutgers study (Hughes & Seneca) found that while NJ's employment base is the 11th largest nationwide, it ranked 46th out of 50 states in total job growth in the first half of 2008.
- NJ lost more than 98,000 manufacturing jobs between 2000 and 2006, twice as many as it lost in the prior 10 years. In 1990, NJ accounted for 20% of all pharmaceutical employment nationwide, whereas as of 2008 our share is less than 13%.
- While employment grew by 3.7% nationally from 2001 through 2007, NJ managed only a 0.1% increase in total employment. But even more telling is that most of our employment growth came from increasing the size of government (up by 9%) as opposed to the private sector (up only 0.1%) over the same period.

As recent demographic studies have shown, we also face challenges in retaining the very talent and entrepreneurial resources that have been among our most valuable assets. Economists at Rutgers estimated that nearly 70,000 residents are leaving annually for other locations where the cost of living, including housing and taxes, are lower. Another study conducted by Princeton came to some different conclusions, but confirmed dire policy challenges. Yet a third soon-to-be-released study conducted by Boston College at the request of the Community Foundation of New Jersey confirmed that we are losing $25 billion in assets to *net* out-migration every year. Our NJ-based talent has choices too, and increasingly is looking elsewhere, including nearby locations, such as PA, that offer a practical and desirable alternative.

Some of these studies used IRS reports on state-to-state migration patterns, which puts our challenge into a national competitive context. Based on a 2008 IRS report, NJ is losing income and wealth as the most mobile taxpayers flee to other states. In 2008 alone, taxpayers left NJ with almost $7 *billion* of gross income, a total equal to more than 2.5% of the state's *total gross income*. To put this into perspective, NJ lost more wealth from out-migration than did the recession-ravaged states of Michigan and Ohio (each state lost just over $5 billion), and we lost more wealth, on a percentage basis, than even New York State. In-migrating taxpayers are insufficient to stem NJ's *net* income loss. Accounting for in-migation, our State still saw a net decline of over $1.6 *billion* in gross income in 2008. On a comparative basis, this decline, expressed as a percent of total gross income, was greater than losses in each of California, Massachusetts, Pennsylvania, Illinois and Virginia.

These trends are inter-active and ultimately become self-fulfilling. Employers follow talent, and talent follows opportunity. If enough of each can find what they need in NJ on competitve terms, we will be successsful. If they seek opportunites elsewhere, negative trends will accelerate. How we meet these challenges also has other inter-active impacts. The State is now facing an enoromous budget deficit. If we seek to balance the budget by imposing higher taxes, we will drive more taxpayers away, diminshing the asset base, resulting in ever-increasing tax burdens on the remaining, perhaps less mobile, taxpayers. On the other hand, delivering more competitive tax burdens will attract employment and investment, expand the tax base and further reduce the proportional tax burdens.

Mission: In the context of these challenges, the mission of this Subcommittee is to evaluate the polices, practices, organizational structures and resources that advance or impair NJ's competitiveness, and provide recommendations that will make a difference. This will require a multi-faceted strategy, including immediate, intermediate and long-term actions. Some will require legislation, whereas others can be implemented immediately. All will require hard work, political will and the conviction to succeed.

There are certain prevailing themes involving extremely complex and perennial issues – e.g, taxes, regulatory balance, education – that will require a more extensive inter-disciplinary analysis and a cooperative effort by multiple subcommittees of this Transition Team, which are summarized below. These longer-term issues will require significant follow-on work in the new Adminsitration. Accordingly, this report is dedicated to setting forth both the major substantive recommendations and a readily-actionable agenda of initiatives to begin improving our competitiveness right away.

I. Taxes – Signaling a Change in Direction: NJ's high cost of doing business is an impediment to growing our economy, *or even holding on to the one we have.* Some factors at work here are not entirely within the state's control – wages, housing costs, food and fuel costs, for example. However, among the controllable factors rendering NJ unattractive and unaffordable to employers, none is more significant than state taxes. Within just the past decade, Administrations have increased income, sales, corporate, death, health insurance and energy taxes, while also raising a plethora of fees, with no end in sight. *It is clear that it is much too easy to raise taxes in NJ*. NJ must address its unsustainable status as the highest tax state in the nation.

Some of these recommendations will be familiar because they have been offered before by many advisory groups representing NJ's business leadership (e.g., Chamber of Commerce, BIA, Commerce & Industry Council, HINJ, etc.), and even by prior Transition Teams on both sides of the aisle. The fact that they have not been implemented means they are even more urgently needed now. Some recommendations to reduce taxes, while important, cannot realistically be implemented in the near-term due to immediate budget constraints. However, the Subcommittee recommends a long-term approach to commit the State to a phased reversal of the trend toward higher taxes.

Our tax code must be reformed, with particular focus on addresing tax policies that have most egregiously harmed our economy. At the top of this list is our confiscatory Gross Income Tax, already devoid of many deductions and exemptions available in other states, with its top rate approaching 11%. There is no question that high income earners, including corporate decision-makers, continue to shun NJ because of our well deserved reputation for regularly gouging our state's most productive residents with higher and higher income taxes. Our private sector job growth depends on reversing this economic death spiral. Finally, we need to turn tax policy to our advantage by identifying proactive tax reforms that will spur job retention and growth.

Tax reforms will reverse the erosion of our revenue base and stimulate our economy, and thus increase, not reduce, overall tax revenues. However, we understand that immediate budget constraints make implementation of many of our recommendations impractical in the near-term. What matters most to our economic health, however, is that the Christie Administration send a clear and unequivocal signal to current and prospective employers, within and outside our borders, that NJ will reverse the long-term trend toward higher taxes. The following are our recommendations for tax strategies to begin restoring NJ's tax base and competitiveness.

A. Institutionalize tax restraint: As a first step, we strongly endorse Governor-Elect Christie's call for super-majority legislative approval to be required to enact any new or increased taxes, and support a constitutional amendment to institutionalize this discipline for the future. We also urge the Governor-Elect to to direct that the Division of Taxation undertake a detailed study of data uniquely available from state tax returns of the actual impacts of tax policy on out-migration, business formation and employment in our State, and to issue such a Tax Policy Impact Report annually thereafter.

B. Eliminate the "investment and employment tax" on NJ corporations: Today, incredible as it may seem, a corporation pays a tax penalty for locating jobs and investment in NJ. The majority of states, including New York, Connecticut and Pennsylvania, have already enacted "single sales factor" corporate tax reform which removes tax penalties paid by multi-state corporations locating facilities and employees in their states. Enacting single sales factor reform will level the tax playing field for NJ-based and out-of-state companies doing business here. To address budget concerns, a multi-year phase in of the reform, a tact taken in several states, should be considered.

C. Allow "temporary" taxes to expire: One reason for NJ's poor tax climate has been a "bait and switch" game played by several Governors wherein taxes were "temporarily" increased to satisfy immediate budget goals, only to continue on after the expiration date passed. This year, temporary income tax and corporate tax surcharges are set to expire. They should not be reauthorized.

D. End "double tax" on S-Corporations: Several years ago legislation was enacted to end the "double tax" on S-Corporation owners who previously paid both a corporate tax and gross income tax on their business profits. NJ was one of the last states in the nation to end this unfair policy. Yet while the reform legislation removed payment of corporate taxes, it continued the requirement that S-Corporation owners pay the corporate "minimum" filing fee – between $500 and $2,000 annually based on receipts. The promise should be kept and the corporate minimum filing fee/tax eliminated.

E. Make small business tax policy an engine for economic growth: The majority of business entities are small sole proprietors, partnerships, LLCs and S-Corporations which pay business taxes via the owner's/partner's personal income tax. However, NJ's income tax, established prior to the emergence of these pass-through entities, contains real deterrents to growth. Missing are many of the business incentives found in our corporate tax law. For example, the personal income tax permits no carry-forward of business income net operating losses into future tax years, while corporate taxpayers are allowed a 20 year loss carry-forward. Also, unlike corporations, individual business owners in NJ are not permitted to bundle different forms of income and losses, such that profits in one business are taxed even if losses are sustained in another. Creating a single category of business income would allow losses from one business type to offset profits from another. Finally, while the corporate tax is a flat tax that encourages entrepreneurship (6.5% to 9%), the income tax is steeply graduated, with a top 10.75% rate. A lower flat business income tax rate should be established to encourage small business formation and expansion.

F. Repeal redundant administrative policies: In 2007 the Corzine Administration obtained legislation requiring UEZ-based businesses to pay sales tax and then apply for a rebate on formerly tax exempt purchases. The intent of the change was to eliminate fraud in the UEZ program. At the time, various business organizations noted that certain UEZ-based retailers were illegally providing sales tax discounts to purchasers at their stores outside the UEZ district, harming non-UEZ retailers all across NJ. However, the legislative reform ignored illegal tax advantaged retail sales, and instead focused on the administration of the tax benefit to non-retail UEZ employers, creating a new rebate procedure. This policy required the Division of Taxation open a new office and divert nearly two dozen auditors from more productive work to process these rebate requests. Meanwhile, businesses must maintain staff and IT systems to manage the voluminous records needed to comply with the rebate regulations. Eliminating the rebate requirement and restoring the UEZ tax exemption would save taxpayers and employers millions in administrative costs, and enable reassigned auditors to collect tens of millions of in new revenues. Conversely, an audit of UEZ-based retailers' sales should be considered to ferret out misuse of the exemption. Moreover, a review is needed to evaluate the appropriateness of zone boundaries.

G. Consider temporary employer payroll tax relief: Due to past administration diversions of employer unemployment insurance (UI) payroll taxes, the state's UI Fund currently has a multi-billion deficit. To remedy the shortfall, later this year NJ employers will face a 100% across-the-board increase in employer UI payroll taxes. Increases are expected to average several hundred dollars per employee which will adversely affect job retention, most certainly the retention of lower wage workers. To forestall employee layoffs, our Federal congressional delegation must be lobbied to secure federal UI fund assistance, as was received in 2009, to reduce the payroll tax hike. Consideration also should be given to providing a temporary rebate of a portion of employee income taxes paid by workers below a certain wage. Presently, only individuals with wage income above $20,000 are paying NJ income taxes.

H. Create a new 20 percent manufacturing investment business tax credit: With hundreds of thousands of well paying, high-benefit jobs, manufacturing remains an important sector of the NJ economy. Despite its importance, NJ does little to incent manufacturing sector growth. Both New York and Connecticut provide manufacturing tax credits. New York grants credits up to 10% of machinery and plant costs, and Connecticut allows up to 10% for manufacturing machinery. Neither state imposes a cap on its tax credit. Contrast these policies to NJ where our manufacturing equipment tax credit is only 2% for the cost of new equipment. Smaller manufacturers with 50 or fewer employees and net income of less than $5 million qualify for up to a 4% credit. This tax credit is further capped at $1 million or $2 million and applies only to equipment, not manufacturing plant investment.

I. Enhance the competitiveness of our film and digital media tax credit: Recent independent analyses document the net fiscal benefits of film and digital media industry tax incentives. Independent reports on such incentives in New Mexico and New York indicate tax receipts in the range of $1.50 to $1.90 for each $1 of tax incentives, with similarly out-sized economic multipliers in infrastructure investment and job creation. However, NJ is losing opportunities for tax revenues and jobs to competing states because our tax credits are capped at only $15 million ($10 million for film; $5 million for digital media), as compared with neighboring states, such as Pennsylvania ($60 million cap) and New York (currently over $100 million). A modest expansion of NJ's tax credit caps to $50 million (film) and $10 million (digital media) will maximize our ability to capture more projects in the expanding entertainment market.

J. Use business tax credits to incent higher education partnerships: See Section VI on Higher Education.

K. Angel Investor Tax Credit: New Jersey is in competition with states across the nation for "entrepreneurial capital," the jobs, investments and indirect economic growth created by high tech start up businesses. With public resources in scarce supply, we can nevertheless attract job creating entrepreneurs to NJ by incenting private investments in their high risk start-ups. One approach would be to offer these so-called Angel investors tax credits for investments of over $250,000 in fledgling New Jersey ventures.

II. Developing a Balanced Plan: NJ has witnessed various efforts to create a "state plan" which have largely failed, either because they lacked adequate factual foundation, or were perceived as being the instrument of specific interest groups, or both. Moreover, previous state planning efforts lacked the statutory teeth, resources and/or commitment from the "front office" needed to be relevent in mediating the ongoing push and pull among competing interests. However, there is a basic imperative here: defining a clear balance among economic and environmental goals in a way that *reinforces each* will be essential in equipping our State's new leadership to guide *and* explain how we are going to grow out of this State's fiscal and economic malaise. Simply, it would be unthinkable for any enterprise of NJ's scale and complexity to make important decisions without "a plan." We lead with this recommendation because in many ways it provides framework for all that follows.

While it is beyond the purview of this Subcommittee to provide detailed recommendations concerning the mechanics of the optimal state planning process, we have focused our attention on the minimally essential ingredients of a planning process which is needed to rescue the State's economy from a dysfunctional debate over whether we want a sustainable economy *or* sustainable environment. Specifically, we recommend that the new Governor reconstitute and elevate the State Planning Commission and appoint a cabinet-level Executive Director with the charge directly from the Governor to support the Lt. Governor in working with the Commissioners to update the State Plan in a manner that breaks down the "silos" between their respective (and often contradictory) capital investment priorities and regulatory regimes. This overall theme guides many of the recommendations presented below.

III. Achieving Regulatory Balance: NJ's regulatory and permitting system is consistently cited as being hostile to responsible economic development. Critics contend that it is overly complex, enormously time-consuming and out of step with the region and nation. An unpredictable and seemingly arbitrary labyrinth of regulations administered through multiple state, county and local jurisdictions has become a caricature of what it is like to do business here. Eliminating confusion in the regulations, employing more IT-based permitting tools and adopting the attitude that applicants are entitled to a permit as long as clearly defined standards are met, will demonstrate that NJ welcomes investment and job creation. These changes will instill predictability into the permitting process so business can plan, and will encourage investment and job creation. In particular, regulatory and permitting reform, combined with targeted incentives, will accelerate redevelopment of our cities and their surrounding "metro" areas. (See also recommendations on Garden State Growth Zones below.)

As such, this Subcommittee has carefully considered recommendations to reduce regulatory burdens that impair business investment and growth, and discourage business decision-makers from locating in NJ. Yet we have no illusions about the complexity of this challenge. Most regulations are intended to protect life/safety, our environment and quality of life, and there can be no doubt that success in these essential missions is as important to our economic well-being and competitiveness as are taxes and permitting. The core challenge is to find the right balance among these goals, and to assure we are competently managing the regulatory process to minimize costs and maximize effectiveness, productivity and predictability in the administration of regulations.

A rigorous review of regulatory costs and benefits will be needed across a wide spectrum of policy areas, including the environment, land use/smart growth, employment, labor, and other areas. In order to provide the new Administration with a truly inter-disciplinary, cross-agency review of the initiatives that would make a diffference, this Subcommittee has consulted extensively with the Lt. Governor's "red tape" review team, and with the Transition sub-committees covering DEP, DOT and DCA on the kind of holistic approach to the many complex issues that this challenge requires.

In consultation with the other Transition subcommittees it became clear that there is a widely held view among expert practitioners – engineers and others in various environmental disciplines, and environmental lawyers that work regularly with these agencies – that much is lost (or added) in the translation from policy to practice, i.e., from the passage of laws, to writing regulations, and ultimately the interpretation of these regulations in the permitting process. But this understates the issue. A cultural orientation against development among some DEP personnel, for example, is clearly out-of-balance with the State's *overall* goals. Companies have sought permits for developments that would create jobs and wealth – projects for which qualified experts filed applications "by the book" which they believed, in good faith, complied with all legal requirements, only to look back on several *years* of adversarial process, millions in stranded engineering and legal costs, and nothing to show for their effort but another colorful "story" about doing business in NJ.

To be fair, this bias against development has its roots in an earnest and legitimate concern over the limits of open space and natural resources in so small and densely populated a state. There certainly have been horror stories of environmental degradation and neglect as well. But the current orientation of the regulatory process is not sustainable. Regretably, it may have taken an historic recession to focus NJ voters and elected officials on this reality, but we must address this challenge now. We urge upon the new Administration the mission of finding a *truer and more sustainable balance* between economic and environmental objectives, and harness the synergies between them. But first, we need a thorough review of the regulations that are impeding growth today.

Most immediately, building on the work of the Lt. Governor's "red tape" review committee, we recommend that, with the exception of exigent life/safety regulations, all pending and proposed regulations that potentially have a *material* negative impact on the State's employment, economic development or competitiveness should be stayed pending a fresh review in context of the new State Plan.

A. Review Existing State Regulations: Under the supervision of the Lt. Governor, regulations that pertain to development and construction projects and industrial activity should be subjected to the following review:

1. By Executive Order, within 90 days, the Departments of Community Affairs, Transportation and Environmental Protection should be directed to identify those regulations that impede responsible economic development due to (a) insufficient or contradictory guidance (inter and intra-agency) to permit writers, thus leading to delay or denial of the permit application; or (b) that exceed legislative intent; or (c) that exceed Federal standards or those of neighboring competitive states without well-documented cause, thus placing the state at a competitive disadvantage in attracting investment and jobs. The Administration should consider inviting the public to recommend regulations for this review.
2. Rules that are identified as impediments to responsible economic development should be redrafted within 180 days. Redrafting of the rules can be achieved by either:

    a) allowing the Partnership for Action 45 days to provide front-end input to the rule writers regarding implementation and application of the rule, then having the Department re-draft the rule with the Lt. Governor reviewing and approving the final rule proposal prior to publication in the NJ Register; or
    b) assigning staff from the Lt. Governor's office (i.e., transferred OAL staff) to the Departments to assist in the redrafting of the regulations. Re-drafted rules would then be submitted to the Lt. Governor for review and approval prior to publication in the NJ Register.

3. Once approved by the Lt. Governor, the new regulations should be deemed ready for promulgation pursuant to the Administrative Procedures Act (APA).

B. Empower the Office of Administrative Law; Revise the Administrative Procedures Act: The Office of Administrative Law (OAL), which is "in but not of" the Department of the Treasury, administers the Administrative Procedures Act (APA), publishes the NJ Register and operates the Administrative Court system. Although OAL is charged with ensuring that state agencies comply with the requirements of the APA, it focuses almost exclusively on narrow process issues, with little attention paid to the substance and ultimate impact of proposed regulations. And even if the OAL questions the substance of a proposed regulation, final authority rests with the respective department Commissioner.

1. **Upgrading the OAL:** To equip the Lt. Governor to play a key role in the regulatory system and to inject greater balance into the rulemaking process, the rulemaking functions of the OAL should be transferred to the Lt. Governor (Secretary of State), with the Administrative Court system remaining at Treasury. (The current Director of OAL would remain in Treasury as the Chief Administrative Law Judge). The new OAL under the supervision of the Lt. Governor should be charged with the responsibility to:

    a) Review the *substance* of proposed regulations for conformity with enumerated criteria that institutionalize the requirement for "balance." This will require a detailed impact analyses of rule proposals – i.e., including socio-economic, employment and competitiveness, cost/benefit of exceeding federal standards (where applicable) for which OAL should have access to expertise in economics and other disciplines as needed (potentially on-call from the state colleges and universities, as is the case in many states) who will prepare economic impact analyses. Departments should provide OAL with any data requested to fulfill this responsibility. (This review can be accomplished either *before* a regulation is published in the NJ Register, or at the front-end with OAL attorneys assigned to state agencies to provide supervision and compliance as the regulation is being drafted.)

b) Exercise authority to disapprove or modify a rule proposal, which shall take precedence over the Commissioner of the applicable department.

c) Ensuring compliance with the requirements of the Administrative Procedures Act.

2. **Certification of Conformance:** Before a proposed regulation can be published in the NJ Register, the Lt. Governor should certify that it meets the enumerated requirements of the APA and that the *substance* of the regulation is:

   a) consistent with legislative intent;
   b) does not conflict with the State Plan or other inter- or intra-agency regulatory schemes;
   c) is understandable and can be implemented without undue burden; and
   d) if the rules exceeds Federal standards or those of neighboring competitive states, that the stricter standard is statutorily directed or merited based on a cost/benefit analysis.

3. **Streamline the APA:** In addition to such amendments as are needed to formally codify the procedure described above, the APA also should provide for improved timeliness and flexibility to allow proposed regulations to be amended after the public comment period, without having to repeat the adoption process from the beginning. As a practical matter, the current process as defined through an Attorney General's opinion, negates the public comment period because agencies generally do not amend a rule proposal based on public comments (even when the comments are valid) because any such amendment requires starting the rulemaking process over from the beginning.

C. Untangle the Permitting Quagmire: A wide range of surveys and in-depth interviews with businesses point to fundamental impediments to the efficient and predictable administration of the permitting process – a basic shortage of personnel and resources, and process bottlenecks within the primary permitting agenices – DEP, DOT and DCA. No business can survive a dysfunctional customer-management situation; neither can a state. Notwithstanding laudable efforts by DEP to improve the process, they can become overwhelmed by the volume of applications and entrenched procedures. While the recession and restrictive regulations may have temporarily reduced permitting backlogs, we are hoping that the improvements made by the new Administration will position NJ to prosper as the economy improves, increasing investment, and therefore also the volume of permit applications.

Municipalities also face daunting caseloads of building plan reviews and permit applications, some for extremely complex projects for which they lack in-house experience. Addressing this basic problem should be a high priority, although the answer is not as simple as adding staff to bring the case-per-employee ratio into balance; overall budget constraints make hiring additional public employees unrealistic, and adding to government may not be the effective solution in any event. Accordingly, we are recommending that systemic solutions be considered to enhance our business climate, improve efficiency and shrink government.

A number of business groups have recommended consolidating the permitting activities of the primary agencies involved in regulating development and construction projects and industrial activity. The practical basis for this proposal is akin to a "separation of powers" rationale for preventing overly narrow missions or institutionalized conflicts of mission from frustrating the public interest. For example, while there are many dedicated civil servants and extensive expertise in DEP, DOT and DCA, it is nonetheless widely felt in the NJ business community that some state personnel are not clear about the value of development, and that the permitting backlog may actually be seen by some as a useful way to *slow development*. Without agreeing or disagreeing with this characterization, one thing is clear: Once we as a State have decided what kind of development we want, and where we want it (i.e., a "plan"), it should be our mission to expedite permits for projects that further these goals. As such, among the most important missions in evaluating alternatives for improving the permitting process is to ensure that the ultimate decision is elevated to a public official with jurisdication and control over *both* development regulations *and* economic development – i.e., the level on the organizational chart where the single-minded views promoted up through the respective departmental silos can be reconciled to achieve the *balanced* policies and the practical results that the new Governor expects. Options for achieving these basic goals include:

1. **Centralized Permitting**: The most potent way to send a signal, both within and outside of State government, that things are going to be different under a Christie-Guadagno Administration would be to separate the permitting functions from the rule-making and enforcement functions of the applicable agencies, and functionally consolidate the permitting functions under a single permitting executive located under the Lt. Governor's jurisdiction in the Dept. of State or in the Governor's Office. Although the permitting personel would continue to be budgetarily located in their respective departments, they would report up to the Lt. Governor in a relationship similar to that of the of the Deputy Attorneys General to their respective departmental comissioners. A centralized permitting operation could enable the State to build deeper expertise and economies of scale in the "processing" function, bringing state-of-the-art IT and web-based communications and process management solutions and other "best practices" to this activity. However, more analysis is needed as to the details of how such a centralized entity would continue to integrate the specialized programmatic expertise required to assure substantive compliance with permitting conditions, which is currently vested in multiple regulatory agencies. The overall mission is to assure compliance with applicable law, while assuring the most efficient and predictable administration at the lowest cost.

2. **Connecting Silos with Reporting Lines**: Alternatively, the existing department-based permitting model could be be augmented by establshing a desinated permitting executive at the deputy commissioner level official *within* each department. Their responsibilities would be to:

   a) Develop policies and procedures to streamline the permitting process; and

   b) Reduce the backlog and maintain acceptable turnaround times going forward.

   However, in order to infuse the process with the over-arching priority to achieve balance in the administration of the permitting process, we recommend that each of these deputy commissioners also have a dual reporting relationship to the Lt. Governor, and provide staff support for an inter-agency permit coordinating council which would advise the Governor and Lt. Governor on additional ways of streamlining permitting, emerging best practices in other states, potential inter-agency IT solutions, and on potential legislation that may be required.

3. **Process Recommendations:** Other recommendations to streamline permits related to economic development include the following:

   a) Whichever organizational model the new Administration elects, we recommend that NJ follow the trend of other states in moving away from a "command and control" approach to permitting, and implement a more user-friendly, IT-based system. State agencies should be directed to review the permits they currently issue to identify permits which:

      i. can be administered through expedited processes, such as E-Permitting and Permitting by Rule pursuant to which standards are established, company executives certify they are in compliance and oversight is achieved through inspections and audits; and
      ii. may be obsolete, are no longer necessary or cost more to administer than the benefits they provide, and thus should be eliminated.

   b) As noted, in NJ, permits may require approval by up to four different levels of government, including municipal, county, regional and state. The process is further prolonged in that the review process often moves sequentially – i.e., typically one level of government won't consider an application until it is approved by another jurisdiction. Accordingly, we recommend that the new Administration consider developing a system of consolidated and contemporaneous review of multi-jurisdictional permits to accelerate the process, eliminate redundancy among different levels of government and ensure more consistency. Under the Municipal Land Use Law zoning and site plan approvals are vested at the municipal level, and we are not recommending that this be altered. Rather, we recommend development of a system under which municipalities would be encouraged and incentivized to voluntarily join in a collaborative “project management” with the State agencies (as applicable to each project), and jointly agree on a process and schedule for more cooperative and contemporaneous handling of permits and approvals.

c) Large, complex projects with significant potential employment and/or investment impact that require permits from multiple state and local agencies should be assigned State ”account officers” reporting to the Lt. Governor, to shepard such projects through the process. Their duties would include:

i. developing from the outset an agreed upon checklist of permits to which the applicable agencies agree;
ii. establishing detailed pathways and milestones for the process, also to be agreed to by the applicable agencies;
iii. Report to the Lt. Governor’s staff on progress against established milestones, and promptly elevate disputes, delays or other issues requiring centralized review; and
iv. Coordinate as needed with the Partnership for Action and the EDA to ensure that companies considering investing in NJ receive integrated project management of all of the incentives and approvals milestones required.

d) For suitable projects, permit writers and their superiors should exercise their authority under the doctrine of “Waiver of Strict Compliance” to issue a permit notwithstanding a regulation, because it makes common sense. Permit writers are reluctant to exercise this discretion.

4. **Adding Resources – Private Sector:** A growing number of states, including MA, CT and MD, have successfully harnessed the resources and expertise of their engineering and other licensed professionals to effectively privatize certain permit processing activities within carefully controlled parameters. This year NJ very cautiously initiated a narrow experiment in this direction with the recently-enacted Licensed Site Professionals (LSP) program, which currently is limited solely to certain site remediation projects. The concept of privatizing the permitting process is fundamentally sound, and we recommend that the new Administration consider exploring ways of extending the LSP concept to encompass other suitable permitting functions administered by the DEP, DOT and DCA. This approach would apply expert private sector resources in each discipline to eliminating the backlogs and keeping the supply and demand for permitting resources in balance over the long-term. These goals can be achieved without increasing state costs or raising taxes. Business and development groups should be charged to cover the cost of such LSP activities and which we believe they would be ready to pay if they could obtain more predictable permitting turn-around times. Safeguards would be needed to assure the quality and reliability of the LSP process and to guard against potential conflicts of interest. We should study how these goals are accomplished in other states.

5. **Backlog Triage:** However, as a first 120-day initiative we recommend that the new Commissioners of the regulatory agencies be directed to report on the baglog of permits, and to the extent warranted, to assemble an emergency team of expert resources to expedite their resolution. The mission of this initiative is not to “approve” projects but to provide applicants with the courtesy of reasonably expeditious answers – yes or no. This triage initiative should focus on two tiers of projects – those that involve the most complex inter-disciplinary and inter-jurisdictional issues, and simpler project that can be most readily resolved. In addition to putting the house back in order, this initiative also will teach us how to more systematically organize and properly resource the permitting process going forward. In many ways this initiative should be seen as first step in sorting out the details of a plan to address the advanatges and disadvantages of various permit consolidation scenarios, how to best employ LSP resources and the kinds of protections required, and ensure that the right balance will be maintained between quality and timeliness.

IV. Economic Development Programs & Resources: As noted above, among the objectives of this Subcommittee Report is to present findings and recommendations with respect to the current programs and resources dedicated to economic development in NJ, and the structures and tools they need to be successful. In context of the challenges described above, and especially given the State's fiscal limitations, it is all the more important that we employ the most cost-effective and productive ways to plan and implement business attraction and retention strategies. This will entail fine-tuning of programs and procedures that are determined to be fundamentally sound to assure they work as effectively as possible, and developing alternative approaches to pre-existing strategies that are not working as well as they must. In the process, our recommendations also will be informed by the best practices employed in other states, including those that are most effectively competing with NJ. The following summarizes our preliminary observations:

A. Organizational Assessment: NJ has evolved highly sophisticated economic development tools and structures that are among the most effective nationwide. As the centerpeice of this apparatus, the EDA is a very effective organization, and is widely-admired. Other agencies (e.g., DLWD) also have made progress, although they face legacy restrictions. As discussed more fully below, better inter-agency coordination is needed at the cabinet level, and more direct and personal attention to economic development is needed from the "front office" to enable EDA and allied agencies to be more effective in their coordinated efforts.

B. Marketing: Bringing modern techniques to marketing NJ, supported by adequate resources, is among the highest priority strategies we can employ immediately. Although the EDA has begun implementing a number of "best practices" in marketing the State, as a state "authority," the EDA is not well-equipped to be as nimble and flexible as needed to implement an effective marketing strategy. NJ has suffered from a notable lack of tradition and commitment to this area. In fact, NJ has historically avoided efforts to recruit companies under a kind of "anti-poaching" policy that has the practical effect of unilaterally disarming in the national and global competition for jobs and investment. This passive approach to economic development can and must be reversed. *We believe Governor-Elect Christie's announced plan to create the Partnership for Action is both the right substantive and symbolic step forward in addressing this challenge.* As discussed more thoroughly below, the Partnership for Action should serve as the over-arching coordinator of policy and for integration of the disparate economic development activities of the State. The following are our detailed recommendations.

1. **Starting at the Top**: The states most successful in attracting and retaining business all have a few things in common, and the most critical ingredient is an actively engaged Governor for whom direct, systematic and frequent outreach to corporate decision-makers is among his highest personal priorities. Leveraging the added resource of our first Lt. Governor, the "front office" should take a holistic "Customer Relationship Management" approach – i.e., a strategy of constant contacts and attention to customer satisfaction that is standard "best practice" in the private sector, as has been adopted by an increasing number of states. This entails, at a minimum, a regular outreach campaign to a targeted list of CEOs and other decision-makers – a faithfully-adhered to commitment by the Governor and Lt. Governor to make at least four calls *each* week, two to "prospects" and two to "incumbent" companies. The EDA has already begun briefings and calling on targeted companies, and the factors that would motivate them to choose NJ for their next investments, or elsewhere. This effort should be elevated through the Partnership.

2. **Properly Empowered and Funded Marketing Vehicle – The Partnership for Action:** The most successful states have created specially-empowered public/private entities (PPEs) to plan and execute business development and corporate outreach strategies, typically relying on a mix of public funding and corporate finanical support. However, their structures and mix of duties vary significantly. The EDA also endorses this approach, and has examined alternative models. In evaluating this body of experience, it is important to be precise about what they do in context of how the full range of economic development activities is pursued in other states, and the extent to which this work is getting done in NJ today. The key considerations are sumarized as follows:

   a) **Overview:** Prototypes for the Partnership for Action typically are organized as not-for-profit organizations with boards of directors serving staggered terms who are selected by the Governor (some with various forms of formal state legislative input). They are designed to "operate like a business" free from the constraints of Civil Service and public bidding, but following the highest standards of financial management and governance observed in the private sector. In reviewing the roles played by various public and quasi-public entities in other states, and the tools needed – being precise about those we have, and those we still need – we make the following recommendations as to the critically important functions to be performed.

b) **Targeting/Outreach**: Among the initial activities, the Partnership would begin with developing targeted "contact" strategies focused on the industries and projects that the State most wants, and can realistically attract (including outreach to prospect companies and intermediaries); carefully scripted presence in industry conferences and trade shows; and targeted advertising to reach potential "customers."

c) **Relationship Management:** Once prospects are identified (either though outreach or in situations where the company issued a multi-state RFP), many PPEs continue on with the "account management" role. This entails serving as project coordinator with responsibility for pursuing all actions required to successfully capture the jobs and investment at stake. These may include preliminary incentives packaging and negotiations, and some continue on with assistance in completing the various inter-agency approvals that may be required (e.g., EFlorida, Virginia Economic Development Partnership, and Missouri Partnership). However, there are many variations on this theme. For example, these entites typically serve as the "primary" economic development arm of their repsective states, reporting up through relatively small residual cabinent level departments or a Lt. Governor.

In contrast, in NJ we already have a flexibly-structured and fully-featured authority which has among the broadest range of powers of any public and/or private economic development entity, serving as an economic development, real estate redeveloper and incentives manager. Given the already large and complex mission of the EDA, the current board and staff of the EDA should be encouraged to continue the skillful discharge of these roles. However, Partnership for Action should be created and equipped to deliver the highest level of industry-leading marketing and "total customer experience" that we need to win and retain more jobs and investment. Specifically, these duties should include:

i. *Executive Coordination & Leadership*: The highest-priority and most-catalytic projects often require intensive inter-agency coordination, including incentives, tax interpretations and/or permits, and a reliable commitment to timeliness. Continuing with a recurring theme, direct involvement of the "front office" is needed to break down silos, resolve internal differences and compel agencies to work together on an integrated and outcomes-based approach. Although the EDA informally achieves a certain level of inter-agency cooperation, it needs "air cover" from a senior "front office" executive acting as the clearly-empowered agent of the Governor and Lt. Governor. This designee should manage the work of a highly focused Cabinet Coordinating Council, including Treasury, EDA, DEP and DOT, with involvement of other agencies on an as-needed basis. This Council would meet weekly to manage the progress of high-priority projects, as well as important legislative and policy initiatives, and be coordinated with the overall activities of the Partnership, as described below.

ii. *Marketing*: The new Partnership for Action should provide professional and independently-funded marketing expertise, managing outreach strategy and execution to bring NJ aggressively back into the marketplace for jobs and investment, both domestically and worldwide. Decisions about the specific design of this new Partnership would draw on the most effective features in the most successful states, adapted to our specific challenges and opportunities. At a minimum, the Partnership would coordinate alliances among corporate partners, county/municipal economic development agencies, and related authorities (e.g., PANYNJ, DRPA).

iii. *Account Management:* The account management system should be organized around industry clusters to assure the account managers understand the needs and competitive issues confronting their respective industries, and can develop the kinds of networks of relationships that will assure NJ is plugged into important industry trends. Once prospects have been identified, EDA should continue to provide the financial solutions required, including analysis of the competitive "gap" to be addressed on a project-by-project basis, incorporating incentives, financing and other variables.

d) **Funding/Staffing**: In order to be most effective, the Partnership for Action should be funded with a blend of public and private funds, starting with public "seed" funding which is phased down to a minority of total funding as private funding is phased-in pursuant to multi-year funding commitments from corporate sponsors. As noted, the EDA has been reviewing alternative PPE models, and has focused on the "Texas One" approach, which draws upon the combined financial resources of the State, its larger cities, counties and regional economic development entities, and other "partners" to assemble a first rate staff to implement an aggressive plan to pursue business opportunities throughout the US and globally. This and other models merit attention by the new Administration. We recommend that the Lt. Governor review the potential for reallocating existing budgetary resources to fund the State's contribution to this new enterprise.

The Partnership should be managed by a CEO and skilled professional staff recruited from within industry and the ranks of professional economic development organizations nationally. The Partnership also should explore establishing a presence in Asia, Europe and Latin America through staff or contract arrangements in cooperation with the applicable port authorities.

e) **Organization/Governance:** The Partnership for Action board should be chaired by the Lt. Governor and consist of:

i. *Senior Corporate Executives*: In addition to fulfilling customary board functions, and contributing funding to the enterprise. CEOs and senior executives from the State's targted industries also should serve as "eyes and ears" for the Governor and Lt. Governor with respect to market intelligence, and as "ambassadors" in communicating with their peers about the advantages of locating in NJ and, perhaps more, the ways in which the new Administration is committed to fundamentally improving the State's business climate.
ii. *State Officials*: The board also should include *ex officio* members, including the members of the Cabinet Coordinating Council described above to assure sharing of ideas and outlook among public and private sector leadership, and *to create the essential linkage between the actions needed to coordinate policies, prospects and projects are carried out by the applicable State departments.* As noted, the Lt. Governor would serve both as Chair of the Partnership's overall board, and as Chair of the Cabinet Coordinating Council.
iii. *Higher Education*: As discussed in the Higher Education section of this report, we also recommend that the Partnership board also include a representative of the NJ's colleges and universities.

C. Consolidation of Incentives/Financing Functions: On a related front, the missions of multiple state and bi-state entities require careful attention to assure harmony of objectives and that NJ's interests are being properly served. There is general consensus that the State of NJ has adequate business incentive programs for relocation, retention and expansion. The State budget, already under significant duress, cannot afford to dedicate significant additional resources to this effort at this time. However, the State can make the process work better. Historically, a business considering moving to or expanding in NJ had to contact a variety of different entities administering grant and loan programs geared toward business location decisions. Not only is this inconvenient for the business, but complicates the State's ability to effectively pool its potential resources to make the most competitive offer to the company. EDA and the Governor's Office have had to improvise *ad hoc* efforts to coordinate inter-agency responses, often in deadline-driven competitive situations. While these efforts have produced successes, a more institutionalized system of coordination would produce better results going forward, and may create opportunities for savings.

1. **Near-Term Options:** Accordingly, we recommend consideration be given to consolidating all State-related financial incentive programs under the EDA, which is already the central point of contact for the majority of State incentives programs, including the Business Employment Incentive Program, the Business Relocation and Retention Assistance Grants, the Economic Recovery & Growth program and others. Specifically, the following should be centralized:

a) **NJ Redevelopment Authority:** The NJRA handles a relatively low volume and value of loans as the State's "urban redevelopment bank." In order to reinforce the Administration's commitment to urban redevelopment, these loans should be administered through the EDA, which already serves as the State's "redevelopment bank" and can bring its superior resources to bear on this important priority This can be accomplished without additional resources by transferring positions from the NJRA to the EDA. The EDA already has demonstrated its commitment to urban projects, which can be further documented through separate tracking of NJRA's pools of available funds.

b) **Board of Public Utilities**: Although the BPU's primary mission is the regulation of utility companies, it also maintains funds for grants to businesses for energy-related programs, an activity for which the EDA is better suited, and is already playing an important role. Such programs should be transferred to the EDA.

c) **Workforce Development:** Training grants, currently administered by the Department of Labor & Workforce Development (DLWD), often are called upon to be an integral element of incentives packages assembled to help NJ compete for jobs and investment. While the DLWD leadership and staff have coordinated with the EDA on many projects, this requires special efforts that could be streamlined. Consideration should be given to transferring decision-making over discretionary training grants to the EDA.

d) **Casino Redevelopment Authority**: CRDA manages grants funded by a small share of revenues received from the casino industry in Atlantic City. However, CRDA also manages separate discretionary grant/loan pools allocated to unrelated to the casino industry elsewhere in the state. Here too, to the extent such project investments are coordinated with other State agencies, it takes a special effort on the part of EDA or the Governor's office to pull the disparate agencies together into an ad hoc cooperation. For the reasons noted above, CRDA's non-casino oriented investments outside of Atlantic City also should be managed by EDA.

e) **Other Program Consolidation**: We also recommend that the operations and resources of the Capital City Redevelopment Corporation be consolidated in the EDA.

f) **Consolidate Funding Sources:** The EDA's revolving loan fund for technology lending is out of money due in part to the decision to adopt the more "patient" loan repayment required by emerging technology companies. Between October 2006 and November 2009, 36 technology and life sciences businesses planning to create an estimated 1,157 new jobs received direct, equity-like Edison Innovation Fund investments from the EDA totaling over $26.2 million. The NJEDA has identified $24.5 million of escrowed bond proceeds remaining from its $60 million Business Enterprise Investment Program Act of 2003 available for technology lending and other priorities. Accessing this funding can be accomplished via transfer approval from the Joint Legislative Budget and Oversight Committee.

2. **Longer-Term Options**: In addition to these recommendations regarding other state entities, the following should also be considered:

a) **Coordinating Other Development-Oriented Activities:** Other financing activities of multiple State entities should be examined for potential consolidation, or, at a minimum, better coordination to align them with the new Administration's policies and priorities. Such entities include the Housing and Mortgage Financing Authority, Environmental Infrastructure Trust, Office of Smart Growth, Delaware River Port Authority and the Port Authority of New York and NJ. While their grant and/or financing activities are not expressly focused on attracting specific job and investment projects, they often can influence corporate location decisions. For example, if the DOT is planning on widening Route 18 in New Brunswick, Johnson & Johnson and other New Brunswick-area companies needed timely information about this plan due to its impact on commuting and the quality of life for employees. Such a project can clearly impact the company's decision on whether to expand in New Brunswick. A Task Force should be established so that each granting entity can meet monthly with the EDA to coordinate plans and information on upcoming awards and potential allocation of financing to make NJ a more attractive location for companies in the market.

b) **Streamlining Grant Payments**: The State Division of Taxation is usually the focal point for verification of employment and payroll and tax information that is used in the grant and loan award process. The process of actually getting a check from Treasury is badly delayed, cumbersome and sets a bad tone for the State's overall competence. In fact, delays in issuing checks for approved BEIP grants are giving NJ a "the check is in the mail" reputation. As a first priority, however, a concentrated effort should be made to eliminate the current backlog. The State Treasurer should then review this operation and potentially dedicate specific employees within the Division to work solely with the EDA to provide the necessary verification necessary to facilitate the review and disbursement process to assure issuance of checks within specified deadlines going forward.

D. Incentives Programs: Incentives are nothing more or less than a "pricing" strategy – an essential and unavoidable variable in any competitive market; the choice of "place" by companies is no different. We have concluded that our incentives are among the most valuable in our competitive market, which is both appropriate *and* necessary in light of the cost burdens they are called upon to mitigate. Recently adopted legislation also added valuable tools that further enhance the State's ability to compete and induce targeted investments. However, the amount of incentives should be calibrated to assure that (a) we are investing as much as is needed, but no more than necessary, to successfully compete for jobs and investment, and (b) we always achieve a positive net benefit to the State and/or its localities. Continued refinements in incentives design will make them more effective and efficient. The following are recommendations on incentives, broken down according to the two primary categories: place-oriented incentives (i.e., those that promote "smart growth" investment in designated locations or zones); and employer-oriented incentives (i.e., those intended to induce employers to relocate to NJ, or stay and grow here).

1. **Place-oriented and Targeted Investment Incentives**:

   a) **Garden State Growth Zones:** Our cities are one of our most important economic development assets, but, with a few exceptions, most are not yet realizing their potential. Accordingly, we applaud Governor-Elect Christie's proposal to create special zones to induce investment and job creation in designated urban metro areas where (a) there is a level of disinvestment and other objective measures that demonstrate the need for special intervention to facilitate and leverage private investment; and (b) where notwithstanding these economic deficits, there are basic locational or other advantages to suggest that public investments are realistically capable of making a difference.

   This concept has been the subject of significant experimentation in our neighboring states (e.g., PA Keystone Opportunity Zones and NY Empire Zones), as well as other states. These "super zones" have had great success, but also provide a laboratory of lessons about how to build on the experience of our competitors and do even better. For example, the Governor-Elect's approach of joining deep and motivating incentives with regulatory relief can make the difference in generating real gains in investment and jobs. We urge the new Administration to consider the following:

      i. Zone Eligibility: Criteria such as poverty levels, unemployment, family income, population and job loss and property deterioration may be used to delineate eligible areas. Criteria may include "capacity" measures – available transportation and environmental infrastructure to support development, *and viability of development if intensive incenitves and regulatory expedition are applied*. Areas may also be subject to acreage minimums (for example, 10 acres is used by the Keystone Zone program) and maximums.

      ii. Zone Determination: The municipal government should submit a "growth" plan to the state authorizing agency (preferrably the Lt. Governor's office) outlining planned local zone tax incentives and local regulatory relief and planned specific infrastructure/quality of life improvements for agency evaluation and approval.

      iii. Local Government Participation: The proactive participation by all local governments with zone-area jurisdiction is critical to the success of the program and should be formally memorialized.

iv. Duration of Zone Benefits: Benefits should be available for a prescribed period (10-15 years).

v. Business/Individual Registration: Recipients of zone assistance would register each year with the applicable municipal government certifying assistance eligibility.

vi. Tax Free Growth Zones: To encourage residential gentrification, for a period of years zone residents should pay no state income taxes and homeowners/landlords receive property taxes abatements, all as a matter of right. In addition, businesses would pay no corporate taxes and owners pay no entity income taxes.

vii. Regulatory relief: Accelerated approval deadlines and expedited inspections at all levels of government are just two of the regulatory benefits that could accrue to zone businesses. Oversight of all regulatory matters should be provided by a zone regulatory officer reporting to the Lt. Governor's office.

viii. Economic development incentives: All existing state economic development incentives should be available anywhere in a zone, regardless of targeted eligibility limitations. In addition, incentives could be enhanced; for example, limits of Business Employment Incentive grants could be raised or removed in a zone. Furthermore, incentives unable to be used by a recipient (for example, a corporate tax credit to a non-corporate employer) should be transferable (available for sale) to another taxpayer. The EDA should assign an incentives/financing officer to work with zone applicants and interface with all agencies to develop a "one stop" application.

b) Fine-tuning Recently-Enacted Programs: Recently enacted programs are widely regarded as important additions to the incentives tool box, but require fine-tuning to be most effective.

i. ERGG: For example, the new Economic Redevelopment & Growth Grant (ERRG) program provides for a streamlined "tax increment financing" mechanism that is designed around the best practices employed by other states. The basic strategy of this program is to harness the "increment" of newly generated revenue created by new projects to provide a source of financing for such projects, creating a win-win opportunity for the developer and the taxpayer. However, financing against future tax revenue streams is often not practical under challenging credit market conditions, requiring credit enhancement in order for projects to obtain financing. The State should consider dedicating resources (perhaps incremental retained revenues received from other EDA financed projects) to provide for credit enhancement to enable ERGG porjecst to obtain financing. In addition, ERGG grnats should made available at higher levels (i.e., in excess of the current 20% of project cost maximum) in the GSGZs.

ii. Urban Transit Hub Tax Credit (UTHTC): The recently amended UTHTC, which provides deep tax credits to induce large-scale investment in and around mass transit hubs and freight rail installations in the most impacted urban centers is showing signs of real success based on recent program improvements, but additional refinements are needed. However, a more fundamental policy question for the new Administration is whether the program's geographic eligibility should be expanded to make the credit available, at some level, to transit-oriented projects in smaller cities and older suburbs to more broadly promote the same kind of dense "smart growth" investment. Adding additional localities would likely require establishing lower capital investment thresholds calibrated to the scale of projects suitable for smaller communities. On balance, expanding the geographic footprint of the UTHTC program would appear to make sense in the context of the new cap on total tax credits issued, and the requirement that all projects deliver net benefits to the State and locality.

2. Employer-oriented incentives:

a) BEIP: The BEIP grants have been NJ's most potent and successful competitive weapon which has been emulated by many other states. Since inception in 1996, the BEIP is responsible for 82,000 jobs and $12.2 billion in capital investment. It's basic design – a partial sharing of incremental personal income tax revenues created by new jobs – insures that the program is always revenue positive for NJ. As the program matures, the EDA is recommending that consideration be given to a more deliberate analysis of the grant amount (set a percentage of incremental income and/or term) required to capture new projects on a case-by-case basis. Although the BEIP grants are self-funded, the revenues are received by the General Fund, and program-specific appropriations are required to fund the grants, leaving the program vulnerable to budget cuts. The McGreevey Administration briefly considered a two year delay in grant payments, and earlier this year the decision was made to delay grant payments a few months to move expenditures from FY 2009 to FY 2010. As noted above, delayed grant payments needs to be addressed. It is important that the State maintain the business community's confidence in this program.

b) BRRAG: The BRRAG program is ineffective and should be overhauled. There is no doubt NJ needs an incentive program capable of inducing *incumbent* companies to remain and invest in NJ, although both the EDA and other economic development professionals report that the current $1,500 per job tax credit is not sufficient to influence location decisions, and thus there have been very few applicants. As such, utilizing a concept employed in PA, the EDA is considering a proposal to scale the amount of the tax credit to the number of jobs at stake, minimizing the budgetary impact by spreading the increased credit value over multiple years, and requiring new capital investment and an extended period of job retention commitment.

c) Efficiency/Accountability: It is critically important that our incentives be effectively and efficiently managed, and that we have the confidence that public investments are wisely made and produce a net positive benefit for the State. In scrutinizing the State's incentive programs from this perspective, we note that they are generally well-designed to fulfill these objectives. By far the most potent program, BEIP, is structurally wired to *always generate net incremental revenue* for the State, and its cost-effectiveness has been thoroughly documented (see annual evaluations by the Blaustein School). However, continuing attention should be given to exercising more discretion in evaluating the amount of BEIP grants needed to "win" new projects *on a case-by-case basis*, with relatively less emphasis on a formulaic determination of grant amounts. EDA is already using more "market" oriented tests to evaluate the need for public investment, such as the "project financing gap" analysis employed under the ERGG and other programs, and should be encouraged to continue to apply private sector investment-oriented disciplines to the use of incentives. Similarly, the ERGG and UTHTC programs both require "net benefit tests" to further assure that the State is getting an appropriate return on its investment.

Finally, with regard to the excesses of the "Encap" project, this situation resulted from both a lack of inter-agency coordination, but perhaps more important was a lack of judgment about the level of public investment in light of the overall speculative financial risk associated with the project, and a failure of basic risk management. Regrettably, similar lapses also have recently been prevelant in the private sector as well, but as stewards of public funds, the State has a high standard of duty. However, we note that certain improvements have already made – e.g., the "net benefits" test must now be satisfied taking into account the aggregate of all incentives a project receives from state and local sources. In addition, consolidating grant and loan functions under the EDA's capable underwriting procedures, as noted above, will further enhance financial risk management for these programs.

d) Other State Programs: Our Subcommittee also has been consulting with the EDA, site consultants and businesses on ways of assuring that the State's other incentives programs are as effective and efficient as possible. Given the extensivness of these program offerings, this effort should be continued by the Partnership for Action when it is formally constitutted.

e) ARRA - Federal Stimulus Funding/Programs: An immediate and detailed review is needed to evaluate the status and uses of the Federal funding that has been made available or is pending to assure that the funds are being deployed in the most cost-effective, productive and timely manner feasible, and in accordance with the Governor-Elect's priorities as to how best to stimulate our State's economy and ease fiscal stress. This review also should confirm whether the state is receiving an appropriate share of Federal stimulus funding. In addition, we recommend that uncommitted county and city allocations of tax exempt Recovery Zone Facility Bond capacity, which are at risk of expiring if unused by YE 2011, be immediately be reassigned to the EDA.

V. Small Business: According to the NJ Small Business and Development Center (NJSBDC), there are 205,321 small employers in NJ (less than 500 employees), accounting for 98.5 percent of the state's employers and 51.1 percent of the private sector employment (2006). There are 590,485 non-employers or sole proprietors in NJ (2007). While state government policy makers have traditionally talked about small businesses as the engine that drives the economy, there is still a gap in what is said and what is done to assist small business development and growth in NJ. This was reinforced just this month when the national Small Business & Entrepreneurship Council (SBE Council) released its annual rankings of the states according to their public policy climates for small business and entrepreneurship and NJ ranked dead last among the 50 states. The factors included in the index include taxes, various regulatory costs, government spending, property rights, health care and energy costs, and other issues that matter a great deal to the competitiveness of each state and to the well being of small business. Ranking 50th clearly emphasizes that most NJ government policy and government-related costs hurt small businesses and entrepreneurs. This ranking should matter to every policy maker because small business drives innovation, economic growth and job creation at the state and local levels.

Recommendations addressing the concerns of small business employers can be found in our sections on tax policy, regulatory reform and consolidation of incentives. Additionally, we note the following:

A. **Incentives:** Complex application and interim reporting requirements related to incentives can dissuade small employers from participating in incentive programs. Additionally, incentive eligibility requirements sometimes target large employers. We recommend program application and reporting requirements be crafted with an eye to making them "small employer friendly." Also, incentives in areas most important to small employers, such as tax credits for new hires, equipment purchases and capital improvements should be considered.

B. **Affordable Health Insurance:** Access to affordable health insurance is a serious problem for all employers and employees. However, the problem is particularly acute for labor intensive, service businesses with high turnover that rely on part-time workers. As recommended by Governor-elect Christie, NJ needs legislation allowing for the purchase of health insurance across state lines, thereby giving employers more options when purchasing group plans.

C. **Create the Office of Small Business and Entrepreneurship Support and Outreach within the Governor Elect's "Partnership for Action" utilizing the NJ Small Business Development Centers (NJSBDC):** We recommend creation of an "Office of Small Business and Entrepreneurship Support" as part of the proposed Partnership for Action. The Office would represent the interests of small employers in incentive and regulatory programs and oversee provision of assistance to small employers. We recommend the existing SBDC network serve as the outreach vehicle for the new Office. Funded with a combination of federal and state funds and hosted at the Rutgers Business School, the NJSBDC has been serving the state's small business owners for 31 years. A non-profit entity, the NJSBDC counsels and provides training for small business owners and entrepreneurs concerning diverse business development and growth topics such as business plans, marketing strategies, strategic planning, financial analysis and accounting, legal aspects of organization, international trade, technology commercialization, E-Commerce, state/federal/ and commercial procurement opportunities, taxes, acquisition and mergers, assessing value for exit strategies, human resources team building, etc. Financial loan packaging and other forms of technical assistance are provided.

D. **Repeal the Estate Tax:** Many small businesses are family owned, low margin entities. However, New Jersey's Estate Tax, the newest of our two death taxes, discourages intra-family ownership transfer upon death. Both the Estate Tax minimum asset floor ($675,000) and tax rates (graduated to 16 percent) are so onerous that in many cases the tax forces the sale of company assets to meet estate tax liabilities. The tax should be repealed.

VI. Higher Education – Need for Synergy with Economic Development: Our education system has contributed to a highly accomplished work force that continues to be one of our most important assets for economic growth. Going forward, however, because New Jersey competes for jobs at the higher end of the knowledge economy, it is clear that we must more fully integrate our higher education assets into our economic development strategies. Our research has uncovered many other states that are now recasting the goals of their higher education systems to become more directly inovolved in their state'e economic development.

All levels of public education face many challenges, including cost and quality, which need to be addressed if we are to maintain the competitiveness of our workforce in the future. More also needs to be done to spur academic-based innovation as a way to diversify the State's economy and contribute to job growth and vitality. Finally, we must find ways to stem the out-migration of college students. Almost 60% of New Jersey students going to 4-year colleges leave the state, many of whom will ultimately begin careers and families elsewhere. Key objectives of the new Administration should include improving the alignment of education resources and goals to assure that employers can continue to find the talent they need here; more fully integrating higher education institutions in the States' efforts to attract and retain business; finding ways to better leverage the local economic development potential of intellectual property; and increasing the retention rate of New Jersey students of college age.

A. Overall Priorities: Based on review of the most successful state's practices, and disucsisons with our own higher education leaders, the Subcommittee has identified three adjustments to higher education's current operating culture, many of which are currently in practice in those states with which New Jersey must compete for new jobs and investment:

1. **Setting Goals**: in line with the Governor-Elect's call to "make New Jersey a good place to do business", our colleges and universities must be encouraged to:

   a) Improve the general public's awareness and knowledge of economic development and growth issues;
   b) Identify and strive to meet job needs for current and future employers. (other forward-thinking states such as North Carolina, Florida and Washington align their economic development strategies with broad-based workforce development initiatives); and
   c) Generate/support start-up and marketing efforts in target industries.

2. **Developing Strategies for Action**: identifying appropriate strategies and actions that link higher education and economic development. For example, in Ohio, Governor Strickland's *"TurnAround Ohio Initiative"* encourages enhanced collaboration between Ohio's new university system and the state's Department of Development. New Jersey's plan should be aligned with the above goals and phased in according to what we can do immediately (given current budget constraints) followed by actions requiring legislative approval and which may also require the investment of resources; and

3. **Monitoring Progress**: developing an annual report from the higher education community to the state featuring agreed upon metrics, and quarterly updates should be mandated.

B. Specific Initiatives: Subject to further review and coordination with the Subcommittee on Higher Education,we recommend the Christie Administration consider the following short-term and several longer term actions that can be taken to strengthen the link between higher education and economic development and growth in New Jersey.

1. **Provide higher education a seat in the Partnership for Action.** Charge the individual holding that seat with responsibility for coordinating the activities of the higher education community in economic development and growth initiatives.

2. **Oversight Council:** Establish a higher education "Economic Growth Council" to bring together academic, government and business representatives charged with coordinating higher education initiatives focused on economic growth. Particular emphasis would be placed on global business, health care/pharma, energy, and other targted industry sectors in which the State can achieve a comparative advantage. Among the Council's objectives would be to develop better labor market information to identify the skills and attributes that will be required by New Jersey's industries (e.g., the Minnesota state university system employs an in-house labor market analyst and works with the Department of

Employment and Economic Development to identify the state's high-growth industries and regional concentrations).

3. **Clarify and Differentiate Missions**: Clarify and differentiate the specific missions and educational programs of New Jersey's public colleges, universities and community colleges with a view to accentuating strengths and reducing redundancies. More and more states are moving towards the "Centers of Excellence" concept that uses input from employers on their workforce needs and develops new curricula to meet these needs and subsequently prepares students for job openings in industry. In most cases, these Centers of Excellence are expected to cooperate with other higher education institutions to respond to the needs of industry without duplication of effort.

4. **Incubators:** Strengthen the state's commitment to "incubator pods" linked to the industry sectors above through the use of appropriate incentives. New methods are needed to encourage technology transfer via academic partnerships with corporations, federal and state governments, venture capitalists, foundations and entrepreneurs. First steps might include identifying the core research strengths of New Jersey's colleges and universities, bolstering the faculty in these areas and working in partnership with industry to attract more research funding. However, to maximize the economic impact of any locally-grown discoveries, New Jersey's academic leaders must create a culture that rewards the commercialization of innovative new technologies.\

5. **Targeted Incentives**: Explore the implementation of higher education incentives such as:

   a) Formulas for income tax credits to parents whose children/dependents matriculate in New Jersey colleges and universities.
   b) Vested personal income tax credits for graduates of New Jersey colleges and universities who work in targeted industries in businesses located in New Jersey.
   c) CBT Credits to businesses based on:

      i. Number of New Jersey students engaged in work/study programs and in full-time internships
      ii. Number of "permanent jobs" created for graduates of colleges and universities
      iii. A metric for a tax credit for businesses providing Lab space or other physical plant sharing with colleges and universities.
      iv. Additional funding to colleges and universities pursuant to a formula, that demonstrate they have successfully:
         - Developed specific work-study programs in the "targeted industries" (list to be developed). For example, Minnesota awards competitive funding to colleges undertaking strategic, sector-based initiatives. The Minnesota goal is to stimulate partnerships in-state that can then compete for larger federal programs, etc.
         - Developed specific programs to share their lab and physical plant with New Jersey businesses in the targeted industries.
         - Advanced collaboration between start-up and/or very small business (some economic or employee count threshold), where colleges and universities provide MIS and other infrastructure support.

6. **Key Role for Community Colleges:** Strengthen New Jersey's commitment to and reliance on the state's two-year community colleges as engines of economic development and growth consistent with the emphasis being placed on these institutions by the Obama Administration. The state's community colleges offer the best possibility of quickly providing New Jerseyans in need of skills upgrades with the training required to become productive workers.

7. **Business Recruitment**: Involve the higher education community in business recruitment and retention efforts. In Ohio the university system and the state's Department of Development now share a staff

member with dual reporting responsibilities. This individual assists in business relocation and expansion projects.

8. **Performance Measurement:** Track progress with new, more relevant metrics than mere enrollment numbers and graduation rates. Instead, the focus should be on the students' performance and accomplishments *after graduation.* Florida's FETPIP system, (the Florida Educational and Training Information Program), calculates and disseminates labor market outcomes for high school, community college and university graduate and is used to inform both programmatic and policy decisions.

9. **Begin with High School**: Put initiatives in place to encourage high school students to attend college and launch their careers in New Jersey. In Pennsylvania the *Philadelphia Knowledge Industry Partnership* provides a close-by workable model of a college student retention strategy. This initiative features activities adapted to each phase of the college student life-cycle:
   a) *During the enrollment decision*: place branding – to encourage prospective in-state applicants to choose a Pennsylvania school.
   b) *When learning:* activities to keep the students engaged – emphasizing positive off-campus experiences.
   c) *Upon graduation*: assistance finding a job (or internship prior to graduation).

VII. Infrastructure: Our infrastructure has been one of our most prized assets, enabling us to capitalize on our unique location advantages. Decades of disinvestment nationwide have created a shared problem of enormous potential scale, but NJ's situation is potentially more dire due to structural funding deficits. In preparing this report we also consulted with the Transportation Subcommittee, and defer to their detailed recommendations, but wanted to focus this report on the infrastructure-related issues of greatest importance to economic development

Most observers acknowledge that our location and transportation and power infrastructure are compelling assets in the attraction for businesses and their workers. Less apparent, but equally important, our clean water, wastewater and power systems must complement our transit systems and sustain – not deter – the demands of these very businesses and workers, as a necessary condition for our economy to thrive. However, NJ's deteriorating infrastructure will increasingly become a disincentive to growth if we do not take immediate and effective action. Barely maintaining the status quo is unacceptable. Therefore, as reforms are considered to reshape an economy hobbled by the current economic downturn, it is critical to confront the condition of NJ's infrastructure. While prioritizing needed economic reforms, the stimulative impact of infrastructure spending also must be recognized, pumping much needed revenue into the economy, and creating thousands of construction jobs.

Challenges to adequately preserving our infrastructure are well documented. According to Federal data, NJ has the highest percentage of poor roads in the nation, 750 structurally deficient bridges (319 owned by the NJDOT), and 1,501 functionally obsolete bridges. It is clear that the State continues to lose ground on maintaining our transportation systems. While the NJ Turnpike Authority is on the path to addressing its capital needs, our NJDOT has fallen far behind. NJDOT officials estimate that the State must spend approximately $800 million per year for bridge repair/replacement and $300 million per year for pavement structures, just to maintain the status quo. Of course, these spending estimates grow as repairs are delayed and infrastructure conditions worsen. Our water and wastewater systems are in similar disrepair. Although this year the NJ Environmental Infrastructure Trust, the State's leading financing agency for environmental projects, closed on approximately $700 million in work, the number pales in comparison to the $2.5 billion in project financing applications received. Overall, NJ has backlogged over $20 *billion* worth of water and sewer infrastructure needs. The following are our recommendations concerning the State's infrastructure.

A. Replenish the Transportation Trust Fund (TTF): NJ requires a 21st century multi-modal transportation system. Investing in our transportation system creates assets of lasting value that will enhance the State's productivity and competiveness for decades to come. Also, attracting Federal funding depends on providing matching TTF state funds. It is imperative that we do not lose federal dollars because of our inability to match. One example of the TTF's immediate importance is the $8.7 billion ARC (Access to the Region's Core) NJ/Manhattan Tunnel Project. TTF dollars are an essential component of the project's on-going maintenance and must be in place before construction can go forward. In addition to the 6,000 construction jobs that this project will generate, the completed ARC project will generate 44,000 permanent jobs while moving 250,000 daily riders. We look to the Transportation Subcommittee to make recommendations to provide for stable long-term TTF funding strategy.

B. Specific Infrastructure Recommendations: The following are specific recommendations on actions the State can take to get from behind the curve on the infrastructure required to sustain business and employment in our State, and to send a signal to business decision-makers that we are responsibly managing our assets.

1. **Utilize Licensed Site Professionals:** Echoing the recommendation above, expansion of LPSPs for infrastructure permits and allowing department "self-certification" would significantly enhance the timeliness and reduce the cost of infrastructure projects.
2. **Streamline the procurement process**: We urge the immediate engagement of the contractor community to help identify a workable Design Build (DB) procurement process, as recommended by Governor-elect Christie. When used appropriately, DB will decrease "cradle to grave" project duration, accelerating infrastructure improvements, and saving precious resources. The State also should examine efficiency measures and "best practices" adopted by other states and private companies to maximize public investment dollars.
3. **Encourage public-private partnerships**: Public-private partnerships (P3s) in infrastructure projects can bring creativity, efficiency, and capital to address complex problems and needs. Federal authorities actually encourage the use of P3s in the development of transportation improvements. While such partnerships do pose certain risks, these risks are manageable. Properly structured, P3s can meaningfully reduce public sector risk and financial exposure, as compared to traditional procurement approaches.
4. **Provide financial inducements for early project completion**: In the world of infrastructure improvements, the sooner a project is successfully completed, the less expensive it is. We should maximize the use of monetary incentives for early completion of projects. When a construction contract is not completed on time, the owner could suffer substantial monetary damages such as loss of rental value, interest on invested funds, and rentals on duplicate premises, to name a few. When a contract is completed ahead of schedule, the opposite is true. In addition, the general public will benefit from the completed project at an earlier date. An enhanced incentive matrix for safely expedited projects should be considered.