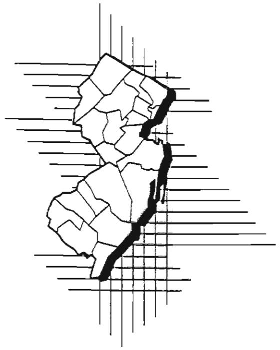


The following pages summarize the findings of each task force, with a cross reference to the related report.

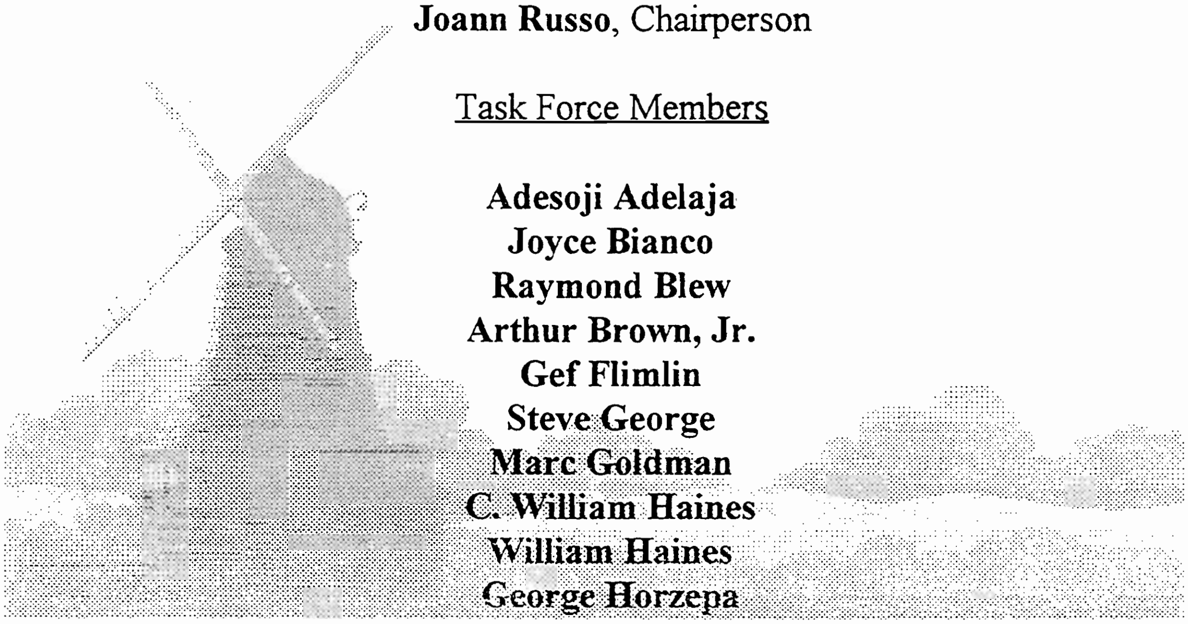
The opinions and recommendations contained in the eleven task force reports reflect the wide diversity of backgrounds, experiences and perspectives of the members of each task force. Although the opinions and recommendations expressed herein do not necessarily reflect the consensus view of the full Commission, they have been included for purposes of further consideration, reference, and completeness.

The Agriculture, Agribusiness and Fisheries Industries of New Jersey: Profiles, Economic Contributions, Major Issues and Policy Recommendations.

Report prepared by the

New Jersey Economic Master Plan Commission:
Task Force on Agriculture, Agribusiness and Fisheries.

Joann Russo, Chairperson



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EXECUTIVE SUMMARY

This report has been prepared for the Economic Master Plan Commission by the Task Force on Agriculture, Agribusiness and Fisheries. Its purpose is to provide background information to the Commission on the status of, problems facing and opportunities in New Jersey's agriculture, agribusiness and fisheries industries or food complex (FOODPLEX) and to advance recommendations for improving the economic climate for doing business in the FOODPLEX. The Economic Master Plan Commission is charged with developing short and long-term strategies for improving economic growth and industrial prosperity in New Jersey.

Industries included in New Jersey's FOODPLEX include (1) production agriculture, (2) aquaculture, (3) food processing, (4) food wholesale (produce and full-line), (5) food retail (supermarkets and grocery stores, restaurants, institutional food sales, food services and distribution), (6) commercial marine fisheries and (7) allied manufacturing, wholesale, retail and service activities that are directly related to the above. This broad definition of the sector is consistent with the clientele of the New Jersey Department of Agriculture. A full description of component industries is contained in later parts of this report.

Although New Jersey's FOODPLEX is one of the largest economic sectors in the state, few are aware of its size, contributions and importance. The FOODPLEX is estimated to account for the full-time employment of about 380,000 workers. About 20,000 of these are employed in agriculture (hired workers and family labor measured on a full-time equivalent basis), about 36,000 in food processing, about 30,000 in food wholesale, about 97,000 in non-restaurant food retail, over 160,000 in restaurants and drinking places, about 5,600 in commercial marine fisheries and aquaculture and about 27,000 in allied manufacturing, wholesale, retail and service activities. Direct employment in the complex accounts for about 12% of New Jersey's private sector employment. These employment contributions do not include secondary and indirect contributions.

The FOODPLEX generates some $4.7 billion in annual payroll. This is equivalent to 6.7% of total state private sector payroll. While total FOODPLEX payroll contributions are low relative to employment due to the large number of low wage workers, particularly in the large restaurant industry, the fact that it employs so many people suggests that it is an important source of economic activity in the state. When the 1992 census figures become public, it is expected that they would show that of all the major complexes in New Jersey's economy (e.g. pharmaceuticals, real estate, etc.) the FOODPLEX would be the largest. In terms of gross sales, business firms in the complex generate a total of about $47 billion in sales annually. This is nearly 12% of total sales generated in New Jersey's economy.

The size and economic contributions of the FOODPLEX do not adequately convey the full importance of the complex. For example, in addition to its economic contributions, agriculture confers to the residents of New Jersey public goods such as open space, pastoral scenery, clean air and water, wildlife habitat, recreational activities and opportunities for a rural lifestyle. Similarly, the fisheries industry provides significant quality of life contributions via its recreational benefits. While these benefits are non-market goods, they represent an important part of the reason why people and businesses locate in the Garden State. In the absence of these benefits, it would be difficult to maintain the state's tax base.

The loss of business entities in many component industries of the FOODPLEX suggests that this sector needs major policy support. In many industries within the complex, particularly agriculture and food processing, New Jersey entrepreneurs have lost ground to their counterparts in neighboring states and indeed to those in other regions for a number of reasons. Among the deterrents to the economic growth and prosperity of the FOODPLEX are high costs of doing business (cost of compliance with regulations, labor costs, real estate costs, utility and insurance costs, property and income taxes, etc.), declining profitability, excessive regulation of businesses, limited public policy support and incentives system for the complex, limited physical infrastructure and competition with imports. The FOODPLEX, however, also has many strengths including proximity to major urban centers in the Northeast, a highly educated work-force, a highly developed transportation network, a captured consumer market with a high concentration of consumers, proximity to business and financial centers and proximity to major ports (foreign trade).

To enhance economic opportunities in the FOODPLEX public policies are needed to help reduce obstacles to growth and to exploit opportunities that exist in the industry. In this report, recommendations are advanced to stimulate long-term economic development in the FOODPLEX. These recommendations were obtained from various sources including recently completed research, publications, public hearings, meetings and discussions and other activities organized by the leadership of the agricultural community, the Cook College of Rutgers University, the State Board of Agriculture,

EXECUTIVE SUMMARY (cont.)

the Farm Bureau, the FARMS Commission and the New Jersey Department of Agriculture. Recommendations were also obtained from representatives of trade organizations representing business firms in the FOODPLEX.

Recommendations for agriculture include:

- provide incentives to improve production efficiency;
- improve institutional marketing and encourage market development;
- develop tax and financial incentives to attract and support agribusinesses;
- create a regulatory environment more conducive to agriculture;
- enhance farmland preservation programs;
- enhance the ability of the NJDA and Cook College to collaborate in policy research;
- coordinate efforts of leadership and commodity groups;
- convene an annual agricultural policy conference to develop action plans;
- expand ties of the state's non-farm public to agriculture.

Recommendations for aquaculture include:

- support aquaculture industry development via passage of a New Jersey Aquaculture Act;
- establish a mechanism to facilitate the permitting process and conflict resolution;
- provide guidance documents for active and potential aquaculturalists;
- extend some of the benefits available to agriculturalists to aquaculturalists;
- improve access to capital;
- facilitate appropriate industry technology transfer;
- improve regulatory environment of aquaculturalists.

Recommendations for food processing include:

- encourage the linkage between New Jersey farmers and fishermen and the food processors in the state;
- improve the regulatory environment faced by food processors;
- identify and attempt to reduce the factors contributing to a relatively high cost of business in the state;
- facilitate the establishment of new food processors in the state by investing in environmental infrastructure and developing programs to attract new firms.

Recommendations for food wholesaling include:

- quantify impacts of industry consolidation and encourage a more competitive environment in the industry;
- determine the impacts of USDA grading practices on the industry;
- reduce the costs of doing business in the industry;
- improve the regulatory environment faced by food wholesalers.

Recommendations for grocery stores and supermarkets include:

- revise regulations retarding the adoption of new technology in the industry;
- extend electronic benefits transfer program statewide;
- place a referendum on any bottle bill until the potential impacts on the industry are assessed;
- support tort reform to protect the industry from frivolous lawsuits.

Recommendations for restaurants include:

- support the establishment of a cottage industry for low value added products;
- provide financial incentives to the industry to encourage internal food inspection;
- assess the impact of any further increases in minimum wage prior to the action.

Recommendations for commercial marine fisheries include:

- develop a state plan defining development and stabilization options for the industry;
- identify the economic impacts of industry changes and aid displaced workers;
- develop strategies to help restructure existing debt and assist with capacity reduction;
- institute marketing strategies to accommodate the catch of currently underutilized species;
- examine options available to protect shoreside commercial fishing infrastructure;
- examine regulatory and enforcement programs impacting the industry.

INTRODUCTION

The Process

This Task Force report is intended to serve as a resource document to support the work of the Economic Master Plan Commission. The Commission is charged with developing short and long-term strategies for improving economic growth and industrial prosperity in New Jersey. The Task Force on Agriculture, Agribusiness, and Fisheries was convened to assist the Commission in developing recommendations for their segment of the economy. This report constitutes the findings of the Task Force.

This report is based on work (publications, research, public hearings, meetings and discussions and other activities) that has been conducted over the last 4 years by the New Jersey Department of Agriculture, the Agricultural Policy Research Group at Cook College, Rutgers Cooperative Extension, the State Board of Agriculture, the Mid-Atlantic Fishery Management Council, the New Jersey Fisheries Development Commission, the National Marine Fisheries Service, the New Jersey Food Council, the New Jersey Restaurants Association, the Farm Bureau, the FARMS Commission and various other organizations related to agribusiness and fisheries. The following is a partial list of documents or sources providing some of the information contained in this report:

- The Blueprint Commission Report.
- The Agriculture and Food Complex of New Jersey (Adelaja, 1988).
- Impediments to Increased Agricultural and Seafood Processing in New Jersey (Lopez and Henderson, 1988).
- Characteristics and Trends in New Jersey Agriculture (Adelaja and Decter, 1991).
- The Agricultural Response to the State Plan (State Board of Agriculture, 1991).
- Agricultural Economic Recovery and Development Initiative (State Board of Agriculture, 1992).
- New Jersey Agriculture: Strategies to Deal With Current Critical Problems (Adelaja, Decter and Tavernier, 1993).
- Reaching For the Future (NJ FARMS Commission, 1994).
- The New Jersey State Aquaculture Plan.

Various industries within of the food complex have undergone strategic planning in recent years. The FARMS Commission report, the New Jersey State Aquaculture Plan and the soon to be completed fisheries industry report are among the output of such strategic planning efforts. The processes leading to many of these reports required public hearings, interviews, focus groups and significant research. Therefore, in preparing this report there was no need to hold any further public hearings related to this issue.

Objectives of the Task Force on Agriculture, Agribusiness and Fisheries

Various task forces were initiated to aid the Economic Master Plan Commission in its development of a strategic plan for industry. The charge to the Task Force on Agriculture, Agribusiness and Fisheries is to help the Economic Master Plan Commission develop long and short-term strategic recommendations for improving economic growth and prosperity in the agriculture, agribusiness and fisheries industries or the food complex (FOODPLEX). Specific areas of interest to the Commission include economic growth, job retention, business retention, new business formation (including foreign investment), stabilizing the economic base, urban revitalization and expansion and development of tax base. The key tasks facing the Task Force are to present information on the industries comprising the FOODPLEX (economic trends, economic facts and the direction of change), to show the diversity and relative importance of the industries, to identify barriers to growth, to identify sectors with the greatest growth and those lagging behind, and to identify policies that will strengthen the conditions for growth and reduce barriers to growth.

Industry Definition

The agriculture, agribusiness and fisheries complex (FOODPLEX) is broadly defined to include all activities such as the production of fruits, vegetables and other crops, livestock, equine, greenhouse, nursery and forestry products, sod and turfgrass (agriculture); related activities such as commercial marine fisheries and aquaculture involving the use of land, water and other natural resources; activities such as food processing, food wholesale, food retail and restauranting; and allied manufacturing, wholesale, retail and service activities related to food, agriculture, or natural resources. This definition of the complex is consistent with the clientele and the scope of activities of the New Jersey Department of Agriculture.

Given the above definition, the scope of this report includes the following broad categories of activities listed under their respective Standard Industrial Classification (SIC) codes:

Production agriculture - (01)
Agriculture is defined to include all industries that require land as a major input in the production of food, fiber,

horticultural products, floricultural products and animal products. The agricultural industry includes the production of the following specific categories of products:

(1) field crops including all grain crops, hay and forage crops and potatoes;
(2) livestock and related products including poultry, dairy and meat products;
(3) fruits, nuts and berries;
(4) vegetables;
(5) forest products including all wood and lumber products harvested from trees (with the exception of Christmas trees);
(6) greenhouse, nursery and mushroom products;
(7) equine products including only the production and sale of horses;
(8) Christmas trees, turfgrass and sod products.

Aquaculture
Aquaculture is defined as the farming of aquatic organisms including fish, mollusks, crustaceans and aquatic plants. Farming implies some form of intervention in the rearing process to enhance production (e.g. regular stocking, feeding, protection from predators, etc.). Farming also implies corporate ownership of the stock being cultured.

Food processing - (20)
Food processing is defined as the use of agricultural or seafood products, capital and labor in the manufacturing of value added food products and the conversion of lower valued agricultural or seafood products into items more consistent with consumer needs through packaging, cooking, canning, preserving, etc. The food processing industry includes production of the following products:

(1) Meat products including packed meat, sausages and other prepared meats, dressed poultry and poultry and egg processing (201);
(2) Dairy products including cheese, ice cream and frozen desserts and fluid milk (202);
(3) Preserved fruits and vegetables including canned specialties, canned fruits and vegetables, dehydrated fruits, vegetables and soups, pickles, sauces and salad dressings, frozen fruits and vegetables and frozen specialties (203);
(4) Grain mill products including dog, cat and other pet food and prepared feed (204);
(5) Bakery products including bread, cake and related products, cookies and crackers (205);
(6) Sugar and confectionery products including confectionery products, chocolate and cocoa products and chewing gum (206);
(7) Fats and oil products including animal and marine fats and oils and shortening and cooking oils (207);
(8) Beverages including malt beverages, distilled liquor (except brandy), bottled and canned soft drinks and flavoring extracts and syrups (208);
(9) Miscellaneous food and kindred products including canned and cured seafoods, fresh or frozen packaged fish, roasted coffee, macaroni and spaghetti and food preparations (209).

Food wholesale - (514)
Food wholesale is defined as the assembly of various fresh and manufactured food products from primary producers and manufacturers for the purpose of distribution to retail outlets such as supermarkets, grocery stores and restaurants. Components of the food wholesale business include:

(1) Groceries general line (5141);
(2) Packaged frozen food (5142);
(3) Dairy products (except for dried or canned) (5143);
(4) Poultry and poultry products (5144);
(5) Confectionery (5145);
(6) Fish and seafood (5146);
(7) Meat and meat products (5147);
(8) Fresh fruits and vegetables (5148);
(9) Groceries & related products (5149).

Food retail: Supermarkets & grocery stores - (54)
Super markets and grocery stores are defined as retail outlets where consumers purchase fresh and processed food products for the purpose of further preparation for consumption at home.

(1) Grocery stores (541);
(2) Meat and fish (seafood) markets (542);
(3) Fruit and vegetable markets (543);
(4) Candy, nut and confectionery stores (544);
(5) Dairy products stores (545);
(6) Retail bakeries (546);
(7) Miscellaneous food stores (549).

Food retail: Eating and drinking places - (58)
Eating and drinking places include points of food consumption away from home where value is added to fresh and processed food products through cooking and waitering services.

(1) Restaurants and lunchrooms (5812);
(2) Cafeterias (5812);
(3) Refreshment places (5812);
(4) Other eating places (5812);
(5) Drinking places (5813).

Commercial marine fisheries
Commercial marine fisheries are defined as the use of capital, labor and other resources to harvest and trap

marine products in open sea. Marine products are divided into:

(1) Finfish and
(2) Shellfish.

Allied manufacturing/wholesale/retail/service activities
This industry includes manufacturing, wholesale, retail and service activities related to other components of the FOODPLEX but are not included elsewhere. These components supply inputs to farmers, fishermen, food processors, food wholesalers, food retailers and others in the FOODPLEX.

(1) Manufacturers of agricultural chemicals (287);
(2) Manufacturers of farm & garden machinery (352);
(3) Manufacturers of food products machinery (3556)
(4) Wholesale of farm & garden machinery (5083);
(5) Wholesale of farm supplies (5191);
(6) Wholesale of agricultural product raw materials (515);
(7) Wholesale of food processing machinery (5084);
(8) Wholesale of flower supplies & florists (5199);
(9) Retail/Service of nursery, lawn and garden supplies (526);
(10) Retail/Service of farm machinery & equipment repair (7699);
(11) Retail/Service - grain elevators;
(12) Retail/Service - agricultural services (07);
(13) Retail/Service - florists (5992);
(14) Retail/Service - assemblers of farm products.

INDUSTRY PROFILE, SIZE AND CONTRIBUTIONS

FOODPLEX Overview

In 1987, the FOODPLEX in New Jersey was directly responsible for the employment of about 380,000 workers (12.1% of total state private sector employment).[1] Employees of the complex earned 6.7% of the wages paid in the state's private sector, an amount totalling over $4.7 billion. The relatively low wages vis-a-vis employment is due primarily to the large number of near minimum wage employees in restaurants, supermarkets and grocery stores. In terms of gross sales, the complex, as defined, contributes in excess of $47 billion to New Jersey's economy (11.7% of the total gross sales derived from the state's private sector). For more detailed information, see Tables 1.1-1.3.

Table 1.1: Components of the Agriculture/ Food Complex in New Jersey Gross Sales, Employment and Payroll, 1987.

Industry or Subsector	Gross Sales (million $)	Employment (# workers)	Payroll (million $)
Agriculture	620.6	17,888	429.3
Food Processing	9,030	36,100	917
Commercial Fisheries & Aquaculture	72.7	5,600	36
Food Wholesaling	19,139	31,043	788
Food Retailing	11,118	96,958	1,164
Restaurants	4,665	161,695	1,192
Misc. Activities	2,774.2	27,326	241.7
Agriculture & Food Complex	**47,421.9**	**376,610**	**4768**

Table 1.2: Contributions of the Agriculture and Food Complex to the Economy of New Jersey, 1987.

Category	FOOD-PLEX	Total NJ Private Sector	FOODPLEX Contribution to NJ Private Sector (%)
Employment	376,610	3,103,657	12.1
Payroll ($ million)	4,768.0	70,828.2	6.7
Gross Sales ($ million)	47,421.9	404,917.0	11.7

[1] Due to a lack of more recent data for all FOODPLEX industries, figures on the percent contribution to state employment, payroll, and gross sales are based on 1987 data. The ensuing industry profiles are based on the most recent data available.

Table 1.3: Relative Contributions of Industries to the Agriculture & Food Complex in New Jersey, 1987.

Industry	Share of Total Agriculture/Food Complex's: Gross Sales %	Employment %	Payroll %
Agriculture	1.3	4.7	9.1
Food Processing	19.0	9.6	19.2
Commercial Fisheries & Aquaculture	0.2	1.5	0.8
Food Wholesaling	40.4	8.2	16.5
Supermarkets & Grocery Stores	23.4	25.7	24.4
Restaurants	9.8	42.9	25.0
Miscellaneous Activities	5.9	7.3	5.1
Agriculture and Food Complex	100	100	100

Despite its importance the FOODPLEX, is often ignored in the state policy making process and in research related to problems of industry. For example, a recent NJIT inquiry into the regulatory environment faced by businesses in New Jersey and its impact on the business sector completely ignored the food complex. Given the loss of businesses in this area of the economy, particularly in agriculture and food processing, there is strong need to review the industry and to develop recommendations on how to strengthen the industry.

Production Agriculture

Production agriculture employs 17,888 workers on a full time equivalent basis[2]. About half of these are farm operators themselves. The number of farms in New Jersey declined significantly in the 1950s, 1960s and 1970s but has stabilized somewhat since the mid-1980s at about 8,400 farms. Concurrently, land in farms in the state has steadily declined to a presently stable level of 870,000 acres (New Jersey Agricultural Statistics Service). Table 1.4 illustrates the decline in the number of farms and land in farms since 1950. The loss of farms has been accompanied by some farm consolidation as average farm size increased in the state until the mid-1970s when it began a steady decline until the mid-1980s at which time it stabilized at around 105 acres. The trend in average farm size since 1950 is depicted in Table 1.5.

Table 1.4: Number of Farms and Land in Farms in New Jersey (1950-1993).

Year	Number of Farms	% Change	Land in Farms (x 1,000 acres)	% Change
1950	26900	—	1770	—
1960	15800	-41.3	1460	-17.5
1970	8600	-45.6	1060	-27.4
1980	9400	+9.3	1020	-3.8
1990	8100	-13.8	870	-14.7
1993	8400	+3.7	870	0

Table 1.5: Average Size of New Jersey Farms.

Year	Average Farm Size (acres)
1950	66
1955	76
1960	92
1965	111
1970	123
1975	120
1980	109
1985	105
1990	107
1993	104

In terms of gross sales, the contribution of agriculture to the state's economy totalled $656.9 million in 1992. While this represents a significant increase in nominal terms over gross sales in the 1960s, considering inflation, real cash receipts have declined. Real net farm income also experienced declines in recent years partly due to the 1988-1992 recession.

[2] U.S. Census and USDA/NJASS definitions of agriculture differ from Farmland Tax Assessment definitions. Census definitions are adopted in this report since statistics on all other industries were obtained from census and other federal government figures.

In terms of cash receipts in 1992, the largest sub-sector of agriculture was nursery (28%), followed by vegetables (20%), equine (14%), fruit and berry production (12%) and field crops (11%)[3]. In the last 30 years, the nursery and equine industries have grown tremendously. In 1992, payroll for production agriculture amounted to $320 million. Some $108 million of this was expended for hired labor while the remainder can be attributed to the opportunity cost of family/operator labor.

The difficult times farmers have been facing in making the type of living that would encourage farming has raised concerns about the potential loss of many of the benefits agriculture provides to the Garden State. Agriculture plays a key role in sustaining a relatively high quality of life. The benefits agriculture confers to the public include: open space (breaks in urban development); pastoral scenery; recreational opportunities; educational and cultural experiences; clean air and water and water recharge; wildlife habitat; opportunities for environmentally sound waste management; and opportunities for a rural lifestyle. These largely unquantified social and environmental benefits are very important to nonrural as well as rural people.

Productive taxpaying farms in New Jersey encompasses 1.2 million acres, about half of the state's inventory of open space[4]. Well-managed farms are "clean" tax ratables, generating revenues without imposing the social costs of industrial nonresidential development or consuming the public services of residential development. Farmland/open space also contributes to the economic development of the state in that it affords a higher quality of life to people who are seeking places to live, work and recreate where there is open land and opportunities for a rural lifestyle. Without the amenities offered by farming, perhaps the population and tax base of New Jersey would grow slower in the future.

Due to a relatively fixed amount of arable land in the state and the difficulty in reversing land use when already converted from farming to other uses, much of the potential growth in agricultural production must come from the use of land to produce higher valued products, increased efficiency, improved marketing, improved management and improved business climate. New entrants into commercial agriculture are usually either young persons receiving existing agricultural land through intergenerational transfer or purchasers of existing farmland previously farmed by others. Either way, continuation is problematic given the high value of farmland and the difficulty in making a profit.

Aquaculture

The aquaculture industry in the state has been present for over a century. However, it is still in the early stages of development, currently generating an estimated 60-100 jobs. The industry's contribution to the economy (as measured by farm gate value) is roughly $2.4 million. A number of finfish and shellfish species are cultured in New Jersey, however, currently the major species is the hard clam. Plans are presently being drawn that would enhance the industry's economic condition, creating additional jobs and bringing previously underutilized land into productive use.

Food Processing

The food processing industry in New Jersey has experienced a decline of over 20% since the late 1970s in the number of processing plants with only 589 establishments remaining in the state in 1987. Adelaja (1988) also reported that New Jersey's shares of U.S. food processing employment, value added and shipments have declined over the years. Much of this decline is attributable to industry consolidation and the loss of processors to other states and regions with more favorable business climates and regulatory environments.

The food processing industry employed 34,700 workers in the state in 1991 and paid about $957 million in total payroll (of this about 790 workers were employed in seafood processing plants with a payroll of slightly over $11 million). Over the past decade the industry has experienced a decline in the number of employed workers as evidenced in Exhibit 1.1. Over the same period the value of the industry's production has steadily increased and in 1991 the sector was responsible for contributing over $9.7 billion in gross sales to the state's economy (Exhibit 1.2). Gross sales from processed seafood accounted for nearly $90 million. Further statistics on the food processing industry are available in Exhibits 1.3 - 1.5.

Food Wholesale

The food wholesale industry in New Jersey supports supermarkets and grocery stores both in the state and in neighboring states due to its proximity to key cities and metropolitan areas (e.g. Philadelphia and New York). In 1987, employment in the industry was roughly 31,000 workers with an annual payroll of $788 million. As illustrated in Exhibits 2.1 and 2.4, employment and labor expenditures in the sector increased significantly in the

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[3] The contributions made by the equine industry are based on the breeding and selling of horses only.

[4] This acreage includes only land that is farmland assessed, and would be greater if farmland that is not assessed is included.

1980s. Of the industries comprising the FOODPLEX, the nearly 1,900 establishments in the food wholesale industry made the largest contribution to the state economy in 1987, over $19 billion in gross sales (see Exhibits 2.2 and 2.3).

Food Retail - Supermarkets and Grocery Stores

The supermarkets and grocery stores component of food retail was the next largest contributor to the state economy in 1987, generating over $11 billion in gross sales from over 6,300 food retail establishments (Exhibits 3.3 and 3.2). Employment in the industry was nearly 97,000 and annual payroll was nearly $1.2 billion. Industry employment increased markedly in the 1980s, as did the total industry payroll as shown in Exhibits 3.1 and 3.4.

Food Retail - Restaurants

Restaurants generate the most employment in the FOODPLEX, employing over 161,000 workers in 12,400 establishments in 1987. The number of workers in the sector increased through the 1980s, as did the number of establishments. This increase was accompanied by a substantial increase in total payroll (see Exhibits 4.1, 4.2 and 4.4). Payroll in this industry was the highest in the complex, almost $1.2 billion in 1987. However, in comparison to the sector's employment, the industry payroll for restaurants is quite low due to the large number of near minimum wage workers. Exhibit 4.3 illustrates the large increase in the industry's gross sales during the 1980s, to a level of approximately $4.7 billion in 1987. Growth in this industry can be attributed to the facts that New Jerseyans have one of the highest and the most rapidly rising labor force participation rates for women in the country. A very high proportion of New Jersey families earn two wages and, consequently, the incidence of food consumption away from home is high.

Commercial Marine Fisheries

Commercial marine fisheries[5] (excluding charter and inshore boats and recreational fishing) produced $96.3 million in gross sales resulting from the effort of an estimated 5,000 employees in 1993. This represents roughly a 10% decline in the number of workers in the industry since 1987. Payroll figures are not readily available for the industry due in part to the prevailing practice of remunerating crew members with a proportion of the total catch value. This replaces traditional payment via set wages making payroll estimation difficult, however a rough estimate based empirically on the proportion of total catch value paid to captain and crew is on the order of $36 million. During the past decade New Jersey's share of total U.S domestic landings has fluctuated between 1.4 - 2.1 percent of total poundage and 1.9 - 2.8 percent of total value. In terms of landings, New Jersey experienced its peak in 1956 when the total catch exceeded 540 million pounds (in comparison, only 196 million pounds were landed in 1993).

Allied Manufacturing, Wholesale, Retail and Service Activities

Allied manufacturing, wholesale, retail and service activities related to the agriculture, agribusiness and fisheries industries employed over 27,000 workers in 1987 (see Exhibit 5.1) at an annual total payroll of $231 million. Gross sales generated by this sector exceeded $2.6 billion in 1987. Exhibits 5.2 and 5.3 provide further statistics on payroll and gross sales in this sector of the FOODPLEX.

MAJOR ISSUES FACING THE COMPLEX AND RECOMMENDATIONS

Agriculture

Issues

The major agricultural policy concern in New Jersey is the declining number of farms and land in farms. Identified reasons for this decline include over-regulation of agriculture; high cost of doing business; limited knowledge on how to access markets; limited viability of farms; high cost of farmland ownership; obstacles to intergenerational transfer of land; suburbanization pressures; and reluctance of farmers to invest in operations due to planning horizons shortened in light of land values escalated due to development potential.

All these have resulted in reduced farm viability and increasing farm fragmentation. Competitiveness has therefore suffered. This problem has been exacerbated by a reluctance to invest by some farms and subsequently by lags in technology adoption. Higher production costs, inefficient resource utilization and slimmer profit margins have made farming a difficult industry in which to make a living.

In addition, public policy-induced costs impact on agriculture. These include perceived over-regulation of agriculture, high rates of taxation, instability of funding for agricultural programs and research and the implementation

[5] It is important to note that for the purpose of this report recreational fishing is excluded from the analysis due in part to the inadequacy of existing data for the industry. Rough estimates indicate the industry employs some 1,500 workers and contributes significantly to the travel and tourism sector of the state's economy.

of a minimum wage level that is higher than the federal level. Increasing land values spurred by development pressures encourage speculative behavior. Many farmers are reluctant to undertake long-term investments in farming operations creating an impermanence syndrome. The ensuing deterioration of farm infrastructure is synergistically affected by a political environment sometimes viewed as non-supportive of the agricultural community.

There are a number of other major policy issues facing New Jersey agriculture which need immediate attention. For example, effectiveness of the Right to Farm (RTF) statute, which was designed to protect farmers against overly restrictive ordinances and nuisance suits, recently came under question as a result of a recent court case. Farmland Tax Assessment (FTA), which has been credited for helping in preserving farmland in the Garden State has been the subject of recent political debate and is currently under scrutiny. Similarly, despite the positive environmental and quality of life contributions of agriculture to the Garden State, some are calling for even more benign production practices ("low input farming", "sustainable agriculture", "integrated pest management", "organic farming").

The farming community is also faced with issues such as how to improve the image of agriculture with the non-farm public, how to improve the ability of financial institutions servicing agriculture to service the industry, how to encourage continued public policy support for the agricultural community and how to improve the effectiveness of organizations that support the industry.

Recommendations

Specific recommendation for economic growth and prosperity in agriculture can be found in the recently completed FARMS Commission report. The following is a short summary of those recommendation.

■ Improve production efficiency through: (1) a long-term Agricultural Economic Growth and Investment System (AEGIS) and tax credit program that would provide loans and other incentives for beginner farmers and encourage investments in fixed assets, capital improvement, emerging products, new technologies, and scale expansion; (2) increased funding for biotechnological and policy research as well as research, demonstration and extension programs in sustainable agriculture, integrated crop/pest management and other alternative agricultural practices and cost sharing and for funding programs to facilitate adoption of these practices; (3) training programs in various areas of management; and (4) explore negotiation of group rates for new/simple technologies.

■ Improve institutional marketing and market development/promotion capacities of New Jersey agriculture as well as farmers' marketing skills and incomes through: (1) improved ability by the NJDA to undertake market development and promotion initiatives and funding for such initiatives; (2) improved coordination between NJDA, the division of tourism (NJ Department of Commerce and Economic Development (NJDC)), commodity groups and local chambers of commerce; (3) expansion of and stable funding for the Jersey Fresh Program , expansion of the commodity groups the program serves and enhancement of the identity of New Jersey farm products; (4) improvement of the image and perception of New Jersey agriculture by promoting the public benefits of agriculture; (5) Expansion of the Farm Management Training component of AERDI into a permanent program; (6) financial incentives for investment in market infrastructure and joint marketing projects; (7) programs to improve alternative incomes and markets; and (8) improved availability of market information.

■ Develop tax and other financial incentives to attract and support agribusiness and to encourage tourism development.

■ Mount a coordinated effort to mitigate regulations and revise tax programs to enhance the competitiveness of New Jersey farms.

■ Conduct a thorough analysis of the state's tax structure and its impact on the viability of agriculture and develop proposals to improve real estate, inheritance and other taxes.

■ Assess the effects of revisions to farmland tax assessment (FTA) including its environmental and quality of life benefits and improvement of the administration by assessors of FTA.

■ Evaluate the merits of statutes, policies and regulations that may harm agriculture and recommend policies that would enhance agriculture without compromising other objectives; broaden the scope of the NJDA to coordinate with other agencies on regulatory issues; develop a statewide initiative to coordinate local county and state regulations; and develop a regulatory assistance and training program.

■ Improve available information about farmland preservation tools; develop strategies to enhance permanent and long-term easement purchase programs; and develop viable alternatives and complements to existing programs and develop funding for such programs.

■ Enhance the ability of the NJDA and Cook College to collaborate in policy research, workshops and conferences, particularly on pressing issues such as Farmland Assessment, Right to Farm and Farmland Preservation.

■ Improve coordination between leadership and commodity groups in New Jersey agriculture and develop leadership and planning training sessions to increase leadership skills.

■ Convene an annual agricultural policy conference to review short and long-term issues and to develop consensus on annual action plans.
■ Expand ties of the state's non-farm public to agriculture by educating the public about the benefits of agriculture collaborating with leaders of allied industries to explore industrial application of farm products and improving cooperation and the coalition with environmentalists.

Aquaculture

Issues

While aquaculture is now viewed as the only means by which the productive capacity of the state's waters may be enhanced, the industry has long been hindered by a lack of formal recognition. Currently, there is a lack of a coherent public policy fostering aquaculture development. Neither is there a single lead government agency with responsibility for developing and advocating for aquaculture in the state. The industry is further constrained by the regulatory environment in the state, as well as a lack of basic financial information, technology transfer opportunities and access to traditional financial markets. Additionally, aquaculturalists do not receive any financial or tax incentives for beginning new operations in the state. Also, there is currently no comprehensive and integrated permitting structure encouraging aquaculture.

Recommendations

Resolution of these issues would be furthered following enactment of several recommendations provided in the New Jersey State Aquaculture Plan. The following represent the major recommendations in the plan:

■ Support the development of all forms of aquaculture and related industries through the passage of a New Jersey Aquaculture Act which defines aquaculture, designates the New Jersey Department of Agriculture as the lead agency for aquaculture development, delegates responsibility for the orderly development of aquaculture among government agencies and the components of the State University and provides funding to support those activities.
■ To facilitate the permitting process and establish a mechanism for conflict resolution, formulate Memoranda of Agreement among appropriate state agencies, in conjunction with the NJDA.
■ Develop guidance documents, including Best Management Practices to provide guidelines for active and potential aquaculturalists and regulators.
■ Develop mechanisms whereby aquaculturalists receive all of the benefits traditionally available to farmers.
■ Establish mechanisms to assist potential aquaculturalists in gaining access to capital and to educate lenders about the industry.
■ Develop a mechanism facilitating appropriate industry technology transfer programs.
■ Conduct a thorough review of regulations that restrict commercial aquaculture development and develop recommendations to make those regulations more amenable to aquaculture.
■ Institute a promotional/marketing campaign to stress the origin and positive aspects of cultured products.

Food Processing

Issues

Proximity to a large and concentrated consumer base, as well as, availability of some raw inputs makes New Jersey an attractive locale for food processors. A number of factors have been identified, however, impeding food processors' ability to operate in the state. Among the frequently cited obstacles to growth and prosperity include limited availability of labor, high property taxes and insurance costs, imposition of time and financial difficulties associated with environmental regulation compliance (particularly disposal of solid wastes and wastewater) and a lack of state development incentives.

Seafood processors in New Jersey face many of the same problems faced by food processors in general. Further compounding their ability to operate is the ability of seafood processors to obtain raw seafood products and the image of the state (particularly in regards to the fear of contaminated seafood stemming from marine pollution). It is worthy to note that neither food processors in general, nor seafood processors rely heavily on raw products derived from New Jersey. This infers the possibility of obstructions to the linkage between New Jersey farmers and fishermen and food processors.

Recommendations

In response to the previously mentioned issues, the following recommendations are advanced:

■ Considering the tight labor market in New Jersey, give public policy priority to removing impediments to existing processing plants in order to facilitate industry maintenance and expansion before attempting to recruit new industries to the state.
■ To accentuate the linkage between New Jersey farmers and fishermen and the state's food processing industry, conduct a study to examine the linkages and potential market opportunities between these sectors. While the image of the state's marine environment has improved, it is necessary to continue to support good water quality and to enhance habitat quality in order to encourage use of the

state's raw seafood products.

■ To create a more conducive operating environment for food processors, simplify environmental regulation compliance in terms of clarification of pertinent laws, required permits, necessary procedures and available technology.

■ Review the regulations affecting food processing with an objective of offering revisions distinguishing food processing waste from toxic and chemical wastes in terms of disposal requirements.

■ The state should sponsor a study examining the causes of high insurance rates in the state and alternative methods of reducing these costs.

■ To encourage new food processing industries to locate in New Jersey the state should invest in environmental infrastructure (particularly for providing access to quality water, wastewater treatment facilities and solid waste disposal sites). To further aid in the locating process, an information bank should be established providing information on potential sites, relevant regulations and available technologies.

■ Seafood processors should be assisted in adopting state-of-the-art technologies for the treatment of processing effluent and that effective, balanced criteria be established for controlling seafood processing operations.

Food Wholesale

Issues

In general, the food wholesale industry appears to be doing well. Several issues exist in New Jersey, however, the resolution of which would further enhance wholesalers' ability to operate in the state. One key concern of food wholesalers is the consolidation of the industry. Consolidation of smaller wholesale operators is leading to vertical integration within the food wholesale industry eliciting concerns associated with the incidence of monopoly power. The fear is that diminished competitive behavior among industry components may affect prices to the extent consumers face a decreased ability to expand food consumption.

Another key issue wholesalers face is the adoption of lower grade standards by the USDA in order to appease farmers. Lower grade standards have raised national criticism from the food wholesale sector because such an action encourages the introduction of poorer quality produce to the marketing chain and consumer shelves. The lower standards may potentially degrade the perceived quality of food brokers to the detriment of the industry.

The cumulative effect of government regulations has also raised the concern of the food wholesale industry. The perception of the industry is that the cumulative impact of federal regulations does more to inflate operating costs than to reduce the problems they were designed to alleviate.

Another issue in the food wholesale industry involves efficient customer response. The ability of customers to operate in an efficient manner is hindered when high operating costs borne by monopolistic food wholesalers are transferred to others due to the fact that industry standards are set by leading firms. As illustration, a vertically integrated firm may distribute its product in bulk packages in excess of a small food store's ability to store and distribute the product efficiently. Hence food stores are left without alternatives for more efficient shipment and distribution.

Recommendations

■ Conduct a state or national study assessing the impact of industry consolidation on the food wholesale industry and consumers.

■ Conduct research on the impact of grading on the food wholesale industry.

■ Conduct a study assessing the nature and effect of the regulatory environment faced by the food wholesale sector and eliminate regulations found to be ineffective or excessive.

■ Conduct research into ways of reducing costs and increasing competitiveness in the industry.

■ Develop a series of tax and other incentives to enhance growth and investment in the industry.

Grocery Stores and Supermarkets

Issues

A number of issues of concern have been identified in the grocery store and supermarket retail sector in the state. Among the most pressing concerns are electronic marketing, electronic benefits transfer, the pending bottle bill, initiative and referendum and tort reform.

Technological improvements in New Jersey's grocery store and supermarket industry are being constrained by out-dated regulations. A case in point involves the hinderance of electronic marketing by mandated unit price displays on shelves. Promotional activities (e.g. sales) under current unit pricing regulation require food stores to change unit prices for products on shelf displays, a costly and time-consuming process effectively eliminating the potential for spontaneity in promotional programs. An alternative would be to allow sale-adjusted unit prices to be displayed at check-out computers. The industry supports a variation of the unit pricing law consistent with technological capabilities.

Another issue facing the industry is implementation of a statewide electronic benefits transfer program. Welfare recipients in Camden do presently receive food stamp benefits by means of an electronically scanned credit card presented at participating food stores. This new approach significantly reduces costs faced by grocery stores and supermarkets as virtually all paperwork otherwise exchanged with state administrative agencies are eliminated.

The industry is also concerned about the adoption of a pending bill requiring grocery stores and supermarkets in New Jersey to collect and issue refunds for beverage containers as is presently done in some other states such as Connecticut and Vermont (the bottle bill). Relative to these states, New Jersey has much high costs of doing business and such a program would exacerbate these costs due to expenses associated with container collection, shipping and refunds effectively eroding the industry's bottom line.

An emerging issue facing the industry concerns the growing tendency across the country to introduce initiatives and referendums on issues caught by the public eye. The industry wishes to limit its susceptibility to such actions. Similarly, in light of the increasingly litigious nature of society and due to the high percentage of consumers supplied by supermarkets and food stores, the industry has a high potential for exposure to lawsuits. After successful lawsuits against McDonalds, the tobacco industry and several others, by consumers, the food retail industry in New Jersey is concerned about such exposure. The industry recommends the establishment of a "lawsuit threshold" whereby a minimum level of damage is required before a consumer may file suit against a store.

Recommendations

The following recommendations are advanced for the purpose of enhancing the ability of supermarkets and food stores to operate in New Jersey:

■ Review laws pertinent to the industry in the context of compatibility with present and pending technology and reform those retarding the implementation of such technologies.
■ Expand the electronic benefits transfer program throughout the state.
■ Place a referendum on any bottle bill until the impacts of such a program can be assessed.
■ Pass a tort reform legislation that will limit liability of surepmarkets and grocery stores and prevent referendum and initiative actions that could hamper the food industry.

Restaurants

Issues

Two issues identified in the restaurant industry involve the establishment of hazard analysis critical control points and the promulgation of a low value-added processing industry. As with grocery stores and supermarkets, the increasing incidence of litigation has prompted the restaurant industry to assume more of the burden associated with food safety. Towards this end, the industry is coordinating food inspection prior to cooking at critical control points in an attempt to ensure the safety of consumers. This internal policing policy should be encouraged in order to decrease the risk to consumers.

Secondly, relatively higher labor costs resulting from the higher than national minimum wage and high employee turnover in the kitchen encourage a high degree of preliminary processing prior to food delivery to restaurants. With the high percentage of two wage earning families and the increased participation of women in the labor force, the demand placed on restaurants is increasing as the proportion of food consumed away from home rises. This further emphasizes the need for higher levels of processing prior to food delivery to restaurants, suggesting the formation of a cottage industry providing low value-added food processing services may be advantageous (both for the restaurant industry and the state tax base).

Recommendations

The following recommendations are advanced for the restaurant industry in New Jersey:

■ Direct public policy to encourage internal food inspection activities (e.g. through the establishment of investment tax credit, low interest loans, etc.).
■ Advance public policy to improve the business environment so that it is amenable for light food processors to locate in New Jersey. Towards this end, it may be advisable to provide financial assistance and incentives to interested firms.
■ Examine the potential impacts of future attempts to increase the minimum wage in light of the dependency of the industry on low wage workers.

Commercial Marine Fisheries

Issues

Although commercial fisheries landings have more than doubled (in terms of both poundage and value) since 1982, the composition of the total catch indicates a shift towards lower value species. This may be explained in terms of depleting stocks of higher value species and an abundance of lower value species (e.g. herring). The average prices received for finfish and shellfish have remained relatively flat over recent years, with most species failing to maintain pace with the consumer price index. Given the rising cost of operation, maintenance and supplies during the same period it is evident that economic returns to harvesters are diminishing.

The issues facing the industry currently involve the development of new markets to accommodate the present landings mix; excess vessel capacity and over-capitalization of the industry; the retention of shoreside infrastructure threatened by increasing land values and development pressures; the development and adoption of technology allowing for improved harvesting selectivity; and regulatory burdens and other barriers interfering with the industry's ability to expand and operate.

Recommendations

- Develop a statewide plan for marine fisheries clearly defining development and stabilization options and the socio-economic impacts.
- Identify the direct economic and employment impacts of changes in marine fisheries with emphasis on alternative employment, retraining and economic and social assistance for displaced workers (primarily using federal funds allocated for this purpose).
- Develop statewide strategies (in conjunction with federal agencies) to restructure outstanding capital debt and create a longer term buyout/capacity reduction program.
- Institute marketing strategies and programs focused on the underutilized species available to New Jersey harvesters (e.g. mackerel, squid, herring, butterfish, dogfish, skate, etc.). Such programs should include both broad and specialized "niche" markets and export opportunities.
- Provide technological and scientific assistance for the development of gear which could increase harvest selectively and/or rejection of non-target species.
- Examine options (including tax abatement and/or deferral, zoning, revolving loan funds, etc.) to protect existing shoreside commercial fishing facilities from the pressure of other types of coastal development.
- Continue to improve water quality and enhance habitat quality.
- Include fishery products in the Jersey Fresh program.
- Examine regulatory and enforcement programs impacting commercial marine fisheries.

CONCLUSIONS

The FOODPLEX is one of the key sectors in New Jersey's economy contributing substantially to employment, wages and economic activity. Yet in spite of the complex's economic importance, there is a tendency to ignore many components of this industry in economic development initiatives in the state. This report has attempted to quantify the importance of the sector, identify its problems, as well as opportunities that exist for growth and provide recommendations to enhance growth and development.

Experience has shown the positive impact legislation may evoke if applied properly. Examples include Farmland Tax Assessment which has had positive impacts on the retention of agricultural land in New Jersey, the Agricultural Economic Recovery and Development Initiative which has encouraged significant investment in agriculture in recent years, the State Farmland Preservation Program which has resulted in the preservation of several thousand acres of farmland and the Sires Stake Program which resulted in significant growth of New Jersey's equine industry. Furthermore, research by the Agricultural Policy Research Group at Cook College has shown that a number of policy levers can be used to steer the agricultural economy toward more desirable future outcomes. Positive policies can also be directed towards other components of the FOODPLEX with potential ly significant benefits to the state economy.

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EXHIBITS

Exhibit 1.1: Employment in New Jersey's Food Manufacturing Industry, 1981-1991.

YEAR	SIC 20 Total NJ Food Manuf.	SIC 201 Meat Products	SIC 202 Dairy Products	SIC 203 Preserved Fruits and Vegetables	SIC 204 Grain Mill Products	SIC 205 Bakery Products	SIC 206 Sugar and Confection. Products	SIC 208 Beverage Products	SIC 209 Misc. Products
1981	39300	4628	2600	7000	700	8200	2600	6600	6400
1982	39100	4900	2600	6700	700	7900	2500	6300	6400
1983	40300	5400	2800	6700	700	8200	2700	6200	6600
1984	41700	NA	NA	NA	NA	NA	NA	NA	NA
1985	40500	NA	NA	NA	NA	NA	NA	NA	NA
1986	38700	NA	NA	NA	NA	NA	NA	NA	NA
1987	36100	4100	3100	6300	NA	8200	2600	4000	6000
1988	36900	4100	3300	6000	NA	8700	2700	4400	6000
1989	37300	4400	3900	5900	NA	8600	2600	4500	5500
1990	35900	4300	4000	5700	NA	7700	2600	4200	5400
1991	34700	4400	3700	5000	NA	7500	2500	4600	5300
Percent Change 1981-91	- 11.7%	- 4.9%	+ 42.3%	- 28.6%	NA	- 8.5%	- 3.8%	- 30.3%	- 17.2%

Source: Annual Surveys and Censuses of Manufacturers.

Exhibit 1.2: Value of Production in New Jersey's Food Manufacturing Industry, 1981-1991 (in $ millions).

YEAR	SIC 20 Total NJ Food Manuf.	SIC 201 Meat Products	SIC 202 Dairy Products	SIC 203 Preserved Fruits and Vegetables	SIC 204 Grain Mill Products	SIC 205 Bakery Products	SIC 206 Sugar and Confection. Products	SIC 208 Beverage Products	SIC 209 Misc. Products
1981	7772	736	698	1101	145	832	626	1412	1645
1982	8041	864	778	1195	143	920	657	1514	1672
1983	8353	881	810	1288	140	978	698	1580	1686
1984	8848	NA	NA	NA	NA	NA	NA	NA	NA
1985	9063	NA	NA	NA	NA	NA	NA	NA	NA
1986	9192	NA	NA	NA	NA	NA	NA	NA	NA
1987	9030	743	1063	1607	NA	1018	881	1616	1600
1988	9459	740	1192	1645	NA	915	881	1835	1677
1989	9346	836	1359	1593	NA	944	862	1645	1547
1990	9900	864	1498	1568	NA	1076	857	2002	1467
1991	9701	906	1325	1616	NA	1009	841	2076	1398
Percent Change 1981-91	+ 24.8%	+ 23.1%	+ 89.8%	+ 46.8%	NA	+ 21.3%	+ 34.3%	+ 47.0%	- 15.0%

Source: Annual Surveys and Censuses of Manufacturers.

Exhibit 1.3: Value Added in Sub-sectors of New Jersey's Food Manufacturing Industry, 1981-1991 (in $ millions).

YEAR	SIC 20 Total NJ Food Manuf.	SIC 201 Meat Products	SIC 202 Dairy Products	SIC 203 Preserved Fruits and Vegetables	SIC 204 Grain Mill Products	SIC 205 Bakery Products	SIC 206 Sugar and Confection. Products	SIC 208 Beverage Products	SIC 209 Misc. Products
1981	3062	168	165	483	39	482	280	637	653
1982	3266	180	185	535	35	606	281	703	695
1983	3500	191	212	601	32	627	326	738	706
1984	3590	NA	NA	NA	NA	NA	NA	NA	NA
1985	3891	NA	NA	NA	NA	NA	NA	NA	NA
1986	3907	NA	NA	NA	NA	NA	NA	NA	NA
1987	4193	205	288	843	NA	691	379	873	702
1988	4330	184	333	890	NA	569	407	998	765
1989	4225	188	449	814	NA	601	418	808	730
1990	4581	200	471	804	NA	693	417	1066	703
1991	4422	217	360	850	NA	663	410	1062	655
Percent Change 1981-91	+ 44.4%	+ 29.2%	+ 118.2%	+ 76.0%	NA	+ 37.6%	+ 46.4%	+ 66.7%	+ 0.3%

Source: Annual Surveys and Censuses of Manufacturers.

Exhibit 1.4: Total Expenditures on Labor in New Jersey's Food Manufacturing Industry, 1981-1991 (in $ millions).

YEAR	SIC 20 Total NJ Food Manuf.	SIC 201 Meat Products	SIC 202 Dairy Products	SIC 203 Preserved Fruits and Vegetables	SIC 204 Grain Mill Products	SIC 205 Bakery Products	SIC 206 Sugar and Confection. Products	SIC 208 Beverage Products	SIC 209 Misc. Products
1981	749	76	50	118	13	149	52	147	121
1982	792	85	54	125	14	156	56	152	131
1983	840	92	56	137	14	161	61	161	138
1984	895	NA	NA	NA	NA	NA	NA	NA	NA
1985	915	NA	NA	NA	NA	NA	NA	NA	NA
1986	950	NA	NA	NA	NA	NA	NA	NA	NA
1987	917	84	85	158	NA	197	75	128	146
1988	945	86	93	151	NA	210	79	140	139
1989	979	96	99	150	NA	231	80	149	128
1990	981	104	111	146	NA	200	82	159	130
1991	957	105	111	125	NA	195	80	161	133
Percent Change 1981-91	+ 27.8%	+ 38.2%	+ 122.0%	+ 5.9%	NA	+ 30.9%	+ 53.8%	+ 9.5%	+ 9.9%

Source: Annual Surveys and Censuses of Manufacturers.

Exhibit 1.5: Expenditures on Raw Materials in New Jersey's Food Manufacturing Industry, 1981-1991 (in $ millions).

YEAR	SIC 20 Total NJ Food Manuf.	SIC 201 Meat Products	SIC 202 Dairy Products	SIC 203 Preserved Fruits and Vegetables	SIC 204 Grain Mill Products	SIC 205 Bakery Products	SIC 206 Sugar and Confection. Products	SIC 208 Beverage Products	SIC 209 Misc. Products
1981	4616	636	537	616	106	305	342	778	1015
1982	4769	690	598	658	108	316	369	814	971
1983	4869	699	598	690	109	350	369	838	997
1984	5310	NA	NA	NA	NA	NA	NA	NA	NA
1985	5144	NA	NA	NA	NA	NA	NA	NA	NA
1986	5293	NA	NA	NA	NA	NA	NA	NA	NA
1987	4833	540	775	766	NA	331	504	739	890
1988	5135	559	859	754	NA	344	476	844	908
1989	5151	647	916	781	NA	356	451	840	818
1990	5301	665	1030	763	NA	383	439	935	743
1991	5265	690	969	767	NA	353	419	1004	739
Percent Change 1981-91	+ 14.1%	+ 8.5%	+ 80.4%	+ 24.5%	NA	+ 15.7%	+ 22.5%	+ 29.0%	- 27.2%

Source: Annual Surveys and Censuses of Manufacturers.

Exhibit 2.1: NJ Food Wholesale Sector Employment (1982 and 1987).

SECTOR/SUB-SECTOR	1982	1987	% Change
(SIC 514) Food Wholesale	**25853**	**31043**	**+ 20.1%**
(SIC 5141) Groceries General Line	4,266	4,613	+ 8.1%
(SIC 5142) Packaged Frozen Food	1,677	2,636	+ 57.2%
(SIC 5143) Dairy Products, NOT Dried or Canned	2,217	2,884	+ 30.1%
(SIC 5144) Poultry and Poultry Products	1,346	669	- 50.3%
(SIC 5145) Confectionery	2,225	3,125	+ 40.4%
(SIC 5146) Fish and Seafood	780	978	+ 25.4%
(SIC 5147) Meat and Meat Products	2,790	2,756	- 1.2%
(SIC 5148) Fresh Fruits and Vegetables	1,683	1,605	- 4.6%
(SIC 5149) Groceries and Related Products nec.	8,869	11,777	+ 32.8%

Exhibit 2.2: Number of Establishments in NJ's Food Wholesale Sector (1982 and 1987).

SECTOR/SUB-SECTOR	1982	1987	% Change
(SIC 514) Food Wholesale	**1,645**	**1,882**	**+ 14.4%**
(SIC 5141) Groceries General Line	122	160	+ 31.1%
(SIC 5142) Packaged Frozen Food	100	129	+ 29%
(SIC 5143) Dairy Products, NOT Dried or Canned	111	157	+ 41.4
(SIC 5144) Poultry and Poultry Products	60	50	- 16.7%
(SIC 5145) Confectionery	122	135	+ 10.7%
(SIC 5146) Fish and Seafood	84	101	+ 20.2%
(SIC 5147) Meat and Meat Products	280	281	+ 0.4%
(SIC 5148) Fresh Fruits and Vegetables	197	194	- 1.5%
(SIC 5149) Groceries and Related Products nec.	569	675	+ 18.6%

Source: 1982 and 1987 Censuses of Wholesale Trade.

Exhibit 2.3: Gross Sales in NJ's Food Wholesale Sector in 1982 and 1987, (in $1,000's).

SECTOR/SUB-SECTOR	1982	1987	% Change
(SIC 514) Food Wholesale	**13,998,357**	**19,139,561**	**+ 36.7%**
(SIC 5141) Groceries General Line	2,837,141	3,326,584	+ 17.3%
(SIC 5142) Packaged Frozen Food	831,762	1,500,229	+ 80.4%
(SIC 5143) Dairy Products, NOT Dried or Canned	1,324,166	1,537,915	+ 16.1%
(SIC 5144) Poultry and Poultry Products	436,426	263,679	- 39.6%
(SIC 5145) Confectionery	1,122,340	1,674,722	+ 49.2%
(SIC 5146) Fish and Seafood	232,267	330,192	+ 42.2%
(SIC 5147) Meat and Meat Products	1,510,087	1,990,589	+ 31.8%
(SIC 5148) Fresh Fruits and Vegetables	649,987	1,429,999	+ 120.0%
(SIC 5149) Groceries and Related Products nec.	5,054,181	7,085,652	+ 40.2%

Exhibit 2.4: Annual Labor Expenditures in NJ's Food Wholesale Sector in 1982 and 1987, (in $1,000's).

SECTOR/SUB-SECTOR	1982	1987	% Change
(SIC 514) Food Wholesale	**531,020**	**788,043**	**+ 48.4%**
(SIC 5141) Groceries General Line	94,421	119,801	+ 26.9%
(SIC 5142) Packaged Frozen Food	33,261	63,009	+ 89.4%
(SIC 5143) Dairy Products, NOT Dried or Canned	49,671	78,504	+ 58.0%
(SIC 5144) Poultry and Poultry Products	19,122	12,157	- 36.4%
(SIC 5145) Confectionery	47,367	100,306	+ 111.8%
(SIC 5146) Fish and Seafood	10,743	14,858	+ 38.3%
(SIC 5147) Meat and Meat Products	57,976	68,600	+ 18.3%
(SIC 5148) Fresh Fruits and Vegetables	27,870	36,865	+ 32.3%
(SIC 5149) Groceries and Related Products nec.	190,589	293,943	+ 54.2%

Source: 1982 and 1987 Censuses of Wholesale Trade.

Exhibit 3.1: Employment in the Retail Food Sector (1982 and 1987).

OUTLET	1982	1987	% Change
(SIC 54) Grocery/Food Stores	**79,217**	**96,958**	**+ 22.4%**
(SIC 541) Grocery Stores	63,572	81,114	+ 27.6%
(SIC 542) Meat & Fish (Seafood) Markets	2,632	2,718	+ 3.3%
(SIC 543) Fruit & Vegetable Markets	534	606	+ 13.5%
(SIC 544) Candy, Nut & Confectionery	1,219	1,533	+ 25.8%
(SIC 545) Dairy Product Stores	1,659	403	- 75.7%
(SIC 546) Retail Bakeries	8,699	9,112	+ 4.7%
(SIC 549) Miscellaneous	902	1,472	+ 63.2%

Exhibit 3.2: Number of Establishments in the Retail Food Sector in 1982 and 1987.

OUTLET	1982	1987	% Change
(SIC 54) Grocery/Food Stores	**5,821**	**6,353**	**+ 9.1%**
(SIC 541) Grocery Stores	3,430	3,997	+ 16.5%
(SIC 542) Meat & Fish (Seafood) Markets	539	535	- 7.4%
(SIC 543) Fruit & Vegetable Markets	165	165	+ 0%
(SIC 544) Candy, Nut & Confectionery	320	337	+ 5.3%
(SIC 545) Dairy Product Stores	322	92	- 71.4%
(SIC 546) Retail Bakeries	809	927	+ 14.6%
(SIC 549) Miscellaneous	236	300	+ 27.1%

Source: 1982 and 1987 Censuses of Retail Trade.

Exhibit 3.3: Gross Sales in the Retail Food Sector in 1982 and 1987, (in $1,000's).

OUTLET	1982	1987	% Change
(SIC 54) Grocery/Food Stores	**8,432,563**	**11,118,582**	**+31.9%**
(SIC 541) Grocery Stores	7,707,843	10,298,108	+33.6%
(SIC 542) Meat & Fish (Seafood) Markets	261,940	300,396	+14.7%
(SIC 543) Fruit & Vegetable Markets	45,028	64,100	+42.4%
(SIC 544) Candy, Nut & Confectionery	53,537	63,925	+19.4%
(SIC 545) Dairy Product Stores	105,916	19,383	- 81.7%
(SIC 546) Retail Bakeries	205,336	288,446	+40.5%
(SIC 549) Miscellaneous	52,963	84,224	+59.0%

Exhibit 3.4: Total Expenditures on Labor in the Retail Food Sector in 1982 and 1987, (in $1,000's).

OUTLET	1982	1987	% Change
(SIC 54) Grocery/Food Stores	**839,071**	**1,164,527**	**+38.8%**
(SIC 541) Grocery Stores	729,089	1,022,752	+40.3%
(SIC 542) Meat & Fish (Seafood) Markets	24,488	32,275	+31.8%
(SIC 543) Fruit & Vegetable Markets	4,617	6,952	+50.6%
(SIC 544) Candy, Nut & Confectionery	8,302	11,016	+32.7%
(SIC 545) Dairy Product Stores	12,570	3,095	- 75.4%
(SIC 546) Retail Bakeries	53,804	76,098	+41.4%
(SIC 549) Miscellaneous	6,201	12,339	+99.0

Source: 1982 and 1987 Censuses of Retail Trade.

Exhibit 4.1: Employment in Eating and Drinking Places (1982 and 1987).

ESTABLISHMENT	1982	1987	% Change
(SIC 58) Eating and Drinking Places	**124,477**	**161,695**	**+29.9%**
(SIC 5812) Restaurants and Lunchrooms	61,518	76,637	+24.6%
(SIC 5812) Cafeterias	1,458	1,665	+ 14.2%
(SIC 5812) Refreshment Places	33,849	50,242	+ 48.4%
(SIC 5812) Other Eating Places	14,101	21,379	+ 51.6%
(SIC 5813) Drinking Places	13,551	11,772	- 13.1%

Exhibit 4.2: Number of Establishments - Eating and Drinking Places (1982 and 1987).

ESTABLISHMENT	1982	1987	% Change
(SIC 58) Eating and Drinking Places	**10,482**	**12,395**	**+ 18.3%**
(SIC 5812) Restaurants and Lunchrooms	3,630	4,670	+ 28.7%
(SIC 5812) Cafeterias	122	189	+ 54.9%
(SIC 5812) Refreshment Places	2,939	3,679	+ 25.2%
(SIC 5812) Other Eating Places	966	1,493	+ 54.6%
(SIC 5813) Drinking Places	2,825	2,364	- 16.3%

Source: 1982 and 1987 Censuses of Retail Trade.

Exhibit 4.3: Gross Sales From Eating and Drinking Places in 1982 and 1987 (in $1,000's).

ESTABLISHMENT	1982	1987	% Change
(SIC 58) Eating and Drinking Places	**3,159,730**	**4,665,541**	**+ 47.7%**
(SIC 5812) Restaurants and Lunchrooms	1,506,008	2,240,115	+ 48.7%
(SIC 5812) Cafeterias	36,478	42,506	+ 16.5%
(SIC 5812) Refreshment Places	805,442	1,314,143	+ 63.2%
(SIC 5812) Other Eating Places	341,616	601,112	+ 76.0%
(SIC 5813) Drinking Places	470,186	467,665	- 0.5%

Exhibit 4.4: Total Expenditures on Labor in Eating and Drinking Places in 1982 and 1987 (in $1,000's).

ESTABLISHMENT	1982	1987	% Change
(SIC 58) Eating and Drinking Places	**746,906**	**1,192,009**	**+ 59.6%**
(SIC 5812) Restaurants and Lunchrooms	387,381	612,767	+ 58.2%
(SIC 5812) Cafeterias	10,176	11,260	+ 10.7%
(SIC 5812) Refreshment Places	172,832	300,317	+ 73.8%
(SIC 5812) Other Eating Places	92,203	177,541	+ 92.6%
(SIC 5813) Drinking Places	84,314	90,124	+ 6.9%

Source: 1982 and 1987 Censuses of Retail Trade.

Exhibit 5.1: Labor Utilization and Employment in New Jersey's Agriculture and Food Complex (Miscellaneous Activities), 1982 and 1987.

ACTIVITY	1982	1987	% Change
Miscellaneous Activities - Total	**18,992**	**27,326**	**+ 43.9%**
(SIC 287) Manufacturers - Ag. Chemicals	600	NA	NA
(SIC 352) Manufacturers - Farm & Garden Machinery	138	NA	NA
(SIC 3556) Manufacturers - Food Products Machinery	700	200	- 71.4%
(SIC 5083) Wholesalers - Farm & Garden Machinery	756	920	+ 21.7%
(SIC 5191) Wholesalers - Farm Supplies	1,501	1,702	+ 13.4%
(SIC 515) Wholesalers - Ag. Product Raw Materials	511	657	+ 28.6%
(SIC 5084) Wholesalers - Food Processing Machinery	1,096	779	- 28.9%
(SIC 5199) Wholesalers - Florists & Flower Supplies	1,496	2,447	+ 63.6%
(SIC 526) Retail/Service - Nursery, Lawn & Garden Supplies	1,238	1,903	+ 53.7%
(SIC 7699) Retail/Service - Farm Machinery & Equip. Repair	53	80	+ 50.9%
(SIC) Retail/Service - Grain Elevators	33	58	+ 75.8%
(SIC 07) Retail/Service - Ag. Services	7,452	13,719	+ 84.1%
(SIC 5992) Retail/Service - Florists	2,953	4,467	+ 51.3%
(SIC) Retail/Service - Assemblers of Farm Products	465	394	- 15.3%

Source: 1982 and 1987 Censuses of Manufacturers, Wholesale Trade, Retail Trade, and Service Industries.

Exhibit 5.2: Total Expenditures On Labor in New Jersey's Agriculture and Food Complex (Miscellaneous Activities), 1982 and 1987 (in $1,000s).

ACTIVITY	1982	1987	% Change
Miscellaneous Activities - Total	**152,425**	**241,696**	**+ 58.6**
(SIC 287) Manufacturers - Ag. Chemicals	NA	NA	NA
(SIC 352) Manufacturers - Farm & Garden Machinery	NA	NA	NA
(SIC 3556) Manufacturers - Food Products Machinery	NA	5,400	NA
(SIC 5083) Wholesalers - Farm & Garden Machinery	14,367	20,873	+ 45.3
(SIC 5191) Wholesalers - Farm Supplies	28,530	37,495	+ 31.4
(SIC 515) Wholesalers - Ag. Product Raw Materials	12,032	17,133	+ 42.4
(SIC 5084) Wholesalers - Food Processing Machinery	29,475	26,739	- 9.3
(SIC 5199) Wholesalers - Florists & Flower Supplies	25,482	57,390	+ 125.2
(SIC 526) Retail/Service - Nursery, Lawn & Garden Supplies	12,057	25,535	+ 111.8
(SIC 7699) Retail/Service - Farm Machinery & Equip. Repair	580	1,319	+ 127.4
(SIC) Retail/Service - Grain Elevators	632	713	+ 12.8
(SIC 07) Retail/Service - Ag. Services	NA	NA	NA
(SIC 5992) Retail/Service - Florists	22,496	40,548	+ 80.2
(SIC) Retail/Service - Assemblers of Farm Products	6,774	8,551	+ 26.2

Source: 1982 and 1987 Censuses of Manufacturers, Wholesale Trade, Retail Trade, and Service Industries.

Exhibit 5.3: Gross Sales in New Jersey's Agriculture and Food Complex (Miscellaneous Activities), 1982 and 1987 (in $1,000s).

MISCELLANEOUS ACTIVITY	1982	1987	% Change
Miscellaneous Activities - Total	2,211,022	2,774,203	+ 25.5
(SIC 287) Manufacturers - Ag. Chemicals	NA	NA	NA
(SIC 352) Manufacturers - Farm & Garden Machinery	NA	NA	NA
(SIC 3556) Manufacturers - Food Products Machinery	NA	16,300	NA
(SIC 5083) Wholesalers - Farm & Garden Machinery	140,011	216,402	+ 54.6
(SIC 5191) Wholesalers - Farm Supplies	584,076	518,805	- 11.2
(SIC 515) Wholesalers - Ag. Product Raw Materials	652,970	791,283	+ 21.2
(SIC 5084) Wholesalers - Food Processing Machinery	247,854	306,613	+ 23.7
(SIC 5199) Wholesalers - Florists & Flower Supplies	226,733	420,914	+ 85.6
(SIC 526) Retail/Service - Nursery, Lawn & Garden Supplies	84,058	170,075	+ 102.3
(SIC 7699) Retail/Service - Farm Machinery & Equip. Repair	2,480	5,055	+ 103.8
(SIC) Retail/Service - Grain Elevators	28,185	23,096	- 18.1
(SIC 07) Retail/Service - Ag. Services	NA	NA	NA
(SIC 5992) Retail/Service - Florists	111,867	195,473	+ 74.7
(SIC) Retail/Service - Assemblers of Farm Products	132,788	110,187	- 17.0

Source: 1982 and 1987 Censuses of Manufacturers, Wholesale Trade, Retail Trade, and Service Industries.

GOVERNOR'S COMMISSION ON ECONOMIC DEVELOPMENT

BIOTECHNOLOGY AND PHARMACEUTICAL INDUSTRIES TASK FORCE

November 1994

Biotechnology and Pharmaceutical Industries Task Force

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BIOTECHNOLOGY AND PHARMACEUTICAL INDUSTRIES

SECTION A

INTRODUCTION

The Task Force was asked to address the characteristics and needs of two essential components of the New Jersey economy, the pharmaceutical industry and the emerging biotechnology business sector. These industries have many similarities, but are in very different stages of development and have different needs and requirements.

The pharmaceutical industry is mature and highly developed in New Jersey, and this State is uniquely situated to prepare beneficial policy. The long term objective of New Jersey should be to retain and maintain the dominant research and headquarters role that it enjoys.

Conversely, the biotechnology industry is an emerging one with a huge potential for growth. The strategy of the State of New Jersey with the industry should be to stimulate and attract firms involved directly in biotechnology research for commercial applications, as well as companies that support or complement the biotechnology industry. Strong support of the academic infrastructure in molecular biology and related disciplines will also be an essential component of this strategy.

The overall intent of the Report is to identify significant issues that will have an impact on these industries and to then define three to five key actions that the state government can implement to accomplish New Jersey's industrial strategies. In order to adequately cover the requirements for both the pharmaceutical and biotechnology industries, separate reports for each industry were composed by subgroups. These Reports follow.

SECTION B

REPORT ON THE BIOTECHNOLOGY INDUSTRY

B.1 INTRODUCTION

B.1.1 DESCRIPTION OF THE TASK FORCE PROCESS

The full sub-committee met four times. There were no formal public hearings, however members had participated in previous hearings of the NJ Biotechnology Council and the Legislative Biotechnology Task Force, and did extensive interviewing. Particularly relevant were 10 personal and telephone interviews with key pharmaceutical company executives and an equal number with representative biotechnology leaders in the State. Personal and telephone interviews were conducted with key officials who are charged with stimulating activity in biotechnology in Massachusetts, Maryland and North Carolina, California and Texas.

B1.2 INDUSTRY PROFILE

It is apparent that there is not good data at the State level on biotechnology companies. SIC Codes have no separate category for biotech firms. For this reason it is impossible to be precise in constructing a profile. Our best estimates follow.

The biotech industry is represented in NJ[1] with over 100 companies, including a significant number of internationally recognized firms, for example, Cytogen, Enzon, Medarex, Synaptic and Trophix, Onco Therapeutics, although none rank in the top ten nationally. The average biotech firm nationally employs about 80 persons and for this reason we speculate that NJ biotechnology firms employ 4000-6000. At this moment, few emerging biotech companies are profitable and thus they make only a small contribution to corporate tax revenues; however, they do make the expected contributions to property, franchise, sales and, of course, payroll taxes.

Over the next 5 years, the explosive growth in the number of biotech firms, which actually peaked in 1987, is expected to level off; however, the number of employees is expected to grow by at least 50%. In NJ, we might reasonably expect to better that record taking the steps outlined in this Report. In addition, the end of the long time period required to bring products to market (10-15 years) is rapidly approaching for some of our established biotech firms, which will result in profitable performances, accelerated growth and increasing contributions to tax revenues.

[1] New Jersey has the fourth largest concentration of biotechnology companies in the country.

BIOTECHNOLOGY AND PHARMACEUTICAL INDUSTRIES

B.2 <u>MAJOR ISSUES</u>

B.2.1 <u>TAX POLICY ISSUES</u>

Business tax policy is not a major concern for biotech firms, since, as defined here, such companies are not generally profitable. We note that recently passed Ch. 173 Reforming NJ S-Corporations rules will assist some biotech firms.

Reductions or elimination of capital gains taxes on the investment in emerging start-up ventures may be desirable. This will require a more detailed analysis than is possible here.

The State should determine if appropriate incentives can retain and attract biotech companies making the transition to the manufacturing stage. Regulatory reform would be a start, but tax and other incentives may be needed to meet the competition elsewhere. Key legislation recently enacted by California, Maryland and Massachusetts provides credits for the purchase of R&D and manufacturing equipment, and NJ should be alert to opportunities to match or better these competitive situations.

RECOMMENDATIONS:

1. Modify the capital gains provisions to provide special incentive for investment in emerging high risk/high growth segments of the State economy.

2. Develop a master plan for retention of manufacturing within the state, including the identification of locations, the streamlining of building regulations, and provision for abatement of property tax and other direct financial incentives, including manufacturing investment credit.

B.2.2 STATE REGULATORY POLICY/INTERSECTION OF FED/STATE/LOCAL

The concerns of most companies is that regulatory issues faced be consistent and that the regulatory rules and methods for compliance be easily discovered and understood. One-stop shopping, business assistance centers, start-up incubators, identification of land and space suitable for R&D and manufacturing of biotechnology products are essential elements in a "job-friendly" environment.

***RECOMMENDATIONS*:**

1. State policy should be adopted to make applicable federal regulations on environmental, workplace, safety and (bio)hazards the State norm.
2. Similarly, The State should prohibit the development of local regulation of the biotechnology (and other high-tech) industry beyond that already required by applicable state and federal rules.
3. Business assistance centers which would allow a one stop approach to business start-up, construction permitting and hazard/pollution regulation should be supported at key sites around the State.
4. The State should adopt a disposal policy that includes methods for dealing with medical waste and with low-level radioactive materials, preferably using a site within the State.

B.2.3 KEY LEGISLATIVE ISSUES

These recommendations are made within the separate sections.

B.2.4 WORKFORCE AVAILABILITY, ETC.

NJ has and will continue to have an above-average number of trained, degree-holding, technical persons (24.8% with Bachelor degrees and above vs 20.3% nationally). Unfortunately, downsizing trends in some of our major industries will make some of these highly trained person all too available in the marketplace. While this resource will serve as a positive feature for location of technical business ventures in the State, other incentives could make this resource even more attractive.

BIOTECHNOLOGY AND PHARMACEUTICAL INDUSTRIES

***RECOMMENDATIONS*:**

1. Provide teacher training and local incentives for the introduction of biotechnology into the primary, junior high and high school curriculum. Provide similar programs in at least selected community colleges. Similar programs might be considered in other targeted high-tech industries.

2. Match "downsized" personnel to the needs of the biotech industry, creating advantages for both the former and future employer, the State and the individual. This might consist of creative uses of tax credits for severance pay used to support an employee at a small company, property tax rebates and other incentives.

B2.5. <u>INFRASTRUCTURE ISSUES</u>

The dominant and pressing need of the developing biotech company is for relatively small quantities of research lab space which must be high quality, and specially outfitted. Most biotech firms will prefer to lease. Incubator space is required.

Proximity to consultation and expertise, technical information sources, libraries and databases are also crucial. We need to support and maintain the high quality of the state's major research universities, and to provide special attention to centers that focus on target industries, in the present case biotechnology.

***RECOMMENDATIONS*:**

1. The state should actively work to acquire suitable space for biotechnology incubation. Such space would ideally consist of a large structure subdivided into a number of spaces, ranging from one to several thousand square feet. Economy of scale is obvious since one permit could make it possible for a number of companies to operate under a single regulatory umbrella.

2. Tax incentives could be offered to large firms who could provide space to developing firms. These tax credits could then support attractive leasing rates.

3. The State, through the Commission on Science and Technology already supports more than a dozen Advanced Technology Centers (ATC's) and Technology Extension Centers with competitive awards totaling more than $13MM. These provide focused activity in key targeted areas, such as biotechnology, and provide magnets for the location of industry in the area and a source of assistance once here. Selected research from these centers has also led to commercial ventures. The need to provide consistent support to our Universities in general, and to our ATC's and Tech Transfer Centers cannot be overemphasized. Modest increases in this funding would be highly leveraged (2-3X).

B.2.6 CAPITAL NEEDS

Developing biotechnology companies at all stages consume a great deal of capital. (The net burn rate of capital by a small biotech company - 1 to 50 people - is, on average, $321K, while that of a large firm - 200 people - averages $2.5MM, per month!). Most such money comes from venture capital groups which seek large reward in exchange for high risk. This funding is currently available only to relatively established companies and leaves uncovered the critical area of seed funding[2].

RECOMMENDATIONS:

1. Establish a seed funding mechanism, managed by a group capable of evaluating technology and overseeing the use of the capital. The Commission on Science and Technology would be the appropriate vehicle, with added staff. Such seed funding programs should be written with the provision for returning a fraction of royalty, license, sales income or equity to the seed fund. We point out that the experience in North Carolina has been that seed funding of well-chosen biotechnology venture can lead to a high success rate and a large, possibly about 30X, return on investment.[3]

2. Early stage funding of developing businesses could be accomplished as it is now through EDA funds in limited partnerships with the private sector.

3. We urge changes that will provide the means to use State pension funds at a capped level for the general support of high tech ventures in the State. This funding would probably be used for late level financing of companies with a reasonable expectation of success, since such investment must be made with the expectation of a return.

4. This picture would be essentially complete with the existence of a strong investment banking presence in the State. At this time, there are none or virtually none resident in the State. This has been blamed in part on the New Jersey's "blue sky" securities laws, and we recommend that the banking subgroup consider this as a possible legislative topic.

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[2] Intermediate stage companies are among the hardest hit now - those with increasing costs due to clinical trials who are public companies.

[3] NC has invested $4MM since 1988 in 35 companies with 29 surviving. These companies have brought in $15MM in SBIR grants, about $50MM in venture funding and $100MM in three IPO's.

B.2.7 TECHNOLOGY AND R&D ISSUES

Aside from workforce related issues which are not major, NJ faces few obstacles to the development of a technology base to fuel biotech growth. We note that the Advanced Technology Centers and Technology Transfer Centers have faced flat or lowered budgets for a number of years and that such support will gradually erode the quality of the operation, even in a low inflation setting. We are not dealing adequately with facility maintenance and equipment replacement and upgrades. Taken in the context of very tight budgets at the sponsoring institutions of our centers, we have a situation that could evolve from under-funded to precarious in a short period of time.

In addition to strengthening of the R&D infrastructure at our research universities, we need stronger encouragement of the rapid movement of that technology to the commercial market.

RECOMMENDATIONS:

1. The State should provide adequate budgets to our institutions of higher education.[4]

2. The State should fund the Science and Technology Commission at a high level. This funding has been proven to generate more outside money than it costs and is a fundamental base on which our technology-to-jobs programs is built.

B.2.8 QUALITY OF LIFE ISSUES

The concerns of the biotech community are not different from those of any other sector of the business community in NJ. There are concerns that the high cost of housing (and the relatively high property tax base) in the State may make recruitment difficult. On the other hand, the income tax rates in many states that are natural recruitment grounds for high tech personnel, NY, MA and CA have substantially higher top tax rates on normal income, a situation slated for even further improvement in NJ.

Several companies suggested that a possible incentive for relocation in NJ could be a staged abatement plan on property taxes for those moving from low to high property tax regions.

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[4] It is worth recalling that the North Carolina success story is not just the Research Triangle Park. Before this could be possible, Governors Hodges and Sanford completely revitalized the state's education system, converting UNC and NC State from good undergraduate schools to nationally ranked teaching and research institutions.

All aspects of the State would benefit from continued improvements in the appearance and quality of the major ports of entry into and passageways through our State and the continuing need for urban revitalization around our major airport and rail facilities and our State capitol. Much of our anecdotal reputation outside the State is based on these highly visible aspects.

RECOMMENDATION:

1. Investigate the possibility of coupling property tax relief to relocation incentives for new hires coming into the State or for those moving from a low to high property tax area within the State.

2. Undertake a coordinated and aggressive State program to convert blighted areas into attractive and productive development opportunities.

B.2.9 <u>THE STATE'S ROLE</u>

The State needs to recognize that the major NJ research Universities form the heart of the machinery that can generate and support the development of new ideas that will create new businesses and jobs. They deserve our consistent support. Secondly, the pharmaceutical industry with its nation leading concentration of R&D facilities in NJ provides a fertile ground for stimulation and support of biotechnology both within and outside of their own facilities. Every effort should be made to keep this industry in good health in NJ. Based upon its discussions with biotechnology community representatives, the subcommittee is confident that our recommendations for strenghtening the NJ pharmaceutical industry are compatible with needs of the NJ biotech sector and are likely to be endorsed by them.

The State should also understand that NJ has not kept pace with leading states in new business development and the state should also consider incentives that assist companies through all stages up to commercialization. Our direct State support of High Tech Centers (about $13MM) is small compared to other leading states.[5] Our direct support to new business startups is also small. We need to develop a strong seed fund program, we need to free funds for support of companies entering growth phases, and we need statewide coordination of these efforts, strongly coupled to the private sector.

[5] For example, Florida recently committed $105MM to support the location of the national magnet research center at Florida State, Texas commits $60MM each year to fund competitive applications for high tech centers, NC's efforts to transform its state university system to a powerhouse are now legendary, and Maryland's efforts along the I-270 Technology Corridor and in attracting government labs (NIH, NCI, FDA) is equally impressive.

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RECOMMENDATIONS:

1. Adopt long range plans for the funding of our centers of higher education that allow these institutions to engage in planning on a time scale that is appropriate to their mission.

2. Provide increased funding for support of advanced technology centers, already proven as a remarkably productive idea.

3. Mandate and support a seed funding mechanism to assist new businesses at the start-up phase. Such funding would also include the creation of small-business assistance centers and "one-stop" programs for achieving required interactions between the business and the state/local governments.

4. Aggressively create incubation facilities for new high tech businesses, and thus fill the #1 identified need for start-up biotech companies.

5. State support for protecting intellectual properties of faculty and staff of NJ public universities through patents and copyrights should be increased and should also be used to support of the marketing of these valuable discoveries to NJ biotechnology and pharmaceutical firms.

B.2.10 STRATEGIC ISSUES

Biotechnology companies must plan for the long term (10+ years) because of the very long product development and approval cycle. Thus most of the issues raised previously are strategic in nature, and most are summarized earlier. We conclude our section on Major Issues with an overall recommendation that will assist any business owner required to plan over a long time scale.

RECOMMENDATIONS:

1. We strongly endorse attempts to make consistent the regulations that govern the conduct of business in NJ. Consistent rules and interpretations at the federal, state and local level would not only simplify the running of small and large businesses, it would improve the probability that there would be compliance with those rules.

2. We strongly urge that State support of institutions and businesses with a long range outlook, and we particularly name here education, pharmaceutical and biotech sectors, be dealt with in a multi-year format, allowing a genuine partnership between the needs of the institution or business and the State. This long range outlook applies as well to investments that the State has made. Particularly in the biotech and pharmaceutical industries, patience in capital investment must be a guiding principal.

3. Finally, we would ask that the State take an active role in ensuring that it is continuously aware of development in the technical arena, particularly in the pharmaceutical and biotechnology industries. We would include in this recommendation that the State make a special effort to ensure that our Washington offices, and the offices of our elected federal officials are well educated on the needs and special problems of our technically based industries. We also recommend that the governor and the legislature consider the possibility of creating formal mechanisms for accessing advice on technical matters and the needs of the State's technically-based industries. This could be accomplished through existing structures if full advantage of them were to be taken.

B.3 <u>CONCLUSIONS OF BIOTECHNOLOGY SUB-COMMITTEE</u>

PRIORITY RECOMMENDATIONS:

1. Aggressive State involvement in seed funding, incubation, and continuing investment in biotech (and other high tech) firms.

   Benefit: Successful development of a new biotech firm can lead to an explosive growth in employment and can provide a significant site for further employment of NJ's already highly trained technical workforce. Successful development requires companies to acquire manufacturing facilities, funding for clinical trials, and major equipment as they grow.

2. Continued and growing support for NJCST supported Advanced Technology Centers. Increased funding in programs specifically designed to produce and transfer out potential commercial technology.

Benefit: The short term, such centers immediately increase in the levels of federal funding of NJ R&D. State investment is normally leveraged 2-3 to 1. Such centers also become the locus for the immediate assistance of already established NJ R&D firms. In the longer term these centers will become the source of many technical innovations that will drive the development of new business.

3. Adoption of consistent regulations across federal, state, and local agencies.

Benefit: Immediate simplification in the administration of and compliance with regulations. In the longer term, NJ will develop a business friendly reputation with attendant improvements in recruitment and retention of desirable businesses.

B.4 NEW STATE PROGRAM

New types of funding programs have been suggested here that will require some culture change in the State. Both involve the encouragement of developing biotechnology business, a somewhat riskier aim than that typically involved in State investment. We would divide this effort into three parts:

1. SEED FUNDING

There are virtually no mechanisms available in NJ for company start-up assistance. This is too early a stage for venture firms, but frequently too expensive for personal resources. We propose the creation of seed funding mechanisms. These would have a pay back mechanism, but it would be recognized that the pay back would be slow and would almost surely never directly match the investment. It is investment at this stage that determines where a company locates, however, and the downstream advantages to the State would make such investment well worth while.

Cost: A significant program could be started with an appropriation as modest as $1MM annually, targeted to fund about 10 start-up ventures a year. We would suggest that an appropriation on the same level as the Ben Franklin Fund in PA ($20MM/year) would be a reasonable long term goal. We note that the Ben Franklin program, in its 11th year, now recovers several million in royalties, etc. which it retains for reinvestment.

2. STATE INVESTMENTS

Venture funding in the State is a well developed vehicle for support of businesses at the mid to advanced stages of their development cycles. Several states have taken the initiative to aggressively stimulate this process by placing a portion of their pension funds (typically a few percent) into such pools. Even a fractional percentage of NJ's pension holdings would represent an enormous stimulation for developing business within the State. Even when the highly volatile and recently poorly performing biotech stock index lags only a few percent behind the overall Dow-Jones averages over the last 3 years, certain investment (e.g. a pool of high-tech ventures) would not necessarily risk the integrity of the pension funds.

3. RELOCATION INCENTIVES

We have suggested in several parts of this report that the State adopt the stance that it is willing to provide direct cash incentives to industries willing to locate within the State, or to provide equivalent tax relief incentives. It is now apparent that states competing with us for new industry are willing to do this on a massive scale. NJ has a number of natural advantages to offer, but these will not be sufficient in the future to assure that we obtain our fair share (and more) of the pie. Perhaps the present administration, with its strong reputation for prudence in spending programs, would be an ideal one for introducing the cultural change in the way NJ approaches these problems.

SECTION C

REPORT ON THE PHARMACEUTICAL INDUSTRY

C.1 <u>INDUSTRY PROFILE</u>

The importance of the pharmaceutical industry to New Jersey cannot be over-emphasized. In fact, it should be considered the "jewel in the crown" of the State's economy. The pharmaceutical industry in New Jersey has enjoyed decades of uninterrupted growth; however, in recent months the industry has begun showing signs of strain as it attempts to adjust to new realities in both the marketplace and public policy. In the past year, seven of the 16 largest pharmaceutical manufacturers located in the State reported lower domestic sales along with an unprecedented contraction in the industry's work force. These developments are worrisome trends since the pharmaceutical industry is New Jersey's premiere manufacturing industry segment employing one out of every ten persons working in manufacturing today.[6]

OVERVIEW

Briefly, the industry has well over 100 companies operating in the State. Key statistics include:[7]

• Employment	51,000 jobs
• Product Shipments	$12.2 billion
• Research & Development Expenditures	$2.3 billion
• R&D as Percentage of Sales	19.9%
• Capital Expenditures	$1.6 billion
• Payroll	$2.8 billion
• Company and Employee NJ Tax Payments	$300 million
• Estimated Total Value Added to NJ Economy	$9.6 billion

KEY ISSUES

The major issues facing the industry include:

- Changing customer environment (e.g., the move from individual to institutional buyers/group purchasing)
- Health care reform legislation (e.g., price containment pressures)
- An increasingly complex regulatory environment (e.g. local, state and national)
- Patent expiration (e.g. market share erosion by generic competitors)
- Switch from Rx to Over The Counter (OTC) product sales
- Tort reform (e.g., legislation limiting liability and damages)
- Taxation

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6 1992 and 1994 Update, published by the New Jersey Health Products Council, 2700 Route 22 East, P.O. Box 3789, Union, New Jersey 07083, November 1993 and September 1994.

7 Sixteen companies representing over 75% of industry activity (IMPACT/92).

BIOTECHNOLOGY AND PHARMACEUTICAL INDUSTRIES

C.2 FINDINGS

The issues outlined above provide a broad understanding of the key concerns confronting pharmaceutical company management. The issues are largely national and international in scope and driven by market pressures and policy decisions at the federal government level. Among the State's pharmaceutical manufacturers these issues have resulted in:

- Lower earnings projections
- A mixed picture for domestic (down) and foreign (up) sales
- Ongoing efforts to reduce and/or restructure operations in face of massive change (e.g., possible cut-backs in R&D spending)
- Industry consolidation (e.g., mergers, acquisitions, joint ventures, risk-sharing agreements)
- Continued broad work force reductions (we estimate 10% over the next few years or up to 7,500 people) (see table I).

Since the pharmaceutical industry is an established industry, many industry insiders believe that the main focus of state-sponsored support should be to ensure that companies stay and expand in New Jersey. However, the industry recognizes that the State must seek to continually expand the base of companies in the State to ensure future economic strength. Since efforts will be focused toward that end, this report offers specific recommendations which incorporate the needs of the industry with such activities. Industry management has identified specific areas where state government could play a role. These include:

- New Jersey is "business friendly" and willing to work with the industry to foster growth
- Opposition to federal legislation to impose price controls
- State-level tort reform which limits liability and damages
- Creative tax policy aimed at supporting the unique needs of the industry
- Streamlining environmental and planning regulation and implementation
- Reform of curriculum to better match needs in the biotechnology and pharmaceutical workplace to better educate the public on the public value created by these industries.

BIOTECHNOLOGY AND PHARMACEUTICAL INDUSTRIES

C.3 RECOMMENDATIONS

1. INDUSTRY/BUSINESS ADVOCACY

In partnership with business, the Administration (through the Department of Commerce) should enhance its public relations program. Specifically, it should promote the State of New Jersey as "business friendly" and as a hub for pharmaceutical and technology-based companies. The effort should encompass:

- An aggressive campaign to market the State outside of the Northeastern U.S. featuring the governor as the key spokesperson. This process would naturally result in enhancing New Jersey's national image and hopefully increasing the number of companies seeking to relocate to the State. Since New Jersey is already a key relocation site for many companies in the New York Metropolitan area as well as international business, this effort could pay significant dividends particularly if key companies across the country were actively targeted.

- The Governor should become a leading voice in the national discussion over the importance of maintaining and fostering the nation's successful, leading-edge technology industries - such as pharmaceutical manufacturing. Such support could provide New Jersey's pharmaceutical industry with an important ally in the public policy debates over unitary pricing and major health care reform. Working with the State's congressional representatives, any future legislation could be significantly impacted.

- Establish, with the Governor's approval, an advisory group of senior executives to periodically meet with the Governor and senior administration officials to inform them on current developments and industry concerns. Such an effort should be initiated by inviting the governor to participate in a half-day industry briefing session involving visits to company facilities, meetings with key technical personnel, senior executives responsible for corporate strategy, and followed by an informal dinner with company chairmen and CFO's.

2. TORT REFORM

Pharmaceutical manufacturers view tort reform as one of the most important issues facing the industry. The upward spiral of litigation costs is increasingly viewed as a major factor impacting not only the industry's current bottom line concerns, but the long-term health of the industry. The industry is aware of activities currently underway to deal with this issue and it fully endorses continued efforts to enact legislation which would limit liability for damages through predetermined formula.

3. TAX POLICY

Since the Economic Master Plan Commission has established a Tax Policy Sub-committee to identify specific changes in the State's tax code, this report will not identify detailed tax recommendations. However, two tax ideas were surfaced which should be considered:

- Provide tax incentives for large pharmaceutical companies with excess manufacturing and/or R&D facilities so that those facilities could be made available at below market rates for smaller biotech companies in need of special purpose research or small scale manufacturing facilities (see section B). The State's biotechnology industry benefits from access to affordable facilities as well as provides additional opportunities for contacts between biotechnology businesses and pharmaceutical manufacturers.

- Since the pharmaceutical industry is multinational, with many companies headquartered abroad, the State should continue its policy of avoiding the enactment of a unitary tax system.

4. REGULATORY STREAMLINING

New Jersey has one of the most complex and cumbersome regulatory systems in the nation.

- The State should examine strategies to streamline the compliance process and reduce the complexity of existing regulations. In addition, State law often duplicates or occasionally contradicts local regulatory ordinances especially in the area of environmental laws. A closer coordination between State and local regulatory requirements should be established.

- An additional strategy to improve the regulatory environment would be to establish a one-stop-shopping coordinating body which could assist companies in obtaining all necessary permits and licenses.

- As a result of the Clean Air Act, support balanced targets and a demonstrated good faith effort by employers in meeting the requirements for the establishment of an employer trip reduction program.

5. HIGHER EDUCATION CURRICULUM DEVELOPMENT

While the industry recruits many of its scientific and advanced skills staff nationally and internationally, certain technical and other skilled manufacturing employees are recruited locally. Because of the high level of skills required for workers in the pharmaceutical industry, the State should support contacts between business and higher education institutions (in particular State institutions) with respect to focused curriculum development in light of business and industry needs.

The Task Force and the industry support the current Eagleton Institute initiative which seeks to bring together businesses and academia to create a better linkage between curriculum design and the job skill needs of companies.

Table I

TOTAL PHARMACEUTICAL INDUSTRY JOB CUTS

(including New Jersey)

Month/Year Announced	Company	Job Cuts	Method	Source
11/89	Upjohn	600	early retire	1
10/91	Warner-Lambert	2,700	early retire, layoffs	2
6/92	Upjohn	500	early retire	3
10/92	Bristol-Myers Squibb	2,200	layoffs	4
10/92	Syntex	1,000	layoffs, attrition	5
11/92	Searle	2,250	early retire, other	6
5/93	Ciba-Geiby	600	layoffs, early retire	7
7/93	Marion Merrell Dow	1,850	layoffs, attrition, early retire	8
7/93	Merck	2,100	early retire	9
7/93	Syntex	700	layoffs	10
8/93	Johnson & Johnson	3,300	early retire, layoffs	11
9/93	Bristol-Myers Squibb	1,500	early retire	12
10/93	Eli Lilly	4,000	early retire, attrition.	13
10/93	Pfizer	4,000	layoffs, attrition	14
10/93	Upjohn	1,500	layoffs	15
10/93	American Cyanamid (Lederle)	2,500	layoffs	16
11/93	Warner-Lambert	2,800	layoffs	17
1/94	Bristol-Myers Squibb	3,500	layoffs	18
1/94	Dupont Merck	800	early retire, layoffs	19
4/94	Ciba-Geigy	450	layoffs	20
6/94	Rhône-Poulenc Rorer	200	early retire, layoffs, attrition	21
7/94	American Home Products	2,300	layoffs	22
10/94	Carter-Wallace	630	layoffs	23
10/94	Roche	5,000	layoffs	24

(17 companies)

JOB CUTS BY YEAR

1989	600
1990	0
1991	2,700
1992	5,950
1993	24,850
1994	12,880
Total.............	**46,980**

Source: Jeffrey C. Warren, Pharmaceutical Research and Manufacturers of America

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COMMUNICATIONS / INFORMATION TECHNOLOGIES & SERVICES TASK FORCE

NOVEMBER 1, 1994

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EXECUTIVE SUMMARY

The Telecommunications Revolution: Opportunities and Challenges

Information and communications have merged to become New Jersey's key strategic industry, as important to society and commerce as we approach the next century as canals, railroads and highways have been in the last three. New Jersey has moved from being a state dotted by smoke stacks and fertile farms, to one whose economy is fueled increasingly by those businesses — large and small — that deal in intellectual capital and the trade of information. In other words, ours has become a "knowledge economy," where information is golden and success is measured by our ability to acquire, apply and manage information in all its forms.

The telecommunications and information technology industry in New Jersey provides about 100,000 jobs — more than any other industry segment.

The canals, railroad tracks and highways that served as the lifeline for New Jersey's commercial strength for the last 300 years will be complemented by glass-lined avenues of laser light, joining people to the most sophisticated computers in the world.

Spawned by the convergence of computing, communications and information technologies, the telecommunications revolution even today is affecting the lives of every citizen of New Jersey. Clearly, we've entered an age when computers will talk, televisions will listen and telephones will show us pictures. These capabilities create untold opportunities to improve the quality of life for all who live and work here.

Consider the following possibilities, some of which are in use today:

■ Medical imaging, or telemedicine, will provide doctors and patients with immediate expert opinions by zapping razor-sharp images of X-rays or CAT scans to and from health care facilities that can be many miles away. In the not-so-distant future, physicians once again will make house calls — this time by using two-way video to see, hear and diagnose patients who don't have to leave the comfort of their own homes.

The number of jobs in the communications services industry in New Jersey is expected to grow 6 percent between 1990 and 2005.

- New Jersey Department of Labor

■ Interactive, two-way video networks enable students in one school to take courses offered in another, erasing budget limitations and demographic barriers that, until now, hindered efforts to provide equal educational opportunities to all children — no matter where they happen to live. "Distance learning" also will benefit people who are disabled, homebound or elderly by bringing this state's vast educational resources to their doorsteps.

■ Armed with telecommunications intelligence, existing highways will become safer and less congested by using technology to collect and analyze information about traffic congestion, road conditions and accidents, as well as collect tolls electronically. Intelligent Vehicle Highway Systems also will provide motorists with easily accessible data so they can make informed decisions about when and where to travel.

■ The next generation of home banking and shopping services will enable people to do more than merely pay bills by phone or order a wool gabardine suit modeled on TV.

They'll be able to develop a custom-tailored mortgage or financial portfolio by interacting with a financial consultant over a video link. Or, see how the suit will look on *them* instead of the model — all from the comfort of their living rooms.

Because of technology's dramatic impact, we will need a superior telecommunications infrastructure that not only can speed the delivery of these and other services, but will stand as a paradigm for the nation. And unlike today's concrete highways, copper pipes and steel railroad tracks, this infrastructure will be made of fiber optic and coaxial cable, high-speed computers and work stations, satellite dishes and radio waves, and billions of bytes of information called software.

A single fiber, thinner than a human hair, can carry three episodes of a 30-minute TV show or 45 copies of "The Great Gatsby" in one second.

A state-of-the-art telecommunications infrastructure will guarantee leadership in national and global markets, foster economic growth and deliver overall social benefits, such as improved health care and education, to stimulate the state's economy and serve the needs of New Jersey's consumers, businesses and government.

See Attachment A for a profile of the telecommunications industry.

The Economic Master Plan Commission

At her inauguration, Governor Christine Todd Whitman signed her first executive order creating an Economic Master Plan Commission (EMC). The objective of the EMC is to develop a strategic plan to guide New Jersey's public policy and promote economic development for the next decade. Twelve Task Force Groups were organized to address various aspects of business in New Jersey.

One goal of Governor Whitman's EMC is to make New Jersey a "telecommunications mecca" by investigating ways to support telecommunications companies and developing plans and policies to create an advanced telecommunications infrastructure that attracts business and jobs, and ensures continued economic growth and national pre-eminence. A sophisticated, statewide telecommunications network should be coordinated as part of the implementation of the National Information Infrastructure (NII), with the support and assistance of the state.

The NII will enable New Jersey to improve quality and equity in education and health care, while reducing costs and providing efficiencies. It will help create jobs and begin to close the gap between those who are economically and socially disadvantaged and those who are not. Expanded educational offerings and readily available, top-quality medical treatment will encourage developers to look to all parts of our state for economic opportunities. No state is better qualified nor more favorably positioned to achieve these results than New Jersey due to the presence of such world-renowned research facilities as Bellcore, the David Sarnoff Research Center and AT&T Bell Labs.

The charter of the Communications/Information Technologies & Services Task Force is to focus on public policy issues important to the communications industry and make specific recommendations for new state government policies that will foster economic growth and/or remove obstacles that inhibit business success in the communications industry.

If New Jersey truly is to become a "telecommunications mecca," regulators must proceed aggressively to resolve competitive issues and implement the recommendations of this Task Force in a timely manner. To that end, the Task Force recommends the appointment of a New Jersey Advisory Panel on Telecommunications, to be composed of a select group of both public and private sector members who represent the interests of businesses and citizens.

The Task Force met five times and held one public hearing on August 23, 1994. (Minutes are included as Attachment B.) The Task Force identified the following barriers to business growth in New Jersey and developed recommendations and action plans for eliminating each of them.

The communications sector will be a key driver of future U.S. economic growth. In the period 1992-2002, according to forecasts by an independent economic research group (WEFA) and AT&T's economic analysis staff, the combined growth of communications services and equipment and electronic components will account for 7.3 percent of the total growth of gross domestic product.

BARRIERS / OBSTACLES

The following obstacles prevent business growth in New Jersey:

1) Lack of a governance structure that promotes telecommunications and information technologies.
2) State sales tax on telecommunications.
3) Lack of regulatory policies that advantage all competitive services and companies uniformly.
4) Lack of an infrastructure for education. In addition, a limited skilled work force exists in New Jersey.

GOVERNANCE STRUCTURE

Recommended Goal: Establish a New Jersey Advisory Panel on Telecommunications to ensure that the Task Force recommendations are enacted and provide oversight and direction for the development of an "information infrastructure."

Recommended Action: Appoint the New Jersey Advisory Panel on Telecommunications by the end of the first quarter 1995. The chair of the panel should be someone who has regular contact with and who can advise the Governor on telecommunications issues. This panel should consist of high-level executives from a limited number of companies and organizations (four to six) and report through the chair directly to Governor Whitman.

To promote interconnection between public and private sectors, the Panel must work with selected agencies, universities and private industry to develop projects that would demonstrate the value of designing an open network based on "interoperability." By developing a standard for seamless and affordable interconnection for multiple telecommunications applications, these testbeds could provide valuable insights for policy makers and improve efforts to create a statewide "network of networks."

The panel should have broad authorization to explore and recommend communications solutions and innovative programs that set New Jersey apart from other states as the country's telecommunications mecca. In working toward that goal, the panel should utilize the capabilities of the distinguished research facilities in the state.

Recommended Goal: **Establish New Jersey as the research and development mecca in telecommunications.**

Recommended Action: The task of focusing public and private sector attention and activities on establishing New Jersey as the telecommunications research and development mecca should be the responsibility of the Director of Policy and Planning in the Governor's office. The Director should appoint a Chief Technology Officer (CTO) from within this organization to head an Office of Technology Business Development.

The CTO of the Office of Technology is charged with ensuring that New Jersey's extensive technology businesses are considered in cabinet-level planning and budgeting, fostering business development and creating a forum in which the Governor and technology business leaders can exchange ideas and discuss initiatives.

The results of a recent national public opinion survey of 600 adults by MacWorld show that there is a demand for interactive communications with elected officials: 60% want to take part in public opinion polls, 57% would participate in electronic town meetings, and 46% want to send video or e-mail to elected representatives. *-MacWorld 10/94*

Recommended Action: Develop a private-public entity that provides "one-stop shopping" and functions as a "super incubator" geared to advancing the development, manufacture and commercialization of telecommunications businesses. Achieve "one-stop shopping" by having the New Jersey Corporation for Advanced Technology (NJ CAT) include telecommunications in its efforts to develop and commercialize technology systems. Appoint NJ CAT to administer a Telecommunications Trust Fund and to evaluate these proposals regarding the strategic benefit to education and technology advancement.

Implement these actions by end of first quarter 1995.

TAX ISSUES

Recommended Goal: **Improve the overall business environment and stimulate the growth of business in New Jersey by repealing the state sales tax on telecommunications. The repeal of the sales tax will stimulate job growth and reinvestment, encourage business development and expansion and finally, make New Jersey a more attractive state as a site for companies seeking a new location.**

The elimination of the sales tax could raise New Jersey non-farm employment by nearly 15,000 jobs after one year and close to 28,000 jobs after five years. *-Regional Financial Associates*

Recommended Action:

PERFERRED: Immediate, total elimination of tax on all telecommunications services.

ALTERNATIVE 1: Elimination through a two-step phase-down of sales tax during an 18-month period.

ALTERNATIVE 2: Phase-down of sales tax and development of a "Telecommunications Trust Fund" to provide funds on a prudent basis, at little or no interest, for applications such as distance learning, library automation, medical learning, fully distributed computing, etc. This fund will be financed through the appropriation of a portion of the sales tax on telecommunications services.

REGULATORY / COMPETITION ISSUES

Recommended Goal: Encourage a regulatory mindset and policies that advantage all competitive services and companies uniformly. Develop a strong public policy strategy that fosters fair and open competition, develops unique opportunities, does not take sides and listens to the concerns of providers of competitive services. Ensure safe, adequate and proper service at reasonable rates that encourages competition and economic development. Encourage the continued development of appropriate and up-to-date technology in the communications industry.

The Board of Public Utilities (BPU) must be guided by New Jersey legislation in N.J.S.A. 48:2-21.18.

Recommended Action:

1. Regulators must develop a strong public policy to promote fair and open competition among all service providers and to ensure universal service at reasonable rates.
2. Regulators must promote the development of advanced technology among all service providers to ensure an equal playing field across industries.
3. To serve customers better, a seamless interconnection of video, voice and data networks must be fostered.
4. Regulators must balance their statutory obligation to ensure that all customers have access to affordable service with the trends of the marketplace.
5. It may be appropriate for all service providers to pay into a universal service fund, administered independently and specifically targeted to disadvantaged customers. Regulators must assure that the fund is allocated on a competitively neutral basis.
6. Burdensome and lengthy administrative regulatory procedures that delay or deter competition should be replaced with a streamlined process that provides maximum fairness with particular sensitivity to new and small entrants.

(See Attachment C for comments by the New Jersey Cable Television Association and Teleport Communications Group.)

Telecommunications is having a dramatic impact on education in New Jersey. For example, test scores soared and drop-out, absenteeism and transfer rates plummeted in a Union City school when classrooms and students' homes were equipped with computers and networking capabilities. Likewise, in Bergen and Morris counties, students are taking courses not routinely offered in their own schools through an interactive video network that enables them to participate in classes elsewhere.

INFRASTRUCTURE *for* EDUCATION

Recommended Goal: Establish New Jersey in the top quartile of the nation in the use of telecommunications to improve K-12 education. Ensure effective partnerships are established among educational institutions and private sectors to guarantee the teaching of appropriate skills.

Recommended Action:

1. Establish a Committee of Educators to develop a strategic plan to achieve the overall educational goal. Task Force members could provide volunteers with the appropriate level of expertise.
2. Create a Telecommunications Trust Fund to finance the development of a competitive proposal to implement telecommunications technologies in the classroom.

FOREWARD

In a recent front-page article, the *New York Times* asked people on the street to provide directions to the "information superhighway." Recent publicity notwithstanding, the responses demonstrated that few people have any idea where or what the information superhighway is; fewer still understand its potential importance to this country's success as a competitor in a global marketplace.

New Jersey boasts a telecommunications infrastructure that uniquely positions the state to take advantage of the information superhighway. On that road, spawned by the explosive convergence of computers, communications and information, people in urban, suburban and rural areas will be able to access a myriad of information technologies that will transform the way they live, learn, work and play.

New Jersey receives about $28 million in federal funds annually for telecommunications research and development.

The information superhighway will provide the residents of this state with the means to communicate, educate and improve the quality of their lives. At the same time, it will transform New Jersey into a "telecommunications mecca" that attracts business and jobs and ensures continued economic growth and national pre-eminence.

With the appropriate communications and planning, we can ensure that the people of New Jersey not only know how to find the information superhighway, they will derive all the economic and social benefits that its technology has to offer.

THE COMMUNICATIONS/INFORMATION TECHNOLOGIES AND SERVICES TASK FORCE

The goal of the Economic Master Plan Commission (EMC) is to develop a strategic plan to guide New Jersey's public policy to promote economic development for the next decade and provide an explicit proposal for economic revitalization. The plan will identify necessary actions by government agencies, various economic development bodies, educational institutions, private entities and others.

Twelve Commission Task Forces were formed to address issues in industries such as:

- Pharmaceuticals
- Agriculture
- Financial & Business Services
- Communications & Technology
- Tourism
- Distribution & Transportation
- Higher Education & Advanced Technology
- Real Estate
- Small, Mid-Sized & Emerging Business
- International Trade
- Urban Economic Development
- Manufacturing

The EMC will include assessments of New Jersey's current economic conditions, its competitive strengths and weaknesses and opportunities for economic growth. Recognizing the experiences of other states in fostering economic growth, the plan's primary goal is job creation and retention. The goal of these recommendations should be to promote the economic viability of the state and enhance the quality of life, both of which can be the results of a technologically advanced communications network.

The Communications/Information Technologies & Services Task Force met five times and held one Public Hearing on August 23, 1994. Participants at the Public Hearing included: Tom Lancaster, New Jersey Intercampus Network (NJIN); Elizabeth Christopherson, New Jersey Network; Timothy Comerford, Public Service Electric and Gas; and Patricia Tumulty, New Jersey Library Association.

The minutes of the Public Hearing are included in this report as Attachment B.

LEADING BARRIERS TO THE TELECOMMUNICATIONS INDUSTRY

This section focuses on the perceived barriers to the stimulation of growth in New Jersey. As a result of both the Public Hearing and Task Force meetings, the issues below have been identified as significant barriers to businesses locating in New Jersey. Recommended solutions and action plans have been developed. In addition, the Task Force recommends formation of a New Jersey Advisory Panel on Telecommunications to provide governance to ensure that these recommendations are enacted, as well as provide continuing oversight and direction for the development of an advanced information infrastructure.

Industrywide, the volume of data communications over long distance lines is growing more than 30% per year — more than triple the growth of voice communications. Businesses of all sizes are building local and wide area networks as information technology is viewed increasingly as a strategic asset.
-New York Times 6/1/94

Governance Structure

Recommended Goal: Establish New Jersey as the research and development mecca in telecommunications.

Recommendation: Establish a New Jersey Advisory Panel on Telecommunications to provide governance and ensure that the recommendations and action plans outlined in this Task Force report are enacted, and provide oversight and direction to the development of an "information infrastructure."

The chair of the New Jersey Advisory Panel on Telecommunications should be someone who has regular contact with and who can advise the Governor. This panel should consist of high-level executives from a small number of companies and organizations (four to six) and report through the chair directly to Governor Whitman.

The Advisory Panel's responsibilities would include: providing policy recommendations on aspects of telecommunications; identifying barriers to the use of modern telecommunications services and technologies; acting as an information clearinghouse; coordinating public-sector initiatives and demonstration projects; helping minority and women-owned firms providing telecommunications services gain greater access to capital, participate more in research and development activities, including demonstration projects, and helping them form partnerships with larger providers; working with organizations serving persons with disabilities to provide access to modern telecommunications services; and working with educators and health care providers to make greater use of telecommunications. *(Some members of the Task Force stressed that the Advisory Panel should not address regulatory issues.)*

In addition, the Advisory Panel should develop strategies to:

■ Market New Jersey's current strengths and future potential as the leader (nationally and globally) in telecommunications. This would encompass hardware, software, small and mid-size companies, R&D, large corporations and research universities.

■ Design and implement a statewide information system that will allow all businesses to tap into the wealth of information in the libraries and various governmental resources on the federal, state and local level. Small businesses must have access to information to succeed. The public libraries in this state for more than 100 years have been the primary source of information for small business and developing entrepreneurs. It is essential that this role be expanded and strengthened in the future to allow all businesses to be competitive.

■ Form a "Telecommunications Trust Fund" to be financed through the appropriation of a portion of the sales taxes on telecommunications services, subsidized through private and public grants and administered by NJ CAT.

■ Develop an open network telecommunications system.

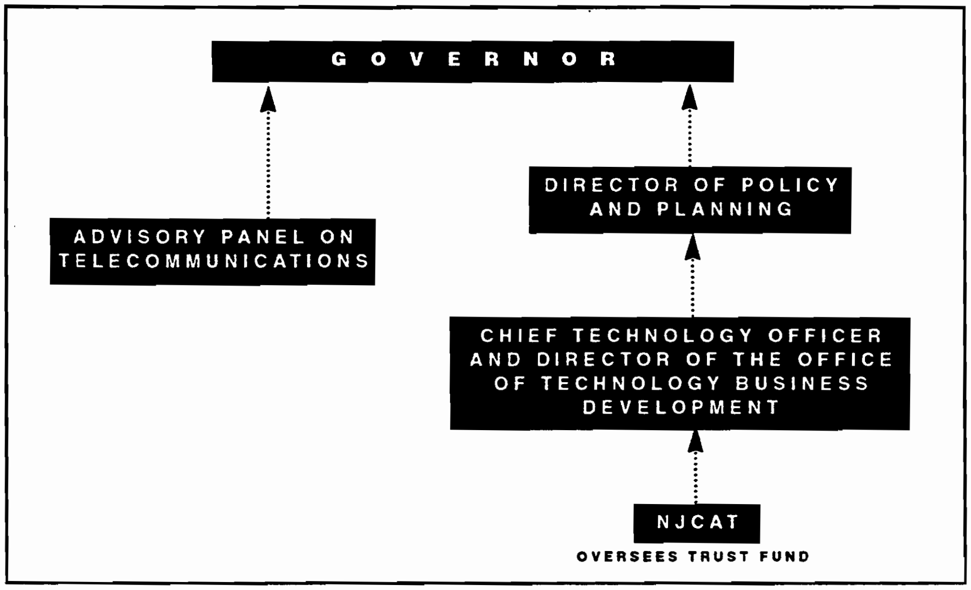
■ Establish benchmarks and incentives for the development of a modern infrastructure. Model New Jersey as a place of eminence as a telecommunications state.

■ Establish a fully competitive telecommunications market in which all providers have access to the communications infrastructure so that customers have choices/options.

Background: New Jersey must facilitate the development of a cooperative effort between private industry, academia, and state and federal government. The primary function would be the development and commercialization of targeted technologies within New Jersey for use both within and outside the state. This entity would function as a "super incubator" geared to advancing the development, manufacture and commercialization of telecommunications businesses.

The entrepreneur-inventor would be brought together with larger businesses, research universities and venture capital sources. The regulatory environment permitting, this private-public entity would provide "one-stop shopping" and the identification of seed capital for a start-up period through venture capital and partnership arrangements. It would ensure that effective partnerships are established among educational institutions and the private sector so that the skills appropriate to the business environment are taught.

Recommendation: The task of focusing public and private sector attention and activities on establishing New Jersey as the telecommunications research and development mecca should be the responsibility of the Director of Policy and Planning in the Governor's office. The Director should appoint a Chief Technology Officer (CTO) from within this organization to head an Office of Technology Business Development. The Office should be developed and staffed using existing resources or by securing assistance from sources such as the Governor's Loaned Executive Program.



The present number of people telecommuting (7.8 million) is expected to grow to 30 million by 2001. It has been estimated that telecommuting results in productivity increases ranging from 15% to 25%, saving companies $6,000-$8,000 per employee.
-NBC Nightly News 3/22/94

The CTO of the Office of Technology is charged with ensuring that New Jersey's extensive technology businesses are considered in cabinet-level planning and budgeting, fostering business development and creating a forum in which the Governor and technology business leaders can exchange ideas and discuss initiatives.

Recommendation: Develop a private-public entity that provides "one-stop shopping" and functions as a "super incubator" geared to advancing the development, manufacture and commercialization of telecommunications businesses.

The New Jersey Corporation for Advanced Technology (NJ CAT) should be expanded to include telecommunications considerations to facilitate new businesses using telecommunications in New Jersey. NJ CAT also should be considered as the administrator for the "Telecommunications Trust Fund" to evaluate proposals on the strategic benefit to education and technology advancement. NJ CAT now considers emerging energy, environmental, and biological technologies recommendations or strategic proposals.

Tax Issues

Background: In 1990, there were a number of fiscal policy changes, including a tax increase totaling $2.8 billion in new taxes. One of these changes included a state sales tax on telecommunications services that created a competitive disadvantage to New Jersey.

For many businesses, telecommunications costs are a critical component of their total operational expenses. It is hardly surprising, therefore, that telecommunications costs are one of the most important factors in determining where to locate a business. States that inflate telecommunications costs by imposing a sales tax remove themselves from consideration in attracting these industries. Frequently, industries that rely on telecommunications costs as their single greatest external expense are in the service sector, where the growth in the national economy is projected. Financial services, high technology companies, information processing, insurance and telemarketing companies are environmentally sound and rely heavily on telecommunications.

These industries continue to grow despite the overall economic downturn. Ironically, the very businesses that this state must target for growth and retention are those that are most affected by the telecommunications sales tax.

Generally, these industries also are highly portable. Thus, if costs in a given state are high, these industries can move easily to a state that has a more hospitable tax environment.

The chart below depicts the current status of sales taxes on telecommunications in New Jersey's neighboring states.

	NJ	NY	PA
Local Service	**6%**	**4%**	**6%**
Long Distance *(State)*	**6%**	**4%**	**6%**
Long Distance *(Interstate)*	**6%**	**no**	**6%**
Yellow Page Advertising	**6%**	**4%**	**no**

A strategy that proposes to "match" a neighboring state misses the point entirely. The goal should not be to "match New York;" it should be to exceed New York in every way. A corporation that is fleeing New York because of its onerous taxes will not move to New Jersey because it has "matched New York."

Evidence provided by Mr. Timothy Comerford at the August 23, 1994 public hearing indicates that PSE&G's relocation efforts have seen a decrease in the number of rental properties on the Hudson River waterfront since the telecommunications sales tax was implemented. In his view, the major contributor to the decisions not to move to New Jersey was the sales tax on telecommunications. As discussed at the Public Hearing, large corporations, such as Beneficial Management, indicated that the New Jersey sales tax on telecommunications is a burden for businesses choosing to locate in New Jersey and thus a deterrent to economic development.

More than 4 billion health care claims are submitted annually in the U.S.; about 90% of them are processed on paper. Electronic claims processing and payment can reduce insurers' administrative costs by more than $5 billion.

-Cablevision 10/3/94

New Jersey enjoyed reasonable telecommunications prices until the telecommunications tax was implemented. It is the consensus of business that the telecommunications tax has deterred business — especially those service industries that are telecommunications intensive — from moving to this state. It is the position of the Task Force, therefore, that improvements in the overall tax policy will be to the advantage of these industries.

Further, a tax on telecommunications services negatively affects a state's entire economy. Telecommunications costs are broad based: They are embedded in the cost of every service that is provided and every product that is manufactured. No other product or service has a more pervasive effect on the daily lives of residents and businesses.

The state tax on telecommunications services is levied in addition to the current 3% Federal Excise Tax. Thus, New Jersey's tax on telecommunications services constitutes double taxation, while most services are not taxed at all.

A tax on telecommunications services also is regressive: It is imposed regardless of profitability and overall ability to pay. In an era of razor-thin profits that are measured by single percentage points, a 9% tax on telecommunications easily could be the difference between profitability and loss.

Telecommunications costs are a significant cost of doing business. Eliminating the 6% sales tax on telecommunications services not only would reduce costs for firms already located in New Jersey, it also would make them more competitive with firms in neighboring states. Finally, reduced telecommunications costs would attract the relocation of business into New Jersey, especially from neighboring states, thus boosting employment.

Over the years, a number of studies have demonstrated that New Jersey has not been especially hospitable to some types of business. "Regional Financial Associates" rated New Jersey's overall business tax burden as the seventh highest in the country. The Corporation for Enterprise Development, in an article that was published in the *Wall Street Journal*, rated New Jersey as the 46th "best" state in which to start a business. Pennsylvania, Connecticut and New York were ranked 16th, 19th and 22nd, respectively.

With the renewed emphasis on the economy and efforts by states to attract and hold businesses, many states will be taking aggressive action to improve their situations. The lack of action by New Jersey will not result in a continuation of the status quo, but in the further deterioration of New Jersey as a site of business opportunity.

If New Jersey repeals the state tax on telecommunications, it will take an important step in improving the overall business environment by reducing the tax burden. The telecommunications tax affects all businesses. Thus, its repeal will benefit all businesses as well.

Recommended Goal: Total elimination of the state sales tax on communications services. In light of the current economic situation, however, decisions to eliminate or reduce the sales tax should take into consideration the impact of the projected revenue shortfall in the state's budget. Therefore, the Task Force has identified two alternatives that may be examined as a phase-in to achieve the goal of reducing the tax burden on the services industries resident in or attracted to this state.

Recommended Alternatives:

Preferred - Immediate elimination of sales tax on all telecommunications services. The immediate repeal of the sales tax on telecommunications is attractive because it would stimulate economic growth immediately.

Alternative 1- Elimination through Phase-Down of sales tax. If the total fiscal impact requires phasing out the tax over a period of time, it should be done in the most equitable manner over a period of 18 months. Additionally, any proposal to phase out the sales tax should be completed within Governor Whitman's current term of office.

Steps:

a) Immediate 3% cut across all services.

b) Elimination on interstate and yellow pages within nine months.

c) Elimination on local service and intrastate long distance within an additional nine months.

Alternative 2 - Phase-Down of Sales Tax and Development of a "Telecommunications Trust Fund" to provide funds on a prudent basis, at little or no interest, for applications such as distance learning, library automation, educational and medical technology, fully distributed computing, etc. This fund will be financed through the appropriation of a portion of the sales tax on telecommunications services.

Steps:

a) Immediate 3% cut across all services.

b) Establishment of a "Telecommunications Trust Fund" with remaining 3% tax until additional reduction in 18 months. Model the fund after the Rural Electric (REA) Project. This telecommunications fund may be administered by a state government agency or, alternatively, through an organization like the New Jersey Corporation for Advanced Technology (NJ CAT).

c) Eliminate additional 1.5% tax over 18 months.

The chart below shows estimated revenues generated by the telecommunications sales tax.

	1995*	1996*	1997*	1998*
			dollars in millions	
■ LOCAL SERVICE *except Yellow Pages*	**165.8**	**174.5**	**82.6**	**191.5**
■ YELLOW PAGES	**25.0**	**26.0**	**27.5**	**29.0**
■ INTRASTATE LONG DISTANCE	**36.0**	**37.8**	**39.7**	**41.7**
■ INTERSTATE LONG DISTANCE	**123.0**	**129.0**	**136.0**	**143.0**
■ OVERSEAS LONG DISTANCE	**10.2**	**10.7**	**11.2**	**11.8**
Total	**360.0**	**378.0**	**397.0**	**417.0**

**Source: New Jersey Division of Taxation*

Decisions to eliminate or reduce the sales tax would have to take this shortfall into consideration.

To modify the existing policy that requires all telecommunications services to be subject to sales tax, legislation is needed.

In the Legislature, there exists a package of four bills, A-520 through A-523, to eliminate the tax on a service-by-service basis during a four-year period. Sponsored by Assemblyman Zecker (R-34), the legislation provides for the elimination of the tax on Yellow Pages advertising (A-520), interstate services (A-521), international services (A-522) and intrastate services (A-523). In addition, two pending bills, A-373 and S-229, would eliminate taxation on all telecommunications under the sales and use tax. Bill A-373 (sponsored by Mikulak) has been assigned to the Assembly Policy and Rules Committee. Bill S-229 (sponsored by Scott) has been assigned to the Senate Budget and Appropriations Committee.

Two other bills — A-1146 (Mattison/Roberts) and S-540 (Kenny/Adler) — propose to phase out the state's sales tax on intrastate and interstate (including international) telecommunications services and the taxation of advertising space over several years.

Regulatory/Competitive Issues

Background: The communications industry in New Jersey continues to have a profound effect on the state's economy. During the next several years, the Board of Public Utilities will be in a unique position to help guide the industry through a period of even greater change. It must do so with wisdom and vision, keeping in mind its own policy goals and legal mandates. Except as those goals or mandates provide, regulators must avoid taking sides among the competing industry groups and must focus continually on the public interest. Most importantly, regulators must be prepared to listen.

Industry, on the other hand, must recognize that competition is here and must participate in promoting competition for the good of all its customers (both commercial and residential).

Together, regulators and industry have an opportunity and the mandate to be innovative. Regulation should be used to encourage innovation.

Competition is the best mechanism for serving the interests of consumers. It drives prices toward costs, stimulates improvements in efficiency and promotes product quality and diversity. Accordingly, competition should be substituted for direct regulation when practical.

In portions of the telecommunications industry, the transformation from monopoly to unfettered competition is both inevitable and desirable. Within the exercise of its discretion, the Board must manage this transition by balancing the interests of consumers, incumbent firms and new entrants.

All entities, whether they be cable, telephone or any other appropriate service provider, must have the same opportunities to participate in the information superhighway. Since the rights and obligations of all telecommunications providers will be defined based upon evolving law and policy, regulators should encourage each of the players in this new era of competition to participate fully in the process.

All participants should be reassured that they will be given a full opportunity to participate and their positions heard and considered. Those who choose not to participate in the process risk being disadvantaged by decisions both on the federal and state levels.

In instances where communications companies are seeking alternative forms of regulation, the Board of Public Utilities must be guided by New Jersey legislation in N.J.S.A. 48:2-21.18 et.seq. that:

1) will ensure the affordability of protected telephone services;

2) will produce just and reasonable rates for telecommunications services;

3) will not unduly or unreasonably prejudice or disadvantage a customer class or providers of competitive services;

4) will reduce regulatory delay and costs;

5) is in the public interest;

6) will enhance economic development in the state while maintaining affordable rates;

7) contains a comprehensive program of service quality standards, with procedures for board monitoring and review; and

8) specifically identifies the benefits to be derived from the alternative form of regulation.

Recommended Goal: Encourage a regulatory mindset and policies that advantage all competitive services and companies uniformly. Develop a strong public policy strategy that fosters fair and open competition, develops unique opportunities, does not take sides and listens to the concerns of providers of competitive services. Ensure safe, adequate and proper service at reasonable rates that encourage competition and economic development. Encourage the continued development of appropriate and up-to-date technology in the communications industry.

Recommended Action:

1. Regulators should develop a strong public policy to promote fair and open competition among all service providers and ensure universal service at reasonable rates.
2. Regulators must promote the development of advanced technology among all service providers to ensure an equal playing field across industries.
3. To serve customers better, a seamless interconnection of video, voice and data networks must be fostered.
4. Regulators must balance their statutory obligation to ensure that all customers receive affordable service with the trends of the marketplace.
5. It may be appropriate for all service providers to pay into a universal service fund administered independently and specifically targeted to disadvantaged customers to assure that the fund is allocated on a competitively neutral basis.
6. Burdensome and lengthy administrative regulatory procedures that delay or deter competition should be replaced with a streamlined process that provides maximum fairness with particular sensitivity to new and small entrants.

(See Attachment C for comments by the New Jersey Cable Television Association and Teleport Communications Group.)

To be successful in the implementation of these goals and objectives, it is essential that the development of a sensible communications policy in New Jersey in this era of technological change and competition include a coordinated effort among all levels of government, and all providers of communications services.

Governor Whitman's EMC is setting a goal of making New Jersey the "telecommunications mecca." Therefore, the state will be investigating ways to support telecommunications companies and developing plans and policies to achieve this goal. However, implicit in the concept that New Jersey should be the "telecommunications mecca" of the country is the need for an awareness of the endeavors taking place in other states.

Absent a coordinated effort in New Jersey on the part of the Whitman administration, industry, and regulators, New Jersey may not be able to make the shift from a state that has acted cautiously in encouraging competition to one that aggressively promotes competitive opportunity. It is only through the vigor of a fully competitive marketplace that a robust, highly technological network will emerge. This sophisticated, statewide telecommunications network should be coordinated as part of the implementation of the National Information Infrastructure (NII), developed by the private sector, but requiring the support and assistance of the state.

The NII will enable the state to obtain significant improvements and equity in education and health care, while reducing costs and providing efficiencies. It will assist in creating jobs and helping to close the gap between those who are socially and economically disadvantaged and those who are not.

Expanded educational offerings and readily available, top-quality medical treatment will encourage developers to look at all parts of our state for economic opportunities.

The most striking results of a noted study on the use of instructional television and video are the overwhelmingly positive perceptions teachers hold regarding the use of TV and video in the classroom. A large majority of teachers reported that television helps them perfrom more effectively and creatively, and even more agreed that it can have a positive impact on education.

The study also produced significant findings regarding student outcomes attributed to instructional television and video. The study showed that instructional television and video generates new interest in topics, and that students learn more when instructional television and video is used. Also, the study showed that instructional television and video increases students' motivation to learn, and that their enthusiasm about school work increases.

-New Jersey Cable Television Association

Infrastructure For Education

Background: The state government must encourage market opportunities through different forms of incentives to encourage a network of networks with the insistence on "interoperability." As indicated in the Public Hearing, technology should enhance teaching, learning, service and scholarship in primary, secondary and higher education in New Jersey. There is also a need to further the development of the telecommunications infrastructure and encourage a marriage between the business and public service sectors to work together to support the applications of information technologies in education.

The lack of a skilled work force has been identified as a primary deterrent for businesses relocating to New Jersey.

All businesses are dependent on the quality and efficiency of their work force, especially among entry-level employees. As staff is "right-sized", it becomes more critical that each employee is highly skilled and productive. In knowledge and service businesses, in fact, employees can be the competitive edge that spells success and profitability. Even though New Jersey and the rest of the country no longer have the low unemployment rates of the '80s, there can still be serious shortages of qualified candidates among specific categories of needed workers. For instance, to fill their positions of entry-level operator and customer service representatives, companies expend a great deal of effort and expense. The majority of applicants for the entry-level positions fail basic aptitude testing.

Just as natural resources, transportation and other physical considerations drove site selection decisions in the past, the availability of trained employees will be a major factor in the years ahead. For New Jersey to excel, it must retain and expand its job base to offer employers a competitive supply of skilled, trained, and motivated workers. The ultimate risk, of course, is that businesses will move or locate their entire operations out of state. Advanced telecommunications also makes it possible to tap into good labor pools elsewhere without actually moving the base. In either case, New Jersey's economy would suffer.

The development of the "information superhighway" will stimulate many new applications of technology and offer many exciting employment opportunities. To be competitive, telecommunications industries will require workers with knowledge of the latest industry technology, computer knowledge, customer service skills, flexibility, and multiple language skills.

Having a qualified pool of potential candidates is the key: Companies need workers with abilities and specific skills. The business community is concerned about both the quality of the work force and the ability of schools to produce adults capable of taking their places in society in general and in the work force in particular. Entry-level job requirements are moving beyond basic language and mathematics; now companies need people with the ability to think creatively and independently, to work cooperatively in groups, to achieve ever-increasing levels of proficiency in rapidly changing skill sets, and the ability to self-manage.

The Cable Television Network of New Jersey (CTN) has been providing live, gavel-to-gavel coverage of select legislative hearings. The cable industry is working with the legislature to begin continuing coverage of the Senate and Assembly, essentially creating a "New Jersey C-Span."

The challenge for New Jersey is to determine and then to communicate to its schools today what competencies graduating students will need for the next decade and beyond. Further, it must make sure that its schools are teaching these competencies effectively to their students.

The solution rests in a much greater degree of public-private partnering than we have at present. Businesses must become active participants in the curriculum setting and tracking processes and even in the delivery of education. Businesses must be an active participant in providing criteria and work force requirements — including setting clear objectives and performance measures — to be used by the schools in the setting of curriculum standards. Educators must welcome and encourage this new dimension in the schools.

As a transitional step between school and work, youth apprenticeships such as those involving Vocational-Technical schools and the telecommunications industry should be pursued. These half-way programs benefit both the students and the companies that participate. They help to maintain strong business-school links and encourage two-way feedback and improvements.

Therefore, it is recommended that effective partnerships be established among schools at all levels and the business community. Businesses need to take an active role in planning, guiding and delivering the educational process that is shaping their future employees. Students need more job-oriented experiences during their formative years. Businesses can benefit from a direct infusion of the latest thinking from the schools. Many of these activities can take place through the use of telecommunications, especially with the deployment of a statewide, distance learning network.

If New Jersey steps to the forefront in fostering such an interactive business/education environment, it will have created a tremendous economic advantage for its people and a great competitive advantage for the businesses operating in New Jersey.

Recommended Goal: **Establish New Jersey in the top quartile of the United States in the use of telecommunications to improve K-12 education.**

Recommended Action:

1. Establish a Committee of Educators to develop a strategic plan to achieve the overall educational goal. Task Force members will provide volunteers with the appropriate level of telecommunications expertise.

2.Create a Telecommunications Trust Fund for the development of a competitive proposal to implement telecommunications technologies in the classroom. Continuing private-public partnerships beyond K-12 will ensure the future availability of a qualified work force.

OBSERVATIONS

Telecommunications represents more just than a vital commodity that can help the state's business, residential and government communities manage information in a knowledge economy. In New Jersey, the telecommunications industry also is the largest source of jobs. According to recent surveys, the telecommunications and information technologies industry provides approximately 100,000 jobs in New Jersey — more than any other industry segment — and is growing.

Any state that plays host to large telecommunications businesses, as does New Jersey, should be able to create special advantages for itself. A dispersed, highly suburbanized state provides an excellent testbed for an advanced telecommunications infrastructure — one that will bring profound changes in the way we work, live and are entertained.

New Jersey's proximity to the broadcast and publishing industries headquartered in New York City presents additional opportunities and leverage. Research and development strength, as exemplified by AT&T's Bell Labs unit, the David Sarnoff Research Center and Bellcore, the central research lab for the regional Bell operating companies, is world-renowned. Small advanced-technology companies that produce materials, devices and industrial systems are cropping up all the time.

If the state's telecommunications industry lacks anything, it is the presence of complementary businesses, such as consumer-equipment manufacturing, which major operators principally do elsewhere, and software, which is a weak and dispersed industry in-state, in comparison to California, Massachusetts, and even New York and Pennsylvania.

Another obstacle that the task force identified, but did not address, was that local governments do not see themselves as being responsible for New Jersey's economic development. The Advisory Panel may wish to address the issue of the government process at all levels, thereby educating local and municipal governments about the benefits of economic development. The policy framework described in this report reflects a new understanding of the increasingly critical role of telecommunications to the long-term economic and social development of New Jersey. The Task Force believes that traditional telecommunications policy makers need to take a broad view of telecommunications as a strategic infrastructure that affects opportunities to improve the quality of life for all who live and work here.

If New Jersey truly is to become a "telecommunications mecca" — and a model nationally and globally — then regulators must resolve competitive issues quickly and establish new policies that will foster economic growth and clear the way for the information age to unfold.

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Industry profile

The communications industry in New Jersey has and will continue to have a profound effect on the state's economy. As indicated in the Executive Summary, the telecommunications and information technology industry in New Jersey employed a total of 98,300 workers in 1993. The communications industry employed 61,900, while manufacturing of industrial-commercial machines and equipment, including computers, employed 36,400.

Principal sectors in the communications service business in New Jersey are:

a) long-distance telephone service

b) local telephone service

c) cable television service

d) cellular/paging service

e) TV/radio broadcasting

f) value-added network management

g) reselling

h) satellite communications.

Ancillary sectors include:

a) data processing services

b) business information services delivered via telecommunications

c) off-the-shelf software

d) customized or contract software

e) telecommunications hardware

f) telecom R&D

g) systems integration.

Minutes of August 23, 1994 Public Hearing Held by the Communications/Information Technologies & Services Task Force

The purpose of the Public Hearing held on August 23, 1994 was to provide a forum for the public and private sectors to present their views on telecommunications issues. The objective was to determine what is needed to advance the telecommunications industry in New Jersey to stimulate economic growth. Four participants provided testimony at this meeting. The speakers were as follows:

Tom Lancaster, New Jersey InterCampus Network (NJIN) - The NJIN has been in existence since 1985 as a task force and in 7/93 began operations as a non-profit organization. The focus of Mr. Lancaster's presentation was on the need to foster the use of information technology to enhance teaching, learning, service and scholarship in primary, secondary and higher education in New Jersey. In addition, he also stressed the need to further the development of the telecommunications infrastructure and encourage a marriage between the business and public service sectors to work together to support the applications of information technologies in education.

Currently 32 colleges are using the Intercampus Data Network. NJIN plans to interconnect existing intra-campus data and video network, educational cable access channels, county interactive television networks (ITVs), and satellite facilities to create the multimedia network. The vision is to implement a network which supports two-way video and data networking, interconnecting all K-12 grade schools, colleges, universities and libraries.

The total cost of creating the multimedia network is estimated to be $7.5M. The U.S. Department of Higher Education will provide $5.65 million when NJIN secures $1.875M in matching funds. A number of grants are being investigated.

Presently, there are experimental networks that provide distance learning and library search capabilities all over the country. Other applications for a two-way video network include re-certification of K-12 grade teachers, as well as a program which teaches the teachers how to teach. North Carolina has a distance learning pilot program which began last year with 16 public schools. The Legislature recently passed a bill to take the program beyond the experimental state, providing $7 million for start-up costs. By January 1995, nearly 100 schools are expected to be hooked up. An experimental trial is in progress in Morris County, NJ. Bellcore provided modems to interconnect the Morris County Libraries.

Mr. Lancaster observed that the NJIN task force was spun off as a non-profit corporation in the absence of a government entity charged with and funded to encourage such interconnections. The Department of Higher Education's Governor's Challenge Grants and Computers in Curricula Program previously assisted the task force activities but were un-funded several years ago. The Department of Education has been difficult to work with.

Mr. Lancaster recommended the formation of a panel that serves as representation for the state to develop a statewide plan which is flexible and will encourage entrepreneurs. This committee must foster continued growth of the work force communications skills. The vision of an inexpensive affordable network needs support. The state government must encourage market opportunities through different forms of incentives to end up with a network of networks with the insistence on "interoperability".

Dr. Hal Raveche suggested ARPANET be viewed as a model. ARPANET has enabled universities and colleges to share information and has had a very positive impact on higher education.

The next speaker was Elizabeth C. Christopherson, Executive Director of the New Jersey Channel. NJN is playing a key role in forging higher education through its public network channel. One operating model of interactive television is in Georgia, where the public TV station has a transponder which is capable of transmitting multiple programs simultaneously. The vision is to interconnect all schools, hospitals and residence complexes. One way to accomplish this in NJ may be by using Bell Atlantic's fiber optic network.

Kentucky has another model of how to provide equitable education. Kentucky has provided a satellite dish on each school to ensure that education is available to all districts.

South Carolina also provides a model used by law enforcement as a result of its federal mandate to reach all law enforcement offices.

The key to building the "Telecommunications Bridges To The Future" is through collaborative partnerships between government, public and private sectors.

Timothy R. Comerford, Area Development Manager of Operations for Public Service Electric and Gas Company - PSE&G has an aggressive program to recruit business into the state. PSE&G has been in the economic development business for over 60 years. New Jersey enjoyed reasonable telecommunications prices until the telecommunications tax was implemented. It is the general consensus that the telecommunications tax has deterred business from moving to NJ.

Following is the impact on the Hudson River waterfront since the sales tax has been implemented:

1991 75 COMPANIES WERE LOOKING AT RELOCATING TO NEW JERSEY
12 committed
1-2M square feet of office space
5,200 jobs

1992 85 COMPANIES WERE CONSIDERING NEW JERSEY
8 committed
800,00 square feet
1,200 jobs

1993 75 COMPANIES WERE CONSIDERING NEW JERSEY
5 committed
600,000 square feet
1,800 jobs

The three primary factors impacting the decision on the Hudson River waterfront for back-office businesses are:

1) telecommunications costs, 2) rental costs, and 3) energy costs.

The decrease in the rental properties happened when the telecommunications tax was implemented. It severely impacts the service industries which are telecommunications extensive. The major contributor in the decision was the sales tax on communications.

Large corporations such as Beneficial Management have indicated that the NJ tax on communications is a deterrent.

THE SALES TAX ON TELECOMMUNICATIONS MUST BE REPEALED.

New York has the capability to lower its energy cost differential, making New York more attractive. NJ does not have this capability. Labor force costs remain about the same.

NJ must try to promote its strengths. One of the biggest problems is that small businesses don't know what NJ can offer (i.e., SONET Ring). New Jersey must differentiate itself and promote its strengths. If the tax was repealed in stages in the urban enterprise zone, this would have an immediate impact on urban real estate development.

Patricia A. Tumulty, Executive Director of the New Jersey Library Association (NJLA) - The NJLA represents the public and academic libraries of New Jersey. This association strongly believes that NJ must focus on the information infrastructure. It is essential to design and implement a statewide information system which will allow all businesses to tap into the wealth of information in the libraries of New Jersey and into various governmental resources on the federal, state and local level. Small business must have access to information to succeed. The public libraries of New Jersey have for over a hundred years been the primary source of information for small business and developing entrepreneurs. This role must be expanded and strengthened in the future to allow all business to be competitive.

Ms. Tumulty suggests that the information superhighway of the future will be more important to the economic and educational strength of our nation in the 21st century than our transportation infrastructure is today. The economic advantage and the competitive edge in the future will go to states which are prepared for the information future. In 1992, Idaho developed (through a comprehensive planning effort including the governor's office, the Legislature, the state library, the Chamber of Commerce, US West, MCI, the Idaho Cable Association and the Association of Counties) the Telecom '92 Connecting Idaho to the Future: A Strategic Plan for Idaho Telecommunications.

Ms. Tumulty observed that the $13 million distributed to NJ libraries annually by the NJ Department of Education was inadequate even to support automation of basic library functions in "have-not" districts. At present there is no DOE support for addition of dial-in "free-net" Internet access nodes or other data networking functions, and even wealthier communities are struggling to keep up with the fast-changing demands for information by citizens.

What is needed to keep New Jersey competitive in the 21st Century is an "information trust fund." This trust fund would provide the financial resources to allow libraries to provide access to information to all. Access to information for all residents of New Jersey through our library system must also be viewed as a public good for economic development.

ATTACHMENT [C]

GARDEN STATE CABLE TV

Phone (609)354-1880
Fax (609) 354-1459

TO:
Margaret Foti, Esq.
Barbara Thurgarland

DATE: September 20, 1994

FROM:
Pat McCall

SUBJECT:
New Jersey Cable Television Comments

Attached please find the New Jersey Cable Television industry's comments regarding the regulatory and competitive issues group's recommended goals.

We offer the following modifications to the points set out in the September 9 draft, under the heading "Recommended Goals." Our proposal is to reflect more clearly the overall goal of removal of artificial barriers to competition while maintaining safeguards that recognize the market power and the propensity of dominant providers to overwhelm competitors.

1. Regulators should develop among all service providers strong public policy that promotes fair and open competition, that recognizes and guards against the strong anti-competitive power of dominant providers, and which ensures the provision of universal basic telecommunications service at reasonable rates.

2. Regulators must ensure an equal opportunity for entry by all potential telecommunications competitors by promoting the development of advanced technology among not less than all providers, through, among other things, the implementation of incentive plans such as are now available to local exchange carriers.

3. The dominant local exchange telecommunications carrier must make available network technology and telecommunications facilities and functions to all other local telephone companies on a fair and reasonable basis, and under uniform terms and conditions.

4. Regulators must monitor the development of competition in the broader telecommunications market to ensure the continued provision of basic telecommunications services to customers at affordable rates.

5. It may be appropriate for all service providers to pay into a universal service fund administered by an independent private firm and specifically targeted to disadvantaged households.

The definition of "universal service" has presented difficulty to some. Whatever the "basic service" which is the subject of the universal service concept may evolve into at some point in the future, we have a recently considered basis to conclude that it is now what is essentially basic telephone service. The basic telecommunications services defined within the Telecommunications Act of 1992 as "protected telephone services," N.J.S.A.48:2-21.17, as applied to residential customers reflects what the Legislature considered as those services reasonably necessary for communications by all in today's world. Those are defined in the Act as telecommunications services provided to business or residential customers for the purpose of completing local calls; touch-tone services or similar service; access services other than these services that the Board has previously found to be competitive; toll service provided by a local telephone company; and the ordering, installation and restoration of these services. Historically, of course, the concept of "universal service" has not included business usage, and so the limitation to residential service.

M E M O R A N D U M

TO: Barbara Thurgarland
Patrick J. McCall

FR: Gail Schwartz

DT: September 15,1994

RE: Communications/Information Technologies & Services Task Force

Here are my comments on the results of the September 9 meeting.

COMMUNICATIONS/INFORMATION TECHNOLOGIES AND SERVICES TASK FORCE / TCG'S COMMENTS ON THE FIVE QUESTIONS OF THE REGULATORY ISSUES GROUP

1. Regulators should develop a strong public policy to promote fair and open competition among all service providers and to ensure universal service at reasonable rates.

It is essential to create the conditions that will facilitate competition and then to provide for equitable responsibility by all carriers offering local telecommunications services to contribute to the preservation of universal service. All carriers must also have equal access to any funds used to support universal service, so that they may compete for subsidized as well as unsubsidized customers.

2. Regulators must promote the development of advanced technology among all service providers - ensure equal playing field across industries.

"Advanced technology" does not imply any particular technology but rather means the technology appropriate to the customers' needs and desired applications. The best way to assure that such technologies will be provided in the cost-effective manner is to allow all competitors to respond to consumer demand without handicapping any.

No provider should be anointed by means of regulatory action to provide specific technologies that are subsidized by general ratepayers. One of the consequences of infrastructure investments made on the monopoly model is that rather than developing and deploying services that respond to the actual demand of consumers, regulated firms that are assured recovery of their investment costs tend to endorse the notion that "if you build it, they will come." Captive ratepayers are obliged to finance investment to support services that are most likely to be utilized by only a select few. Such a strategy actually can delay the deployment of state-of-the-art facilities, because the latter are often developed to satisfy niche markets, and then deployed widely as their cost declines. Instead of the monopoly model, competitive bidding should be the New Jersey model. All companies should be able to submit proposals for any technology. All providers should recover their economic costs as in a competitive market, by pricing services that require "advanced technology" to the market.

It is important that regulators distinguish among carriers according to their market power. A carrier having market power (that is, having the ability to raise prices above cost without fear of competitors with lower prices depriving them of revenues, or having the ability to restrict output without loss of revenue) must be subject to close regulation until such time as a marketplace becomes competitive. New entrants and carriers lacking market power will compete on both price and quality and need not be subject to price or service quality regulation. (They will, of course, be subject to common carrier obligations in so far as they provide telecommunications.)

New Jersey is and always will be in competition with New York State, where consumers benefit from competition from several companies, including TCG, "the other local phone company." In New Jersey, Competitive Access Providers have begun to install high capacity, high speed digital optical fiber networks. TCG itself has a network that extends from the Meadowlands to Trenton and is committed to investing tens of millions of dollars in telecommunications infrastructure. The pace of installation will accelerate if and when regulators make it clear that competition in all services is desirable for all consumers.

3. In order to better service customers, a seamless interconnection of video, voice and data networks must be fostered.

Today, nearly 100 percent of the traffic carried by non-telephone company service providers must be terminated over the telephone company facilities. While networks may be modern, they are not yet fully integrated into a system that will offer choice to many consumers, let alone a system that will offer choice to most subscribers. Monopoly exists in over 99 percent of the wireline markets.

To achieve this goal, cost-based essential interconnections are needed.

1. Central Office interconnection arrangements so new local carrier have interconnection to monopoly elements of LEC networks that is economically and technically comparable to the LECs;
2. Connections to unbundled network elements, such as loop, switching and interoffice elements, at the LEC Central Offices; 26
3. Seamless integration into LEC interoffice networks so that new local carriers' Class 5-type and tandem switches are integrated physically into the local switching network in the same manner as LEC Class 5 and tandem switches;
4. Seamless integration into LEC signaling networks so that the LECs traffic routing systems treat competitive local carriers' Class 5-type and tandem switches differently from a LEC Class 5 and end office tandem switch;
5. Equal status in the control over network databases to allow consumers' calls to be carried efficiently and reliably regardless of which local carriers handle the call;
6. Equal rights to and control over number resources so that all local carriers are equally able to obtain telephone numbers and assign numbers to consumers;
7. Local telephone number portability so subscribers can exercise free consumer choice by changing from one local phone company to another without sacrificing their existing telephone numbers;
8. Reciprocal inter-carrier compensation agreements so that LECs and new local carriers compensate each other reciprocally for terminating calls originated on the other carriers' network; and,
9. Cooperative practices and procedures in engineering, operations, maintenance, administrative and financial relationships to keep the "network of networks" working seamlessly, smoothly and efficiently.

4. Regulators must balance their statutory obligation to ensure that all customers get affordable service measured against the trends of the market-place.

Affordable service for basic telephone service must and can be maintained. Basic telephone service in New Jersey at present consists of dial tone and limited usage within the local calling area. Affordable service in a competitive market will not be a problem. As competition is introduced into various geographical and service segment markets, costs will be driven downward and more and more customers will have superior services below cost will only impede this process. At the same time, prices below cost will impede competition, and must not be allowed.

5. It may be appropriate for all service providers to pay into a universal service fun administered by an independent private firm and specifically targeted to disadvantaged customers.

The purpose of universal service is to support residential customers, not carriers. Thus a provider-neutral mechanism is needed. All carriers should contribute to this fund proportionally to their presence in the marketplace. If a carrier serves a customer eligible for support, that carrier draws from the fund an amount designated as sufficient to cover the difference between what the customer is required to pay and what the cost of service is. By this method, all customers become attractive. All carriers may compete for any customer. Eligibility for subsidies would be determined on the basis of whether a consumer is eligible for any government income support program.

GOVERNOR'S ECONOMIC MASTER PLAN

TASK FORCE ON

FINANCIAL & BUSINESS SERVICES

November 1, 1994

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION
FINANCIAL AND BUSINESS SERVICES TASK FORCE

FINAL REPORT

--November 1, 1994--

I. Improve customer relations between business and government by reducing burdens.

A. The Governor should state or restate her philosophy, requirements and standards with respect to State Departments and Agencies' support of the industries and market places they serve. (Note: An elaborated version of this will likely be included among the RGN overarching recommendations).

B. The Governor should establish a Commission to review the regulatory requirement of all State Departments and Agencies to eliminate conflicting requirements and duplication of responsibilities.

C. Create an agency where issues move towards resolution faster by: (1) creation of an ombudsman at the Asst. Commissioner level; (2) Imposition of deadlines for action by the DEP beyond which they would have no right to stop a project; (3) Statutory mandated review of all Environmental ACTS to determine if they should be amended, renewed or should sunset.

D. No department should be funded by revenues generated from fees, fines or penalties assessed by that body and outside the general revenue fund. The DEP should be funded out of the General Fund and all fees, penalties and interest should be recorded as revenue in the General Fund.

II. Improve customer relations and business competitiveness of proactively supporting business.

A. Establish two branches of economic development. One for businesses already resident in New Jersey seeking to expand or upgrade and the second expressly for solicitation of out-of-state companies seeking to locate in New Jersey. The branches would then deliver the "client" company to a state team that would identify and then coordinate the cross-departmental approvals process.

B. Engage organized labor to take an active role in business development programs.

C. Act as facilitator of a business mentoring program.

III. Increase the Competitiveness of the Insurance Industry by Reducing Unnecessary Regulatory Burdens.

A. Reduce Regulatory Unpredictability and Complexity:

- The Insurance Department should publish within six months uniform practice and procedure standards for licensing, rate applications and policy form approvals to include fixed time periods for review, denial and approval.

- The Insurance Commissioner should work with industry in support of legislation to streamline department procedures and codify unpublished insurance Department policies. This legislation should be targeted for passage within the year.

B. Reduce Industry Costs: Legislation should be enacted to strengthen penalties for insurance fraud.

C. Improve Services to Direct and Indirect "Customer" (i.e., the insurance industry)

- The Insurance Commission should establish and work with an "industry Advisory Group" to further review New Jersey regulatory requirements and processes. This advisory group, to include the Commissioner, should prepare a second phase of legislation to adjust regulations that are considered unwarranted.

(Note: The RGN Team would recommend this be an actual board to the Commission including both consumers and providers and that it have real power/authority over the department).

- The Commissioner of Insurance immediately end the one hour a day restriction on calls from the insurance industry to Insurance Department personnel.

- The Commissioner of Insurance communicate the Governor's standards to the employees of the Department and revise departmental procedures and processes to implement these standards. The use of outside consultants to assist in the implementation of these changes should be considered.

IV. Increase the competitiveness of the banking industry.

A. Allow for accelerated transfers in foreclosures which will permit capital recovery on bad debts.

B. Change regulations to require mortgage bankers to refund to applicants only those fees collected which have not been expended by the mortgage banker in processing the application.

V. **Increase the competitiveness of the NJ tax system.**

A. Eliminate tax at corporate level on Subchapter S Corporations. Corporate rate of tax is higher than individual tax rates at comparable income levels.

B. Homestead tax rebate program be changed for payment of benefit by making the rebate a refundable credit against the New Jersey Gross Income Tax.

C. Eliminate the sales tax on telecommunications.

D. Provide for combined or consolidated corporate tax reporting.

VI. **Improve education to prepare the work force for developing industries.**

A. Require all teachers certified after December 31, 1995 to have 6 credits in basic economics. Further, require New Jersey State Department of Education to develop and implement, by September 1, 1995, curriculum requirement and strategies to meet the National Goals for including economics as a core academic subject for all New Jersey students grades 1 through 12.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. **Recommendation:** The Insurance Department should publish within six months uniform practice and procedure standards for licensing, rate applications, and policy form approvals to include fixed time periods for review, denial, and approval. An effort should be made to conform these procedures and standards as closely as possible to nearby "model" states such as NY or PA.

2. **Benefits and Expected Results** • *Near Term:* Reduction in the tension between the Insurance Department and the industry with respect to these filings.
• *Longer Term:* A reduction in the administrative burden of both the state and the industry as both parties develop an awareness of the consistent requirements.

3. **Cost** • *Who bears cost, how to pay for:* There is no cost involved other than departmental employee time utilized in the development of the standards and procedures.

4. **Individual/Institutional Responsibility for Making it Happen** • *Administrative/Legislative (i.e. government only solution):* The Commissioner of Insurance must initiate the effort within the department to develop these practice and procedure standards.
• *Public/Private:* Not Applicable.

5. **Counter Argument(s):** • *What is opposition view?:* Since this recommendation will benefit all parties, including the insurance buying public, there should be no opposition.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Legislation be enacted to strengthen penalties for insurance fraud. (Specifically requiring incarceration for fraud involving personal injury in automobile related accidents to include any and all individuals who aid or abet in such fraud.)

2. Benefits and Expected Results

- *Near Term:* Overall reduced premium costs to general public.

- *Longer Term:* More insurers underwriting in New Jersey.

3. Cost

- *Who bears cost, how to pay for:* Additional incremental court costs for litigation in prosecution.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):* New Jersey Legislature

- *Public/Private:* Property & Casualty Insurance Carriers/Legal Profession

5. Counter Argument(s):

- *What is opposition view?:* Insurance fraud is not violent crime or criminal activity requiring incarceration.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: The Commissioner of Insurance immediately end the one hour a day restriction on calls from the insurance industry to Insurance Department personnel.

2. Benefits and Expected Results

- *Near Term:* An immediate improved working relationship between government officials and the insurance industry members which they oversee.

- *Longer Term:* Improved cooperation between the state and industry. Quicker access for New Jersey consumers to the latest industry products.

3. Cost

- *Who bears cost, how to pay for:*

Since the volume of calls should not increase substantially, there is little or no cost.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):*

Government only solution to be implemented by the Insurance Commissioner.

- *Public/Private:*

Not applicable

5. Counter Argument(s): There may be some concern that increasing the number of interruptions due to

- *What is opposition view?:* spreading out telephone inquiries could cause decreased staff productivity.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: The Governor should state or restate her philosophy, requirements and standards with respect to State Departments and Agencies' support of the industries and market places they serve.

2. Benefits and Expected Results

- *Near Term:* Clarify to government officials and staff the philosophy of the new administration.

- *Longer Term:* Foster an increased awareness by State Departments and Agencies of their overall mission and produce a "customer oriented" philosophy.

3. Cost There is no cost involved.

- *Who bears cost, how to pay for:*

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):*

Government only solution - Governor and heads of State Departments and Agencies

- *Public/Private:*

Not Applicable

5. Counter Argument(s):

- *What is opposition view?:*

There should be no opposition.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. **Recommendation:** That the Commissioner of Insurance communicate the Governor's standards to the employees of the Department and revise departmental procedures and processess to implement these standards. The use of outside consultants to assist in the implementation of these changes should be considered.

2. **Benefits and Expected Results**
   - *Near Term:* An Insurance Department which incorporates the Governor's philosophy into its everyday operations.
   - *Longer Term:* Create an atmosphere where the Insurance indsutry does not view the Insurance Department in an adversarial manner.

3. **Cost**
   - *Who bears cost, how to pay for:*
     The cost of consultants, if utilized, would be borne by the Insurance Department.

4. **Individual/Institutional Responsibility for Making it Happen**
   - *Administrative/Legislative (i.e. government only solution):* Administrative Government solution
   - *Public/Private:*
     Not applicable

5. **Counter Argument(s):**
   - *What is opposition view?:* There could be general opposition to a business oriented approach to government, but it should be minimal.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: The Insurance Commissioner should work with industry in support of legislation to streamline department procedures and codify unpublished Insurance Department policies. This legislation should be targeted for passage within the year.

2. Benefits and Expected Results

- *Near Term:* Reduction in the uncertainties faced by the insurance industry with respect to documentation submissions to the Insuarnce Department.

- *Longer Term:* Significant administrative savings within the Insurance Department and the industry as the industry becomes aware of the Department's requirements resulting in a reduction of resubmissions.

3. Cost

- *Who bears cost, how to pay for:*

There is no cost to this recommendation.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):*

Legislative changes requested by the Insurance Commissioner.

- *Public/Private:* The industry must make the Commissioner aware of the legislative changes that are most urgent.

5. Counter Argument(s):

- *What is opposition view?:* Due to efficiency increases within the government and the industry, there should be no opposition.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: In conjunction with the prior recommendation, the Insurance Commission should establish and work with an "Industry Advisory Group" to further review New Jersey regulatory requirements and processes. This advisory group, to include the Commissioner, should prepare a second phase of legislation to adjust regulations that are considered unwarranted.

2. Benefits and Expected Results

- *Near Term:* Continuation of the process of streamlining the regulatory process of the Insurance Department.

- *Longer Term:* Further reduction in the administrative time required by both state and industry employees in complying with Insurance Department regulations.

3. Cost

- *Who bears cost, how to pay for:*

There is no cost associated with this recommendation.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):*

Ultimate legislative action required at the request of the Insurance Commissioner.

- *Public/Private:*

The industry must provide legitimate recommendations to the Commissioner regarding unwarranted regulation.

5. Counter Argument(s): There should be no opposition to this recommendation with the possible exception

- *What is opposition view?:* of those who believe it will lead to a weakening of the Commissioner's consumer protection function.

DRAFT 9/12/94

Governor's Economic Master Plan Commission
Business and Financial Services Task Force

Economic Education for Our Students, K-12

Economic illiteracy is a major problem facing not only New Jersey, but the entire United States. According to a 1992 survey by The Gallup Organization, American adults and college and high school seniors have an appalling lack of understanding of economic concepts and issues. Another national survey of 8,200 high school students indicated that the typical high school student could answer only 40 percent of the questions correctly on a national test of basic economic knowledge. In a market-oriented economic system, the people need to have an understanding of basic economic concepts and how the economic system operates. Such economic literacy is required to function effectively as consumers, voters, employees, and citizens.

A realistic understanding of economics and economic forces affecting the workplace are a critical component of the "workplace know-how" advocated in the recent SCANS reports. Without such competencies, employers and workers at all levels are likely to make poor workplace decisions based on faulty economic understanding, and their companies, their jobs, and ultimately American and New Jersey prosperity may fall victim to economic ignorance.

States have recognized the importance of basic economic understanding, and thus economics has been an increasingly important part of the elementary and secondary curriculum. Twenty-eight states, representing two-thirds of the nation's students, require infusion of economics throughout the kindergarten through twelfth grade curriculum. Sixteen states, representing 50 percent of the nation's students, require a semester-long separate economics course. Many more students attend schools and study in districts where economics is infused throughout the curriculum and where separate courses at the senior high, and in some cases junior high level, are offered and required.

While some economic concepts may be included as proficiencies in several high school courses in New Jersey (U.S. History I and II and World Cultures), the majority of New Jersey students are not exposed to economic ideas or principles in any systematic way. In addition, most teachers lack an adequate background training in economics so as to effectively teach their students how and why our economic system operates. (Seventy-five percent of our teachers have never had a course in economics or business!). School districts throughout New Jersey vary greatly in both the amount of economics in the school curriculum and also the amount of economics training which their K-12 teachers possess at the present time. In order to have an effective economic education program statewide, it is necessary to implement training and consultation programs which account for these differences, as well as local goals, resources, and curriculum. New Jersey needs to set state goals and standards in economics.

The Goals 2000: Educate America Act includes economics as a core subject area for our students. The interest in the National Education Goals and the efforts to identify the best in school reform are all based on a concern with our economic ability as a nation to enhance living standards, to provide employment opportunities for all, and to generate enough resources to address our major economic problems. Economics is the cause; economic education is the solution. The fact that economics is now included as a separate subject area within the National Goals means that economics will now be included in a national standards project and eventually a national assessment.

An understanding of how our economic system functions and an ability to use basic economic reasoning and analysis are absolutely necessary if our citizens and students are to participate effectively in economic policy and our high school students are to graduate ready to be productive in our workforce. Economic literacy is essential for <u>all</u> of our students so that they are equipped and prepared for the "economic race of life."

GOALS

1. To increase the level of economic literacy among New Jersey teachers and their students in grades K-12.

2. To incorporate economics into the existing K-12 curriculum of New Jersey's public, private, and parochial schools.

OBJECTIVES

FOR TEACHERS:

1. To increase economic knowledge and skills of decision-making.

2. To increase awareness of instructional materials in economics and to incorporate economics into the existing school curriculum.

FOR STUDENTS:

1. To enhance students' economic reasoning

   Understanding economics means being able to use the discipline to collect information, reason logically and draw correct inferences. Learning economics actively involves students in collecting evidence and processing information, rather than merely using rules and procedures.

2. **To enhance students' decision-making skills**

   Students who think economically use information to make the "best" decisions in the "real world" context. Teachers need to provide experiences which allow students to use economics as a tool for critical thinking and decision-making.

3. **To enhance students' economic understanding across the school curriculum**

   Economics is more important today than ever before because of the variety of choices facing students. From early grades students can utilize economics to improve basic skills and performance in other subject areas. Economics provides students with life skills to be more productive members of society.

Specific objectives are to have students graduate from high school who are:

1. **Knowledgeable consumers**

   Knowledgeable consumers assess the costs and benefits of their decisions. Economics provides students with the skills to plan and make choices that will provide for their well-being and the well-being of their families.

2. **Productive workers**

   Productive workers exhibit superior job performance. Economics provides students with the skills to include short and long run considerations when investing in themselves.

3. **Informed citizens**

   Informed citizens incorporate relevant information in making political and social choices. Economics provides students with the skills to be knowledgeable participants in the political process.

4. **Prudent savers and investors**

   Prudent savers and investors provide the nation and New Jersey with the capital needed to assure long-term economic growth. Economics provides students with the skills to be aware of the benefits and costs of their saving and investing decisions.

5. **Effective participants in the global economy**

   Effective participants in the global economy improve the position of the United States in the world. Economics provides students with the skills to compete with their foreign counterparts.

6. **Lifelong decision makers**

   Lifelong decision makers are able to adapt to change in the marketplace. Economics provides students with the skills to cope with an ever-changing society.

RECOMMENDATIONS

1. Provide teacher-training workshops throughout the state whereby K-12 educators receive a solid grounding in basic economic concepts and skills, along with instruction on economic teaching strategies and available curriculum materials/programs.

2. Provide in-service workshops and consultations with school districts and teachers by trained economic educators to assist in the planning and implementation of economics into the particular school district's curriculum, depending on local resources and goals.

3. Require the New Jersey State Department of Education to develop curriculum requirements and strategies to meet the National Goals for including economics as a core academic subject for all New Jersey students, K-12. This should include revising curriculum to infuse economics throughout the appropriate parts of the elementary and middle school curriculum and also to establish a separate, comprehensive one-semester course for high school seniors. The high school course should also include areas of consumer education and personal finance to equip students with needed "life skills."

The following are additional indications of a problem of economic illiteracy and the need for economic education programs in New Jersey schools:

- The National Council for the Social Studies recognizes the importance of economics in its most recent set of recommendations by proposing infusion and a one-year-long course of government (or civics) and economics.

- The College Board has recognized its importance by establishing two Advanced Placement examinations in economics.

- The National Federation of Independent Business has stated that the basic core curriculum should include economics along with reading, writing, math, science, and history.

- The National Education Goals Panel has stated that the National Assessment of Educational Progress should conduct a national assessment of student achievement in economics at least once, and preferably twice, during the 1990s.

- The National Assessment Governing Board has recently decided that economics will be included in the national assessment prior to the year 2000.

- A recent Gallup survey showed that 96 percent of the American public believe that we should do more in our schools to teach our youth about our economic system.

- The National Council on Economic Education has developed a Framework that defines what an educated high school graduate should know, along with a comprehensive K-12 scope and sequence for introducing economic concepts.

- The Task Force on Education and Economic Growth designated as basic needs for students the "ability to understand personal economics and its relationship to skills required for employment and promotability," and the "ability to understand our economic system."

- The National Commission on Excellence in Economic Education recommended to the U.S. Department of Education that students be able to "understand the fundamentals of how our economic system operates."

- A Report to the Education Commission of the States urged that students be given a comprehension of economics and "our basic economic system."

- Two significant findings of the national survey, "The American Public's Knowledge of Business and the Economy," sponsored by the Hearst Corporation, indicate that "a large segment of the American public is sadly deficient in its knowledge of basic business and economic facts of life," and "the media, which people say are the primary sources of their business and economic information, do not appear to be making any significant impact on this ignorance."

- Too few teachers have the economic knowledge or training in economics to do a good job explaining how the American economic system operates. Because of this lack of formal training, even in the social studies, and because teacher turnover is and will continue to be small, efforts should be concentrated on economic education for teachers in the field, rather than in preparation.

- The teaching of economics through the elementary and secondary schools provides the only way of achieving a consistent and systematic understanding of basic economic concepts.

- Economic education should be provided for <u>all</u> students in a society that values personal freedom and relies on individual decision-making. This means developing economic education curricula for students with a wide variety of scholastic talents.

STATE OF NEW JERSEY

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION

SUBCOMMITTEE ON FINANCIAL AND BUSINESS SERVICES

INDUSTRY SURVEY

October 1994

TABLE OF CONTENTS

Summary of Findings

Of the 22 banking institutions and other depositories responding to the industry survey, all mentioned some aspect of regulation as a deterrent to doing business in New Jersey. The most frequently cited aspect of regulation (by 64 percent of the respondents) was that pertaining to foreclosures and bankruptcies, and specifically, the length of time involved. This problem was most frequently named in response to question #6 (by 55 percent) ("What one change in law or economic conditions would be necessary to enhance the ability of your financial institution or organization to make credit more available to businesses and entrepreneurs in our state?").

Two-thirds of the respondents also referred to taxes in the survey, most often in answer to question #5 (by 45 percent) ("Hypothetically, if you were considering moving your primary headquarters out of New Jersey, what would make you want to leave and what could be done to entice you to stay?"). These answers encompassed both real estate and business taxes. In addressing this question, 41 percent named some aspect of regulation or simply regulation in general.

Unecessary duplication of State and federal regulations was, after forclosures, the next most frequently cited negative response concerning regulation, and mentioned by 39 percent, in response to questions #3 ("What one thing could state government do to help the private sector make more banking services available to economically depressed areas of New Jersey, both inner city and rural?"), #4 ("Please identify any trend or upcoming issue that will make doing business for the financial industry in the Garden State either easier or more difficult in the short-and/or long-term."), #5 and #8 ("Please candidly list any other concerns you believe should be addressed to improve the business environment for the financial industry in New Jersey.").

Overly strict environmental regulation was mentioned by 45 percent of the respondents as an impediment to banking. Some noted that while the statutes and regulations in question did not apply to banking, they were major disincentives for business in general, thereby reducing the market for banking services.

Creating an image of New Jersey as friendly to business was stated by 36 percent as a way of enhancing the process of doing business here or making it more likely for a banking institution to maintain its headquarters in the State.

In reponse to question #3 ("What one thing could state government do to help the private sector make make more banking services available to economically depressed areas of New Jersey, both inner city and rural?"), the overall tone of response was to create a reward system rather than a penalty system, with 41 percent of the respondents specifically mentioning some program of grants, loan guarantees, tax incentives or combination thereof.

In answer to what two or three types of services they would like to provide which are currently prohibited (question #7), 28 percent specifically mentioned some type of insurance or insurance in general, while another 17

(Summary, continued)

percent wanted, in effect, to be able to offer virtually any type of financial management service that exists, including stock brokerage and underwriting corporate bonds. Another 11 percent mentioned mutual funds and another annuities.

Among the 27 mortgage bankers and brokers responding to the survey, the greatest amount of criticism centered on the proposed increased net worth requirements, cited by 12 (44 percent) of the repondents. A third also criticized the new bond requirements, while a third expressed the opinion that New Jersey was over-regulated with respect to their type of business. Five (18 percent) felt that better enforcement against incompetent or dishonest licensees would more effectively accomplish the purported objectives of the bonding and net worth increases.

A third of the respondents also expressed the desire for multiple licenses rather a separate license for each type of function, presumably with some type of fee adjustment. On the matter of better serving economically depressed areas, 12 (44 percent) suggest some type of new program offering financial incentives to the lender, such as the State's guaranteeing loans in these communities.

Industry Survey
(Responses of 21 depositories plus Merrill Lynch Trust Company)

1. What one state law and/or regulation that directly governs your industry (i.e., the Banking Act or Mortgage Banker and Broker Act) inhibits you from expanding in New Jersey?

   (1) Environmental laws and regulations - Burlington County Bank; anonymous depository #2; Farmers & Merchants Nat. Bank
   (2) The 1948 Banking Act as amended - UJB; anonymous depository #1; Spencer Savings Bank, SLA
      . If we get a CAMEL rating of 3 or more we don't receive a satsfactory CRA rating - Spencer Savings Bank, SLA
   (3) Repeal residency requirement for directors of savings banks - College Savings Bank
   (4) The current foreclosure and bankruptcy laws - Roselle Savings Bank; Hudson United Bank (See 4/3, 6/1 and 6/2.)
   (5) Commercial foreclosure system - a.d. #2
   (6) Lack of economic growth - a.d #2
   (7) NJSA 17:9A-315 and 316 concerning reciprocity for foreign banks inhibits the ability of our New Jersey Trust Company to engage in full fiduciary services in other states - Merrill Lynch Trust Company
   (8) Foreign Bank Act - CoreStates-NJ Nat. Bank
   (9) None - Lakeland State Bank; Flemington Nat. Bank; Inter-Boro S&L; Panasia Bank; Peapack-Gladstone Bank; Broad Nat. Bank and Equity Nat. Bank (primarily regulated by federal laws and regs)
   (10) No answer - Audubon Savings Bank; First Financial Savings Bank, S.L.A. a.d. #3 (under $100 million); Atlantic Stewardship Bank

2. Given the pending Interstate Branching Act, if you were considering opening additional branches in another state, would you want to keep your corporatre headquarters in New Jersey or re-locate them here? Please give two or three reasons why or why not?

   <u>Pro</u>:
   (1) Would stay in NJ
      . We are a State-chartered community bank - Lakeland State Bank; Peapack-Gladstone Bank;
      . The management of the bank considers itself to be a local bank with a 75-year history of being a part of Camden County. It would not consider moving its headquarters out of NJ, owing to its heritage - Equity Nat. Bank
      . Here since 1909 - Farmers & Merchants Nat. Bank
      . Banking regulations are progressive in NJ - Flemington Nat. Bank
      . Keep corporate headquarters here but would examine benefits offered by other states such as Delaware - Inter-Boro S&L
      . Plan to stay in NJ and expand into New York and PA; however, might move headquarters in future (See 2/9.) - Hudson United Bank
      . We are a relatively newly chartered State bank - a.d. #3
      . Relatively small size, but would stay in NJ anyway - Roselle Savings Bank
      . Would stay in NJ because of low tax (3%) on savings banks - College Savings Bank
   (2) Largest customer, assets, employment bases are here - UJB; Panasia Bank
   (3) Better tax and regulatory climate than in some other states - UJB; Panasia Bank (i.e. - New York)
   (4) Central location - UJB

(-- answers to question #2, continued --)

(2. Given the pending Interstate Branching Act, if you were considering opening additional branches in another state, would you want to keep your corporatre headquarters in New Jersey or re-locate them here? Please give two or three reasons why or why not?)

Pro:

(5) Transportation facilities - UJB
(6) Now the largest bank headquartered in Newark - Broad Nat. Bank
(7) More room to expand in NJ - Panasia Bank
(8) Positive business environment under Gov. Whitman - Panasia Bank
(9) No answer - Audubon Savings Bank; First Financial Savings Bank, S.L.A.; Atlantic Stewardship Bank; Spencer Savings Bank, SLA

Con:

(1) A more friendly regulatory and tax climate elsewhere - Burlington County Bank; UJB
(2) NJ has not yet signalled if it will be "hospitable" from the regulatory standpoint - a.d. #2
(3) Mention Delaware specifically as preferrable to NJ - Burlington County Bank; Inter-Boro S&L (See 5/6.)
(4) Quality of life for employees - UJB
(5) NJ has had too much legislation not pro-business - Inter-Boro S&L
(6) Have not given much thought to this issue - a.d. #1
(7) The decision would be based purely on economics - a.d. #1
(8) Must remain in NJ because of Foreign Bank Act - CoreStates-NJ Nat. Bank
(9) Would consider moving to another state if it was showing favorable economic growth, had lower taxes and was business friendly - Hudson United Bank
(10) If reciprocity matter is not resolved, would consider relocating, but would prefer to remain in NJ - Merrill Lynch Trust Company

3. What one thing could state government do to help the private sector make make more banking services available to economically depressed areas of New Jersey, both inner city and rural?

(1) Most regulations federal, but State should use influence to ameliorate- Burlington County Bank
(2) We believe we can perform without government intervention - Lakeland State Bank
(3) More State govt. programs to educate community banks about what state and federal grants, loan programs and guarantees are available for economically depressed areas - Flemington Nat. Bank
(5) Use State cash management and pension funds to support bank investment and economic development - UJB
(6) Lower State income tax rate - College Savings Bank
(7) Tax policy - Audubon Savings Bank
(8) State income tax reduction as an incentive - a.d. #3
(9) A governmental responsibility; therefore, grant lower taxes - a.d. #1
(10) A partnership of government and private sector - Audubon Savings Bank
(11) Allow banks full tax advantages of enterprise zones - College Savings Bank

-- Continued --

(-- answers to question #3, continued --)

(3. What one thing could state government do to help the private sector make make more banking services available to economically depressed areas of New Jersey, both inner city and rural?)

(12) Lessen the overall regulatory burden - Burlington County Bank; Inter-Boro S&L
(13) Reduce duplicative regulations and permit requirements, which inhibit construction of new branch banks - Farmers & Merchants Nat. Bank
(14) State loan guarantees to permit non-conforming loans - Panasia Bank
(15) Grants, loan guarantees, etc. - CoreStates-NJ Nat. Bank
(16) Loan guaranty program, interest rate subsidies, tax incentives to lenders - Atlantic Stewardship Bank
(17) Some form of loan guarantee program similar to those offered by S.B.A. - a.d. #3
(18) Better police protection, street lighting, more attention to sanitation-cleaner streets, removal of debris and graffiti - Broad Nat. Bank
(19) Create a reward system instead of penalty system - Audubon Savings Bank
(20) The State should lobby to expand the ability of depositories to extend "CRA credit"-either individually or through a consortium-beyond their immediate CRA area. Our immediate CRA does not include economically depressed areas such as Newark and Jersey City; thus we do not make any effort to grant credit in those areas. - First Financial Savings Bank, S.L.A.
(21) A system of purchasing CRA credits would also be effective. - First Financial Savings Bank, S.L.A.
(22) The state and federal governments have continued to attempt to push the problems of the inner city and rural areas onto the private sector. The basic issues of affordable housing, jobs, crime and opportunity must be addressed and solved before the private sector can make banking services available - Equity Nat. Bank
(23) Banks underwriting standards should not be dictated by any government agency - Peapack-Gladstone Bank
(24) Make sure that the young people in our cities are educated and motivated toward employment. It should not be the responsibility of business to educate them in basic skills - Peapack-Gladstone Bank
(25) No answer - Roselle Savings Bank; Spencer SAvings BAnk, SLA; a.d. #2

4. Please identify any trend or upcoming issue that will make doing business for the financial industry in the Garden State either easier or more difficult in the short-and/or long-term?

Easier:

(1) Administration's "open for business" program should be helpful - Burlington County Bank
(2) The new administration appears to be taking the correct approach to limit government regulation of business in this State - Farmers & Merchants Nat. Bank
(3) The Statewide Loan Pool for small business loans - Atlantic Stewardship Bank

-- Contined --

(-- answers to question #4, continued --)

(4. Please identify any trend or upcoming issue that will make doing business for the financial industry in the Garden State either easier or more difficult in the short-and/or long-term?)

<u>More Difficult</u>:

(1) DEP regulations - Lakeland State Bank; Flemington Nat Bank; Peapack-Gladstone Bank; Atlantic Stewardship Bank; Spencer Savings Bank, SLA
 . Reduce the time (1 1/2 years) to approve application - Flem. Nat Bank
(2) Depositories need exemptions from environmental clean-up responsibility in order to provide effective lending services - Lakeland State Bank; Peapack-Gladstone Bank
(3) Shorten length of time to conclude foreclosure and bankruptcy actions - Flemington Nat. Bank; Peapack-Gladstone Bank; Audubon Savings Bank (See 6/2.)
 . NJ is notorious as being "debtor-friendly" - Audubon Savings Bank
(4) Have a "one-stop facilitator" to take corporation through administrative red tape - Flemington Nat. Bank
(5) Have an EDA representative (or some State economic representative) meet with interested corporations, show industrial parks, locations with adequate infrastructure for company's needs - Flemington Nat. Bank
(6) State statutes and regulations which overlap federal ones and are inconsistent with them - UJB (See 3/11, 8/5.)
(7) State environmental regs which exceed federal standards - CoreStates-NJ Nat. (See 8/5.)
(8) More nationwide consolidations - Inter-Boro S&L
(9) Poor loan demand - Inter-Boro S&L
(10) The creation and retention of jobs is still a problem in NJ; layoffs are still occurring on a large scale, with many of the new jobs offering lower pay and fewer benefits than the jobs being lost - Equity Nat. Bank
(11) Repeal Garden State Savings Act, which subsidizes State's debt, creates uneven playing field and crowds out the private sector - College Savings Bank
(12) Banks are more heavily regulated than credit unions, insurance companies, mutual fund and money market firms; are expected by government, etc. to do more for less - Broad Nat. Bank
(13) Property taxes - Roselle Savings Bank; a.d. #2
(14) Zoning restrictions on residential property - Roselle Savings Bank
(15) Inter-state banking - Inter-Boro S&L; a.d. #2
(16) "Economic colonization," the draining off of NJ deposits by mega-banks, given interstate banking, despite CRA and other requirements - a.d. #1
(17) Interstate banking will make it difficult for small <u>de</u> <u>novo</u> institutions such as ourselves - Panasia Bank
(18) Over regulation on CRA (See 6/7.)
 . "Aggressive CRA" examinations are especially dangerous in a heavily urban area such as NJ - Hudson United Bank
 . The exposure to potential loss is being ignored due to pressure from consumer advocates and special interest groups; should be temperd by risk evaluations and sound banking principles - a.d. #3
(19) The implementation of the New Jersey Traffic Congestion and Air Pollution Act has made doing business in New Jersey much more complicated and costly - First Financial Savings Bank, S.L.A.

5. Hypothetically, if you were considering moving your primary headquarters out of New Jersey, what single problem would make you want to leave and what could be done to entice you to stay?

(1) Reform the environmental nightmare - Burlington County Bank
(2) Governmental regulations such as new controls on employee commuting - Lakeland State Bank
(3) Consumerist legislation which applies to State-chartered banks but from which national banks have a preemption - UJB
(4) Reduce excessive rules and regulations - Inter-Boro S&L; Farmers & Merchants Nat. Bank
(5) Reduce State government spending and taxes for individuals and business - Inter-Boro S&L
(6) If 3% tax on savings banks was raised, would consider moving to Delaware or some other low tax state - College Savings Bank (See 2/2.)
(7) High cost of maintaining offices in urban core areas, i.e. - high taxes, less security, more graffiti to remove, need to have more highly trained and experienced employees to deal with greater complexity of problems and issues - Broad Nat. Bank
(8) Higher taxes and operating expenses; a lowering of same would cause us to stay - Panasia Bank
. Lower income taxes - Atlantic Stewardship Bank
. Lower real estate taxes - Spencer SAvings Bank, SLA
(9) Restructuring of New Jersey corporate taxes - Roselle Savings Bank
(10) The tax problem is a major concern to any business; too much reliance is placed on the property tax - Equity Nat. Bank
(11) High tax and labor costs, increased regulation and court system unfavorable to employers - First Financial Savings Bank, S.L.A.
(12) High cost of living in NJ, including high taxes and expensive real estate and the high salaries required to provide adequate life style - Hudson United Bank
(13) The cost of living in the Northeast, particularly New York and NJ has an adverse effect upon the labor pool of entry level employees; an honest effort to provide low and moderate income housing would be beneficial for keeping people with basic business skills available for jobs - a.d. #3
(14) Uneven regulation - State law becoming more stringent than federal - a.d. #1 (See 4/6 and 8/5.)
(15) Duplicative regulation - a.d. #2
(16) Need pro-active marketing effort to attract companies to NJ and assisting present ones to stay - CoreStates NJ Nat. Bank
(17) No answer - Audubon Savings Bank

6. What one change in law or economic conditions would be necessary to enhance the ability of your financial institution or organization to make credit more available to businesses and entrepreneurs in our state? (i.e., bankruptcy law, bank powers)

(1) Reform the real estate foreclosure crisis - Burlington County Bank; UJB; Inter-Boro S&L; Broad Nat. Bank; Roselle Savings Bank; First Financial Savings Bank, S.L.A.; a.d. #1; a.d. #2 (specifically mentions commercial property) Audubon Savings Bank; Hudson United Bank (See 4/3.)
(2) The major problems that restrict credit in the state have to do with federal regulations and the federal bankruptcy court - Equity Nat. Bank

-- Continued --

(-- answers to question #6, continued --)

(6. What one change in law or economic conditions would be necessary to enhance the ability of your financial institution or organization to make credit more available to businesses and entrepreneurs in our state? (i.e., bankruptcy law, bank powers))

(3) Bankruptcy filings should not be permitted to stay sheriff's sales if they are filed after judgement has been obtained; debtors have ample time to file for bankruptcy protection from the commencement of foreclosure - Audubon Savings Bank

(4) Reform bankruptcy laws - Inter-Boro S&L; Broad Nat. Bank; Hudson United Bank; a.d #3; First Financial Savings Bank, S.L.A.; Peapack-Gladstone Bank; Atlantic Stewardship Bank; Equity Nat. Bank and Farmers & Merchants Nat. Bank (delays) (See 4/3.)
. Lessens the ability of a bank to consider less quality credits - Equity Nat. Bank

(5) DEP responsibility on lenders - Lakeland State Bank; Peapack-Gladstone Bank

(6) Raise limits on SBA loans and GNMA mortgages - College Savings Bank

(7) Other types of financial institutions (see 4/11) should follow the same documentation requirements as banks - Broad Nat. Bank

(8) Relax CRA reqiurements, which make it harder for us to lend statewide - Panasia Bank (See 4/18.)

(9) Expansion of urban enterprise zones - a.d. #3 (See 3/11.)

(10) Tax abatement considerations - a.d. #3 (See 3/11.)

(11) Considering offering small business loans - Spencer Savings Bank, SLA

7. What two or three services would you like to offer your customer that you cannot provide now because of legal impediments?

(1) A greater range of services directly written by the bank, not holding company or subsidiary - Burlington County Bank

(2) The ability to underwrite corporate debt - UJB

(3) Security investment services on the same basis as full service brokerage firms - UJB

(4) Insurance and mutual funds as principal - College Savings Bank

(5) Insurance, lottery tickets and all other financial transactions - Broad Nat. Bank

(6) Insurance and travel agency - Farmers & Merchants Nat. Bank

(7) Mutual funds, annuities and life insurance - Panasia Bank

(8) Insurance, bundled brokerage and bank accounts - a.d. #2

(9) Title insurance, life insurance, auto insurance, etc. - Hudson United Bank

(10) Financial management services - a.d. #3

(11) Not so much services but the ability to negotiate loan pricing on residential mortgages and consumer loans. Discrimination laws such as Reg. B seem to imply that if you agree to a slightly lower than stated rate to get a piece of business, this could be viewed as discriminating towards those who don't get the lower rate - Audubon Savings Bank

(12) Interest paid on business checking - a.d. #3

(13) None or no answer - Inter-Boro S&L; Roselle Savings Bank; a.d. #1; Equity Nat. Bank; First Financial Savings Bank, S.L.A.; Peapack-Gladstone Bank; Spencer Savings Bank, SLA

8. Please candidly list any other concerns you believe should be addressed to improve the business environment for the financial industry in New Jersey.

(1) Continued efforts to lessen the regulatory burden - Burlington County Bank; Inter-Boro S&L; a.d. #1
(2) Mention DEP, local boards in connection with 8/1 - a.d. #1
(3) Easing of environmental restrictions (DEP) - a.d. #3
(4) Discontinue the chartering of new banks unless it can be proven that there are insufficient banking services in the market place - UJB
(5) Continue to cut back on waste and fraud in State government - Inter-Boro S&L
(6) Keep NJ Legislature from dovetailing Fed laws with more onerous State laws and regulations - Inter-Boro S&L (See 4/6.)
(7) State examinations should not be duplicative of federal examinations - College Savings Bank
(8) State government should place more emphasis on strengthening inner inner cities - Broad Nat. Bank
(9) Urban banks should receive preferential treatment from State government- Broad Nat. Bank
(10) Create separate agency to effect foreclosures instead of County Sheriff - Roselle Savings Bank
(11) The South Jersey closings vs. attorney closings - Roselle Savings Bank
(12) Fear competition from larger out-of-state institutions with interstate banking - Peapack-Gladstone Bank; Panasia Bank
. recommend that NJ "opt out" - Panasia Bank (See 4/13, 14, 15)
(13) Law Revision Committee needs to be more understanding of industry's situation and less academically oriented - a.d #2
(14) Easing of regulatory burden on all businesses including financial industry - a.d. #3 (See 1/1, 2/2.)
(15) The image of New Jersey must be changed from anti-business to pro-business - Farmers & Merchants Nat. Bank
(16) Government must be seen as an asset and not a liability by those who want to start or enlarge businesses - Farmers & Merchants Nat. Bank
(17) More education/information shold be targeted to smaller banking institutions to expose their lending and CRA staffs to State programs, grants and tax incentives available to businesses and low-moderate income families - First Financial Savings Bank, S.L.A.
(18) Relief from high cost of insurance - Atlantic Stewardship Bank
(19) Tax incentives to entice out-of-state businesses to NJ - Atlantic Stewardship Bank
(20) Unemployment laws are unfair to employers; must pay unemployment to unqualified individuals, contested to no avail - Atlantic Stewardship Bank
(21) Criteria for CAMEL ratings should be eased - Spencer Savings Bank, SLA
(22) An S&L association should be permitted to remain a mutual of the board of directors so desires - Spencer Savings Bank, SLA
(23) None, no answer - Lakeland State Bank; Audubon Savings Bank; Hudson United Bank; Equity Nat. Bank

Industry Respondents

Depositories and Trust Companies
(Total = 22)

Commercial banks and trust companies (total = 14)

1. Anonymous commercial bank ______
2. Atlantic Stewardship Bank ______
3. Broad Nat. Bank ______
4. Burlington County Bank ______
5. CoreStates NJ Nat. Bank ______
6. Equity Nat. Bank ______
7. Farmers & Merchants Nat. Bank ______
8. Flemington Nat. Bank ______
9. Hudson United Bank ______
10. Lakeland State Bank ______
11. Merrill Lynch Trust Co. ______
12. Panasia Bank ______
13. Peapack-Gladstone Bank ______
14. UJB ______

Savings banks and savings and loan associations (total = 6)

15. Audubon Savings Bank ______
16. College Savings Bank ______
17. First Financial Savings Bank, S.L.A. ______
18. Inter-Boro S&L ______
19. Roselle Savings Bank ______
20. Spencer Savings Bank, SLA ______

Plus two additional anonymous depositories

Mortgage Bankers & Brokers
(Sample = 27)

(1) No prohibition against ownership of a real estate company and a lending company under one corporation; therefore realtors are opening their own mortgage companies and preventing or limiting access to individual real estate sales by independent mortgage lenders; I believe this is a cinflict of interest - Mortgage Service Center, Inc.; Morgan Carlton

(2) In addition to above, mortgage companies cannot solicit real estate agents - Bergen; Accord

(3) Over-regulation (general) - anon. #1; #2; #4; #7; Baker Financial Services; Quest; Bergen; Manor; R&J
. Examiners inexperienced, arbitrary - North Gate; Redwood

(4) Would like to offer FHA loans to customers via an approved mortgage banker - Baker Financial Services

(5) NJ requires too many reports, many of which are probably not read - Baker Financial Services; Unity

(6) NJ is too expensive - anon. #1, #2; Atlantic Finance; Genesis; Unity; North Gate; anon. #5; Horn
. Taxes - Atlantic Finance; Unity; North Gate; Redwood; Parkway
. Licensing and examinations - Redwood
. Requiring licensed person at branch - Horn; Morgan Carlton; First Colonial

(7) Get rid of net worth requirement; if mortgage company has clean record, that is enough, as companies must already be bonded - anon. #2; Baker Financial Services; anon. #3; Atlantic Financial; Ridgewood; anon. #4; #5; #7; Manor; North Gate; R&J; Redwood
. Mortgage broker does not handle money - Redwood

(8) Joint licenses for multiple functions instead of separate one for each - anon #2; #4; Mortgage Service Center, Inc.; Atlantic Finance; Ridgewood; Bergen; Manor; Parkway; Morgan Carlton

(9) New bond requirements - anon. #3; #4; #7; Atlantic Finance; Quest; Manor; Genesis; R&J; First Colonial
. Higher costs will be passed on to consumer - Atlantic Finance; anon. #4
. This will cause the majority of mortgage bankers to close their doors - anon. #7

(10) Better enforcement rather than making bonding, net worth more expensive - Quest; anon. # 2; #5; Genesis
. require only of high risk licensees - Bergen

(11) Replace bonding with clients relief fund - Quest

(12) Second mortgages are limited to three points. This keeps rates higher than they have to be - anon. #6

(13) Regulators don't understand the business; lack of communication - Genesis; R&J

Mortgage Bankers & Brokers
(Sample = 27)

3. What one thing could state government do to help the private sector make more banking services available to economically depressed areas of New Jersey, both inner city and rural?

(1) Additional programs, subsidies - Mortgage Service Center, Inc.; Atlantic; Quest; anon. #1; #4; #5; #6; Horn; Morgan Carlton; Parkway; Island; Kenwood
- . Low loan amounts require higher percentages to be profitable - Mortgage Service Center, Inc.
- . Would probably have to be a write-off; low likelihood of repayment - Atlantic
- . Establish c;lent relief fund - Quest
- . Raise loan funds through a bond issue - anon. #4
- . Mortgage loans guaranteed from State to lender - anon. #1; Parkway; Island
- . Make available programs like the Community Home Buyers Program, which requires only a 5% down payment - anon. #1
- . Have interest income considered tax free to lenders operating in enterprise zones - Kenwood Associates

(2) Work with FHA-HUD to eliminate the regulation that prohibits a loan solicitor from doing an FHA application on behalf of an approved FHA lender if he works for a conventional lender - Baker Financial Services

(3) Offer maintenance incentives such as lower borrowing rates for renovation - anon. #1

(4) Find a way to improve the condition and therefore the value of such properties; promote clean, well maintained properties and safe neighborhoods - anon. #2

(5) NJ Dept. of Community Affairs has requirement that 3 & 4-family homes be inspected approximately every five years; this is not being done, yet secondary mortgage markets and FHA require compliance; it is recommended that 3 & 4-family units with an occupant owner be exempted from inspection requirement - County Mortgage Co.

(6) Establish more liberal lending standards in certain areas - Unity

(7) The private sector can take care of this without additional tax dollars being spent - North Gate

(8) NJ should allow mortgage brokers to become involved in such State-sponsored programs - anon. #3

(9) Reduce onerous regulations so as to expand the industry - anon. #4

Report and Recommendations

September 30, 1994

— Subcommittee —
Business and Financial Services
Task Force

Governor's Economic
Master Plan Commission

CoreStates

New Jersey
National Bank

Purpose: This document represents written testimony to be introduced at the public hearings scheduled for Monday, October 3 in Blackwood and Wednesday, October 5, 1994 in Newark.

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Chairman, President & CEO
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UJB Financial Corp.

I Survey Report

1) **Introduction:** A state-wide survey was conducted during August and September, 1994 by four New Jersey Banks: CoreStates, Midlantic, Summit and UJB. Using previously agreed upon questions, each bank polled members of their New Jersey customer base in a range of industries. 418 responses are on file. [Sample survey form enclosed.]

2) **Summarized Results** (ranked by number of responses):

2.1) "Primary concerns of the business community." Three primary concerns ranked below in order of greatest response.

#1 Taxes
#2 Government Regulation, "Red Tape"
#3 Environmental Issues

2.2) "What can the state do to help business?" and "What additional assistance could the state provide the business community?" elicited three responses:

(1) Reduce taxes and provide tax incentives.
(2) Reduce regulations and "red tape."
(3) Provide more information + promotion.

2.3) In response to "Have you considered moving to another state?" 154 were yes and 243 no.

2.4) When asked if they had "enough knowledge of the state's financing and financial assistance programs?" 273 said "no" and 107 reported they had sufficient information.

II Sub-Committee Task Force Recommendations

Based on the survey results, we recommend two immediate courses of action:

1) That existing state business-oriented programs be aggressively and pro-actively marketed to the New Jersey business community. First priority--existing businesses; second priority--emerging/new companies and out-of-state companies.

   Note: The state might partner with various state organizations for assistance in publicizing programs; [i.e., BIA, State Chamber, Commerce & Industry, Alliance for Action, Small Business Administration, trade associations, community college and university networks, NJSCPA and NJSBA].

2) That existing (lst priority) plus emerging and out-of-state (2nd priority) businesses be assigned a state agency or department to guide and provide them assistance through the processes of clearance, regulations, available state assistance, etc. until the company's regulatory and/or expansion projects have been successfully completed. Said state employee would serve as an "account officer" or "relationship manager" to a portfolio of companies through successful file closure.

   Note: We believe it is more feasible to keep existing business in New Jersey, therefore we must first focus internally rather than to focus on attracting new business in 1995. We feel that existing companies should be made aware of and provided incentives to remain in the state in line with incentives and inducements offered to new and out-of-state companies considering New Jersey relocation.

3) Once we have focused on retaining existing businesses in New Jersey, we must then attract new business by implementing an aggressive marketing and advertising program.

Agreement: We concur as a Task Force that resources should be allocated to implementing the preceding two recommendations. At the same time and in a longer time frame, we respectfully request that the state of New Jersey address the greater problems of tax relief, tax incentives, over and onerous regulation/"red tape," and environmental issues.

To: David Farris/Bob Heinle
Fr: Liz Murray
Re: Legal and Accounting Subgroup
Dt: 10.24.94

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Attached is a compilation of the surveys conducted by the Legal and Accounting Subgroup. Needless to say, the issues are virtually all the same as the other groups found. The members of the group did want to point out the sections on the Division of Taxation and on Accountants, noting that these might add a new dimension to the overall report. We have included the other, more common issues as well in order to demonstrate that they were important to this community as well.

Unfortunately, most comments were not terribly detailed, so there is not much more information available.

Let me apologize in advance for bad grammar and punctuation, I did this quickly, so it isn't perfect. If you need it to be cleaned up, please let me know.

Legal and Accounting Subgroup
Draft Report

DIVISION OF TAXATION

A number of respondents complained about the difficulties they have in dealing with the Division of Taxation. Their complaints were similar to those expressed about DEP. Respondents talked of an unresponsiveness on the part of the Division -- difficulty in getting through on clogged telephone lines, one said -- and negative attitudes of the staff. One even went as far as to recommend a complete overhaul of the Division.

One respondent complained of duplicate or incorrect notices, which reflect tax payments that have been paid, but were posted incorrectly by the Division. This individual has received underpayment notices for a differential of 20 cents.

As a group, complaints about the complexity of filings and onerous reporting requirements, specifically -- unemployment and disability forms, payroll tax reporting, tax preparation for out of state employees and reporting of the sales and use tax. The auditing was described as inefficient and complicated. One respondent suggested better coordination of tax filings, while a second noted that we should combine requirements for annual reports from corporations with their tax filing (the CBT-100).

A common complaint was the length of time that elapses between filing and notice of errors in the return as well as the size of interest and penalties. Some argued that tax reviews should be completed in 18 months, not five years, a time frame cited by several respondents. I inferred that the significant delay drives up the cost of penalties and interest.

A few respondents asked that the Division give struggling businesses a break on interest and penalties, especially if the business is trying in good faith to pay the back taxes. According to one respondent, IRS routinely works out payment schedules and eases its interest and penalty provisions for struggling businesses. One respondent described the Division as the "enemy" while the IRS was acting as a friend. One complaint was specifically about the size of interest penalties on late WR-30 filings.

ACCOUNTANTS

There were a number of survey respondents who were identifiable as accountants. The preponderance of them focused on three issues -- allowing accountants 1) to provide financial services, 2) to accept contingency and referral fees and commissions and 3) whether public accountants should be accorded the same rights and privileges as CPAs. Of course, on the last there was not consensus.

One respondent was concerned that he could not use any indication that he is a licensed public accountant and that he is accredited in certain areas, such as Accountancy and Taxation. He believes that banks are increasingly forcing clients to use CPAs as opposed to public accountants and argues that being a CPA does not automatically make one a good accountant. Public Accountants are regulated by the Board of Accountancy and are required to take continuing professional education, but are not permitted to perform many of the functions a CPA can perform, despite being qualified.

Some other suggestions were 1) to allow accountants to prepare loan agreements and some basic legal documents, 2) to permit public accountants to do single audits, and 3) to be allowed to do incorporation's.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

Respondents complained about overregulation in general and repeatedly. In addition to the severity of regulations, respondents frequently cited delay in getting permits -- one talked of responses taking years -- and the cost the delays add to doing business in the state.

A few specifically cited the Pollution Prevention Act, the Right to Know Act and the Industrial Site Recovery Act as problematic.

One respondent suggested

1. developing results based regulation by collaborating with government and industry.
2. making fees payable on the granting of a permit

DEPARTMENT OF LABOR

The Department of Labor surfaced a few times as a source of irritation. The criticisms were substantially the same as those leveled at DEP and at Taxation -- slow, bureaucratic, fees and fines too high, it adds to the cost of doing business.

LOCAL GOVERNMENTS

Several respondents complained about the difficulties they have had in dealing with local governments. Many specifically cited inconsistencies across political boundaries. These included property taxes, codes, environmental regulations, zoning, planning and the approval of development plans.

One suggested that the lack of consistency was because each County Board of Taxation has different administrative practices and procedures. That respondent also suggested allowing the owners of Class IV property (commercial, industrial, and multi-family residential) to file tax appeals directly with the Tax Court, regardless of the property's assessed value. The respondent also complained that the Tax Court does not make available to attorneys or other interested parties its unpublished opinions.

Many complained that local governments were as bureaucratic as state agencies.

STATE ECONOMIC DEVELOPMENT PROGRAMS

Although a number of respondents argued that the state should not be in the business of providing subsidies to businesses, most were unaware of what the state had to offer. Some of those who were aware of the state programs were complimentary, but more complained that they are bureaucratic and applicants gets tied up in red tape.

A few specific suggestions included 1) easing requirements for businesses to qualify, 2) doing more for small businesses with capital under $1 million, 3) providing more in low-interest loans and 4) providing indirect financing support for laboratory facilities (a biotech company).

One law firm suggested providing funding for companies emerging from Chapter 11, as a means to help get them back on their feet.

Some respondents suggested ways to "get the word out" about government assistance by

1. including information about economic development products in its tax form mailings
2. holding seminars to give information and assistance to businesses.
3. holding seminars for accountants.

TAXES

If there was one issue that was cited consistently it was high taxes. Most of the major taxes were cited -- gross income tax, corporation business tax, sales and use tax, and payroll taxes. Where there were specific concerns other than that taxes were too high, need to be reduced, etc., they were about the cost, practicality and inefficiency of collection, inability to deduct losses or to get credits for job creation, and the need for incentives for manufacturing or purchase of environmental equipment.

COST OF DOING BUSINESS

Businesses complain of the high cost of insurance (workers' compensation was cited specifically a few times) and high utility costs. A number of respondents cited high housing costs (one noted the difficulty of getting middle management to transfer from other states because of housing costs) and high labor costs. Note, however, that both of those items were suggested as descriptions of "economic conditions" that make New Jersey an undesirable place to do business.

Another frequently cited cost of doing business is the added cost of litigation, including settlements. Some noted that the exposure to litigation made New Jersey undesirable. One respondent called for product liability reform, while another opposed tort reform efforts entirely.

A few cited Parkway tolls as a cost of doing business.

INFRASTRUCTURE CONCERNS

A number of respondents cited transportation problems, including lack of public transit, as an obstacle to doing business. A poor education system and a poorly educated workforce were repeatedly noted as problems for businesses.

GENERAL COMMENTS

too much tax relief for the wealthy

complaints about the "attitude" and "incompetence" of bureaucrats

unemployed people should be used to do environmental cleanup

permit state chartered banks to make subsidized loans

more funding for small business loans

revitalize cities

collect mail order sales tax in all 50 states

minimum wage is too high

relax Employer Trip Reduction requirements

allow small businesses to bid on state contracts by

1. requiring the primary contractor to waive bonding requirements for women- and minority-owned businesses
2. requiring municipalities to advertise and notify local businesses of the project

a member of the Asphalt Pavement Association suggested

1. contracting out all work on roads and bridges
2. permit them to recycle good materials to conserve our natural resources

one respondent complained that accounts receivable are increasingly difficult to collect and attributed that in part to the loose bankruptcy laws, giving businesses the ability to be careless or negligent.

locally business training programs, statewide seminars or even using accounting organizations or public accountants should be developed to providing information for business people who apply for new identification numbers. New business owners often have skills in their field, but do not have "business owner" skills.

because colleges and universities begin classes before Labor Day, seasonal employers, especially those in tourism-related industries experience labor shortages in that window.

the definition of "independent contractor" and "employee" for unemployment tax purposes are inconsistent at the federal and state levels.

encourage exports to Europe and the Pacific Rim, in addition to Canada and Mexico

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: No Department, Sub-department or Agency of the State should be funded by revenues generated from fees, fines or penalties assessed by that body and outside of the General Fund.

2. Benefits and Expected Results
- *Near Term:* More accountability to budget process. Better management of activities.
- *Longer Term:*

3. Cost
- *Who bears cost, how to pay for:* None

4. Individual/Institutional Responsibility for Making it Happen
- *Administrative/Legislative (i.e. government only solution):* New Jersey Legislature/Department of Treasury
- *Public/Private:* N/A

5. Counter Argument(s):
- *What is opposition view?:* None

6. Reason: Currently certain bodies of government are funded by fees and fines levied by those bodies (e.g. Department of Enviornmental Protection/Fraud Squad of Department of Insurance). This funding mechanism breeds abuse by Department personnel.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Department of Enviornmental Protection should be funded out of the General Fund and all fees, fines, penalties and interest should be recorded as Revenue in the General Fund.

2. Benefits and Expected Results

- *Near Term:* The Department will not directly benefit from assessments. Costs will be reviewed against budget. Administration of Department will be more accountable.
- *Longer Term:* Same as Near Term.

3. Cost

- *Who bears cost, how to pay for:* No new costs

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):* Treasury
- *Public/Private:* N/A

5. Counter Argument(s):

- *What is opposition view?:* None

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Provide for corporate tax reporting on a combined/consolidated basis.

2. Benefits and Expected Results

- *Near Term:* Allows taxpayers simplicity in reporting and an opportunity to report profit and loss operations as one economic entity.
- *Longer Term:* Business oriented atmosphere for tax reporting.

3. Cost

- *Who bears cost, how to pay for:* Cost would approximate $100 Million depending on methodology for combination. Should be paid out of general funds.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):* Division of Taxation/New Jersey Legislature
- *Public/Private:* N/A

5. Counter Argument(s): Too costly for Treasury

- *What is opposition view?:*

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Eliminate tax at corporate level on Subchapter S Corporations. Corporate rate of tax is higher than individual tax rates at comparable income levels.

2. Benefits and Expected Results
- *Near Term:* S Corporation shareholders will pay less tax.
- *Longer Term:* Adoption will encourage business development in New Jersey. Individuals who form S Corporations for valid business reasons will no longer be penalized for adopting S Coporations status.

3. Cost Formation of new business/or more healthy business in New Jersey will raise overall
- *Who bears cost, how to pay for:* tax revenues.

4. Individual/Institutional Responsibility for Making it Happen
- *Administrative/Legislative (i.e. government only solution):* New Jersey Department of Taxation
- *Public/Private:* None

5. Counter Argument(s):
- *What is opposition view?:* There may be a temporary loss of tax revenue.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Homestead Tax Rebate Program be changed for payment of benefit by making the rebate a refundable credit against the New Jersey Gross Income Tax.

2. Benefits and Expected Results

- *Near Term:* Reduced processing costs and reduction/elimination of issued checks.
- *Longer Term:* Same as Near Term.

3. Cost

- *Who bears cost, how to pay for:*

No new costs.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):*

Treasury/Division of Taxation

- *Public/Private:* N/A

5. Counter Argument(s):

- *What is opposition view?:* Individuals wil not receive specific check for benefit received.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Eliminate the sales tax on telecommunications.

2. Benefits and Expected Results

- *Near Term:* Demonstration to industry that New Jersey is business oriented.
- *Longer Term:* Attraction to information processing industries. Make New Jersey more attractive to securities industry and other higher paying industries.

3. Cost

- *Who bears cost, how to pay for:* $400 million direct reduction of sales tax revenue. This could be paid for by an increase in farm income requirement for farm land assessment and collection from out-of-state vendors of sales tax on mail order sales made to New Jersey residents.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):* New Jersey Legislature
- *Public/Private:* N/A

5. Counter Argument(s):

- *What is opposition view?:* The revenue is needed to balance budget.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. **Recommendation:** Establish two branches of economic development. One for businesses already resident in New Jersey seeking to expand or upgrade and the second expressly for solicitation of out-of-state companies seeking to locate in New Jersey. The branches would then deliver the "client" company to a state team that would identify and then coordinate the cross-departmental approvals process.

2. **Benefits and Expected Results**
   - *Near Term:* Personalizes the permitting/approval/licensng process for a company doing business or soon-to-do business in New Jersey.
   - *Longer Term:* Improve the perception of the New Jersey business climate. Reduce the outbound relocation rate of businesses.

3. **Cost**
   - *Who bears cost, how to pay for:* Government, paid by refocusing current efforts.

4. **Individual/Institutional Responsibility for Making it Happen** Administrative -
   - *Administrative/Legislative (i.e. government only solution):* Office of Commerce and Economic Development.
   - *Public/Private:*

5. **Counter Argument(s):**
   - *What is opposition view?:*

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation:

Engage organized labor to take an active role in business development programs.

2. Benefits and Expected Results

- *Near Term:* Defines and sources technical and educational opportunities.
- *Longer Term:* In general, elevates technical labor pool. A highly skilled work force is cost effective for business.

3. Cost

- *Who bears cost, how to pay for:*

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):* Administrative
- *Public/Private:* Labor unions, professional and trade associations.

5. Counter Argument(s):

- *What is opposition view?:*

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Act as facilitator of a business mentoring program.

2. Benefits and Expected Results

- *Near Term:* Fosters mutually beneficial business relationships. The stronger the business ties, the stronger the ties to a community.
- *Longer Term:* Tends to develop centers for specialized industries where a better coordination of the education-business interrelatinship flourishes.

3. Cost

- *Who bears cost, how to pay for:*

4. Individual/Institutional Responsibility for Making it Happen Administrative -

- *Administrative/Legislative (i.e. government only solution):* Office of Commerce and Economic Development
- *Public/Private:* Business trade associations seeking to expand their member customer/supplier base.

5. Counter Argument(s):

- *What is opposition view?:*

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: The Governor should establish a Commission to review the regulatory requirements of all State Departments and Agencies to eliminate conflicting requirements and duplication of responsibilities.

2. Benefits and Expected Results

- *Near Term:* To eliminate the duplication of procedures with the framework of state government.

- *Longer Term:* To reduce the administrative burden on both the state and industry while still achieving the regulatory oversight function.

3. Cost

- *Who bears cost, how to pay for:*

There is no additional cost.

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):*

To Governor must take action to appoint a Commission and consider its recommendations.

- *Public/Private:*

The private sector must stand willing to assist the Commission in identifying areas of duplicate government efforts based on their experience.

5. Counter Argument(s):

- *What is opposition view?:*

There shauld be no opposition to this recommendation.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. **Recommendation:** Require all teachers certified after December 31, 1995 to have 6 credits in basic economics. Further, require New Jersey State Department of Education to develop and implement, by September 1, 1995, cirriculum requirements and strategies to meet the National Goals for including economics as a core acedemic subject for all New Jersey students grades 1 through 12.

2. **Benefits and Expected Results**
   - *Near Term:*
     None
   - *Longer Term:* Better educated work-force prepared for industries developing for the future.

3. **Cost**
   - *Who bears cost, how to pay for:* Direct cost of state revenue.

4. **Individual/Institutional Responsibility for Making it Happen**
   - *Administrative/Legislative (i.e. government only solution):*
     New Jersey state legislature/Department of Education
   - *Public/Private:*
     New Jersey Teachers Association

5. **Counter Argument(s):**
   - *What is opposition view?:* No funds available - status quo will produce an able work force.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. **Recommendation:** Change regulations requiring the refund of all fees collected from the applicant of a mortgage loan if it is rescinded within 72 hours to allow for the refund of fees collected which are over and above any costs incurred in connection with the processing of the application.

2. **Benefits and Expected Results**
   - *Near Term:* Eliminates current abuse of applicants applying for several loans and closing on one.
   - *Longer Term:* Business oriented philosophy.

3. **Cost**
   - *Who bears cost, how to pay for:* No cost.

4. **Individual/Institutional Responsibility for Making it Happen**
   - *Administrative/Legislative (i.e. government only solution):* Department of Banking
   - *Public/Private:* Mortgage Bankers Association

5. **Counter Argument(s):**
   - *What is opposition view?:* Not consumer oriented.

Top 5 Priority Recommendations
Do it Now

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. Recommendation: Regulations be changed to allow for accelerated transfers in foreclosure in order to allow for capital recovery on bad debts.

2. Benefits and Expected Results

- *Near Term:* More willingness by Lendors to provide capital.
- *Longer Term:* More prudent risk taking resulting is fewer lost jobs.

3. Cost

- *Who bears cost, how to pay for:* None

4. Individual/Institutional Responsibility for Making it Happen

- *Administrative/Legislative (i.e. government only solution):*
  Department of Banking
- *Public/Private:*

5. Counter Argument(s):

- *What is opposition view?:* Debtors in bankruptcy will oppose faster transfers.

Top 5 Priority Recommendations
Do it Now

DEPT. OF ENVIRONMENT PROTECTION

In summary form, backed up by detailed reports - Each recommendation on separate summary page

1. **Recommendation:** Create an agency where issues move towards resolution faster by: (1) Creation of an Ombudsman at the Asst. Commissioner Level (2) Imposition of deadlines for action by the DEP beyond which they would have no right to stop a project (3) Statutorily mandated review of all Environmental ACTS to determine if they should be amended, renewed or should sunset.

2. **Benefits and Expected Results**
   - *Near Term:* Facilitation of Clean-ups. Better utilization of funds for actual clean-up work vs. administrative papershuffling.
   - *Longer Term:* A "can-do" reputation for the State & DEP

3. **Cost**
   - *Who bears cost, how to pay for:* Current budget programs

4. **Individual/Institutional Responsibility for Making it Happen**
   - *Administrative/Legislative (i.e. government only solution):* Legislative mandating of Administrative Action
   - *Public/Private:*

5. **Counter Argument(s):**
   - *What is opposition view?:* Industry/Pollutes will drag their feet hoping the statutes/statute of limitation will expire in the interim.

STATE OF NEW JERSEY

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION

SUBCOMMITTEE ON FINANCIAL AND BUSINESS SERVICES

INSURANCE INDUSTRY SURVEY

October 1994

Summary of Findings

More than one hundred and twelve insurers submitted substantive responses to the Task Force's questionnaire. In addition, four insurers testified at the public hearings held by the Task Force. The overwhelming majority of insurers listed the inability to obtain timely approval of adequate rates and products as a major obstacle to doing business in New Jersey. In addition, they point to New Jersey's regulatory environment which they characterize as being onerous and inconsistent with the other states.

The narrative which follows provides a comprehensive distillation of the companies' responses and testimony. For ease of reference, the items listed below are the major issues identified by the companies which they believe require resolution in order to make New Jersey a better place to do business.

A. The filing approval process: The Departments' approval process for rate and form filings is onerous, inflexible and is one of the slowest in the country. To solve these problems the companies suggest that the Department:

a. Streamline its rate and policy form filing review procedures.
b. Be limited in the amount of time the Department can identify new reasons to reject a form;
c. Eliminate unreasonable and arbitrary guidelines and establish ones which are consistent with those of the other states -- then publish the new guidelines;
d. Increase the number of department staff assigned to perform these review functions;
e. Increase the companies' access to Department staff;
f. Work on changing the attitude of the Department staff from an "adversial" one to one of cooperation.

B. The rate approval process: The process is onerous and expensive and the rates granted are inadequate particularly with respect to private passenger automobile insurance. Streamline the process and approve adequate rates.

C. The cost of doing business in New Jersey: Expenses are too high because of the filing fees charged, the assessments levied and the costs incurred by the onerous and delay-ridden rate and form filing requirements and process. In addition, New Jersey's lack of standardization with respect to its laws and regulations with those of the other states means higher administrative expenses for companies doing business in New Jersey. Another factor enhancing the cost of doing business in New Jersey are the burdensome statistical reporting requirements.

D. Legislative and Regulatory Reform: Initiate tort reform, coupled with enhanced fraud detection and prevention efforts, to produce meaningful cost containment. In addition, with respect to private passenger automobile insurance, reexamine the "take-all-comers" and "eligible persons" provisions as well as the excess profit and withdrawal laws. Finally, as to homeowner's insurance, allow either deductibles for windstorm damage or create a wind pool arrangement.

By way of summary, the following insurer's response to question one is reproduced here in its entirety, because it captures the very essence of the responses of all the insurers answering the questionnaire.

"Overall, New Jersey State government has been characterized since the mid-1970's by an unnecessarily adversarial relationship between various State departments and the business community; it has been most notable in the environmental, financial services and public utility sectors. Every administration has attempted - fitfully and unsuccessfully - to address the symptoms of such an unfortunate attitude but none - except perhaps the current Administration - has addressed the root cause: distrust by regulators of the industries and commercial activities they oversee.

We must move beyond the post Watergate mentality of suspicion and distrust by appreciating that the interests of government and business are more often compatible than not. Government should do its part by using a TQM methodology to become responsive and service oriented. Business should respond by balancing its profitability goals with a sense of community and responsibility.

Our industry sector provides some useful examples. The risk spreading mechanism of our product is vital to cushion the disruptive potential of unexpected losses - whether personal or business. We know how to market profitability and, obviously, are motivated to do so. We accept the need for some public oversight to ensure availability and even affordability and the State has many vehicles, such as its excess profit laws - to ensure that. What we can't accept is artificial constraints on our pricing - often imposed for short term political reasons.

For example, management of both the JUA and the MTF was reprehensible during two Administrations, although particularly egregious from 1990-94 when the operating deficit was knowingly allowed to accumulate over the advice of every responsible actuary who looked at the facility. That kind of irresponsible regulatory oversight is the single greatest impediment to market expansion in our industry because the charges to earnings ultimately imposed through fees and assessments are unpredictable and antithetical to prudent business planning. The Whitman Administration's and Commissioner Karpinski's responses and ultimate resolution, through a consultative process, were encouraging.

We look now for: a continuation of the collegial, consultative regulatory philosophy; meaningful and cost containing tort reform, particularly as it relates to private passenger automobile claims; and a responsive, streamlined Insurance Department handling of rate/form approvals, etc. Doubtless, those developments will eliminate the key obstacles to marketing insurance products in New Jersey."

RECOMMENDATIONS

1. Recommend that the Commissioner immediately end the 1 hour a day restriction on calls from the industry; open the phone lines for business!

2. Recommend that the Governor state or restate her philosophy, requirements, and standards with regard to State Departments' and Agencies' interactions with, and support of, businesses within the industries and marketplaces they serve.

3. Recommend that the Governor require the Commissioner of Insurance to communicate those standards to the employees of his department, and further, that he begin to implement departmental processes and procedures to implement these standards. Use of outside consultants to help train staff and implement (not study) changes should be considered.

4. Recommend that the Commissioner work with industry in support of legislation and regulations aimed at streamlining Department procedures. This could include working with the industry to produce compromise legislation which advances the concept of AB 1885. Such legislation should be targeted for passage this year.

5. Recommend that the Commissioner establish and work with an "Industry Advisory Group" to further review New Jersey regulatory requirements and processes. This "Advisory Group" should be composed of Chief Executive Officers of industry companies and the Commissioner. Through this vehicle, prepare a second phase of legislation targeted for passage next year and prepare adjustments to regulations which are considered unwarranted, over regulation.

6. Recommend that the Governor establish a Commission to review all regulatory requirements of all State Departments and Agencies to identify conflicting requirements and policies and eliminate duplication of responsibilities.

7. Within six months publish uniform practice and procedure standards for licensing, rate applications and policy form approvals. These standards should include fixed time periods for review, denial and approval, and uniform guidelines. The standards should follow, as closely as possible, those of other "model" neighboring states (N.Y.? PA?)

Question One- What two obstacles can you identify that limit marketing you product in New Jersey?

Of the 112 companies responding, 40 percent complained about the length which it takes the Department to review and approve rate increases and product submissions. The companies opine that "inordinate delay" is systemic, affecting several different areas of the Department. According to one company, the Department "moves very slowly with respect to requests for review of rate and form filings. Of the 53 jurisdictions in which we make new product filings, New Jersey is one of the most difficult, especially for life filings."

Another noted that "for a recent pension product, it took New Jersey five months to respond to an initial filing. When the response was received, the denial letter listed additional, new reasons for disapproval. To place this in perspective, within one month of doing a national filing on this product, it had been approved in 20 states." Still another stated that "the result has been that the process takes much longer in New Jersey than in any other state. For example, our most recent variable life product was filed in 50 states five months prior to introduction. We had approval of this product in 49 states by introduction and had still not received New Jersey's first response."

Forty two companies asserted that the filing requirements imposed by New Jersey are a substantial obstacle which limits the marketing of their product in this State. Many of these companies characterized New Jersey's method of filing and reviewing submissions as "onerous". One company opined that the Department utilizes "unreasonable and arbitrary" filing and review guidelines, which are not always consistent with the Departments regulations and that they believe that the Department often has exceeded its statutory and regulatory powers.

Several companies singled out the telephone access policy in which the insurance analysts will take calls from companies only between 2:00 and 3:00 p.m. as being unreasonable. Others noted that "there is a lack of willingness on the part of the staff to make decisions and accept responsibility for those decisions." Still others assert that Department staff manifest an uncooperative attitude in reviewing submittals and exhibit an unusually negative attitude toward insurers.

Another company asserted that the objections made to product forms reviewed by the Department are three to five times the number received from other states' departments and the substance of the objections often appear to be an attempt to impede the introduction of products into New Jersey.

Forty percent of the companies complained that the rates which the Department approves, particularly for private passenger automobile, are too low. In many instances this complaint was made in conjunction with automobile insurance complaints about artificial territory and class cappings. Also at least fifteen companies stated that a combination of the low rates approved and the amount of expenses engendered in securing approval to market a product in New Jersey make it a less-than-ideal place to do business. These expenses include not only the filing fees and other related costs but also lost profits caused by not being able to get a new product to the marketplace in a timely fashion.

Twenty percent of the companies identified overlegislation and regulation of the insurance industry in New Jersey as an obstacle to doing business here. According to these commentors, overregulation and over-legislation lead to inflexibility which will bring an end to the free-market forces which ultimately produce the most efficient insurance environment.

Twenty percent of the companies stated that a lack of uniformity and standardization with other states in regard to rules and forms has created an obstacle for many companies. One company noted that: "N. J. doesn't follow countrywide forms and rules which makes it more expensive and difficult to market." According to several companies, this State's onerous or non-standard requirements (for example, with universal life and variable universal life products, as well as with long-term insurance products and worker compensation coverage) inhibit market growth.

In addition, a host of other issues were raised in answers to question one:

a. Five of the companies complained about the "take-all-comers" provision of the FAIRA Act. They believe that this substantially restricts their ability to make a profit.

b. Five companies identified the private passenger automobile insurance excess profit law as a substantial obstacle to doing business in New Jersey. It is their belief that the profit incentive is lost and, as a result, their competitiveness and interest in doing business in the State of New Jersey are diminished.

c. Four companies complained that the Small Employer reforms which require them to sell only five standardized health insurance plans have forced these companies to withdraw from the small group market in New Jersey. According to one company, "The complexity of administration in claims payments procedures which would be involved in the offering of five-state plans was a major reason for our withdrawal."

d. Four companies complained about the unreasonable restrictions on their ability to withdraw from a product line. Thus, they believe that they are being locked into New Jersey which is an unattractive state from their prospective.

e. With respect to coastal catastrophic wind exposure, five complained that there was a need for high-risk insurance pooling.

f. Three companies pointed to the need for surplus lines to fulfill a role in the residual market for hard-to-place business in New Jersey, specifically lead contamination and asbestos exclusions.

g. One company complained about the high compensation rates allowed to be paid to agents.

h. One company took issue with the "Dynamic Capital and Surplus Act of 1993". The company believes that the requirement of cash or short-term invested assets is too rigid especially on small companies which suffer a substantial economic loss when significant parts of their capital are tied up in cash and short-term investments. The company would like to see the law changed so as to allow the investment in capital and surplus in medium-term government or investment grade, U. S. government-backed instruments.

i. One respondent indicated that it is eager to do business in New Jersey, but feels that the Department of Insurance lacks the understanding and experience level to deal with the complexities of niche underwriting (i.e., fine art underwriting). The respondent sees a market in the State for this product; however, it had great difficulty in getting approvals of its certificate of authority and products from the Department of Insurance.

Question Two- If such obstacles were eliminated or mitigated, would you consider expanding your market in New Jersey? In what lines of business? If not, why not?

Of the 88 companies responding to Question Two, 85 stated that they would expand their market in New Jersey if the obstacles that were identified in question one were eliminated or mitigated.

a. Thirty-one of the companies answered "yes" without specifically identifying into what product lines they would expand. The following answer is illustrative:

> "Simply removing these obstacles would expand our market in New Jersey using our existing products. When half of the portfolio is unavailable because of onerous state requirements it tends to limit marketing efforts. We have had little success in recruiting new agents in New Jersey, at least in part due to these problems."

Many companies simply stated they would be willing to expand if these matters were "clarified and settled." Another stated "absolutely, we would consider expanding our market in New Jersey if the above limiting factors were eliminated or mitigated. With the renewed interest in banks and insurance, it makes good business sense to offer a range of products that can be sold through banks either as a stand-alone product or as part of a loan transaction (e.g., ordinary term/whole life, disability, hospital indemnity, homeowners, auto, renters insurance coverages)."

b. Twenty-five insurers identified the following kinds of life insurance-related products they would market. These include whole life, annuities, group life, universal life, term life, credit life and disability insurance. One company stated "yes, currently there are 2,375 licensed agents in the state of New Jersey appointed with company. If the life and annuity products offered by the company were approved in a timely manner, these agents could begin producing while the product is new." Another stated "we would sell newer, more competitive life insurance products which, in turn, would benefit the residents of New Jersey."

c. Fourteen companies indicated that they would expand into the commercial insurance marketplace, including workers' compensation, commercial liability, commercial inland marine, commercial property and commercial auto. According to one company, it continues "to aggressively pursue commercial lines growth while at the same time providing a market for quality personal lines business. The mitigation of the above obstacles would create a more favorable long-term industry environment and further reinforce company's commitment to the state."

d. Ten insurers indicated that they would develop or expand into the health care, long-term health care, and managed health care markets.

e. Nine insurers indicated that mitigation or elimination of the obstacles would allow them to get into or develop their business in automobile insurance, both private passenger personal and commercial. As one company stated: "If the above obstacles were eliminated or mitigated, we definitely would consider expanding our market in New Jersey in the automobile line of insurance."

Only four insurers answering question 2 responded in the negative. Even those companies did not totally rule-out the further development of business in the State; however, the insurers expressed reluctance during any transitional period According to one company, it would not consider expanding its business operations in New Jersey "until government establishes a track record of providing a favorable climate".

Question Three- What two obstacles limit your administrative and operational activities in New Jersey?

The majority of companies stated that the filing requirements imposed by the Department of Insurance are the major obstacles. Twenty five percent of the insurance companies specifically commented about the nature and extent of the filings that must be accomplished throughout the year on the various products which they offer. For example, one stated: "First, there are incredibly burdensome filing requirements under the prior approval rate law (over 1,000 pages for an auto filing) and under other reporting (e.g., the auto excess profits reporting law)." These onerous filings have contributed to overall "inflated administrative and operational costs--attorney's fees, indemnity payments and adjustment expenses, payroll and physical plan costs." Another remarked that the extensive filing requirements "tie our hands" in creating innovative marketing strategies in New Jersey.

A sampling of quotes provides additional amplification. According to one company: "the cumbersome reporting and rate-making process in New Jersey is a major obstacle confronting insurers. The significant delays in the product approval process also tends to place an unfair burden on insurers and denies consumers more competitive products that their counterproducts in other states enjoy." Still another company stated: "more and more annual and quarterly filings -- no other industry comes near. Too much information for you to process." And lastly, another reports: "massive data reporting requirements -- in many cases duplicative."

Twenty percent of the insurers indicated that the entire review and rating-making process takes too long and is a major obstacle limiting their administrative and operational activities in New Jersey. Many of these comments are similar to the responses to Question One. For example, one company stated "working issues through the Department of Insurance can be a tedious and time-consuming process." Another noted that: "the delay means we offer out-of-date products in New Jersey and new products everywhere else." Many simply stated that the delay in obtaining product approval was the major obstacle to their administrative and operational activities in New Jersey.

Twelve insurers responded to this question by stating : "same response as number one," referring thereby to the length of delay in securing product and rate approval and the lack of accessibility to Department personnel.

In sum, over half of the companies responding to this question, identify the Department's process of product and rate review as the major obstacles to their administrative and operational activities in New Jersey.

Ten companies also indicated that there was a need on the part of the Department to use standardized filing and standardized forms consistent with the practice in other states. As one company explained: "Separate forms for New Jersey makes administration more difficult.. New Jersey is one of only a few states that are requiring their own forms." Another company pointed to the: "lack of commonality with other states on workers' compensation forms." Still another company complained about the inability to use the services of I.S.O. for rules, forms and endorsements on private passenger automobile insurance.

Three insurers answered that they encounter a lack of cooperation and/or experience on the part of Department personnel which they believe has impacted on their administrative and operational activities in New Jersey.

Three other insurance companies believe that they ought to be able to charge rates consistent with an open market concept which would allow them to establish premiums consistent with their costs and spur competition which, they opine, ultimately benefits the consumer. As a result, they believe that all rate regulation should be eliminated or restricted.

Three other insurers complained about the high cost of the Department's filing fee schedule.

The following issues were mentioned as obstacles by only one company a piece and are noted for consideration:

a. The "take-all-comers" provisions of the FAIR Act.
b. The agent licensing rules and regulations.
c. PIP fraud.
d. The surplus level required of insurance companies in New Jersey.
e. Electronic tax payment requirements which are too restrictive.
f. High cost of labor.

Question Four- If such obstacles were eliminated or mitigated, would you consider expanding your operations in New Jersey?
In what lines of business? If not, why not?

A total of fifty-five companies responded to question four. Only three insurers indicated that they would not be willing to expand their operations in New Jersey if the obstacles were removed. These insurers offered no explanations for their positions.

Of the fifty-two insurers answering in the affirmative, the following comments are representative:

a. Fifteen insurers responded affirmatively but did not state into what lines of insurance they would expand.

b. Twelve insurers gave the answer "see number 2 above,"--implying thereby that they would expand into all areas of the insurance marketplace if the obstacles referred to in question 4 were eliminated.

c. Thirteen indicated that they would expand their involvement in the whole life, group life and term life insurance markets as well as annuities, disability income and mortgage insurance.

d. Six companies indicated that they would expand into the automobile market place, both commercial and private passenger.

e. Five insurers indicated that they would increase their participation in commercial lines insurance, including workers' compensation.

f. Two companies indicated that they would expand into health insurance.

g. Two insurers indicated that it would become more involved in property and liability insurance.

Question Five- What conditions make it desirable for your company to redomesticate into or out of New Jersey?

Twenty of the 42 companies responding to this question referred to the concerns they expressed in their other responses to the questionnaire and the significance of the successful resolution of them. Additionally, other conditions were mentioned including lowering of premium taxes, revenue enhancements, favorable regulatory treatment and increased cooperation between all parties to find acceptable solutions to common problems.

According to one company: "the factors which are relevant to the decision to redomesticate involve the level of regulation by the Department of Insurance; whether the market is allowed to operate efficiently with a minimum of regulation, and whether the Legislature is more or less inclined to micro-manage the business decisions of private enterprise." For the most part, these 20 companies see the redomestication issue as a business proposition. If it makes sense economically, and gives them better access to the market place, and facilitates management and operations, then they will not rule out the possibility of redomestication.

Twenty-two responding companies indicated that they would not consider redomestication in New Jersey under any circumstances. Some indicated that they were geographically far removed from New Jersey and have a good working relationship with their current state of domestication. A few responses were quite negative. One stated: "In 1990 we redomesticated the (company) from New Jersey to Nebraska. Although there are numerous reasons for this redomestication, retaliatory taxes were of paramount concern. Labor and other costs of New Jersey operations were also relevant factors." Another stated "there are no conditions known to mankind that would cause us to entertain the thought of redomestication to New Jersey."

Other than these few comments, the other answers were for the most part based on business decisions that are not likely to change unless substantial economic incentives are offered outside the control of State government occur.

Question Six- What is the single most immediate action New Jersey could take to have a positive impact on your operation in the State?

Eighty eight of the participants in the survey responded to this question. Forty answers directly related to the filing and review process employed by the Department of Insurance. All forty suggested a speeding-up of the review process regarding forms, rates and rules. Several companies suggested an immediate redesign of insurance regulations and procedures with particular focus on the timeliness of the review process. Several companies recommended implementation of a 30-day "deemer rule" as well as a requirement that the Department be restricted to listing its reasons for denial of a product submission only once.

In addition to the above responses dealing with faster action in the review process, six companies commented that timely review would be substantially enhanced if personnel at the Department had a better attitude towards the needs and requirements of the insurance industry.

Eight others suggested that there should be an expansion of staffing at the Department. "The state Department of Insurance has excellent employees. The problem is that they don't have enough of them. We would be positively impacted if the Department had the personnel to handle form and rate filings on a more timely basis." Another company suggested "increase staffing for policy form approvals."

Eighteen other companies suggested that immediate reform of various portions of the automobile insurance laws of the State would be needed in order to have an immediate positive impact on their operations. Some of the suggestions include a true no-fault system -- abolish lawsuits for non-economic loss, but give drivers the option to buy additional coverage for pain and suffering under their own policies. Other suggestions include the elimination of the "take all comers" rule and also the allowance of adequate rate levels. Several other companies (not in the automobile insurance business) object to the FAIR Act surcharge imposed on all companies whether or not they ever wrote private passenger insurance.

Eight insurers believe that a competitive rating law should be immediately enacted so that competition would open up the market place.

Five companies suggest the need for immediate tort reform with limits on recoveries for non-economic damages.

Two insurers press the need for further implementation of controls on health care costs.

The following items were raised by only one company each:

a. Repeal the existing Small Group Reform Law and replace with the NAIC Model Law.
b. Pass Assembly # 1885 which would make New Jersey a "file and use" state for policy form approvals.
c. Pass laws reducing workers' compensation system's costs and depopulate the residual market.
d. Approve lead contamination and asbestos exclusions.
e. Repeal the selective contracting arrangement requirements.
f. Eliminate all uncertainty in the insurance market place.
g. Resolve the wind storm situation.

Question Seven - New Jersey is a coastal high-density state. What actions would you like to see enacted for various lines of property and liability insurance by:
(a) New Jersey Insurance Department?
(b) The New Jersey Legislature?

Fifty two companies responded to question seven. Over half of the responses proposed solutions or partial solutions to the problem. Fifteen companies favor the immediate allowance of deductibles for windstorm damage. Most suggest that a deductible of up to 2% would be appropriate. Ten companies advocate the creation of a wind pool arrangement funded by policyholder assessments. Several of these point to the catastrophe fund or reinsurance vehicle employed in Florida. The remaining companies believe there should be adoption and enforcement of stronger building codes leading to the restriction on construction in high risk coastal areas.

Eighteen companies raised issues regarding automobile insurance in the State. These include reconsideration of the "take all comers" law; reconsideration of the agent termination law; removal of the excess profit law; amendment of the "eligible person" criteria to allow assigned-risk business to expand to 10% of the market; allowance of adequate rates for private passenger automobile insurance; allowance of managed care for PIP and the repeal of the State's withdrawal law.

Three insurers suggested the need for immediate meaningful tort reform while two others believe that review and elimination of the cancellation laws which apply to insurance products should be undertaken.

Other suggestions include:

a. Approval of lead contamination and asbestos exclusions;
b. Educational programs encouraging everyone to take advantage of federal flood insurance programs;
c. Approval of adequate rates for workers' compensation; and
d. A trade zone for designated large commercial accounts.

Finally one company stressed that it deals only in farm-related insurance and does not wish to be compelled to participate in any windstorm assistance program.

Question Eight - What is your greatest concern regarding the current insurance regulatory environment in New Jersey as compared to other states where you are currently doing business?
What states provide a more favorable environment?

Seventy two companies responded to this question as follows. More than half stated that the regulatory environment in New Jersey was not conducive to doing the business of insurance in this State. According to one property and casualty company: "excessive rate regulation, rate suppression, restrictions on entry and exit into the market, and restrictions on our ability to manage our sales forces all compare extremely unfavorably with other states."

The apparent dissatisfaction with the regulatory environment ranges from broad-based objections to all forms of regulation to specific areas of annoyance. For example, one company opined that it had "found that a competitive market place is the most effective regulator". Another company took issue with the form-filings process which involves a very lengthy review analysis whereby the reviewers find new reasons to disapprove a form on resubmission (even on the third round of resubmission); use reasons for disapproval which are different than other jurisdictions and are not subject to time limits within which they must respond to resubmissions. One company characterized its frustration as an "inability to get anything done" (in New Jersey).

Fourteen insurance companies commented about the staff of the Department of Insurance. One stated: "New Jersey has an excellent and dedicated Department of Insurance. They just don't have enough people to do the job." Others were more pointed in their comments. For example, one company noted: "New Jersey is perceived as a state that is unfair to the insurance industry."

Other comments concerned the State's inflexibility with respect to its interpretation of laws and regulations; the fact that regulators are not responsive to industry needs and that the relationship seems adversarial and overly consumer-oriented. One insurer stated that the Department should instruct its staff to be more amenable to meeting with insurers. Other companies cited specific objections such as unnecessary and burdensome filings; micro-management of personal lines; automobile market "nitpicking changes that a policyholder would not even notice"; inability to secure adequate rates; restricted actuarial requirements and overly liberal interpretation of insurance contracts in favor of consumers.

The insurance companies were also asked to indicate what states they believe provide a more favorable business environment. One-third of the companies stated that virtually every other state in which they do business has a more favorable business environment. Typically, in answering this question the companies did not list the more favorable states but rather gave a general answer such as "almost all of them (we are licensed in 47 jurisdictions)".

Some companies named one or more states which they felt provided a more favorable environment for the insurance industry. Although numerous combinations of states were listed, Ohio, New York, Indiana and Pennsylvania are the states which were cited most often.

Question Nine- How do you think that the various state government agencies could work in concert with each other in a more effective manner?

Only 27 companies responded to this question. Seven companies stated that the Department of Insurance should have a close working relationship with all agencies in state government. Four companies noted that there should be better cooperation between the Department of Insurance and the Division of Motor Vehicles. Particularly, they would like to see the implementation of an alternative temporary automobile insurance identification card and greater enforcement efforts by the DMV.

Three companies indicated that there should be better cooperation between the Department of Insurance, the Department of Health and the Small Employer Health Benefit Insurance Program Board. Three companies indicated that there should be better cooperation between the Department of Insurance and the Department of Labor to enhance uniformity.

Three companies focused on the relationship of the Department of Insurance and the Department of Banking. Two companies want Insurance to "stay out" of Banking and Banking to stay out of Insurance. The third company, however, would like to see the creation of a Department of Banking and Insurance.

Two companies urge that there be more cooperation between all agencies with police authority in order to aggressively curtail and prosecute for criminal acts, especially fraud.

Two companies indicated that greater cooperation between the Insurance Department, the Department of Environmental Protection, and the building code regulation and enforcement departments was needed. Others suggested that the Department of Insurance be more involved with the National Association of Insurance Commissioners.

Several companies suggested the creation of an insurance industry advisory counsel to work with the Department to improve interdepartmental communication and coordination. Two companies believe that improved internal communications and coordination within the Department of Insurance is necessary especially with respect to the solvency, consumer affairs, rate review, company licensing and policy form approval sections. As one company noted: "Better interdepartmental communication would help across the board." Still another recommended: "communicate, identify problems and work together with the industry to find a solution acceptable to all parties."

Question Ten- What specific statutes and regulations relating to corporate governance do/would impact your decision to market/locate in New Jersey?

Of the nineteen responses received there was very little consensus. However, five responses were directed toward various facets of the automobile insurance industry. Specifically they seek to eliminate the "take all comers" law; the excess profits law; the withdrawal law; the prior approval on ratings law and the compulsory insurance law.

The other suggestions included:

a. Eliminate fees and surcharges on carriers that do not write automobile insurance.
b. Eliminate N.J.A.C. 11:2-12.5 dealing with the review of forms on mass marketing plans
c. Eliminate N.J.S.A. 17B:27A-2 et seq., on individual life and health insurance reform.
d. Amend N.J.A.C. 11:20-1.2 et seq., on the Individual Health Coverage Program.
e. Eliminate N.J.S.A. 17B:30-12(c) on unfair discrimination.
f. Eliminate nonforfeiture benefit universal life forms guidelines v (2) and (3).
g. Guarantee statutory confidentiality for insurance company's internal review of its operating procedures.
h. Adjust all taxation, rate setting and entry exit requirements.
i. Because paid in capital requirements are unreasonably high, capital and surplus requirements similar to other states should be adopted.
j. Make agent licensing laws and regulations consistent with other states.
k. Create a separate court system for the consideration of business-related issues.
l. Revise individual health reform legislation and regulations as well as the form and rate approval requirements.

<u>Question Eleven</u>- What specific tax, legislative or regulatory issues would, if changed, induce you to expand or start-up marketing or operating in New Jersey?

Twenty seven companies responded to this question and once again there were many different opinions. With respect to taxation, seven of the companies answered that the premium tax rate should be lowered or removed and the use income tax should be apportioned to New Jersey profits. Others suggested the elimination or total revision of the excess profit law.

Four companies opined that there should be a different approach to resolving the private passenger auto residual market deficit as well as: tort reform, the sunset of the commercial lines cancellation laws and the effective use of residual market mechanisms in the automobile field.

Five companies raised the issue of the time that it takes to secure approval on new products. They strongly advocate the passage of Assembly Bill 1885 which they believe will streamline the filing and approval process. Other responses included the following:

a. Place limits on punitive damages awards.
b. Ease minimum surplus and liquidity requirements.
c. Provide for lead paint and asbestos contamination exclusions.
d. Approve enhancements of universal life products.
e. Enact workers' compensation reform legislation.
f. Increase availability of full life insurance and annuity portfolio.
g. Address agent licensing problems.
h. Small employer health care access legislation.
i. Revamp the state temporary disability law.
j. Revisit regulations prohibiting premium payments on life insurance accelerated benefits.
k. Permit companies to market stand-alone specified disease insurance.

Four specific responses were directed at, or to, the Department. The first suggests that any changes should "be assessed carefully, and implemented judiciously. Sudden major changes, good or bad are costly to implement, and it will take time for insurers and regulators alike to earn each others trust." One company stated: "nothing formal -- rather, an attitudinal change on the part of Department personnel." Another suggested that the roles of the Insurance Department and the Rating Bureau should be separated. The last recommended that departmental positions and guidelines be published; that consistency be maintained among policy examiners and that all objections to policy forms be listed during the first review.

Question Twelve- Is there any other issue you believe should be addressed in order to produce a better climate for business in New Jersey?

Twenty-nine of the companies answered this question. Although there was some consensus, most expressed differing views. One-third of the responses reflect the companies frustrations in dealing with the Department in getting forms and policies reviewed.

On a different note, one company stressed that "it is important that the Division of Enforcement of the Department of Insurance be staffed with acknowledgeable individuals who are capable of making informed decisions of individual cases." Another stated "we would like to develop a partnership with the New Jersey Insurance Department as we both desire to obtain the common goal of offering quality products to New Jersey consumers on a timely basis." One company summed-up by stating: "the new Administration is taking steps to provide a better environment for insurance business in this State and we would encourage this Administration to continue moving in this positive direction."

In addition to the above comments, three companies suggested that insurers be given more access to Department staff. This they believe would increase efficiency and speed-up the review process.

Three insurers suggested continued effort in tort reform as a way to enhance the climate for business in New Jersey.

Three other companies suggested that they "recognize the importance of solvency in providing a stable insurance market" but that the State should recognize "freedom of contractual ability" and "continuation of the concept of privatization, free thinking and free enterprise."

Two companies indicated that there should be a review of the environmental laws and regulations which appear to be too cumbersome.

One company expressed its concern that it may be made to participate in a coastal windstorm pool involuntarily.

Another suggests that there be enforcement of commercial vehicle inspections, motor vehicle fines, suspensions, and revocations.

Still another would like to see the Department of Insurance and the insurance industry join together in an advertising effort to reeducate the public sector as to the benefits of insurance.

One company suggested that "agency laws" should be addressed as a way of promoting a better climate for business in New Jersey. Another suggests that there be a revision of the workers compensation rules.

Last, one company that deals exclusively with farm and farm owners insurance wants the Commercial Insurance Deregulation Act of 1982 amended so as to include their operation within its purview.

TESTIMONY TO GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION - TASKFORCE ON FINANCIAL AND BUSINESS SERVICES

Provided by Thomas F. Mooney*

I would like to thank the Economic Master Plan Commission for inviting the Robert Plan to testify on the subject of financial services. We believe there is a great deal that can be done in New Jersey to make it a better place to live and do business. Our testimony is offered with both of those objectives in mind.

HISTORY OF THE ROBERT PLAN

The Robert Plan began to do business in New Jersey in 1989 as a servicing carrier to the MTF. During the period since, we have grown to be the sixth largest auto insurance company in New Jersey with over 1,000 employees serving $300,000,000 of premium. The Robert Plan has distinguished itself in New York City as an urban automobile insurer, which makes New Jersey particularly attractive to us because its urban character is very similar to the one we have historically operated in.

The comments we make today are based on our experiences in the urban areas, and the observations that we have made over the past five years in New Jersey. We submit these recommendations with the intent of making New Jersey a better place to do business; and a better place to live.

HELP THE INDUSTRY FIGHT FRAUD

Industry estimates are that 10-20% of auto premiums go toward fraudulent claims. Where we do business, the percentage is much higher, making fraud the driving force behind our sky-rocketing auto rates. Specific measures will help:

- Provide complete, accurate, and enforceable police reports. If the police report says there were two people in the car, we need to be able to rely on it. Today, too many people are allowed to attest that they were in the car without being on the police report. The root of the problem is that police reports are not uniformly done and are not warranted to be complete, so it opens the door for exaggeration and imaginations to take hold.

*Executive Vice President and General Manager - The Robert Plan New Jersey

- Allow Managed Care to be offered on all personal injury policies.
- Require reporting of injuries of insureds and health-care providers to occur within 72 hours.
- Allow companies to discipline their agents for fraudulent and unauthorized activities. The Agent's Licensing Board is backlogged and ineffective. As a result, many agents are getting away with fraudulent activities knowing full well that it takes too much time and effort to discipline them.
- Institute a "sticker" program that shows the car has insurance.

REDUCE THE REGULATIONS

While we feel strongly that there is too much regulation in the Department of Insurance, I'd like to point out to the Committee that New Jersey has one of the most sophisticated Department staffs that I have ever worked with. And, I have worked with a lot of them. Our problem is that too many times the efforts of these staff people are directed in an ineffective way.

We recognize that some regulation is necessary in Auto Insurance because of the role that driving plays in our society. It appears, though, that New Jersey has become preoccupied with not only what is to be obtained, but how it is to be obtained. If the Department would simply enforce the regulations they have, we could attain the public policy goals that were intended when the rules and regulations were instituted.

USE THE ASSIGNED RISK POOL FOR PROBLEMATIC MARKETS

Even though New Jersey has one of the toughest automobile markets in the nation, it has one of the smallest Assigned Risk Pools. Typically, an Assigned Risk Pool is employed by states to equally allocate risks which would not be otherwise insurable in the open market. In New Jersey, access to this Pool has resulted in less than 2% of the market being insured there. As a result, the strategy for companies to follow in New Jersey is to avoid these risks because sooner or later someone else will get stuck with them. The Assigned Risk Pool avoids this problem, because it allows a producer to place the risk and, through an allocation system, it assigns that risk to an insurance company. This current process of "keep away" has already lead to an availability crisis in the urban areas.

DEVELOP A WAY FOR COMPANIES TO OBTAIN ADEQUATE RATES

This is commonly cited as the number one problem of our market place. While granting rate increases, without bound, would immediately make all of our companies profitable, it wouldn't do a thing towards making auto insurance more affordable and available. The problem with rate increases is that they provide an easier way for companies to deal with fraud. For this reason, I would strongly urge that rate adequacy has to be provided in conjunction with strong anti-fraud initiatives, an assigned-risk plan, and a regulatory environment that focuses on affordability and availability rather than how affordability and availability are obtained.

BE CAREFUL WITH THE RIGHTS OF INJURED PARTIES

It is currently a trend to make insurance more affordable by cutting back on the benefits provided by the insurance policy. Some of these measures will work, but others are extremely dangerous. It is one thing to limit the benefits of an insurance policy such as a deductible or a policy limit, because we are simply matching the amount of coverage a person needs to protect their assets and to keep themselves whole in the event of a serious loss. However, when we limit the right of individuals to sue others for their wrongdoing, we are typically limiting the rights of lower income minorities.

A recent "Bare Bones" proposal, for example, limits an individual's right to sue for pain and suffering. What this means is that if a bare bones driver was hit by a wealthy drunk, the bare bones driver would not be able to sue the wealthy drunk for pain and suffering no matter how seriously he was injured.

This is against public policy and is only a short-term solution that would eventually be overturned in the courts. In addition, this solution could actually cause an individual to go uninsured since an uninsured driver would have the right to sue for pain and suffering.

SUMMARY:

We at the Robert Plan feel that the urban nature of New Jersey makes this a premiere target state for us. While we are definitely pro business, in the sense that we need to make a profit to stay in business, we realize that we have to find a way to keep our product affordable and available or only a privileged part of our society will be able to afford it. Any solutions that ignore individual rights and affordability will not last, and only do harm to an industry already plagued with a negative public image.

Our suggestions of focusing on fraud, providing managed care, minimizing uninsureds and lowering regulations do not require higher rates. Rates are needed, but they must be provided in conjunction with these elements.

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION
TASK FORCE ON FINANCIAL & BUSINESS SERVICES

INSURANCE SUB GROUP

Submission by:
Penn Mutual Life Insurance Company
L. Stockton Illoway, CLU, ChFC, FLMI
Sr. Vice President

Penn Mutual Life Insurance Company was founded in 1847 in Philadelphia.
It is a national firm with approximately 7 Billion in assets.
It is rated A+ by Best's, AA- by Standard & Poor's and Duff and Phelps.

Penn Mutual and its insurance subsidiary, The Penn Insurance and Annuity Co.,
sell life insurance, disability income, annuities and pension products
throughout the United States.

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION
TASK FORCE ON FINANCIAL & BUSINESS SERVICES

INSURANCE SUB GROUP

1. What two obstacles can you identify that limit marketing your product in New Jersey?

New Jersey has one of the toughest Insurance Departments in the country. While personnel in the Department are extremely knowledgeable and thorough, which is as it should be, we find that it is difficult to communicate with New Jersey, that forms filings are a very lengthy process, and that New Jersey's interpretations are frequently very different from many other states.

Let me elaborate slightly on each of these issues. On communications, the Department does not routinely send out bulletins on new interpretations or requirements. One only finds out about new memorandums after one has filed something and finally received a reply some six or nine months later. Further, there are only certain times of the day, I believe 2 to 3 PM, when one can contact Department personnel, and even then, one can not have a thorough conversation, only a brief note on an item. This lag of dialog makes it very difficult to know exactly what the department expects or is looking for. Being told to send something in for review does not help us in product design. It slows the process and increases the cost of doing business in New Jersey.

The lengthy process means that quite frequently New Jersey's response to filings is way after most other states have replied. Thus, by the time we hear from New Jersey the product design has been finalized and approved by almost everyone else. Then, because The Department seems to be taking different views of some interpretations, we, in essence, have to design one product for New Jersey and one for everywhere else.

Thus, I believe poor communications is a major obstacle which leads to poor understanding of what the Department expects and wants, and this leads to lengthy delays and a need to have totally separate products for New Jersey.

2. If such obstacles were eliminated or mitigated, would you consider expanding your market in New Jersey? In what Lines of Business? If not, why not?

Yes, definitely. We are anxious to do more business in New Jersey. Penn Mutual and its principal insurance subsidiary, Penn Insurance and Annuity Co., want to expand our Life, Annuity, and Disability Income business in New Jersey.

3. What two obstacles limit your administrative and operational activities in New Jersey?

Our current posture is to market more of our annuity products through our wholly owned subsidiary, The Penn Insurance and Annuity Co. (PIA). PIA is not currently licensed in New Jersey. We filed our application for license on 7/3/92. To date we are still awaiting results of our application. The last word that we have is that we are still 18th in line for review. A speedier process would enable us, and presumably others, to be licensed for business in New Jersey, an extremely important state to us. Thus, licensing our subsidiary is the number one item to help us do more business.

Secondly, the inability to easily have direct communications makes it almost impossible to design products which will easily be approved by the Department. Frequently, in the product design process, we consult with the major state Insurance Departments as to their interpretation of certain items so that we get it right the first time.

4. If such obstacles were eliminated or mitigated, would you consider expanding your operations in New Jersey? In what Lines of Business? If not, why not?

We eagerly await PIA receiving its license to conduct business in New Jersey. Our initial thrust would involve the Annuity Line of Business but we would also envision the marketing of some Life Insurance products through this subsidiary.

5. What conditions make it desirable for your company to redomesticate into or out of New Jersey?

N/A

6. What is the single most immediate action New Jersey could take to have a positive impact on your operation in the State?

If New Jersey's Insurance Department is gong to have different rules, interpretations, and requirements from the other major state Insurance Departments, it is essential that an easy communications process be established. However, if New Jersey decides that it should have rules, interpretations and guidelines similar to other Insurance Departments, then not only would it automatically be easier to do business in New Jersey, but the need for improved communications would not be necessary. Essentially, New Jersey, you can't have it both ways -- tougher requirements necessitate better communications. You can't toughen up, go your own way and not communicate effectively.

7. New Jersey is a coastal high-density state. What actions would you like to see enacted for various lines of property and liability insurance by:

(A) New Jersey Insurance Department? N/A
(B) The New Jersey Legislature? N/A

8. What is your greatest concern regarding the current insurance regulation environment in New Jersey as compared to other states where you are currently doing business?

New Jersey has different interpretations/requirements for nonforfeiture values, product features, etc. than most states. This essentially requires that a separate policy must be developed and administered for New Jersey business. This is a very expensive proposition. In fact, each time this comes up, we have to evaluate whether or not it is worth the time, cost and effort to do business in New Jersey.

8a What states provide a more favorable environment?

There are many states that are easy to deal with. Essentially all states are easier, but that's not what we're asking for. Thoroughness is fine, but, for example, while New York and Pennsylvania have a considerable amount of regulation both are easier to work with. Often times, you can discuss issues with these departments and come up with mutually agreeable solutions.

9. How do you think that the various State Government Agencies could work in concert with each other in a more effective manner?

Example: Insurance/Motor Vehicle Departments?
Insurance/Banking Departments
Insurance/Departments

Our dealings are almost exclusively with the Insurance Department so we are not qualified to comment.

10. What specific statues and regulations relating to corporate governance do/would impact your decision to market/locate in New Jersey?

Our desire and ability to market in New Jersey is negatively impacted by the Department's different view of nonforfeiture regulations. Essentially, all other states view it one way, New Jersey another. Other life insurance product features have similar problems.

11. What specific tax, legislative or regulatory issues would, if changed, induce you to expand or start-up marketing or operating in New Jersey?

Our answer to Question 10 above, essentially applies here as well. Of course, for our aforementioned subsidiary PIA, having a speedier licensing process than we are experiencing would presumably allow us to start business in New Jersey with a new series of products.

12. Is there any other issue you believe should be addressed in order to produce a better climate for business in New Jersey?

The Insurance Department seems to have a large number of "internal rules". Typically, we, as insurers, do not find out about these rules until we file a product for approval and receive a response from the Department. At that point, the product has been designed and implemented into our administrative systems. It is very difficult to change a product at that time. It would be very beneficial if New Jersey would compile a list of their internal rules and interpretations and distribute them to insurance companies. This way, at least we would know up front what is being expected and we could decide if the New Jersey interpretation would be acceptable and marketable in other states.

Perhaps also New Jersey could establish an ongoing newsletter containing information on new rules, interpretations etc.. This newsletter could be a subscription letter, that is, companies wishing to be informed would pay for it. I believe several other states have such a system and it has dramatically improved the whole business climate.

13. Would your company like to discuss these or any of the major issues with representatives of the administration or DOI? If yes, please contact Barbara Pryor Waugh at (609) 292-5371.

We would very much like to address these and other issues in person with Barbara Pryor Waugh and will attempt to arrange a meeting.

Investment Banking and
Brokerage

Donaldson, Lufkin & Jenrette

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Richard F. Brueckner
Managing Director
Financial Services Group
(201) 413-3070

October 24, 1994

Mr. David J. Farris	Mr. Stanley C. Gale
Beneficial Management Corporation	Gale & Wentworth
199 Beneficial Center	100 Campus Drive - Ste. 300
Peapack, NJ 07977	Florham Park, NJ 07932

Gentlemen:

The Brokerage and Investment Banking subcommittee of the Business and Financial Services Task Force is pleased to submit the following report. The committee initiated two projects to fulfill its mission to gather data to formulate recommendations which will promote economic prosperity for New Jersey.

The first initiative was a broad based inquiry of all brokerage firms doing business in New Jersey in the form of a questionnaire. The second was a more focused effort to elicit the views and concerns of a few of the larger employers in N. J. The results of this second initiative are covered in the letter to you from the Securities Industry Association under separate cover. Following is the summary of the questionnaire results. Copies of the responses are available at your request.

The subcommittee sent a questionnaire to each brokerage firm registered to do business in New Jersey listed in the North American Securities Dealers. We received 20 responses representing firms across a variety of business lines and of varying size.

The questionnaire focused on issues of concern, actions the state government could initiate that would positively impact the respondent's business, and considerations for moving business out of the state.

In response to a question about what specific issues are of most concern as a business person operating in New Jersey, not surprisingly, taxes were overwhelmingly mentioned as the primary concern. Respondents mentioned tax related issues in 17 of the 38 issues raised. Here is a sampling of the tax related comments.

- **Workers compensation requirements** are especially onerous to our company... although there is a cap on benefits under workers compensation, there is no cap on the income per person subject to the tax.

- Many respondents indicated that both **State and local taxes** are still too high, for individuals as well as corporations. Some respondents are also concerned about excise fees, permit costs, and employee compensation taxes.

- Although the State has reformed the law to at least partially recognize **Subchapter S** corporations, it has maintained a differential between the highest individual rate and the current corporate tax rate. As the individual rate has been reduced, the tax on S corporations will increase.

Other areas of concern mentioned include over regulation, lack of economic growth, unemployment, the litigious business environment, overall cost of business and transportation limitations.

Several suggestions were made regarding the near term actions the State of New Jersey could take that would have a positive impact on the respondents' business.

- Many believe we need to reduce the bureaucracy by **eliminating excessive paperwork**. For example, brokers must register both with the NASD and the State. This appears to be unnecessarily redundant and oftentimes a delay exists in state registration after the NASD has completed its process.

- Another suggestion involves New Jersey based broker dealers who actively compete for the **State's underwriting business**. Several of these firms have adequate capital and sufficiently experienced personnel to be able to manage negotiated bond issues for the State's issuers, yet it is extremely unusual for the State to choose one of these firms to manage an issue. In some states, local firms play a dominant role in the State's financing plans. In others, local firms are very influential. A study should be conducted to determine whether it is in the best interest of New Jersey that in state firms are so infrequently chosen by state controlled issuers as senior managers of their debt. These firms are taxed in New Jersey and overwhelmingly their employees reside in the State. By selecting them more frequently, the State would foster their development and growth, all of which overtime would translate into a stronger New Jersey economy.

Other suggestions include:

- provide incentives to start new business,
- offer 5-10 year tax abatement plan for relocating and start-up businesses,
- establish new enterprise zones,
- eliminate patronage jobs,
- offer ore attractive business loans with lower rates,
- improve access to and responsiveness of state employees,
- improve the quality of high school graduates,
- help small businesses with international trading,
- create fiscal stimuli to promote high tech, high growth industries,
- encourage savings and investment as long-term goals.

Pershing

We also asked respondents to indicate if they have ever considered moving business out of New Jersey. Out of 20 respondents, 11 (55%) said they would consider moving business out of New Jersey. The reasons echo the concerns noted above, primarily lower taxes, less bureaucracy and less government control. Pennsylvania and Florida were the most often mentioned target states.

* * * * *

It is clear that concern about taxes is the overriding concern. Several constructive suggestions were made that are contained in this report and the SIA letter, incorporated herein by reference. There is much that we can do to improve the business climate of the State. We look forward to helping to implement the final recommendations of the Master Plan Commission.

Very truly yours,

Richard R. Brueckner
Donaldson, Lufkin & Jenrette

J. Peter Simon
William E. Simon & Sons

Frank Walsh
WESRAY

Attachments (2)

DRAFT

On behalf of the Securities Industry Association ("SIA"), I would like to thank you for this opportunity to address the Task Force on Taxation ("Task Force") of the Governor's Economic Master Plan Commission ("Commission"). The creation of the Commission is a welcome reaffirmation of New Jersey's commitment to create and maintain a friendly business environment.

Governor Whitman has already demonstrated a strong commitment to improving the business environment in New Jersey. SIA hopes that by working with the Task Force we will be able to assist the Governor in her efforts to make New Jersey more hospitable to business.

Many in the financial services industry have opened offices in New Jersey in recent years. This has been possible because of efforts to reduce the costs of doing business in the state. The Commission can provide for the continuation of this trend by recommending measures that will benefit businesses currently operating in New Jersey, and attract new businesses.

When a business is selecting a location for its operations, it must consider the cost of conducting business at a particular site. One of the most important cost factors is the relative tax burden. Taxes that impose sanctions on the efficient operation of a business, or that inhibit investment and growth, can have a devastating impact on the business environment of a state. Additionally, unnecessarily high tax rates also serve to undermine the business environment. High tax rates and taxes that serve as a disincentive to growth not only discourage new businesses from locating in a state, they burden existing businesses to the extent that they seek to relocate.

SIA encourages the Task Force and the Commission to review the existing business tax structure, and its impact on the financial services industry in particular. One specific item that must be reviewed, is the tax on telecommunications [cite]. Because of the nature of the national and international financial marketplace, the financial services industry is unavoidably dependent on telecommunications to conduct business and serve the needs of investors. The telecommunications tax places an inordinate burden on this industry and inhibits the growth of the industry in New Jersey.

Changes in technology and the financial marketplaces have made it possible for those in the financial services industry to locate virtually anywhere they please. In the past, financial services businesses operated mainly in the New York metropolitan area out of necessity. Now such businesses can operate just as efficiently while saving money by moving to other states thereby cutting the cost of doing business. A telecommunications tax, however, is a disincentive to the financial services industry and would discourage such businesses from locating or remaining in a particular state. SIA requests that the Task Force recommend a repeal of the telecommunications tax.

Another tax issue the Task Force should consider is allowing combined tax reporting for related entities. Several states [including...] currently permit combined reporting. Although this method of reporting is not advantageous for all companies, permitting a business to elect combined reporting allows it greater flexibility in structuring its organization as well as its tax burden.

Other impediments to the growth of business in the state include regulatory burdens, litigation and the high cost of living. The Commission should look generally at these issues and consider the impact they are having on New Jersey business, relative to other states.

SIA applauds your efforts to examine the business environment of New Jersey and to seek solutions to existing problems. The ultimate benefactors of a positive business climate are the people of New Jersey.

Again, SIA would like to thank you for the opportunity to raise issues that concern the securities and investment banking industry. We hope that this undertaking by the Task Force yields great success that will benefit all.

Sincerely,

may be signed by John Sprung Chairman – NY District SIA – + with MLPFS (General Counsel Fixed Income group)

Daniel J. Barry
Attorney

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION
BUSINESS & FINANCIAL SERVICES TASK FORCE

Responses To Issue #1

1 Taxes, both corporate and individual.

2 Taxes, income and real estate in particular.

3 Income taxes.

4 State and local taxes are still too high, particularly property taxes.

5 High corporate taxes and fees.

6 Taxes at the corporate level.

7 Customer litigation's. The atmosphere in the NY metro area encourages suits, and the process encourages settlements even when the compliant has no merit.

8 Excessive government and taxes.

9 High overhead.

10 Tax levels.

11 Lack of vigorous growth, especially in the real estate industry.

12 Reducing unemployment.

13 Government regulations and reporting requirements are extremely burdensome.

14 Over government regulations.

15 Taxes.

16 Unfriendly government bureaucracy. Those in charge of regulating the financial industry act like they are doing all legitimate businesses a favor.

17 Excessive and inconsistent regulations.

18 The blurred lines of business. Banks in securities, securities firms in banking. reduction of competent skill in the securities business with price as the only emphasis and advantage.

19 Deduction of business expenses.

20 State should eliminate the entire tax at the corporate level for Subchapter S corporations.

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION
BUSINESS & FINANCIAL SERVICES TASK FORCE

Responses To Issue #2

1. Lack of incentives to attract new business to the state.
2. Transportation - good rail service to NYC is important, traffic on major routes is a big problem.
3. Property taxes.
4. Lifestyle costs are too high. State is very bureaucratic.
5. Lack of business incentives to small corporations and businesses.
6. Taxes on personal income.
7. The process for re-registering is redundant and wasteful. If it is passed by the NASD why does NJ also have to approve it.
8. Federal and state regulations.
9. Regulatory oversight (Forms to complete, etc.)
10. Lack of information and assistance in doing business internationally.
11. Reducing taxes, both corporate and personal.
12. Taxes and excise fees of all sorts, including employee compensation taxes etc. It is very burdensome.
13. Tax rates.
14. Regulation (Governmental)
15. Rising health care expenses.
16. Lack of infrastructure, especially good roads.
17. Communication of the need for citizens to become independent through education, work, and savings for future commitments.
18. Workers compensation requirements are onerous to companies, the State should review its policy.

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION
BUSINESS & FINANCIAL SERVICES TASK FORCE

Responses To Near Term Actions

1 Lower taxes.

2 Lower taxes.

3 Lower taxes. Find a way to stop localities from constantly increasing the size of municipal and school budgets. Cut the bureaucracy in state government and get ride of patronage jobs.

4 Waive business taxes and fees for 1-3 years for new start up firms in NJ to attract more businesses.

5 Reduce taxes.

6 Reduce taxes and regulations. Take a look at South America and Mexico and see what this has done there.

7 Issue tax-free bonds that are not book entry.

8 Reduce, minimize, eliminate paperwork. Reduce taxes.

9 Set up a task force to help small businesses (companies w/ less than 50 employees). International trade, tax credits for buying equipment, business loans at prime or less, provide industrial data and other business information.

10 Create fiscal stimuli which will promote the creation & expansion of high tech and high growth industries. Create re-training programs for downsized professionals.

11 Stop enacting new excise fees and restrictions on business.

12 Reduce tax rates.

13 Reduce income taxes.

14 Reduce regulatory burdens.

15 Reduce and simplify regulation. Shift state spending from hopeless inner cities to infrastructures that will retain and attract business.

16 Allow business deductions for statutory W-2 employees.

17 Develop a positive program of communications to the public that enhances knowledge of financial services and encourages savings and investment for long term goals.

18 Select in-state broker dealers more frequently in state underwriting activities.

Governor's Economic Master Plan Commission
Business & Financial Services Task Force

Responses To Additional Assistance in NJ

1 The state should be business friendly. Provide incentives to start new business. Offer 5-10 year reduced taxes for relocating businesses. Establish free enterprise zones to encourage new businesses.

2 Not sure if these thing are good or bad. Handouts from the government cost the tax payers too much.

3 If we must have taxes, then find a way to uncover the non-taxed cash trade business. Make those people pay their fair share to lower taxes for everyone else. The US and NJ is probably losing 20-40% of its taxable base to cash trade.

4 Easier business loans with lower rates. Lower corporate tax rates. More educational interplay between agencies. Difficult to get the right people when calling. Bad attitude of state agency employees when contacted for information.

5 Lower taxes.

6 Give better qualified high school graduates as a job applicant.

7 Consideration of NJ based firms.

8 Promote investment, ownership, clean streets. Do away with throw away items (bottles, cans, etc.)

9 Don't give assistance, it costs the tax payers & businesses money, and sets up more bureaucracy.

10 Skilled labor/retrained. Tax incentives.

11 Should direct the bulk of financing business to NJ based firms.

12 Implement the Governor's programs to cut spending, so taxes can be cut. Global competition requires that NJ be a low cost producer to keep from losing its remaining manufacturing jobs.

13 Don't need assistance. Just remove the ridiculously unfair W-2 tax burden.

14 Reduction of requirements which are time waste activities reducing productivity, and provide substance in terms of knowledge.

REPORT OF THE

ECONOMIC MASTER PLAN COMMISSION

SUBCOMMITTEE ON TRANSPORTATION AND PRODUCT DISTRIBUTION

October 28, 1994

STEVEN KALAFER
CHAIRMAN

Task Force Members

Hon. C. William Haines
Senate Transportation Committee

Hon. Alex DeCroce
Assembly Transportation & Communications Committee

Hon. Frank J. Wilson
New Jersey Department of Transportation

George H. Laufenberg
New Jersey State Council of Carpenters

Robert Baker
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Lillian C. Liburdi
Port Authority of New York and New Jersey

John Conaty
United Parcel Services

Arthur J. Maurice
New Jersey Business & Industry Association

REPORT OF THE ECONOMIC MASTER PLAN COMMISSION SUBCOMMITTEE ON TRANSPORTATION AND PRODUCT DISTRIBUTION

INTRODUCTION AND METHODOLOGY

The Transportation and Product Distribution Subcommittee of the New Jersey Economic Master Plan Commission was formed in July 1994 under the chairmanship of Steven Kalafer, President of Flemington Car and Truck Country. Legislators, corporate executives, senior government officials and key senior staff from the Port Authority of New York and New Jersey; the State Departments of Transportation, Environmental Protection and, Commerce; and the New Jersey Office of Legislative Services served or assisted with the task force's work.

The Task Force made a concerted effort to reach a representative cross-section of business by type and geographic location. Representatives from each of the major transportation and distribution sectors—rail, air, truck, and sea—participated. The Chairs of the Senate and Assembly Transportation Committees represented the Legislative Branch of State Government. The Commissioner of Transportation represented state government's Executive Branch.

The Task Force held three meetings and one public hearing. Speakers from both the labor and business sectors provided testimony.

REPORT OF THE ECONOMIC MASTER PLAN COMMISSION SUBCOMMITTEE ON TRANSPORTATION AND PRODUCT DISTRIBUTION

EXECUTIVE SUMMARY

New Jersey's location as a corridor state increases the importance of its transportation and product distribution network to the state's economy. The airport and seaport operations of the Port Authority of New York and New Jersey generate more than $23 billion of economic activity annually, including over $6 billion in annual wages, while generating upwards of 180,000 jobs. Over 20 million trucks use New Jersey's highways each year. On a typical weekday, some 9,400 trucks cross from the Philadelphia area into New Jersey and some 25,600 trucks make the trans-Hudson crossings into New York.

There are nearly 1,200 miles of rail in New Jersey. In 1992, the state's 12 railroad companies handled 788,000 carloads carrying 28.7 million tons of freight. Nearly 2,000 New Jerseyans work in the railroad industry with total annual wages of $77 million.

New Jersey's status as a corridor state makes job commuting a critical transportation concern. Approximately 425,000 New Jersey residents now commute to jobs in other states. Commutation to New York totals 307,000 trips per day, and commutation to Philadelphia totals 109,000 trips per day. Additionally, 236,000 daily trips are made by residents of neighboring states into New Jersey.

Both Subcommittee members and public hearing testifiers noted that New Jersey today is not open for business. The State's regulatory system in the areas of the environment, transportation and land use is dominated with an anti-business bias. Examples of this bias provided to the Subcommittee included a major transportation provider unable to expand facilities in urban areas due to ECRA/ISRA considerations and a transportation improvement project delayed due to an unreasonable application of wetlands regulations to a highway median strip. In many cases, regulators were unwilling or unable to weigh overriding economic considerations in determining regulatory policy.

The Subcommittee found the paralysis of the region's shipping industry at the hands of federal and state environmental regulators who prohibit necessary port dredging as the "worst" example of the subvention of economic goals to environmental concerns.

The Subcommittee strongly recommends restructuring of the Transportation Trust Fund, with the redistribution of increased motor fuels taxes to transportation uses.

Finally, the Subcommittee recommends creation of a Product Distribution Council to develop state policies to plan for the maintenance and growth of our product distribution network.

REPORT OF THE ECONOMIC MASTER PLAN COMMISSION SUBCOMMITTEE ON TRANSPORTATION AND PRODUCT DISTRIBUTION

ISSUES INDEX

1. **REGULATORY POLICIES**

A. Federal and state regulations and policy prohibiting port dredging and subsequent dumping of materials in mud dump; need for a business friendly national dredging policy;

B. A periodic status report of all environmental permits in review at DEP with project economic value and reason for delay;

C. State regulators must understand that encouraging economic development is the state's number one policy priority and that regulatory rulings should always maxmimize economic development to the extent allowed under existing law; prioiritize environmental needs in same way we prioritize transportation needs;

D. Noise reduction regulations at Newark Airport should adhere to federal standards;

E. Contracting out of N.J. Transit services is necessary;

2. **LEGISLATIVE POLICIES**

F. Reauthorization of Transportation Trust Fund

G. Eliminate local government "transportation control" measures such as prohibiting truck/tractor trailer deliveries;

H. Recommend policies to build N.J. Transit ridership including incentives to encourage people to use mass transit;

I. In strategic transportation centers, rezoning inconsistent with industrial use should be discouraged;

J. An analysis should occur as to the permitting of overweight tractor trailer operations with certain conditions/restrictions on certain roads;

K. Ensure adequate access to intermodal facilities;

L. Change in aviation fuels tax to raise funds for airport safety improvement;

REPORT OF THE ECONOMIC MASTER PLAN COMMISSION SUBCOMMITTEE ON TRANSPORTATION AND PRODUCT DISTRIBUTION

3. **INFRASTRUCTURE POLICIES**

M. Improved and additional infrastructure linking NY and NJ and PA and NJ (bridges and tunnels);

N. Strengthening transportation gateway and supporting new economic development at Newark Intermodal Complex;

O. New Jersey needs a food distribution center to expand our ports shipping of food products;

P. Use private vendors to build, design and operate transportation facilities;

Q. Improve signage and road information for commercial trucks;

R. Encourage privatization of selected highways;

4. **TECHNOLOGY/ RESEARCH AND DEVELOPMENT POLICIES**

S. Implementation of "smart highway" system (ITS) to make New Jersey the national leader in implementing and ultimately designing/manufacturing this technology; the first step should be creation of a state smart highway plan;

T. State and local highway rights-of-way may be leased to telecommunications industries ;

5. **WORKFORCE POLICIES**

U. Use of incentives to encourage employment concentration in transportation-friendly areas (urban areas, for example);

6. **STATE GOVERNMENT'S SUPPORT POLICY**

V. A coordinating body representing all segments of the product transportation network should convene and create a state product distribution plan to maximize coordination, speed of delivery, profitability;

REPORT OF THE ECONOMIC MASTER PLAN COMMISSION SUBCOMMITTEE ON TRANSPORTATION AND PRODUCT DISTRIBUTION

KEY FINDINGS

1. REGULATORY POLICIES

A. The Port of New York and New Jersey is facing a crisis because the need to regularly dredge the berths and navigational channels in the port is impeded because of the lack of adequate disposal options to handle the volume of material that is removed during dredging. What has helped make the problem possible, here and around the country, is the relative inattention of government until recently and the continuing lack of a Federal policy that fosters sustainable development in an efficient regulatory environment.

Currently there are a multiplicity of federal, state and local agencies with regulatory jurisdiction over dredging and disposal activities. These agencies are guided by an even greater number of laws, regulations and policies. In the New York/New Jersey Harbor and elsewhere in the country, decision-making for navigation projects has been stymied in large part by bureaucratic conflicts between agencies and a distancing of government from tough issues such as disposal facility siting. A national policy that regards dredging and disposal as an essential governmental function and that considers it from a broad transportation perspective would provide an important underlying principle and a much needed framework for decision-making.

The essential role of government in assuring port navigation is evidenced in the fact that one of the very first and comparatively few responsibilities assumed by the federal government early in its history was the provision of navigation channels. However, the construction and maintenance of a port's water infrastructure has become increasingly problematic over the last 10 years for several reasons.

First, environmental concerns have become a major public issue. U.S. port concerns range from contaminants in the sediment—dioxin being the major element of concern in the New York/New Jersey Harbor—to concerns about the need for suitable disposal strategies. Most of the pertinent federal laws have environmental considerations as chief regulatory characteristics and over the years, those laws have grown more stringent in their requirements. Further, the Coastal Zone

KEY FINDINGS - 1. REGULATORY POLICIES (Cont'd)

Management Act required states to prepare coastalplans, thus fostering the establishment of a new tier of regulation over coastal projects.

Second, since 1986 the federal government has had a policy that effectively ends federal responsibility for disposal costs and creates a disincentive for all but the cheapest disposal solutions.

Third, existing disposal options are reaching capacity including historic disposal areas in New York/New Jersey, the Great Lakes, San Francisco, Baltimore, Norfolk, and Houston. There are no easily available alternatives.

Unfortunately, the laws, regulations and the state and federal agencies that implement them are not coordinated. In fact, frequently the mandates between responsible agencies conflict. The result of all this can be misplaced priorities. As we have seen in the New York/New Jersey Harbor, agency jurisdiction and internal priorities, and the process itself, can be controlling factors, not the efficient and orderly review of an applicant's permit request. National transportation concerns and the consequences of unnecessary delays on business and economic situations are at best secondary considerations.

B. Since transportation projects are subject to numerous state and federal environmental statutes administered by DEP, expediting construction projects requires efficient reviews and timely project decisions by DEP. Examples of state environmental permits and reviews are: CAFRA, Stream Encroachment, Wetlands (coastal), Waterfront Development, and Contaminated Site Remediation Plan approvals. Examples of reviews delegated under Federal law are: Historic reviews by the SHPO, and NJPDES permits for discharges into water bodies. Some of these reviews have specific regulatory measures that limit the review and decision to specific time frames, like the "90 day rule" for stream encroachment. Some, such as the site remediation reviews, have no set regulatory time limits. The environmental review process leading to approvals or permits takes too long. A periodic report that provides information on the time it takes to complete environmental reviews of transportation projects would be valuable to identify problem areas for appropriate intervention.

KEY FINDINGS - 1. REGULATORY POLICIES (Cont'd)

C. Numerous subcommittee members and testifiers at the Subcommittee's public hearing complained that too often bureaucratic regulators view an issue from a narrow, parochial viewpoint without giving due weight to economic development concerns. Every decision involves trade-offs—costs and benefits. However, government regulators systematically fail to consider trade-off economic development benefits when evaluating project permits, waiver requests, etc. Every regulator believes his or her program area is of the highest priority. This myopia, particularly in the environmental arena, leads to a proliferation of "highest priorities" which can paralyze a specific project requiring multiple approvals.

Subcommittee members feel that economic development should be an important priority for all regulators, the benefits of which should be considered in all decisions. The Subcommittee reviewed projects initiated by the New Jersey Department of Transportation which were under Department of Environmental Protection review. There are currently 25 such projects with total construction costs of $181 million. Using a job multiplier of 3,000 jobs for each $100 million in construction spending, these projects would create over 4,500 jobs. Of course, these economic impact estimates do not include benefits accruing to the economy due to the infrastructure improvement. Reviewed projects constitute a small fraction of the land use projects currently before municipal, county, regional and state regulatory overseers.

D. Airlines, airport operators, aircraft manufacturers, and the Federal Aviation Administration (FAA) have spent billions of dollars to lessen the impact of jet operations on the communities around airports. Key to the noise reduction effort has been the development and introduction of new technology over the past 25 years. Through various design changes, airframe manufacturers have successfully reduced the noise created by the displacement of air as jets move through the sky at high speeds. In addition, engine manufacturers have made great strides in reducing engine noise, primarily by reducing the temperature and velocity of the exhaust.

As technological breakthroughs have occurred, airlines have replaced the oldest, noisiest jets with new ones that incorporate the new, quieter technology. The first generation of jets, such as the Boeing 707, were replaced during the 1970s with quieter, "Stage 2" aircraft, such as the 727. Now, Stage 2 aircraft are being replaced with even quieter "Stage 3" planes, such as the 757.

By the year 2000, only Stage 3 aircraft will be flying. In 1990, Congress adopted a plan for phasing out Stage 2 operations by the turn of the century. Airlines either must replace their Stage 2 aircraft with Stage 3 planes by that time, or retrofit their older aircraft with "hush kits" or new engines that meet the new Stage 3 noise standards. Airlines also must meet interim targets, phasing out 25 percent of their Stage 2 jets by December 31, 1994; 50 percent by the end of 1996; and 75 percent by the end of 1998. The phase-out is an enormous undertaking, involving some 2,000 jets and expenditures of more than $100 billion dollars, but the impact on noise levels also will be great. Stage 3 jets are 50 percent quieter than Stage 2 aircraft, and 85 percent quieter than the first generation of jets.

E. <u>About 60 percent of all interstate bus service and almost all local bus service is operated by NJ Transit, the State's public transportation agency</u>. However, New Jersey also has one of the strongest private bus transportation industries in the nation with approximately 10 percent of NJ Transit services competitively bid. Contracting for service on these particular routes helped the State save money by either lowering cost of NJ Transit operations, through primarily union concessions, or by contracting with low cost private providers. Contracting for service enables NJ Transit to negotiate better agreements with the bus unions, while the continued presence of NJ Transit ensures that private providers services and fares remain reasonable.

Competition should not only be restricted to the contracting of NJ Transit routes, but should also include the allocation of resources. Currently NJ Transit supplies to the private bus industry about 95 percent of their buses. While the provision of buses to private operators ensures the continuation of marginal private bus operators, the provision of equipment precludes the ability of other private operators from entering the market. As a result, the State may be missing an opportunity to encourage new bus entries. Competition for resources would enable the

KEY FINDINGS - 1. REGULATORY POLICIES (Cont'd)

State to award private operators who are willing to provide expanded services to the riding public.

2. LEGISLATIVE POLICIES

F. The Transportation Trust Fund Authority (TTFA) was enacted in 1984 and is primarily financed through motor fuel taxes. The Authority's purpose is to provide a stable funding source for highway and transit capital planning, design and construction projects through "pay as you go" and bond financing. When established, the Legislature authorized 2.5 cents of the motor fuel tax to be constitutionally dedicated to the TTFA. In 1987, during the initial reauthorization of the TTFA the Legislature provided an additional 4.5 cents of the motor fuel tax to be legislatively earmarked. Therefore, 7.0 cents are presently dedicated and/or earmarked for TTFA.

Since FY 1993, the Transportation Trust Fund (TTF) has not received its statutorily mandated $331 million appropriation (FY93 $155 mil.; FY94 $160 mil.; FY95 $210 mil.). This decline in state appropriations has triggered additional bonding which increases debt service payments.
If there is no Trust Fund renewal:

- Bond ceiling is not increased. Consequence: insufficient funds remain to fulfill all contractual obligations in FY 96.

- Appropriation to Trust Fund remains $331 million. Debt service payments will consume $300 million by FY97 just to support existing contract obligations. Consequence: No new capital projects or state aid can be authorized in FY96.

- Capital Program appropriation falls. NJ may lose "soft match" eligibility to draw down federal funds. Consequence: No funds will be available for 100 percent state-funded projects.

KEY FINDINGS - 2. LEGISLATIVE POLICIES (Cont'd)

- Reduced TTF activities results in loss of tens of thousands of jobs. Consequence: state revenue, state business competitiveness and resident quality of life declines.

G. Traffic congestion in urban areas is increasing at alarming rates. Changing demographics and the rapid growth of urban and suburban travel patterns has led to a dramatic increase in miles traveled. Compounding the problem, highway capacity has not grown to accommodate this new volume of traffic.

According to a study by the Federal Highway Administration, delays on urban highways are expected to increase by 360 percent between 1985 and 2005 in central cities and by 433 percent in outlying areas if no improvements are made or alternatives found. Highway delays due to congestion are projected to increase by over 1,000 percent in urban areas under one million in population.

The impact of traffic congestion on package delivery companies is tremendous. If United Parcel Service (UPS) package car drivers save just one minute per day, the company saves over $5 million annually. If drivers have to add a minute per day, the additional cost impact is equally dramatic. When package delivery companies like UPS are required to pick up and deliver packages in a costly and inefficient street environment, the cost of goods purchased by consumers in these areas increases.

H. Travel demand and transportation needs are increasingly divergent and diffuse across the state. The traveler has an incentive to ride transit when service is available, reliable, reasonable and convenient. Effective tools to encourage ridership include quality of service improvements, pricing and marketing, specifically target marketing where there is excess transit capacity. Significant capacity issues limit the effectiveness of encouraging ridership in peak hours, when additional service increases operating and capital costs.

The number of vehicle-miles traveled are growing faster than both population and the number of vehicle registrations. The era of massive highway construction is over. Transportation uses 63 percent of our oil and is the only sector of the economy where oil consumption continues to increase. Transit benefits are broad: an improved environment, reduced highway congestion and more efficient movement of people on a finite infrastructure. High transit usage directly benefits economic activity by freeing traditional transportation systems for commerce. Increased ridership increases revenues which can reduce subsidies to public transit making it more cost efficient.

I. The move toward a more service-oriented economy combined with the continued shift of population out of the cities has led local officials to look toward rezoning land from industrial use to other classifications. This is of special concern for land near active railroad lines, inactive rail lines preserved for possible future use, intermodal terminals or major truck terminals.

The goals of federal ISTEA and air quality legislation include increasing transportation efficiency while reducing congestion and pollution. Locating industrial facilities along rail lines or near transportation centers minimizes the need for extra handling of goods leading to lower costs, less congestion, and ultimately reduced emissions. Rezoning of areas once considered industrial restricts the State's ability to attract industries wishing to take advantage of these efficiencies and adds to the State's congestion and air quality problems.

J. All highways in the state, and particularly the bridges which are part of those road systems, are constructed to withstand certain maximum vehicle weights under regular use, with a margin of safety. Generally, design weight limits take the form of both maximum total gross weight (the entire vehicle, including cargo, in over-the-road operating order), and maximum weight per individual axle or grouping, such as the common double or tandem axles found on most tractor-trailer rigs.

The federal government, which provides significant funding for construction and maintenance of the "federal" highways in standards for vehicle weights which apply on federal highways throughout the country. States are allowed to exercise discretion in granting permits, as they see fit, to certain vehicles or classes of vehicles which exceed the established federal weight limits. Federal standards currently provide for a maximum overall gross weight limit of 80,000 pounds and a maximum tandem axle weight of 34,000 pounds.

In New Jersey, long-standing regulations have provided for granting "overweight permits," on a case-by-case basis, only to special truck loads such as large, heavy machines which cannot reasonably be broken down into smaller components. Ordinary closed trailers carrying loads of cartons or pallets, for example, have not been eligible for overweight permits, because it is believed that this kind of load generally can be lightened simply by removing (or not loading in the first place) a few pieces of freight.

In recent years, an issue has emerged with marine containers, which are large truck-trailer sized boxes carrying freight in international commerce. Typically a container, which is usually 20, 40 or 45 feet long, arrives by ship at a seaport such as Port Newark, and is placed on an appropriately-sized chassis (frame and wheels) for highway movement to the ultimate destination. In other cases, containers are moved by road to nearby intermodal rail terminals, where they are placed on special flat cars for shipment by train to inland points.

These containers are loaded with cargo by shippers in foreign countries, many of which have totally different roadway standards than the U.S., and which sometime exceed the highway weight restriction in New Jersey. Much of the time the loads fall within overall gross weight limits, but exceed axle limits, because it is extremely difficult for foreign shippers to gauge how weights will be distributed on the axles when the container is placed on a chassis configured for U.S. highways.

Virtually all import containers are equipped with a shipper's security seal, and/or often with a U.S. Customs Seal as well.

KEY FINDINGS - 2. LEGISLATIVE POLICIES (Cont'd)

Major legal and commercial problems occur if a seal is broken for any reason, including the need to lighten or redistribute a load. Further, a motor carrier has no way to know in advance of pick up at a pier, how a load may be actually distributed inside a container. Many containers only move over state roads a very short distance to nearby rail terminals, where they are moved to other jurisdictions, including Canada and Mexico, where they may be legal or eligible for overweight permits due to different weight regulations. Other ports such as Baltimore and Philadelphia, which compete with New Jersey for movements to inland points, recognize this problem and have gained a commercial advantage by issuing overweight permits on marine containers. Importers who are concerned about the possibility of overweight containers, will choose ports in states where they know an overweight permit may be legally and easily obtained. For this reason, New Jersey has lost commerce (and jobs) to its competitors and is in danger of losing even more, as new Federal legislation is implemented which will heighten awareness and fix responsibility for overweight containers.

K. Over the past several years there has been a dramatic growth in intermodal service. Improved rail operations combined with truck driver shortages has led to an increasing number of long-haul truck carriers placing trailers or containers on railcars for delivery of both international and domestic shipments. To further enhance the efficiency of this service, rail carriers have been raising bridges and tunnels and lowering tracks to permit the double stacking of containers. As these routes are completed, additional growth is expected in this efficient means of transporting goods.

Intermodal transportation has a number of advantages. It takes long-haul trucks off the highway reducing wear and tear on our roads. It is more fuel efficient. Further, it helps alleviate highway congestion and air population. Intermodal service primarily is used for distances of 500 miles or greater. As the efficiency of intermodal service improves, it is expected to be used for shorter and shorter distances.

KEY FINDINGS - 2. LEGISLATIVE POLICIES (Cont'd)

Proper truck access to intermodal terminals is critical to their success. Trucks must be able to serve terminals 24 hours per day without creating or becoming mired in traffic congestion. Further, roads leading to terminals must be user friendly, allowing adequate turning room, pull-off lanes and appropriate traffic signals. Both the freight industry and the community benefit from improvements that permit a smooth flow of traffic. Fortunately, New Jersey included access to intermodal yards on the national highway system map submitted to the Federal Highway Administration. This enables the State to take advantage of federal funds to improve access.

L. Presently there exists a 2.0 cent per gallon aviation fuel tax. Newark and Atlantic City Airports are exempt from this tax. Legislation which has been voted out of both the Assembly and Senate Transportation Committees and is pending in both houses' Appropriations Committees would reduce the tax to 1.0 cent and would remove Newark from the exemption. The net effect of this proposal would increase the tax revenue from $750,000 to $4 million. These funds would be appropriated to the NJDOT Airport Safety Fund.

3. INFRASTRUCTURE POLICIES

M. Recent econometric research has identified a strong positive correlation between higher investment rates in public capital (highway, transit, ports, and airports) and higher growth rates in the productivity of nations with which the US must compete. This research indicates that the US competitive position will continue to erode unless infrastructure-investment policy is changed.

Previous generations of Americans made long-term investments in the physical infrastructure that support our economy. The network of highways, bridges, airport, and transit systems was bought with private and public funds to keep the region economically viable. In the 1970's, due to the downturn in the economy, public agencies and authorities delayed many major capital investments for nearly a decade. This was a costly mistake. Beginning in the 1980's, an effort was undertaken to rectify this situation by instituting major investment programs aimed at rebuilding and stabilizing our infrastructure. Allocation of funds for maintenance of equipment and facilities, long deferred, were programmed back into public budgets.

New Jersey benefits from the existing interstate crossings -- highway, rail freight, commuter rail and rail rapid transit. Some 425,000 New Jersey residents now commute to jobs in other states. Daily commutation to New York which totals 307,000 trips and to Philadelphia which totals 109,000 trips dominates these flows. Meanwhile some 236,000 daily trips are made by residents of neighboring states into New Jersey. New Jersey is a critical national and international participant in trade and commerce which requires links to markets outside the state. On a typical weekday, some 9,400 trucks cross from the Philadelphia area into New Jersey and some 25,598 trucks make the trans-Hudson crossings into New York.

The Manhattan Central Business District is functionally tied to New Jersey by rail lines, highways and ferry services. But these linkages are approaching their carrying capacity, especially on the east-west axis that crosses Midtown Manhattan. Capacity and functional adequacy are issues to be addressed on the bridge system between New Jersey and Staten Island. These issues along with others need to be treated through an array of strategies which will include better interstate highway network management using new technologies, selective vehicular bridge capacity expansion, as between New Jersey and Staten Island, railroad and passenger ferry service improvements, railroad and waterborne freight improvements. We must also recognize the age of many of our state's river crossing facilities and the need to continually invest in them so they are properly maintained. Between New Jersey and Pennsylvania similar needs are being addressed by public agencies and authorities.

KEY FINDINGS - 3. INFRASTRUCTURE POLICIES (Cont'd)

M. Newark International Airport, the Port Newark/Elizabeth containerport and nearby rail freight and trucking operations comprise New Jersey's premier intermodal transportation complex—an economic asset of national significance and a competitive advantage for the region. Not only has the Port Authority long recognized the importance of this area as a transportation hub, but the U.S. Department of Transportation has cited the Newark/Elizabeth area as one of the nation's major international gateways as well as a gateway to the New York/New Jersey metropolitan area.

The rapid growth experienced by this complex in the past ten years, particularly at the airport, requires continued development to meet the challenges of future growth. Continued modernization of its maritime facilities and rail linkages is essential in meeting competitive pressures and to ensuring effective connections of inland production/producer centers to international markets. Similarly, transit strategies must be pursued to reduce traffic congestion and improve direct rail access for airport passengers and local workers; such strategies are essential to facilitating new commercial development at and around the perimeter of the complex.

Not only has there been rapid growth of transportation demand in this sector, but there has been a very swift development of this locale as a center for retail and distribution, particularly in the Elizabeth Industrial Park. Recently, there has been a proposal, strongly supported by the city of Elizabeth, to develop two million feet of retail space south of North Avenue. This would not only increase traffic congestion on the key links serving the airport and the seaport, but would also conflict with the need to preserve valuable nearby property for future growth of airport/seaport facilities and the need for distribution space to serve growing international trade.

The Newark/Elizabeth area not only possesses the nation's third busiest port and the ninth largest airport in close proximity to one another, but it also contains every other major transportation mode as well. The Elizabeth Industrial Park generates 350 jobs and $5 million in state sales tax

KEY FINDINGS - 3. INFRASTRUCTURE POLICIES (Cont'd)

O. Three separate attempts to establish a food distribution center in New Jersey have been made dating back to 1960. Governor Meyner attempted at that time to establish a new terminal market in northeastern New Jersey. This attempt failed, and the old Washington Street Market in New York City was relocated to new quarters at the site of the present day Hunt's Point Market. In 1984, the Hackensack Meadowlands Food Distribution Center Commission was established by the Legislature to determine the feasibility of a food distribution center in the HMDC District. The conclusions of this Commission were that such a facility was not feasible due to the high cost of development combined with inelastic rent levels in the food industry resulting in unacceptable levels of public subsidy.

In 1985, legislation established the South Jersey Food Distribution Authority whose task it was to determine the feasibility of establishing such a facility in southern New Jersey. If found feasible, the Authority was further charged with site selection. The feasibility study, conducted by Arthur D. Little, Inc., found South Jersey to be underserved by surrounding food centers. It further recommended that a major "Food City" be developed to replace aging facilities at the Philadelphia Terminal Market and Hunt's Point Market in New York.

A centrally located 600 acre site in Burlington County was selected based on availability of rail service on site, good highway connections (including the proposed connection between the NJ Turnpike Extension and Route 130), and proximity to the Delaware River permitting import/export of foodstuffs.

The premise behind this concept was the projection that a new terminal market, served by modern rail and highway facilities, would soon attract various support activities such as food processing, packaging and cold storage warehousing. Such a facility would be capable of serving a large portion of the daily food needs on the east coast, and generate an estimated 6,000 jobs when fully developed.

P. In the delivery of any service, cost and timeliness of delivery are critical. To meet today's urgent transportation system needs, design/build construction methodologies have the potential to significantly speed the time from conceptualization to project completion and reduce cost. A Florida design/build project reduced development time by as much as 20 percent and the cost was roughly the same or slightly less than non-design/build projects. The potential time and cost savings can be even greater for stand alone facilities. Extending privatization to facility operations produce efficiencies when business entities take on the responsibility of the government operation in return for toll revenues or an agreed upon franchise fee.

The growth in transportation infrastructure needs have outpaced the growth of available funding. Ensuring an effective intermodal transportation network requires partnerships to manage the cost of both private and public investment in infrastructure. Traditional roles and resources must change to meet increasing system demands. Design-build-operate models can be a vital component in the delivery process because problems are addressed sooner, at lower costs, and without sacrificing the integrity of the system. Private partners share risk and reduce traditional conflicts between contractor and designer.

Q. In New Jersey, there are no commercial truck route signs on state highways because all trucks are allowed on these roads. There are only signs that were erected when highways were built or because of a specific restriction (weight, height, other size, hazardous material, etc.). There is currently no plan or budget to change old signs or introduce new signs.

In a region as complex as New Jersey with over 20 million trucks using its highways each year, it is critical that commercial vehicles travel on correct routes. The new breed of commercial vehicles range in size up to 85 feet in length, up to 13 feet 6 inches in height, and 102 inches wide. It is important to the users that shippers arrive at their ultimate destinations without incidents and with a minimum of anxiety and hassle. Because manufacturers, receivers, and distribution facilities are all working on just-in-time inventory systems, transportation delay will reduce New Jersey industry's competitiveness. Being able to easily find the information they

KEY FINDINGS - 4. TECHNOLOGY/RESEARCH AND DEVELOPMENT (Cont'd)

its master planning effort, Integrated Transportation Management Strategies (ITMS), to focus on highway, transit and authority (Turnpike, Parkway, Ports, etc.) issues. It is in final review for a November 1 deadline. Each of these plans has its unique perspective, with valid and expected overlaps, since the underlying focus is the same. Membership, scope of assessment and time frame of solutions are different for each committee. CSNJ includes private participation and is primarily focused on business development aspects of ITS. The 1-95 Coalition is looking at a specific corridor, crossing state lines, and assessing ITS applications. The DOT effort is focusing on short to medium term strategies. ITS applications for Commercial Vehicle Operations (CVO) are also being assessed and are linked with these efforts.

T. Fiber optic cable is one strategy among many included in Intelligent Transportation Systems (ITS). The video surveillance and monitoring of congested highways and emergency conditions use fiber optic cable to support this full on-line video transmission. NJ TRANSIT has achieved non-farebox revenue through an aggressive but flexible program of leasing rail rights-of-way to telecommunications companies. Ten transactions have been established since 1986. The New Jersey Highway Authority has also consummated a lease of its right-of-way to a third party.

By the end of last year, 352 miles of fiber optic cable were being built or designed as part of the DOT capital program, and another 340 miles are planned for installation in the next two years. Estimates project a total of 1200 miles of cable possible in the near future, given current plans. Other state agencies and state educational institutions have begun their own investments and need telecommunications services supported over a fiber optic network.

5. WORKFORCE POLICIES

U. Both the commuter transit and product distribution networks are highly developed in urban areas. Unfortunately, urban areas have suffered both a population and employment decline

KEY FINDINGS - 5. WORKFORCE POLICIES (Cont'd)

as manufacturing contraction has disproportionately affected urban areas. However, these cities still hold substantial location advantages for business.

For years, it has been government policy to encourage investment and employment in urban areas. For example, urban areas can offer time-limited property tax abatements to investors. Under the Urban Enterprise Zone program, urban employers receive a one-time Corporate Business Tax credit per new employee of $1,500 or $500, depending on whether the employee resides within the urban area. The program also offers a sales tax exemption for business purchases and a sales tax reduction of 3 percent on vendor sales.

However, these incentives have proved of limited value. A major factor preventing urban business investment is the fear of purchasing/developing property with potential environmental liabilities. Maximizing the advantages of the urban transportation network will revitalize urban areas, provide jobs for disproportionately unemployed New Jerseyans and build the urban tax base.

6. STATE GOVERNMENT SUPPORT POLICY

V. There is a proliferation of governments responsible for the state's product distribution infrastructure. As distribution capacity and speed of product delivery grow in importance, creating a seamless distribution network becomes critical. Such a network requires coordination between providers (governments) and system users (industry). Growth in New Jersey's multi-billion dollar economy depends on the excellence of the state's product distribution network

REPORT OF THE ECONOMIC MASTER PLAN COMMISSION SUBCOMMITTEE ON TRANSPORTATION AND PRODUCT DISTRIBUTION

CONCLUSIONS AND RECOMMENDATIONS

1. REGULATORY POLICIES

A. For transportation and commerce to function effectively government must also. Ports are important to the regional and national economy and are essential to national defense and our global balance of trade. The Port of New York and New Jersey alone generates more than 180,000 jobs and $20 billion dollars annually. The military ocean terminal in Bayonne, New Jersey, was the primary point of debarkation for supplies to support the U.S. troops during Operation Desert Storm, Operation Restore Hope in Somalia and the military action in Haiti. The facility has had its own dredging crisis because of lack of an alternative disposal option for contaminated dredged material and a protracted regulatory procedures. The Army Corps of Engineers has developed a site specific solution to meet the immediate needs of the terminal but the port's ability to play a role in the nation's defense and security activities—and the facility itself—could be in jeopardy if long term sediment management options are not found.

Some ports have channels and berths that require annual dredging. As bureaucrats bicker over their regulatory roles and responsibilities, as rules change midstream, as debates as to disposal options are prolonged, channels and berths will fill or may not get dredged in the first place. The obvious outcome is that commerce is slowed, costs increase and the traffic shifts to another port or even another country.

The development of a comprehensive national policy regarding dredging and disposal would set priorities, require performance levels and provide the framework for decisions that are consistent and coordinated. It would serve as an example for regulatory reform at the state and local level. It would have the federal government share in disposal costs. It would also improve the coastal environment by focusing resources on ending river and harbor pollution at its source. Other states would join in the commitment already made by the State of New Jersey to target efforts and resources to stop pollution at its source and litigate against polluters. And the message would be clear, that effective and efficient environmental regulation need not be to the detriment of regional and national transportation requirements.

In fact, a balanced national policy on dredging and dredged material disposal can be the foundation on which regional and local issues can be addressed. Sediment management solutions, including borrow pits, containment islands, beneficial uses, continued use and expansion of existing disposal areas, and decontamination technology all have a host of issues surrounding their implementation. The sooner the federal government sets forth an affirmative national policy that tackles important issues such as funding, regulation and an overall sediment strategy, the sooner individual state and local governments as well as port applicants can more fully resolve their own dredging issues.

B. Because efficient delivery of needed transportation projects are critical to the enhancement of the state's economy, there needs to be a focused effort to keep the environmental reviews conducted by DEP as expedient as possible without sacrificing priority environmental values.

There are many DOT projects under active review at any point in time, involving significant obligation of capital funds. Quite often, these projects require more than one review/permit. For example, as of September 28, there are 25 projects under active review by DEP, four of which need two different types of permits. The value of this work totals about $181 million of which $118 involves approvals for construction in 1994-95. A rough estimate indicates that every $I00 million construction costs creates 3,000 jobs.

Building upon recent coordination at the senior management level of DEP and DOT, DOT should maintain a list of all projects submitted to DEP for review that includes information on the type of review, date when submitted to DEP, dates when responses were received from DEP and the dollar value of each project. This list would include transit projects as well as authorities' projects. DOT and DEP senior management should review lists bimonthly to identify problem areas and initiate appropriate steps to improve efficiency.

A bi-annual status report of this information should be provided to the Chairs of the Assembly and Senate Transportation Committees.

CONCLUSIONS AND RECOMMENDATIONS 1. REGULATORY POLICIES (Cont'd)

C. Encouraging economic development should be a top priority for all government regulators, regardless of the specific area in which they work. This issue cuts across all levels of government.

Recommendations:

1. The Governor with her cabinet should convene a regulatory summit with all decision-making regulators to emphasize the need for consideration of economic development impacts in all regulatory decisions. The summit would provide an opportunity for mid-level bureaucrats to hear directly the Governor's vision and mission for New Jersey.

2. A similar gubernatorial summit should be held with local, county and regional government officials.

3. Government managers should be required to ensure that economic impacts are considered in every regulatory decision.

4. The Department of Environmental Protection should prioritize its environmental mission across program areas (waste water, stream encroachment, wetlands, toxic contamination) and communicate this information to all managers requesting that it be used in their regulatory decision making.

D. Reducing noise at its source is important, but it is not the only way to lessen the impact of jet noise on communities around airports. Airlines, airports, and the FAA are simultaneously pursuing other strategies. For example, the FAA, with airline support, provides grants to airports for soundproofing homes, schools, churches, and other structures near airports. In some cases, airport operators are using Federal grants to buy homes outright, then selling the property for commercial redevelopment that is more compatible with the airport. Over the past 10 years, the FAA has spent more than $1 billion on such noise mitigation programs.

Airlines, airports, and the FAA also work together to route aircraft away from residential areas as much as possible when flying near the ground. Takeoffs and landings are routed over large bodies of water or industrial areas, for instance, if such areas are adjacent to an airport. In some cases, pilots also are instructed to adjust their power settings on takeoff—applying maximum power to climb quickly while flying over non-residential areas near the airport, then reducing power, and noise, when passing over residential areas further away.

Of course, all such efforts can be canceled out by poor planning and zoning decisions. If airports are to peacefully co-exist with their communities, it is essential that certain types of development, particularly houses, be separated from airports.

E. Competition for the delivery of publicly provided services provides an excellent opportunity to ensure the most cost-efficient delivery of publicly provided services. Extending competition to the allocation of buses, would maximize the benefits the State receives by requiring private carriers to develop service plans that would extend the hours of service, the territory covered or the fares charged to the riders. Further, competition for the allocation of resources would allow new entries into the market place.

Recommendations:

1. NJ Transit continue its contract for service policy and explore the possibility of increasing the number of routes put out to bid. NJ Transit needs to consider the potential complications arising from Federal and State labor protection laws.

2. A policy for the allocation of public assets to private bus operators should be developed that promotes competition among privates, allows for new entries into the market place, and advances the concept of private carriers paying a portion of the cost of the equipment provided.

2. LEGISLATIVE POLICIES

F. The Subcommittee strongly supports the reauthorization of the Transportation Trust Fund statute including the following:

- Dedication of existing and any further increase of the gas tax to the Transportation Trust Fund;
- Expand Bond "Cap" Limit;
- Provide for twenty year bonds to finance the Authority;
- Expand flexibility of the use of Transportation Trust Fund dollars, e.g. Aviation; Local Aid grants and reimbursement;
- No sunset period for the statute.

G. The solution to urban/suburban gridlock requires new creative ideas. Urban transportation planning needs to better consider societal demands for the transportation of goods.

Better off-street parking for delivery vehicles would improve traffic congestion. Inadequate parking facilities cause lengthy delays for commercial vehicles and often lead to double parking. Resulting tickets and related costs are passed onto customers in the form of higher rates. The disparity between commercial parking needs and the supply of available unloading zones is so great in major U.S. cities that carriers simply have no choice but to invite summonses in order to keep commitments to customers.

Truck and commercial vehicle bans should also be avoided as a way to improve traffic congestion. The impact of a truck ban on the movement of goods would result in additional costs to corporations and security risks to employees and goods. In addition, many carriers would be at a competitive disadvantage because the U.S. Postal Service would be exempt from the ban.

Through the Intermodal Surface Transportation Act of 1991 (ISTRA), Metropolitan Planning Organizations (MPO) have been delegated new responsibilities that can facilitate and improve transportation planning. Transportation industry involvement is vitally important to help MPOs prioritize these factors for their transportation plans.

H. Legislative policies are needed to build NJ TRANSIT ridership, including incentives to encourage people to use mass transit.

Recommendations:

1. Coordinate policies between modes which speed connections, link fare/toll methods of payment, and facilitate park n' ride, Intelligent Transportation Systems (ITS) applications and joint use of facilities.

2. Advance policies which increase transit choice incentives: including premium service pricing options, and employer based options such as transit-chek and cashing out parking.

3. Support maintenance of current transit services and infrastructure and expansion of services to meet targeted needs.

4. Set a fare policy of raising fares at no more than the rate of inflation, which maximizes revenue gain, while minimizing ridership loss.

5. Develop policies to allow for region-wide inter-operator fare coordination.

6. Develop a targeted marketing plan emphasizing off-peak and innovative services to maximize use of existing capacity, and new services which add to peak capacity.

I. In strategic transportation centers, rezoning inconsistent with industrial use should be discouraged.

CONCLUSIONS AND RECOMMENDATIONS - 2. LEGISLATIVE POLICIES (Cont'd)

Local governments are properly vested with zoning authority. The role of state government is not to usurp this authority, but to educate local governments as to the importance of maintaining industrial use classifications for property along active and preserved rail lines and by or near strategic transportation centers. This can best be accomplished through an education effort by the State Department of Commerce and other economic development groups and organizations.

A program should be established to inform state, county and local planning authorities, freeholders, mayors, council members and economic development officials to the importance of preserving industrial property to encourage economic development, reduce traffic congestion and meet air quality standards. The Department of Transportation and metropolitan planning agencies should be involved in this effort and include industrial use preservation among their goals as they comply with the requirements of both ISTEA and the Clean Air Act. Finally, zoning officials should be strongly encouraged to contact and work with transportation companies, planners, and economic development officials whenever rezoning industrial use property.

J. <u>Overweight containers, which potentially can cause damage to highways, ideally should not be used as a device by which one jurisdiction gains a commercial advantage over another</u>. Ideally, the Federal Government should establish uniform rules and regulations, which place all ports in the country on a "level playing field" with regard to overweight containers. However, until this becomes a reality, New Jersey should take prudent steps to protect the commerce of its ports.

It is therefore recommended, (1) that the State implement a new rule, allowing permits to be issued granting a tolerance of 4,000 pounds on just one of the (usually two) sets of tandem axles on a tractor-chassis combination carrying a sealed marine container, for the sole purpose of connecting key intermodal port and rail facilities. While maintaining the overall limit of 80,000 pounds per truck, this would allow a small yet significant axle-weight tolerance which will be sufficient to relieve many of the overweight problems experienced by trucking companies who transport marine containers. It is further recommended, (2) that a simple and inexpensive permit system be developed to facilitate movement of such containers, and (3) that overweight containers moving under these provisions, be restricted to a network of suitable highways, approved by the State, which serve to connect key intermodal port and rail facilities.

K. Clearly, the use of intermodal transportation will help states and regions meet air quality goals by reducing congestion. It will further reduce longer truck movements easing wear and tear on major highways. This contribution to helping solve these problems is evident in the name of the most recent highway bill, the Intermodal Surface Transportation Efficiency Act.

As mentioned, the New Jersey Department of Transportation has already taken the first step by placing the appropriate roads leading to rail intermodal terminals on the national highway system map. The next step is for the Department, working with metropolitan planning organizations, local governments and the transportation industry, to study terminal access in order to identify improvements that will benefit both the terminal and the community.

L. Repeal of the 2 cent aviation fuel tax is important in that it enhances NJ's aviation industry's competitiveness; is business friendly to travel and travelers; and is a tourism enhancer.
It also establishes through TTF a stable funding source of up to $10 million/year to aviation; increases funding to allow for greater federal FAA participation (90 percent federal/10 percent state) in state aviation facility improvements; and it creates new jobs and job centers.

Recommendations:

1. Repeal all aviation fuel taxes; include $10 million for aviation in the Transportation Trust Fund reauthorization;

CONCLUSIONS AND RECOMMENDATIONS - 2. LEGISLATIVE POLICIES (Cont'd)

2. Aggressively market the need for capital improvements to the aviation community and secure FAA funding to maximize the use of the federal program dollars.

3. INFRASTRUCTURE POLICIES

M. The future challenge is not to maintain the status quo, it is to dramatically increase and redistribute economic development within the state by connecting and expanding interstate linkages. Populations and employment centers are changing and the region must be flexible and continue to provide the linkages to assist regional economies in meeting growth demands.

In the New Jersey-New York metropolitan area, the Port Authority is developing a comprehensive, intermodal plan to promote interstate mobility. Key planning strategies include assessing the potential of a new rail service to reduce vehicular use, support economic development, improve transit connectivity and provide rail freight connections to the Meadowlands/Midtown Manhattan/Western Queens corridor. In the southern New Jersey-New York portion of the region, plans are underway to enhance interstate connections by a potential expansion and modernization of the Goethals Bridge including developing alternative transit and goods movement strategies.

In the Camden-Philadelphia metropolitan area, major transit and vehicular initiatives are in the planning stage. In the Gloucester-Burlington Corridors, NJT is studying rail rapid transit and light rail service expansion. Also major reconstruction of I-95 and the Pennsylvania Turnpike will facilitate more efficient vehicular and goods movement service for all.

The citizens and businesses of New Jersey expect we will invest in interstate transportation links to maintain and improve the state's economy, open up job markets and labor force to them and provide a transportation network which will improve air quality.

N. With the Orion development, the shopping center at the Elizabeth Industrial Park and proposed office development west of the Turnpike, North Avenue could become practically impassable at rush hour. New Jersey should support continued improvement of access between the airport, the seaport and the New Jersey Turnpike by committing additional funding to these highway links. At the same time, it is critical that a coordinated land use policy be integrated with access and development planning; the geographic constraints of the facilities will otherwise hinder the ability to meet needs of future economic growth.

In a related issue, distribution space near the airport/seaport is becoming critical as normal growth pushes these activities from the terminals to peripheral locations. The state should be prepared to commit to future distribution needs in its economic development plans, as well as retailing. West of the airport the state should consider having the Waverly Yards property be developed for mixed used, which would include distribution and

package freight facilities, as well as a passenger terminal on the Northeast Corridor rail line.

Intermodal rail lines have been identified by several outside consultants as a critical link for the port to enhance its load center status. New Jersey needs to continue its commitment to rail line clearance projects to assure that double stack trains can reach the port.

Ground access to the Newark International Airport is critical to the continued passenger growth of this facility. There must be commitment to investment in Intelligent Vehicle Highway System (IVHS) improvements and to improved signage.

Improved transit service is increasingly important to allow passengers to reach the airport terminals in efficient manner and to increase access at local employment centers. The State needs to take an active role in transit projects in the area.

O. New Jersey needs a food distribution center to expand our ports shipping of food products. New Jersey needs to update the market and financial analyses from earlier reports (1985) of the defunct South Jersey Food Distribution Authority.

P. The State should use private vendors to design and build and possibly operate transportation facilities.

Recommendations:

1. Explore legislation to promote public/private partnerships for design/build projects.

2. Draft policy which sets criteria for design/build and for design-build-operate projects.

3. Identify and conduct technical analyses of potential projects.

Q. New Jersey needs to improve information to users of the commercial truck routes and intermodal facilities through an updated commercial truck network map, trailblazers and

commonly used truck route signs, e.g. National Network Signs, to facilitate the flow of goods in the region.

The State should conduct a complete video inventory (photolog) of all commercial routes. Apply GIS capabilities to the network to allow users to access information on any segment, including physical attributes and existing signage. Identify the appropriate jurisdictions/agencies who would be interested in addressing the problem. Create a map with critical roads, rail lines, facilities, etc. which can be used in the placement of signs, examining the existing signage and recommending a new integrated program, paying particular attention to locations where critical decisions about mode or route choice are made.

CONCLUSIONS AND RECOMMENDATIONS - 3. INFRASTRUCTURE POLICIES

(Cont'd)

Get feedback from the "customers" (e.g., members of the Freight Services Improvement Conference), the users of the network and facilities. Develop a plan for implementing the program, including coordinating needs, schedules, and costs.

R. Ensuring an effective intermodal transportation network requires partnerships to manage the cost of both private and public investment in infrastructure. Traditional roles and resources must change to meet increasing system demands. With the aging of the transportation infrastructure and years of declining preventative maintenance, preserving the system becomes more urgent and costly. To avoid continued operational degradation, the state must identify new sources of funding for maintenance, operation, and infrastructure improvements. Private investment in transportation infrastructure is considerable, especially in tourist areas. Leveraging shared interests con improve both public and private benefits while at the same time assuring quality service to our tourism industry.

Recommendations:

1. Explore market applications for public/private ventures on state highways, and assess cost/benefit of toll and "free" roads.

2. Coordinate statewide fare/toll policies to capitalize on market opportunities, where cost-benefits indicate partnership opportunities.

4. TECHNOLOGY/RESEARCH AND DEVELOPMENT POLICIES

S. Implementation of a "smart highway" system (ITS) would make New Jersey a national leader in designing, manufacturing and implementing this technology. The first step should be creation of a smart highway plan.

The growing inability and/or cost to expand transportation infrastructure means New Jersey must better manage its transportation resources. New Jersey is home to a number of telecommunications companies, academic institutions, engineering and technical firms. There are opportunities for economic development or retooling of industry which need to be defined and the legal and constitutional barriers identified. ITS solutions are in the planning stages now and timing is critical to advance actions.

Recommendations:

1. Aggressively support the work of the Committee for a Smart New Jersey to explore partnering, alliance, and collaborative opportunities among the sectors to foster economic development. Adopt coordinated policies and strategies for using ITS throughout all the transportation agencies, based on the business planning efforts.

2. Explore and eliminate the institutional, procedural or legal barriers which are identified as roadblocks to economic development .

T. <u>Telecommunications companies are increasing their dependence on fiber optic infrastructure and communication cells to support expanding electronic commerce.</u> State government has a growing demand for a fiber optic backbone and cellular links to support a multitude of state agency voice, data, and video communication needs. The state owned right-of-way along state highways, rail rights-of-way and overhead signs are prime locations to install cable or cells which could be used to serve both public and private sector needs. The state should aggressively market and leverage its assets—the right of way and existing fiber which has been installed.

Recommendations:

I . DOT ascertain leasing opportunities on state owned right-of-way (highway and rail) for telecommunications or other industries.

2. Conduct a state government fiber optics needs assessment and develop a state government fiber optics master plan. Identify telecommunications industry's needs for accessibility on state owned rights-of-way

CONCLUSIONS AND RECOMMENDATIONS - 4. TECHNOLOGY/RESEARCH AND DEVELOPMENT POLICIES (Cont'd)

3. Draft and implement legislative and regulatory changes to provide for private sector partnerships which may now be constrained by procurement and regulatory limitations.

5. WORKFORCE POLICIES

U. Government policies should encourage employment growth in transportation accessible areas such as urban areas.

Recommendations:

1. New Jersey corporate business tax credits could be made available to companies relocating jobs into designated transportation-friendly urban areas.

2. State environmental clean-up liability could be waived for business investors in designated urban areas.

3. New Jersey Transit could offer customized transit routing for company employees in designated urban areas.

6. STATE GOVERNMENT SUPPORT POLICY

V. A Product Distribution Council should form including representatives from the product distribution sector (rail, truck, air and sea shipping) and government to recommend and coordinate policies to benefit the state's economy.

Recommendations:

1. A council form consisting of representatives from the distribution sector (rail, truck, sea and air), the governmental entities involved in the sector's infrastructure, the state Department of Commerce and the Governor's Office. The Commissioner of the Department of Transportation should chair the group.

CONCLUSIONS AND RECOMMENDATIONS - 5. WORKFORCE POLICIES (Cont'd)

2. The DOT, through its newly organized Ports, Freight and Terminals division and policy offices should draft a product distribution statement and create an infrastructure/capital investment agenda to support that policy.

3. The purpose of the Council is to review and revise the DOT's draft product distribution policy statement recommending changes to state infrastructure, law or regulations designed to improve efficiency of the product distribution network. Additionally, the Council should review policies of related government entities for impact on the network.

Report to the

Governor's Economic Master Plan Commission

Presented by the

Task Force on Higher Education and Advanced Technology

November 28, 1994

)FFICE OF THE PRESIDENT

NJIT
Jew Jersey Institute of Technology

A Public
Research University

To: Mr. Alan Bowers and Dr. Shirley Jackson
Chairs, Governor's Economic Master Plan Commission

From: Saul K. Fenster
President

Date: November 28, 1994

Subject: Final Report of the Task Force on Higher Education and Advanced Technology

I am pleased to forward to the Governor's Economic Master Plan Commission this final report of the Task Force on Higher Education and Advanced Technology. I wish to extend sincere thanks to the members of the Task Force for their excellent work and to many other individuals for their testimony and comments on the working papers and draft report.

The Task Force deliberations reinforced a truism that economic development, and indeed, all of the noble goals we share for the people of the state -- better health, a cleaner environment, urban revitalization, quality education and good jobs -- can be realized only if the state has a vibrant and growing private sector. The fundamental premise underlying the recommendations in this Report is that higher education plays a crucial role in economic development, both directly and as a catalyst working in partnership with the private sector. This partnership is particularly evident in the conduct of research.

Research pervades the culture and value system of universities and their faculties. The simple presence of universities, and the research enterprise that is an integral part of their mission, constitutes an important contribution to the state's economic development.

In addition to the research that is conducted as a fundamental premise of university life, externally funded programs can play a significant role. The research centers and projects supported by the New Jersey Commission on Science and Technology (NJCST), though only one aspect of the total higher education enterprise, clearly demonstrate the leveraging effect of carefully targeted public investments. While this report highlights NJCST supported

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initiatives, the Task Force also made a serious effort to portray accurately the contributions of all institutional sectors to economic development.

I must emphasize that this report should not be construed as a comprehensive review of all college and university initiatives. For example, the report does not include data on projects that do not receive support from the New Jersey Commission on Science and Technology, the most prominent of which is the fusion laboratory at the Princeton Forrestal Campus. Over the years, that enterprise alone has contributed many hundreds of millions of dollars to the state's economy.

The Report also does not repeat the findings of recent studies done by others. Instead, it refers to those reports, e.g., "Renewing the Public Investment" by the Advisory Commission on Investing in State Colleges and "Return on the Investment" by Rutgers University.

The Report includes an executive summary and a priority listing of recommendations in the following categories:

1. The top priority recommendations in two categories: six that involve increased state funding and five that could be implemented without an increase in state funding.

2. Other recommendations grouped in two categories: those that would require an increase in state funding and those that could be implemented without an increase in state funding.

I am confident that the Commission will find that the Task Force Report has presented a compelling case that higher education acts as an engine of economic development in New Jersey and that an increased public investment in higher education will pay handsome dividends for the state. Please do not hesitate to contact me if the Commission needs additional information or if you have any questions.

c. Members of the Task Force

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EXECUTIVE SUMMARY

The Mission of Higher Education: A New Emphasis on Economic Development

Economic development themes are more important than ever within each of the three traditional mission elements in higher education: teaching, research, and public service. At some institutions economic development has become effectively a fourth mission element.

Economic development initiatives in other states are important benchmarks against which New Jersey should measure its own progress and levels of activity.

College and university campuses are introducing dramatic changes in response to local and national economic development imperatives such as global competition, corporate restructuring, and the down-sizing of the defense establishment.

Business and industry influence higher education through advisory boards and committees. The impact on curriculum, the research agenda, and the organization and operation of higher education institutions is significant.

The Economic Impact of the Higher Education Sector

Direct expenditures by colleges and universities on payrolls, services, goods, and construction contribute significantly to economic growth within a local community.

Higher education can contribute to the perception of a state or locality as a "business-friendly" environment.

Outmigration of top high school graduates to colleges and universities in other states represents a significant negative economic influence on the state.

Higher Education's Economic Development Initiatives in New Jersey

Higher education's most important role in economic development is human resource development. Not only do colleges and universities educate students through degree programs at all levels, but they maintain significant continuing education programs to up-date technical and professional skills for the State's workforce.

Industrial competitiveness is more than just technologies and strategies. It is people. When it comes to competition in the marketplace, the only sustainable advantage is creative, skilled, and highly educated people. Our colleges and universities are the primary source for such people.

If New Jersey is to maintain a strong, highly skilled workforce, our colleges and universities must recruit effectively and retain more of New Jersey's top high school graduates.

University Research: Critical To New Jersey's Economy

New Jersey is an international leader in corporate R&D with more scientists and engineers per capita than any other state. New Jersey ranks in the top three or four states in the number of patents per capita.

The State must treat university research as an integral component of its overall economic development plan. The university research function itself acts as an economic multiplier by obtaining external funding that generates more jobs, adds to the quality of education, and provides new opportunities for research.

During the last decade, New Jersey has encouraged its research universities to engage in economic development activities. The most significant single event was the creation of the Governor's Commission on Science and Technology and its successor, the New Jersey Commission on Science and Technology (NJCST).

The State's five research universities have become contributing partners with private industry in collaborative research supported by a strengthened academic infrastructure.

The research universities have achieved a dramatic increase in the leveraging of the state's research investment by attracting funds from both the federal government and the corporate sector.

The strategic plans of the research institutions and the strategic objectives of the state are now in alignment.

The Advanced Technology Centers (ATC's) are highly leveraged with private funds. Each ATC has financial and program support from a cadre of 15 to 40 companies that work with the ATC's and utilize the results of ATC research. Significant benefits derived from the ATC's include:

(a) bridging corporations and academe;
(b) transferring technology;
(c) attracting outstanding faculty to New Jersey;
(d) training graduate and undergraduate students in a research environment.

The ATC's play an important role in stimulating new scientific discoveries, facilitating the creation of start-up companies, generating spin-off companies, helping establish companies stay competitive, generating the basis for new commercial applications, developing leadership positions for critical New Jersey industries including advanced materials, agricultural biotechnology, environmental protection, medical biotechnology, pharmaceuticals, and plastics industries.

Research and Technology Transfer: New Product Development

Intellectual property is an important product of research; technology transfer is the vehicle which places the research in the hands of those who can translate it into commercial products. The potential benefits to industry of access to valuable intellectual properties is well recognized. The potential for royalty income to New Jersey's public universities has not been fully actualized.

The New Jersey Commission on Science and Technology's funding of business incubators has proven highly productive by any standard.

Private/public partnerships have facilitated the formation of new businesses, the testing of new technologies, and the transfer of technology to the marketplace.

Needed: A Healthy Manufacturing Sector

Manufacturing is the primary goods producing sector of our economy. Every manufacturing job generates up to four additional jobs in retail sales, services, and other employment sectors.

The vast majority of the state's manufacturing firms are small businesses. Few have the in-house expertise or engineering experience to maintain their competitive edge in a rapidly changing marketplace. The technical assistance offered by universities can be critical to the survival and success of such businesses.

It is shortsighted and dangerous to assume that the state is immune to the effects of budget reductions in the U.S. Department of Defense; corporate down-sizing, restructuring, and out-sourcing; and interstate and global competition. Federal spending cuts have already impacted the critical high-value end of the manufacturing sector, particularly the electronics industry. Many larger firms and most smaller New Jersey firms that have focused on defense contracts will need substantial technical, managerial, and marketing assistance in order to survive and thrive.

In addition to being the State's primary source for the education and training of our workforce, higher education has an important role to play in strengthening the competitiveness of New Jersey's industries through R&D, technology transfer, and technology extension (TEX). Three stand-alone TEX Centers have been established.

Network New Jersey is an integrated system of industry-specific service centers designed to address industry needs, inventory company capabilities, develop group-leveraged projects, and deliver services directly or in collaboration with resource partners.

Training and Retraining Skilled Technicians: A Critical Service Provided by New Jersey's Community Colleges

New Jersey can cite many examples of companies that have been able to upgrade technology because a local community college "retooled" their workforce.

Community colleges serve thousands of New Jerseyans whose high school programs left them without adequate preparation for the workforce. For this group, community colleges provide an excellent opportunity for one-stop career building, just as they provide one-stop employee retraining for business and industry.

The State's current high school population group can be served by community colleges in partnership with high schools through tech prep programs or 2 plus 2 programs, which provide windows of opportunity to thousands by combining school-based instruction with learning in a work-based environment.

Community Development through Science Parks: An Economic Development Opportunity for Higher Education, Business and Local Communities

University-based or affiliated science parks offer the potential of attracting business and industry to the State. Science parks complement and draw upon the research strengths of a university or more significantly, a group of nearby universities. The dynamic interaction made possible by a science park not only builds a local community, but also strengthens university research capacity in the process. Given New Jersey's economy with technology-intensive businesses, large research and development industry, and very high concentration of scientists and engineers, the state would benefit from development of additional science parks to serve as magnets for further investments by industry.

The International Dimension: Higher Education and the Global Economy

New Jersey's universities and colleges are substantial assets to the state in developing international business and stimulating an international transfer of technology. Colleges and universities have a wide range of international relationships with institutions, businesses, and individuals, through faculty research and development, educational and technical exchanges, and business and technical assistance. This collegiate resource can be the basis for strengthening the state's technical base and foreign trade, especially where small and medium enterprises are involved.

Economic Development Priorities

The following is a ranking in priority order of the recommendations in the Task Force report. The numbers in brackets refer to the order in which recommendations appear in the Task Force's report.

It should be noted that commercialization (i.e. the translation of research findings into commercial products) is an objective that can be arrived at through many complementary means. This is reflected in the fact that three of the report's recommendations appear under this single priority.

Top 6 recommendations involving state funding

1. "Institutions of choice" funding [#4]
2. Advanced Technology Centers [#8]
3. Technology transfer programs [#15]
4. Commercialization initiatives [#11,#13,#14]
5. Research parks [#17]
6. Community college manufacturing consortia [#16]

Top 5 recommendations requiring no additional state funding

1. Benchmarking: comparison of N.J. vs. initiatives in other states [#2]
2. Faculty reward system to recognize economic development efforts [#3]
3. Intellectual property policy review [#10]
4. Job training data base and program development with industry input [#6]
5. Inventory of higher education resources available to industry [#12]

Other recommendations involving state funding

1. Intellectual property protection and technology marketing [#9]
2. International trade partnership program [#18]

Recommendations on state policy issues

1. Comprehensive state plan for economic development [#1]
2. Partnerships between K-12, higher education, industry [#5,#7]

Task Force Recommendations
[in the order that they appear in the report]

1. New Jersey's comprehensive economic development plan should fully embrace the resources offered by the state's colleges and universities as well as the state's installed base of major corporations, its transportation and export facilities, and its many thousands of small businesses. Quick action is needed since lead times are long and the state has not sufficiently built upon the policy base established a decade ago.

2. Economic development initiatives in other states can be regarded as important benchmarks. New Jersey should measure its own progress and levels of activity against the standards set by competing states.

3. Higher education should recognize faculty activities that contribute to intellectual property development, small business formation, business-university cooperation, product commercialization, and downstream research. Such activities should be rewarded in faculty evaluation processes, wherever appropriate. The kinds of faculty activities to be encouraged, and the weight they are to be given, are matters to be decided by each institution.

4. It is essential that New Jersey's colleges and universities be institutions of choice for New Jersey residents and for residents of other states. This will require a commensurate level of investment in the state's public and private colleges and universities. Retaining more of the state's best and brightest students, who have the potential to become the state's best and brightest workers, will multiply the return on the state's investment in education.

5. Human resource development is the essential function of the educational system. The process must be viewed as a continuum, beginning at the elementary school level, continuing through high school and college education, and becoming a lifelong commitment to learning in all its forms. Efforts should be made to accelerate the development of partnerships among secondary schools, colleges, and industry to establish work-based technical learning opportunities. The county and community colleges should be recognized as having a special role to play in such partnerships.

6. A combined effort of industry, higher education, and state government is needed to prepare New Jersey's youth for the jobs of the future. Industry should provide leadership in defining what specific career opportunities are likely to be available, and in updating such information on a timely basis. Higher education should develop and implement relevant education and training programs, including customized training, to support key industries' needs. State government should coordinate the collection of information from industry, encourage consortial efforts among all interested parties, and (along with other partners) provide the financing necessary to support educational programs.

7. The State of New Jersey should develop policies which explicitly encourage partnerships among schools, colleges, and employers. Equally important, the state, local governments, and the business community should work together to eliminate barriers that impede such partnerships and innovative programs. The state should also support innovative programs to upgrade the technological knowledge and skill levels of K-12 teachers.

8. In FY 1994, the State's investment in Advanced Technology Centers (ATC's) was leveraged more than three to one. To capitalize on this momentum, the State of New Jersey should increase its investment in the New Jersey Commission on Science and Technology (NJCST) and the existing ATC's. The state should also support a limited number of additional centers in areas carefully targeted for maximum positive impact on the state's economy. Such additional investments would broaden and deepen the research and development collaboration between private industry and the State's research universities.

9. The state should increase its support for the protection of patents and copyrights held by faculty and staff of New Jersey's public universities, and should also support the marketing of these valuable discoveries to New Jersey firms. Relatively modest investments in the intellectual-property-protection and technology-marketing units of New Jersey public universities would secure these important benefits.

10. The state's research universities should collaborate in conducting a comprehensive review of policies and regulations on intellectual property. While continuing to operate in a manner appropriate to its individual circumstances and history, each institution should consider whether to revise current policies and practices in order to encourage intellectual property development on the part of faculty and other professional staff. Some institutions would benefit from the interchange of ideas with representatives of those institutions that have special expertise in this area as well as with experts from outside the universities. The review might also consider modes of cooperation among technology transfer offices to promote intra-and inter-institutional efficiency and interaction.

11. The economic paybacks derived from the relatively modest state funding for business incubators warrant a decision to step up the level of investment. The budget of the NJCST should be augmented to permit at least a doubling of the number of university-based incubators and incubator businesses served within the next three years. These incubators should collaborate more closely with the Commission-funded Advanced Technology Centers.

12. Colleges and universities should inventory their programmatic and physical assets to identify resources that could benefit incubator tenants in a manner consistent with institutional priorities. The colleges and universities should make it easy for incubator tenants to interact with faculty, staff, and students, and they should provide convenient access to equipment and facilities.

13. The NJCST's "bridging" grant program is an effective approach to support small start-up firms and should be continued.

14. The State should adopt policies that encourage the formation of new businesses, the development of new products, and the transfer of technology to the market place. Four options are presented in this report.

15. The state should support efforts to strengthen the manufacturing sector. To this end, the State should fully implement Network New Jersey by establishing a comprehensive statewide manufacturing extension and training program with the primary mission of revitalizing the state's small manufacturing businesses, and should assist New Jersey's defense-dependent firms make the transition to other manufacturing businesses.

16. The state should increase support for community college programs that will help create and maintain a workforce capable of making New Jersey's businesses and industries competitive in the global marketplace. It is essential to invest not only in advanced technology, but in the workforce that is needed to operate and maintain the technology. One productive investment would be support for the North/Central Advanced Technology Consortium, consisting of thirteen community colleges in the northern part of the state, and the Southern Computer-Integrated Manufacturing Consortium led by Camden County Community College.

17. The state should provide seed funding and other incentives to develop at least two additional science parks affiliated with cooperating research universities (located in Newark and the New Brunswick -Princeton Corridor).

18. The state should support the research universities' capacity to assist New Jersey businesses in developing international technology transfer agreements and international markets for their products. Such an initiative could be a component of an International Trade Partnership program with a strong university and college component focusing on the development of trade, cultural awareness, and technology transfer.

Report of the

Task Force on Higher Education and Advanced Technology

to the

Governor's Economic Master Plan Commission

1. Economic Development: A Definition

Economic development is an organic growth process that takes place only when environmental conditions are favorable. It depends, above all, upon the availability of educated people to provide ideas and leadership. Invention and innovation are its raw materials. Once set in motion, economic development increases the capacity of individuals and organizations to produce goods and services and thereby create wealth. It therefore has the potential to sustain and improve the living standards of communities that provide a hospitable climate, and of the individuals who participate in the process.

2. The Mission of Higher Education: A New Emphasis on Economic Development

The mission of American higher education is generally seen as consisting of three components: teaching, research, and public service. Given the context of the nation's rapidly changing circumstances, the time has come to emphasize a fourth mission element: economic development. To some extent economic development themes have always been part and parcel of the traditional triumvirate of mission elements. However, it is arguable that current economic and social conditions render economic development more important now than ever before, at least for a some of the nation's colleges and universities. This certainly is the case in the state of New Jersey.

The teaching mission of higher education has as its most lofty objective the development of an educated citizenry. A no less important objective, however, is the preparation of a work force capable of competing in a global economy and thereby supporting a high standard of living. The teaching mission is carried out through programs of instruction at all post-secondary levels, from customized training and re-training programs at community colleges through advanced continuing professional education programs at graduate schools and universities, from associate degree programs through doctoral and post-doctoral programs. The economic development mission of higher education is also fulfilled through the burgeoning collaborative efforts of colleges and universities working with elementary and secondary schools to improve students' educational preparation for college or other post-secondary learning, thus enhancing their opportunities to find more lucrative jobs and lead more productive lives.

Colleges and universities are introducing significant changes in the content of curricula in response to rapid development of technologies, the imperatives of global and regional competition, corporate restructuring, and down-sizing of the defense establishment. It has become accepted practice for colleges and universities to teach such concepts and methods as working in functional teams, responding more directly to the needs of the marketplace, and emphasizing continuous quality improvement. An international component is considered essential in many liberal arts programs. Participation on the part of business and industry through advisory boards and committees has become common, and their influence on the curriculum and research agenda is significant.

The research mission of higher education has always had the development of new knowledge as its primary objective. For the past century and a half, this has included the development of practical applications of scientific and technical knowledge. Higher education institutions now routinely cooperate with corporate enterprises to enhance the efficiency and productivity of their combined R&D efforts through sharing of expertise and experience, facilities and equipment. Higher education and private enterprise are natural partners in preserving the social fabric of the nation, in the conduct of research, and in the solution of large-scale environmental and technical problems. The results of their partnership are a tangible and direct contribution to the nation's economic development.

The public service mission of higher education takes the form of rendering technical assistance and expert advice to individuals and entities in both the private and public sectors. Economic development is a direct consequence of the many services higher education renders to small business enterprises, most of which large corporations can afford to provide for themselves. Services provided to small business include global outreach through networking arrangements, application of state-of-the-art research and help in commercialization, transfer of manufacturing technology, preparation to meet global quality standards, and management training. Ready access to faculty specialists, well-trained students, sophisticated laboratory facilities and equipment, and specialized services are some of the means by which these functions are performed. A final contribution higher education can make to a state's economic development is to leverage the public resources made available to it. Universities do this by attracting federal grants and contracts, and by creating environmental conditions conducive to partnership ventures and contractual arrangements with private corporations. In this way, an initial investment of public funds can be multiplied many times over, and New Jersey's institutions of higher education can play a catalytic role in helping to mobilize additional resources.

A few may choose to engage directly in the processes of invention and new product development. When relatively small sums are invested wisely in the work of ingenious entrepreneurs, be they faculty members or businesspersons, the effects can be dramatic. Resulting inventions and products can be the source of thousands of new jobs in production and distribution. Entirely new industries can be created. And each successful stage of growth in manufacturing and marketing supports employment in a host of ancillary service industries.

3. Economic Development and Higher Education in New Jersey: Implications for Institutional Sectors

In two important respects, New Jersey has been attempting to play "catch up" with states in other regions. First, New Jersey was relatively late in developing a system of public higher education, and even later in emphasizing graduate education and research within the system. Secondly, New Jersey has fashioned and implemented a system of academically-linked technology research, development, and transfer initiatives only within the past ten years. It can be demonstrated that both initiatives, while significant and successful within the constraints of history and funding, are nonetheless late relative to other states such as Maryland, California, Massachusetts, and North Carolina, which are regarded as important benchmarks against which New Jersey should measure its own progress and levels of activity.

The State's system of higher education is comprised of 56 degree-granting institutions that can be grouped into several categories or "sectors." There are 19 community colleges, 9 State colleges, 3 public research universities, 15 independent colleges and universities with public missions, 7 theological institutions, and 3 proprietary institutions. While their contributions to economic development vary markedly as a function of their individual missions, history, and evolution, all recognize that their principal mission is education. The following matrix indicates which economic development activities constitute a *major* focus within the mission of each institutional sector of higher education.

Major Sectoral Mission Elements with an Economic Development Focus	Community Colleges	State Colleges	Independent Colleges & Universities	Research Universities - Public and Independent
TEACHING				
- basic skills remediation	x	x	x	x
- occupational training & retraining	x			
- degree programs				
- entry-level occupational & professional	x	x	x	x
- advanced professional		x	x	x
- doctoral			x	x
- continuing professional education	x	x	x	x
- personal development programs	x	x	x	x
RESEARCH				
- individual faculty research		x	x	x
- organized centers & bureaus		x	x	x
- advanced technology centers (ATC)				x
- innovation partnerships (IP)				x
- technology extension centers (TEX)				x
- research parks (operating or proposed)				x
- formal patent development offices				x
PUBLIC SERVICE				
- partnerships with K-12 schools	x	x	x	x
- technical assistance to small business	x	x	x	x
- technology transfer offices				x
- business incubators	x			x
- community development offices	x	x	x	x
- technical assistance to governmental agencies	x	x	x	x
- extension services	x			x

Economic development has been part of the mission of community colleges since their founding. Consequently, it is not surprising that our community colleges are heavily involved in training/retraining programs, particularly customized training for businesses and the offering of continuing education/professional development courses. A recent survey suggests that over 80% of the 35,000 individuals who enrolled last year in training/retraining programs did so at a community college. Small business development is another area of economic development where community colleges play a major role. Nearly half of the 19 community colleges have specific development centers reaching out to assist local businesses through counseling, seminars on topics of interest to business owners, and referral services to banks and government agencies. Many of the clients served engage in entrepreneurial endeavors. Nor is it surprising that community colleges are actively involved in occupational program development. Of approximately 112 new programs and options developed within the last five years, over 40% were ascribable to community colleges; the sector registered over 50% of the new enrollments associated with these offerings.

State colleges are major centers for undergraduate education, continuing education, and professional development. Alone or in partnership with other colleges and universities, the state colleges contribute to economic development by bringing individuals into the mainstream of New Jersey's economic and cultural life. They also provide small business development assistance. Faculty and staff, like their counterparts in other sectors, lend their expertise in consulting capacities for the benefit of industry and government. [For further information on the roles of the state colleges and their value to New Jersey, see the October, 1994 report "Renewing the Public Investment" by the Advisory Commission on Investing in State Colleges.]

Independent colleges and universities with their focus on the liberal arts, produce students fluent in foreign languages, with exposure to other cultures, intellectually prepared for professional training in business, law, public administration, and technical fields. Perhaps most important, graduates are flexible and adaptable, able to summon their skills and experience to fashion solutions to problems and responses to changing conditions.

Universities, both public and private, offer a wide range of services to enhance economic development. Professional services through organized research bureaus, centers, or individual faculty effort assist industry, businesses, and government agencies. Moreover, universities attract companies, facilitate technology transfer, and provide technical assistance to industry through Advanced Technology Centers, business incubators, research parks, and patent/licensing offices. Universities are also major contributors of continuing professional education for individuals seeking to enhance their professional skills and of post-baccalaureate programs for those who seek personal enrichment. Respondents to a 1993 survey indicated that such courses have enrollments of over 65,000 annually.

Recommendation #1

New Jersey's comprehensive economic development plan should fully embrace the resources offered by the state's colleges and universities as well as the state's installed base of major corporations, its transportation and export facilities, and its many *thousands of small businesses. Quick action is needed since lead times are long and the state has not sufficiently built upon the policy base established a decade ago.*

Recommendation #2

Economic development initiatives in other states can be regarded as important benchmarks. New Jersey should measure its own progress and levels of activity against the standards set by competing states.

Recommendation #3

Higher education should recognize faculty activities that contribute to intellectual property development, small business formation, business-university cooperation, product commercialization, and downstream research. Such activities should be rewarded in faculty evaluation processes, wherever appropriate. The kinds of faculty activities to be encouraged, and the weight they are to be given, are matters to be decided by each institution.

4. The Economic Impact of Higher Education

Higher education exerts a powerful economic stimulus on the local communities in which institutions are located. The very presence of a college or university in a town or city has an important impact on the local employment market through the creation of jobs, on the support of local enterprises through the "multiplier" effect of direct expenditures, and on real estate values through the effects of development. Expenditures on payrolls, services, goods, and construction contribute significantly to a community's economic growth. When this impact is summed across the entire state, higher education is clearly a major generator of economic activity. Whereas this positive effect may be wholly coincidental in certain cases, it becomes an explicit part of higher education's mission in the case of urban institutions. The economic plans of cities often envision a strategic role for institutions of higher education and associated centers of research and business development. Higher education can also contribute to the perception of a state or locality as a "business-friendly" environment; proximity to colleges and universities is often a consideration in deciding on the location or relocation of a business enterprise, large or small. [A thorough discussion and evaluation of the positive impact a university has on the surrounding community and the state's economy can be found in the 1994 Rutgers University report "Return on the Investment."]

In contrast to the positive economic impact of having students attend New Jersey's colleges and universities, the out-migration of New Jersey high school graduates to colleges and universities in other states represents a negative economic influence on the state. For generations the state has been a net exporter of college students. Each year, approximately 40% of all first-time college-going New Jersey residents leave the state to attend college, resulting in a direct loss of tuition, housing, and living expense revenues. Moreover, the cohort leaving the state includes a disproportionate share of high-achieving high school students. Since college attendance in another state increases the likelihood that an individual will not return to New Jersey, the out-migration phenomenon represents not only a direct loss of revenues associated with tuition, housing, and living expenses, but also a real intellectual loss to the state. A 1992 Rutgers Bureau of Economic Research study estimated that each yearly cohort of out-migrating students represents a potential annual loss to New Jersey's economy of $400 million. The lost revenue for four cohorts (i.e., four classes of students simultaneously enrolled in baccalaureate studies) is over a billion dollars; utilizing a standard economic multiplier, New Jersey's estimated annual loss could be several billion dollars.

Recommendation #4

It is essential that New Jersey's colleges and universities be institutions of choice for New Jersey residents and for residents of other states. This will require a commensurate level of investment in the state's public and private colleges and universities. Retaining more of the state's best and brightest students, who have the potential to become the state's best and brightest workers, will multiply the return on the state's investment in education.

5. Workforce Development: A Key Role for Higher Education

We read every day in the popular press about the benefits to be derived from the "information superhighway" and research in biotechnology. At the same time we see that global competition is on the rise, the defense industry is down-sizing and going through a fundamental reorganization, and large corporations are restructuring to be more competitive. Part of this process involves the elimination of both white and blue collar positions through increased automation and out-sourcing to smaller firms.

The dramatic changes occurring in the workplace highlight the critical importance of higher education's most important role in economic development: human resource development. Not only do colleges and universities educate students at associate, baccalaureate, masters, doctoral, and post-doctoral levels, but they maintain not-for-credit continuing education programs to promote an up-to-date technical and professional workforce.

In 1992 Victor Pelson, Executive Vice President of AT&T and Chairman of AT&T Global Operations, said, "It has become almost an article of faith in the business community that when it comes to competition in the marketplace, the only sustainable advantage is people. Creative . . . skilled . . . highly educated people." While New Jersey's workforce is currently the second highest paid in the nation - an indication that it is highly skilled - this advantage could be quickly dissipated as industry's needs change if the workforce does not adapt to the changing environment. Victor Pelson made an important point in saying "our colleges and universities are the primary source for such (creative, skilled, highly educated) people. In an era of reduced means, business and higher education need to work together to build partnerships." Mr. Pelson's exhortation is even more relevant today as an explosion of scientific and technical knowledge is driving the world economy, especially in telecommunications, computers, biotechnology, and pollution prevention and control. Major components of New Jersey's economy are devoted to these technologies. Higher education and the State can make important contributions further enhancing the well-being of these significant sectors of the New Jersey economy.

If New Jersey is to maintain a strong, highly skilled workforce, our colleges and universities must recruit effectively and retain more of New Jersey's top high school graduates. At the same time we have become aware that population demographics are also changing in a very fundamental way. Whereas in the past, the U.S. workforce consisted overwhelmingly of white males, we now see a greater diversity of people entering the labor force. Women and people of color, who traditionally have not pursued engineering, scientific or technical careers, are more than ever needed to fill critical human resource needs. Programs, such as the NJIT-Rutgers Greater Newark Alliance for Minority Participation (AMPS) build upon many higher education initiatives over the past dozen years. AMPS, an eleven institution consortium, aims to double the number of women and minorities graduating with degrees in science, engineering, and mathematics during the next five years. Programs at other institutions strive to achieve similar goals.

Recommendation #5

Human resource development is the essential function of the educational system. The process must be viewed as a continuum, beginning at the elementary school level, continuing through high school and college education, and becoming a lifelong commitment to learning in all its forms. Efforts should be made to accelerate the development of partnerships among secondary schools, colleges, and industry to establish work-based technical learning opportunities. Community colleges should be recognized as having a special role to play in such partnerships.

Recommendation #6

A combined effort of industry, higher education, and state government is needed to prepare New Jersey's youth for the jobs of the future. Industry should provide leadership in defining what specific career opportunities are likely to be available, and in updating such information on a timely basis. Higher education should develop and implement relevant education and training programs, including customized training, to support key industries' needs. State government should coordinate the collection of information from industry, encourage consortial efforts among all interested parties, and (along with other partners) provide the financing necessary to support educational programs.

6. Partnerships with Local School Districts and Pre-college Programs

Many of the challenges confronting the state's local school districts are similar to those facing higher education: the need to improve students' academic performance in communication, problem solving, and higher order thinking; curriculum reform and the integration of technology; and the achievement of these objectives with limited resources.

New Jersey's colleges and universities have a tradition of working with local school districts. Thousands of students, particularly in our cities, participate in after-school, weekend, and summer pre-college programs. These programs not only create additional opportunities for students to learn, but can also raise their aspirations by demonstrating that a college education is an attractive avenue to future employment and a high quality of life. Many learning opportunities exist for school administrators and teachers as well through in-service days and conferences using on-site and distance technology. Many administrators and teachers are also involved in taking courses toward advanced degrees for staff development and promotion. Although such college-based programs, in this state and across the nation, are generally useful and effective, they have not fully prepared K-12 teachers and administrators for the difficulties of serving ever-increasing numbers of economically poor students who bring severe learning and social problems to school. Nor have they fully responded to the knowledge/technology "explosion" and rapidly increasing work place standards.

Systemic reform of K-12 education to be effective must respond to the changing conditions in the workplace. As an essential element of any reform effort, K-12 should be increasing collaboration at every level -- with parents, employers, and higher education. Many of the needed resources for reform can be garnered from the economies of such collaboration, e.g., avoidance of programmatic duplication between vocational high schools and county colleges; sharing of faculty, facilities, and equipment; joint communication, video, and data networks; articulated curricula from kindergarten through college including jointly developed standards, curriculum frameworks, and assessments; and collaborative teaching academies.

To permit educational reform to occur, the policy, professional, and practice barriers between K-12 and higher education and between K-12 and the workplace must be removed. Incentives must be constructed that bring together academe, K-12 and employers. Much is known about what can work as a result of extensive research on best instructional practices, school reform, effective collaboration, and worker expectations. New Jersey has no alternative but to move ahead aggressively with policies and incentives to encourage partnerships between K-12, higher education and employers in pursuit of the reform agenda.

Recommendation #7

The State of New Jersey should develop policies which explicitly encourage partnerships among schools, colleges, and employers. Equally important, the state, local governments, and the business community should work together to eliminate barriers that impede such partnerships and innovative programs. The state should also support innovative programs to upgrade the technological knowledge and skill levels of K-12 teachers.

7. University Research: Critical To New Jersey's Economy

New Jersey is a leading state in corporate R&D with more scientists and engineers per capita than any other state. As a direct result of the state's high concentration of scientists and engineers, New Jersey consistently ranks in the top three or four states in the number of patents per capita. Companies based in the state spend just over 10% of the total dollars invested in U.S. industrial research. This international leadership in R&D is a legitimate source of pride, and it can serve as a foundation upon which to build a vibrant economic future for the state.

R&D is the driver for new products and processes. If New Jersey is to capitalize on its R&D base, deliberate efforts to enhance new product innovation and to move technology from the laboratory to full scale commercialization are needed. University research must be treated as a critically important element of the State's R&D capacity within an overall economic development plan. This is particularly important in this era of corporate down-sizing and reduced defense spending. Increasing numbers of manufacturers are recognizing research universities as attractive hosts and partners for contract research in manufacturing processes and emerging technologies. The expert faculty, staff, and students combined with specialized equipment and facilities at research universities represent an important resource that has the potential to help the state retain current industries and attract new industries.

Over the past decade, New Jersey has made important strides in the encouragement of economic development activities on the part of institutions of higher education. A growing emphasis on research and economic development at the state's universities has provided a nurturing environment for faculty research, and support has come from a multitude of funding sources.

Perhaps the most significant single event was the organization of the Governor's Commission on Science and Technology a decade ago and the subsequent creation of a permanent New Jersey Commission on Science and Technology (NJCST). The NJCST identified a number of areas of scientific and technological activity vital to the state's economy and created a number of programs through which universities might further stimulate their development including: Advanced Technology Centers (ATC's), Technology Extension Centers, a Technology Transfer Merit Program, and Innovation Partnerships.

The original Governor's Commission on Science and Technology understood and explicitly recognized that the activities it undertook should strengthen the educational function of the higher education system. By enhancing the opportunities offered undergraduate and graduate students to be involved in major research projects, by attracting a more engaged and informed faculty, and by strengthening the reputation of New Jersey's universities, the Commission has in fact improved the educational program and helped produce talented scientists and engineers for New Jersey's and the nation's industries.

The original areas of concentration identified by the Governor's Commission on Science and Technology, and those which later evolved, were and are directed to the economic future of the state, and conform to national technological priorities. The NJCST's success in developing the R&D infrastructure within the State's five research universities has enabled those institutions to become contributing partners with private industry in collaborative research. As a consequence, a web of inter-institutional and inter-sectoral relationships, business-higher education partnerships, corporate memberships in university research centers, multi-university consortia, and university-community college alliances have developed. These involve state funding, but equally significant, very substantial leveraging of state funds. The Commission and the research universities are working to fashion smooth pathways from concept to the marketplace, from research to commercialization, from patent to product.

The impact of the NJCST strategic initiative goes beyond programs. The Commission's work has resulted in an increase in the academic research infrastructure of well over $200 million through a combination of two state bond issues, approved by the electorate in 1984 and 1988, and non-state matching funds. Without these physical facilities the ATC's could not have achieved their high level of success. Significantly, the host universities have expended substantial additional amounts for infrastructure and other capital necessities.

Equally dramatic, was the increase in leveraging of state research investment by non-state sources, including both the federal government and the corporate sector. After a decade of investment by the State, the federal government, the universities, and the private sector, the strategic plans of the research institutions and the strategic objectives of the state and nation now are in basic alignment.

The complete story of the New Jersey Commission on Science and Technology can be found in annual reports that detail the collaborative research activities of its ATC's and document the high degree of leveraging that results when private/public partnerships are fully realized. Those reports indicate that through Fiscal Year 1994 the State has invested $250 million in operating funds through the Commission on Science and Technology. While these are quite significant expenditures in terms of absolute level they are small in terms of overall state budgets -- less than two dollars of each one thousand dollars expended by the state during the period. Another way to view it is that New Jersey taxpayers each contribute just over a penny a day to this endeavor -- about four dollars per year per taxpayer. These State investments have in turn attracted a total of $472 million in grants and other awards for operating and capital purposes to these university based ATC's from non-state sources.

A. Advanced Technology Centers: Strategic Assets

Grant and contract research are an important economic enterprise with multiplier effects impacting the entire New Jersey economy. The extent of leveraging is one way to evaluate the effectiveness of this type of economic development activity. New Jersey's Advanced Technology Centers (ATC's) are highly leveraged with private funds. Each ATC has financial and program support from a cadre of 15 to 40 companies which utilize the ATC's results. The funds attracted from industry since the inception of the ATC's exceeds $125 million. A list of the university-based Advanced Technology Centers currently supported by the state through the New Jersey Commission on Science and Technology appears on page 28 of this report. The charts on pages 26 and 27 indicate the Commission's increasing success from 1984 through 1994 in attracting non-state support as a match to the state's investment. The significant benefits derived from the ATC's include the following:

(a) facilitating technology transfer to move research from the bench to the market place;

(b) attracting outstanding faculty to the state's institutions of higher education;

(c) integrating and bridging academic programs and corporations;

(d) improving institutions' abilities to attract funding from federal and industrial sources;

(e) strengthening university research capabilities and services provided to the private sector;

(f) attracting other research groups to the universities and the state in a "halo" effect;

(g) improving the perception of New Jersey as a center of R&D and "business friendly".

B. Advanced Technology Centers: Catalysts for Economic Development

ATC's play several important roles in aiding economic development including the following:

(a) Facilitating the creation of start-up companies: provision of critical start-up laboratory facilities and research support has allowed several companies to attract venture capital and market to clients during critical periods of formation.

(b) Generation of spin-off companies: a number of ATC's have created "spin-off" companies in sectors with significant long range economic potential in New Jersey, notably agricultural and biomedical technology, advanced materials, advanced computer-aided productivity technologies, and pollution prevention technologies.

(c) Helping established companies stay competitive: by providing testing facilities and services, technical assistance, consulting activities, continuing professional education, and service on state and federal advisory committees, the scientific membership of universities' ATC's significantly enhance the competitive position of local industry.

(d) Developing leadership positions for New Jersey's advanced materials, agricultural, biotechnology, environmental protection, pharmaceutical, and plastics industries and generating the basis for new commercial applications: university ATC's in biotechnology, communications, manufacturing, computer technologies, environmental technologies, and food technologies are important sources for technological and commercial advances in these predominant sectors of the New Jersey economy. For example, Rutgers' AgBiotech and the UMDNJ/Rutgers Center for Advanced Biotechnology and Medicine have played significant catalytic roles in bringing together New Jersey industry, state government, and academe to formulate strategic planning recommendations that, if implemented, would strengthen New Jersey's competitive position in the emerging biotechnology and environmental sciences industries.

An increasing number of companies attest to the fact that ATC research has generated research in the companies' own laboratories equal to the dollar value of the research they were conducting at the ATC's. The following chart indicates that in FY 1994 ATC's at NJIT, Princeton, Rutgers and UMDNJ leveraged the State's investment by almost four to one.

ATC Leveraging of Commission Funding With Non-State Funding in FY 1994

Center	Commission Funding	Non-State Funding
New Jersey Institute of Technology		
Hazardous Substance Management Research Center	$2,652,000	$ 11,469,456
Center for Manufacturing Systems	$ 570,000	$ 3,380,198
Princeton University		
Center for Photonics and Optoelectronics	$ 495,000	$ 5,268,877
Rutgers , The State University of New Jersey		
Advanced Food Technology (CAFT)	1,471,000	6,155,842
Ceramics Research (CCR)	1,343,104	2,259,144
Fiber Optic Materials Research (FOMR)	1,316,023	1,385,277
Computer Aids for Industrial Productivity (CAIP)	1,089,000	7,617,313
Agricultural Molecular Biology (AgBiotech)	855,000	1,666,661
Discrete Mathematics (DIMACS)	100,000	2,851,332
Plastics Recycling Research (CPRR)	74,500	586,077
University of Medicine and Dentistry of New Jersey and Rutgers		
Advanced Biotechnology & Medicine (CABM)	$2,747,000	$7,806,175
Total	**$12,712,627**	**$50,446,352**

Recommendation #8

In FY 1994, the State's investment in Advanced Technology Centers (ATC's) was leveraged more than three to one. To capitalize on this momentum, the State of New Jersey should increase its investment in the New Jersey Commission on Science and Technology (NJCST) and the existing ATC's. The state should also support a limited number of additional centers in areas carefully targeted for maximum positive impact on the state's economy. Such additional investments would broaden and deepen the research and development collaboration between private industry and the State's research universities.

8. Research and Technology Transfer: New Product Development

Intellectual property is an important product of research; technology transfer is the vehicle which places the research in the hands of those who can translate it into commercial products. The potential benefits to industry from access to valuable intellectual properties is well recognized. However, the potential for royalty income to New Jersey's public universities has not been fully actualized.

Recommendation #9

The state should increase its support for the protection of patents and copyrights held by faculty and staff of New Jersey's public universities, and should also support the marketing of these valuable discoveries to New Jersey firms. Relatively modest investments in the intellectual-property-protection and technology-marketing units of New Jersey public universities would secure these important benefits.

Recommendation #10

The state's research universities should collaborate in conducting a comprehensive review of policies and regulations on intellectual property. While operating in a manner appropriate to its individual circumstances and history, each institution should consider whether to revise current policies and practices in order to encourage intellectual property development on the part of faculty and other professional staff. Some institutions would benefit from the interchange of ideas with representatives of those institutions that have special expertise in this area as well as with experts from outside the universities. The review might also consider modes of cooperation among technology transfer offices to promote intra- and inter-institutional efficiency and interaction.

9. Alternate Routes to Commercialization of New Products

The national Council on Competitiveness reports that "a small group of progressive firms called gazelles -- 3 percent of all firms in the United States -- has emerged over the last five years to produce nearly all new U.S. jobs. Dubbed 'fleet-footed firms' by an economist quoted in The Washington Post, gazelles can be found in every industry and region of the country .... The common denominator is that gazelles use new technology and innovative corporate organization to produce things quicker, better and cheaper." New Jersey can improve its own competitiveness by fostering the creation and development of such firms.

A. Business Incubators

The New Jersey Commission on Science and Technology's modest funding in support of business incubators has proven highly productive. By any measure of economic impact, the Commission's investment of $1,128,000 over the last six years has paid handsome dividends. The three university-based incubators have provided a nurturing environment for 91 companies with 271 employees through considerable leveraging of state funding. Twenty-seven of these companies have graduated from the incubators to become profitable enterprises on their own. The 91 firms have been awarded 27 Small Business Innovation Research grants from federal agencies with a total value of $5.1 million, and have been granted 114 patents. Several of these firms are approaching annual sales of $1 million.

In addition, the incubators are convenient homes for non-profit economic development organizations that serve small businesses throughout the state. For example, the federally supported Procurement Technical Assistance Center, located in NJIT's business incubator, assists in generating over $30 million per year in new government contracts for the state's small, women and minority owned businesses at no additional cost to the state's taxpayers.

Recommendation #11

The economic pay-backs derived from the relatively modest state funding for business incubators warrant a decision to step up the level of investment. The budget of the NJCST should be augmented to permit at least a doubling of the number of college- and university-based incubators and incubator businesses served within the next three years. These incubators should collaborate more closely with the Commission-funded Advanced Technology Centers.

Recommendation #12

Colleges and universities should inventory their programmatic and physical assets to identify resources that could benefit the private sector, including incubator tenants, in a manner consistent with institutional priorities. The colleges and universities should make it easy for incubator tenants to interact with faculty, staff, and students, and they should provide convenient access to equipment and facilities.

B. Business Development Programs

In 1986 the Commission established a program to assist the small firms involved in the federal government's Small Business Innovation Research (SBIR) grant program. Many New Jersey firms have been awarded these SBIR grants, which are given in two successive levels or phases. However, a small start-up company, even if successful in applying for these phased grants, would often be stressed financially during the interim period in which its application for a new phase was being considered but had not been awarded. The Commission provides "bridging" grants to cover the gap. In 1993 this grant program was converted to a loan program. Since 1986, the Commission has made 98 grants and loans to different companies. The total cost to the State has been about $4 million. However this program has leveraged an additional $48 million in federal support and has spawned some of New Jersey's most successful startup companies. Over 90 of these firms are still in business.

Recommendation #13

The NJCST's "bridging" grant program is an effective approach to support small start-up firms and should be continued.

C. Small Business Outreach: Strategic Options

Unique private/public partnerships can be utilized to facilitate formation of new businesses, test new technologies, and transfer technology to the marketplace. The following four options have been selected as examples to demonstrate how relatively small State contributions can have significant economic development benefits, if leveraged effectively and creatively.

1. The U.S. government funds much of this country's early stage technology development, whereas industry funds the later stages of specific product development and manufacturing scale up. There is, however, a lack of funding for the interim stages of applied research which would demonstrate the commercial usefulness of new university developed technologies. Support for university-based interim stage applications research would increase the speed with which New Jersey companies adopt new technology for commercialization. By providing a smooth process for the development and transfer of commercially useful technology to New Jersey industry, many new jobs and new commercial ventures will be created more quickly.

   For example, technology which would allow, for the first time, rapid in-situ measurement of air entrained in fresh concrete has been developed and patented by NJIT. It is important to control air entrainment, particularly for freeze-thaw protection. Yet, the commercialization of the technology is being delayed because material used to fabricate a key component, the fiber optic probe, has not been adequately hardened to handle the rigors of actual field conditions. Applications research on transparent abrasion resistant coatings would very likely solve this one remaining problem.

A second example is Nanodyne, Inc. This small start-up company formed to further exploit technologies developed at Rutgers and Exxon, is at a point of bringing nanostructured tungsten-carbide materials to market. Scale-up to manufacturing quantities has been successful but further development is needed to fully exploit the qualities of the new materials by applications manufacturers. In another example, work occurring at the AgBiotech Center in the important field of bioremediation has lead to the formation of a spin-off company, Phytotech, Inc., to attempt to bring the technologies developed in the laboratory up to field testing levels.

2. Early stage funding of small to middle market companies emphasizing emerging growth technologies such as biotechnology is the subject of a recent request for proposal of the New Jersey Economic Development Authority (EDA). EDA is considering providing a Fund Manager to serve as a General Partner for the development of a well diversified venture capital pool. The Authority investment will be approximately $2.5 million which together with other private investments is to be employed to leverage funding under the Small Business Equity Enhancement Act of 1992.

3. The New Jersey Commission on Science and Technology, in cooperation with the New Jersey Economic Development Authority, is developing the Edison Technology Commercialization Program (ETC) for emerging companies. ETC would be similar to the Ben Franklin Partnership Program, and would provide support for both university and industry driven product development, enabling the introduction of technology based products and contributing to job retention and job creation.

   The ETC would be jointly operated by the Commission on Science and Technology and The New Jersey Economic Development Authority with an initial $1 million state appropriation. The ETC should be a competitive program, which would provide funding ranging from $50,000 to $150,000 to individual companies for work on the development and delivery to market of new products. In return, the recipient companies would agree to pay the ETC a royalty equal to 3% of their gross revenues from such products, over a period of seven years.

4. The New Jersey Corporation for Advanced Technology (NJCAT) is an existing not-for-profit corporation designed to exploit the strong resource base of New Jersey's businesses, universities and federal laboratories by commercializing environmental and energy related technologies.

   NJCAT will provide entrepreneurs with technical, commercial, regulatory and financial assistance required to bring promising new ideas to market. NJCAT may also identify needs and seek out innovators who can meet those.

   NJCAT will not only assist participants, but will create benefits for its members as well. Members will benefit from early exposure to new technologies and would have the opportunity to form strategic alliances with state agencies, other participants, and universities to collaborate on the first commercial use of these technologies. The corporation also would offer support services for such functions as research, commercialization, and investment functions.

Recommendation #14

The State should adopt policies that encourage the formation of new businesses, the development of new products, and the transfer of technology to the market place. The four examples described above are options.

10. Strengthening the Competitiveness of New Jersey's Manufacturing Industries

A. Needed: A Healthy Manufacturing Sector

Manufacturing is the cornerstone of a strong, vibrant industrial economy. Much has been said and written about the decline of manufacturing jobs in New Jersey and the continued recognition of the importance manufacturing has on New Jersey's economic future. New Jersey remains at the center of the densest concentration of manufacturing in the nation--11% of all American manufacturing businesses are located in New Jersey and the adjacent metropolitan areas of New York City and Philadelphia. The vast majority of these firms are small businesses which, with few exceptions, do not have the in-house expertise or engineering experience to maintain their competitive edge in a rapidly changing marketplace.

It is important to remember that manufacturing is the primary goods producing sector of our economy, and that growth in manufacturing creates jobs in retail sales, services, and other employment sectors. A multiplier of up to four times has been determined to represent the linkage between manufacturing and these other sectors. Consequently, one could argue that Commission on Science and Technology funded manufacturing programs have a direct impact on over 1,000,000 jobs. There are a number of compelling reasons militating in favor of increased attention to and investment in the manufacturing segment of the New Jersey economy, including the following:

(a) An efficient manufacturing sector produces higher wage jobs in both the goods producing and the service sectors of the economy. Manufacturing is a vital component of an effectively balanced economy. That is, manufacturing leads to a multiplier of activity and employment in the service sector.

(b) There are approximately 15,000 small manufacturers in New Jersey. Given the decline in recent years in both the number of manufacturing businesses and in manufacturing employment, it is clear that further erosion can create huge imbalances in the overall New Jersey economy.

(c) Only if the technological base of manufacturing is strengthened will New Jersey become more competitive. The state cannot compete on the basis of labor cost but can on the basis of technology investment. Thus one can anticipate seeing increased production with decreased manufacturing jobs, compensated by increases in service sector employment. This nation's experience in agriculture teaches us that this is both a natural and a desirable trend.

B. Defense Conversion, Corporate Restructuring, and the Small Business Economy

It is shortsighted and dangerous for New Jersey's citizens to assume that the state is immune to the effects of budget reductions in the Department of Defense; corporate down-sizing, restructuring, and out-sourcing; and interstate and global competition. New Jersey, with its heavy investments in military electronics, aerospace, and telecommunications is among the ten states most seriously affected by defense cutbacks, according to a recent study by the *Defense Budget Report*. The spending cuts have already impacted the critical high-value end of the manufacturing sector, particularly the electronics industry.

In a 1993 survey by Rutgers' Eagleton Institute, commissioned by the New Jersey Department of Commerce, several interesting results were found comparing the responses of New Jersey's defense-dependent manufacturing firms with other businesses. Manufacturing companies are much more likely than others to:

- expect less contract work in the next few years and expect to reduce their workforces;
- initiate strategies to reduce their dependence on DOD contracts: develop new, non-defense products, expand exporting programs, expand domestic sales force, identify foreign markets, and retrain employees;
- attach greater importance to electronic design/manufacture, mechanical design/manufacture, and materials/structures manufacturing;
- own or develop technologies adaptable to commercial markets, and, get assistance in adapting to the commercial marketplace.

The general solution to the problems facing defense-dependent firms is clear: the sophisticated skills and equipment used in the production of military goods should be redeployed to serve the needs of growing commercial domestic and export markets. Many larger firms and most smaller New Jersey firms that have focused on defense contracts will need substantial technical, managerial, and marketing assistance if they are to make this transition successfully. This is so because military goods markets have long been unique in terms of engineering standards, cost accounting methods, and sales and contracting procedures. In fact, few business lessons learned in the defense environment are immediately transferable to firms that must now compete in volatile industrial and consumer markets. As a result, defense-related firms are particularly ill-equipped to operate in commercial markets where survival requires cost control, pricing competitiveness, and concern for environmental impact in addition to product performance, quality, and reliability. These firms need not only to adopt the military technology for civilian market, but also to manage their operation differently. To do this, these companies need support in developing:

- customer-oriented business cultures and worker involvement in managing change;
- competence in market research, advertising, distribution, sales, and after-sales service.
- flexible manufacturing processes that can produce limited production runs efficiently and respond quickly to changing market conditions;
- value engineering and quality assurance for producer and consumer markets;
- rapid, internally-driven innovation in process and product design;

Many other New Jersey companies, which have lost major customers, face these same challenges. The State of New Jersey can play a pivotal role in helping our industries to modernize; however, the window of opportunity is closing quickly.

The Department of Defense, in coping with reduced procurement budgets, looks to meet more of its supply requirements through commercial rather than military specification. Commercial unit costs can be reduced as production quantities are increased. In this regard, New Jersey's manufacturing sector has yet another opportunity.

C. Technology Extension

In addition to research and development, training and education, higher education has an important role to play in strengthening the competitiveness of New Jersey's industries through technology extension. The New Jersey Commission on Science and Technology has established three stand-alone TEX Centers to provide expertise in fisheries and aquaculture, in plastics processing, and in business related computer systems. About $11 million has been invested on TEX Centers which have helped over 1900 New Jersey businesses. Furthermore, some of the ATC's, notably those in food processing and manufacturing systems areas, have also created TEX activities within the sphere of their overall activities.

Under the leadership of the Commission, a partnership was created linking the Advanced Technology and Technology Extension Centers with the state's community colleges, state agencies, PSE&G, and various other public and private organizations. This partnership is referred to as Network New Jersey (NNJ) and represents a statewide, coordinated effort to provide comprehensive resources to the State's core manufacturing businesses.

Network New Jersey is an integrated system of industry-specific (sectoral) service centers distributed across the state, each located near the core of a target industry concentration. It has a central, state-coordinated management organization responsible for overall program coordination, evaluation, and standardization. The individual sector service centers, operating with a small staff of field agents and affiliated with an existing NJCST technology center, will work with their industry-led boards to assess industry needs, inventory company capabilities, develop group-leveraged projects, and deliver services directly or in collaboration with resource partners. Network New Jersey was developed under the overall leadership of the New Jersey Commission on Science and Technology in collaboration with NJIT's Center for Manufacturing Systems, Stevens' Polymer Extension Center, Rutgers' Center for Advanced Food Technology, Camden County College and PSE&G. Support for Network New Jersey would not only demonstrate the State's commitment to our manufacturing industries, but could leverage several millions of dollars in federal funds to assist New Jersey business and industry.

The wide array of small businesses utilizing Commission supported technical extension centers take advantage of those centers for the following simple reasons:

- universities provide services that the small business could not provide on its own;
- universities' recommendations are reliably unbiased;
- universities have no product to sell besides knowledge; and
- the universities can offer "one stop shopping" for training, student interns, research, technological facilities, and professional subject matter expertise.

D. Academic Programs in Manufacturing

In addition to ATC's, technology transfer and technology extension programs, the state has developed an array of academic programs as part of its manufacturing agenda. They include the following:

- In 1988, the State of New Jersey established two consortia of community colleges: The North/Central Advanced Technology Consortium consisting of thirteen county colleges in the northern part of the State led by NJIT; and, the Southern Computer-Integrated Manufacturing Consortium led by Camden County College in the southern part of the State. These two consortia have provided leadership and coordination of the academic programs in manufacturing engineering at each institution with matriculation agreements with NJIT's Department of Engineering Technology. These two consortia have worked in close collaboration with NJCST and its Network New Jersey program to link community college facilities, staffs, and students into a comprehensive training and extension resource for the State's manufacturing businesses.

- NJIT is offering B.S. and M.S. degrees in Manufacturing Engineering supported by research and didactic activities in environmental engineering and science, computer science, transportation, and management. NJIT recently received the 1994 CASA LEAD Award from the Society of Manufacturing Engineers for its national leadership in manufacturing education--research and industrial extension as well as academic programs.

- The Center for Manufacturing Systems (CMS) at NJIT, an Advanced Technology Center of the New Jersey Commission on Science and Technology is working in partnership with industry to enhance academic excellence at NJIT and partnering institutions. CMS focuses its research and extension programs on advancing precision manufacturing technologies, improving industrial competitiveness, and stimulating economic growth in four of New Jersey's core manufacturing industry sectors: metalworking and machinery, electronics, plastics, and textiles and apparel. Together, these sectors account for over 200,000 high-quality jobs in New Jersey.

Recommendation #15

The state should increase its efforts to strengthen the manufacturing sector. To this end, the State should fully implement Network New Jersey by establishing a comprehensive statewide manufacturing extension and training program with the primary mission of revitalizing the state's small manufacturing businesses, and should assist New Jersey's defense-dependent firms make the transition to other manufacturing businesses.

11. Training and Retraining Skilled Technicians: A Critical Service Provided by Community Colleges

For every engineer who designs new machinery, ten skilled technicians are needed to operate it in good repair. Training and retraining such technicians is a community college specialty. Many current workers are in need not only of the technology training, but also the communications and problem-solving skills that are the hallmark of high performance workplaces.

Corporations throughout the state have repeatedly testified that community colleges have been quick to respond to business needs by providing effective training programs on campus and on site and often custom designed. The community colleges fully involve clients in the curriculum design and delivery. Corporate clients require full partnership with the community college, a partnership which represents funding, shared resources, borrowed expertise, and a singular commitment to excellence. Corporate clients attest to the effectiveness of community colleges in assessing employees' skills, understanding what management needs, and then designing and delivering the curriculum to bring a workforce to optimum performance.

All over New Jersey there are examples of companies that have been able to upgrade technology because the community college "retooled" their workforce. For example, in the northern part of the state, a dairy is purchasing new and highly sophisticated packaging machinery used exclusively in the dairy industry. The local community college, which has expertise in packaging programs, is working with the company to train its employees on the new equipment. In addition to retraining people at the work site, New Jersey's community colleges enroll hundreds of "nontraditional" students in credit programs. Some of these students are dislocated workers; others are currently employed but looking for better career opportunities. Many of them already have their bachelor's degrees but are seeking entry into, or promotion in, a technology career.

Similarly, community colleges service individuals who were the "neglected majority" when they were in high school. These neglected or forgotten students were neither the 24 percent in their high school vocational track, nor the 25 percent in the college-prep track. Rather, they were the middle 50 percent who followed the "general" track in high school, which required neither a strong academic nor vocational focus. They include students who dropped out of high school and students who just "tuned out." Then they worked at minimum wage, dead end jobs. Now in their late 20s or early 30s, this group realizes that a college degree is needed to enter the high-skill, high-wage job market. For this group, the community college provides an excellent opportunity for one-stop career building, just as the colleges provide one-stop employee retraining for business and industry.

The current high school population group can be served by community colleges in partnership with high schools through tech prep programs or 2 plus 2 programs, which provide a smooth transition into postsecondary education, combining school-based instruction and supplementing learning in a work-based environment. After graduating from a high school tech prep program the student continues study and development at a community college with the postsecondary half of the tech prep program. At that time, the student can also elect to enter a cooperative work experience. At both secondary and postsecondary levels, the school-based academic component is the tech prep program with its related academic and technical instruction that is reinforced in the workplace. Such programs work best in an environment of strong high school, private industry, and community college partnerships, enhanced by "user friendly" state and local government support.

Community based and comprehensive in nature, able to respond quickly, take risks and provide a broad spectrum of services, the community college is well suited to work closely in training partnerships with local industry. New Jersey's community colleges can serve as bridges to a trained workforce in advanced technology. The infrastructure already exists throughout the state.

Recommendation #16

The state should increase support for community college programs that will help create and maintain a workforce capable of making New Jersey's businesses and industries *competitive in the global marketplace. It is essential to invest not only in advanced technology, but in the workforce that is needed to operate and maintain the technology. One productive investment would be support for the North/Central Advanced Technology Consortium, consisting of NJIT and thirteen community colleges in the northern part of the state, and the Southern Computer-Integrated Manufacturing Consortium led by Camden County Community College.*

12. Community Development through Science Parks: An Economic Development Opportunity for Higher Education

University-based or affiliated research or science parks have been found to offer the potential of attracting business operations which complement and draw upon the research strengths of a university or a group of nearby universities. While university research capacity is strengthened in the process, the principal economic objective is, of course, growth of business activity and expansion in the number of jobs. It may be said that the Route 1 corridor between Princeton and Rutgers exhibits many of the desirable characteristics of a research park. Given the makeup of the New Jersey economy with its technology-intensive businesses, its large research and development industry, and its very high concentration of scientists and engineers, New Jersey needs to develop additional research parks. Two promising science parks are described below. These parks would serve as magnets for further investments by industry in New Jersey, investments needed if the state is to deal with the problem of dis-investment occurring through defense down-sizing and manufacturing out-migration.

- In Newark, the four public institutions of higher education, in partnership with representatives of city, state, and federal governments, the corporate community, and the neighborhood community have proposed a fifty acre science park. The University Heights Science Park is envisioned as completing a neighborhood with one million square feet of new office and laboratory space, providing employment opportunities for 3,000 people. Additionally, it is proposed that 150-200 townhouses/apartments be built, a day-care center be established, active and passive recreational facilities be developed, and a regional science-based high school be created.

  This $250 million initiative is based upon the fundamental notion that the human and capital resources of higher education in Newark, with 30,000 students and thousands of faculty and staff, are such valuable assets that they will be leveraged by technology-based businesses that wish to locate and grow in close proximity to these higher education resources. The concept of urban science parks has been successfully implemented in cities such as Philadelphia, Pennsylvania; Cambridge, Massachusetts; and Evanston, Illinois. Public funds have been used to seed these projects while the majority of the capital has been provided by the private sector. Federal support in the amount of $4.5 million has already been secured for the Newark project.

- On October 26, 1994, the New Jersey Commission on Science and Technology approved a creative plan for the adaptive reuse of a now-vacant research facility in North Brunswick Township on the Route 1 research corridor between Princeton and Rutgers. The proposed new use of this facility will meet a previously identified critical need of the state's biotechnology sector. It will be a state-of-the-art laboratory building that can easily be subdivided into small (several thousand square foot) spaces suitable for the "incubation" of biotech firms that are in a stage of development requiring intensive R&D but that are not yet ready to move into large, stand-alone facilities. This project presents a unique opportunity to provide a move-in ready, subdividable facility perfectly adapted to nurture needs of young and growing biotechnology companies. It will make New Jersey competitive for the first time with other states trying to attract such companies. For example, Maryland recently opened a similar facility in downtown Baltimore, in conjunction with the biotechnology research teams at Johns Hopkins University and the University of Maryland. The proposed incubator could be a foundational component of a science park.

Recommendation #17

The state should provide seed funding and other incentives to develop at least two additional research parks affiliated with cooperating research universities (located in Newark and the New Brunswick-Princeton Corridor).

13. The International Dimension: Higher Education and the Global Economy

New Jersey universities and colleges are substantial state assets for the development of international business and the transfer of technology. Their wide range of international relationships with institutions, businesses, and individuals, through faculty research and development, educational and technical exchanges, and business and technical assistance provides the basis for strengthening the state's technical base and foreign trade. This is especially important for New Jersey's small and medium enterprises that do not currently have a presence overseas, but could benefit significantly from the development of strategic long term international alliances. Of particular note are the development of an international curriculum by Drew University, Ramapo College's leadership on the American Council on Education's international education committee and Camden County College's exchange program with Loughborough College, England.

Universities and colleges are important mechanisms for the diffusion of technology across political boundaries. Such activities can and do benefit New Jersey industry. The Center for Manufacturing Systems at NJIT is presently transferring ultra-high precision machining technology from Russia to New Jersey with federal government and business sponsorship. Conversely, technical papers presented by faculty at international conferences on research concerning technologies owned or licensed by New Jersey firms is helping these companies to develop overseas markets for their products and services.

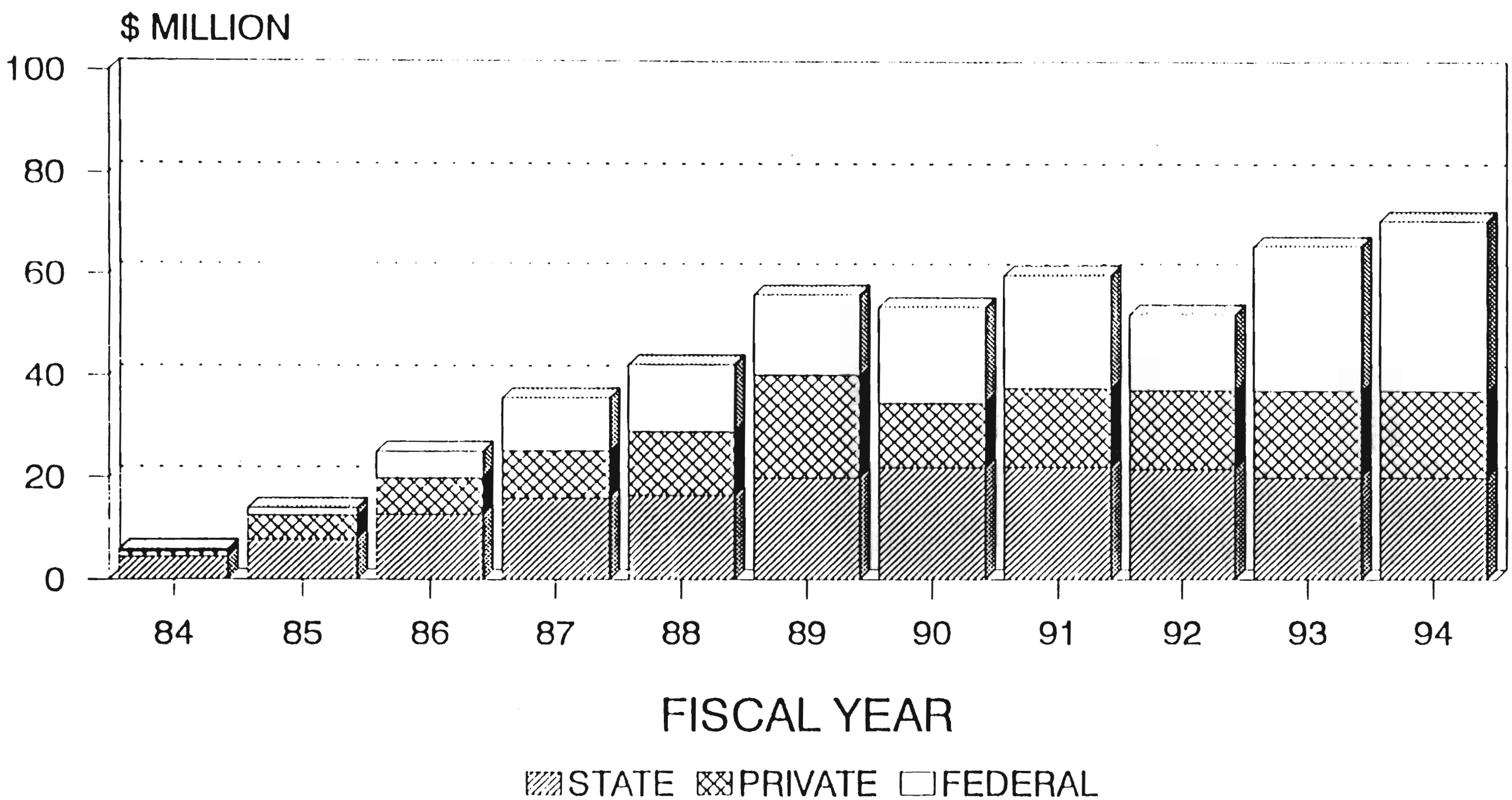
Technologies developed at Rutgers Center for Controlled Drug Delivery Research are also licensed to a major chemical company in the Republic of China. Research on contraception and contraceptive devices carried out by this Center will have profound implications on the health, welfare and, ultimately, economic well-being of many Pacific Rim countries.

The Hazardous Substance Management Research Center (HSMRC) has established an internationally recognized industry-university collaborative research program. The Center -- including the following member institutions: NJIT, Rutgers University, Stevens Institute of Technology and the University of Medicine and Dentistry -- expands present knowledge and application of effective, environmentally acceptable, and economically feasible hazardous waste treatment and remediation technologies. HSMRC and the National Science Foundation have assisted with the establishment of counterpart academic-industrial centers in France and Northern Ireland. Similar centers are being established in Indonesia and the Philippines, and working research relations are currently being developed in Egypt, Germany, Israel, Italy, and Thailand.

Recommendation #18

The state should support higher education's capacity to assist New Jersey businesses in developing international technology transfer agreements and international markets for their products. Such an initiative could be a component of an International Trade Partnership program with a strong university and college component focusing on the development of trade, cultural awareness, and technology transfer.

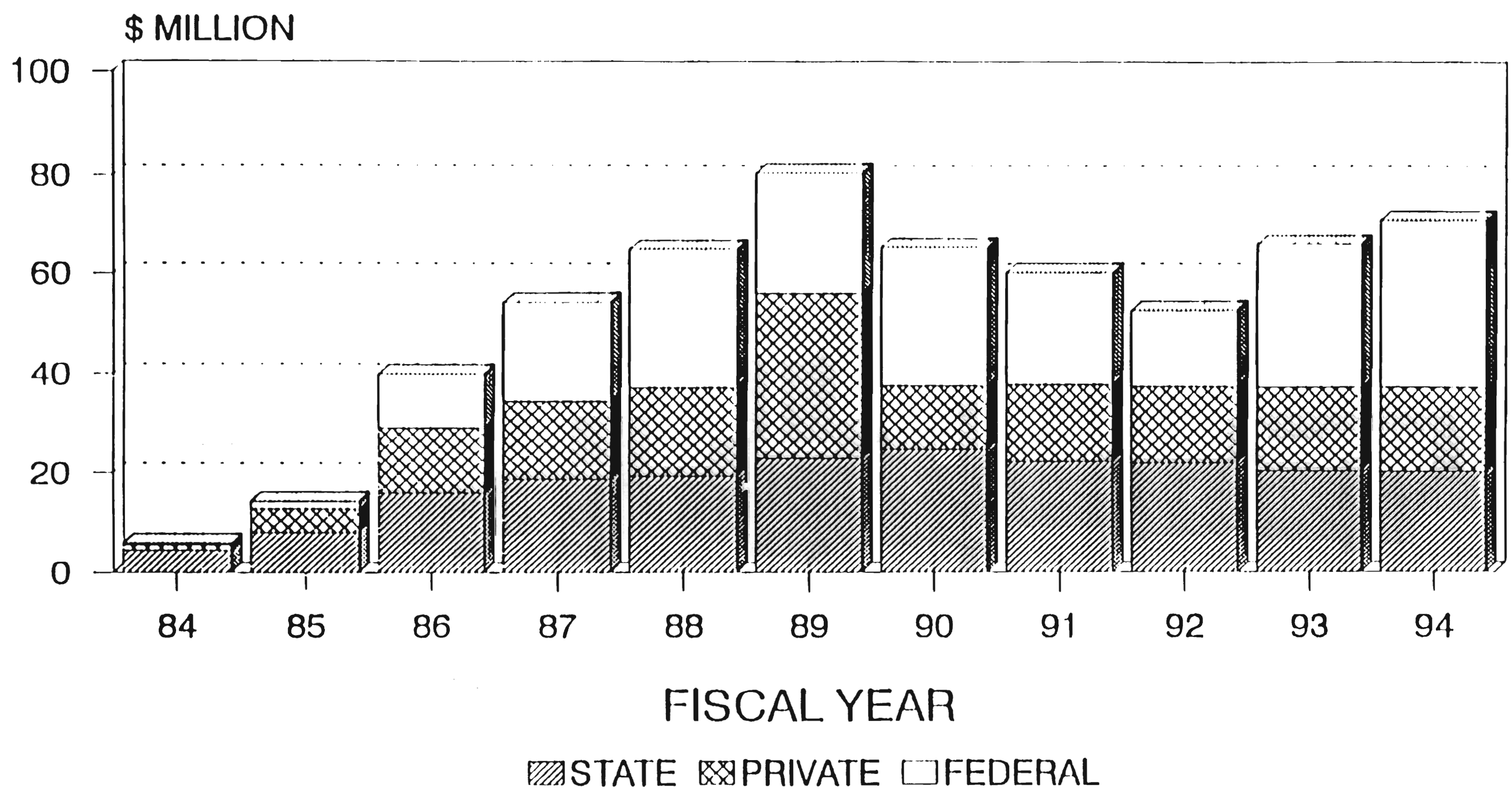
CST PROGRAM HISTORY
STATE & MATCHING FUNDS



EXCLUDES JOHN VON NEUMANN
SUPERCOMPUTER CENTER

CST PROGRAM HISTORY

STATE & MATCHING FUNDS



INCLUDES JOHN VON NEUMANN
SUPERCOMPUTER CENTER

Advanced Technology Centers of the
Commission on Science and Technology
1984-1994 Record

($ in millions)

CENTER	UNIVERSITIES	STATE FUNDS	PRIVATE FUNDS	FEDERAL FUNDS
BIOTECHNOLOGY				
Center for Advanced Biotechnology & Medicine	UMDNJ Rutgers	25.006	17.673	12.656
Center for Advanced Food Technology	Rutgers	13.325	12.452	21.059
Center for Agricultural Molecular Biology	Rutgers	3.480	1.510	3.746
ADVANCED MATERIALS				
Center for Ceramic Research	Rutgers	16.818	10.321	6.526
Fiber Optic Materials Research Program	Rutgers	10.422	8.042	4.181
Center for Photonics & Optoelectronic Materials	Princeton	2.070	4.054	9.282
Center for Surface Engineering Materials	Stevens Princeton Rutgers NJIT	1.770	1.036	1.769
INFORMATION TECHNOLOGY				
Center for Computer Aids for Industrial Productivity	Rutgers	11.416	7.618	10.121
Center for Manufacturing Systems	NJIT	2.850	6.396	3.065
Center for Discrete Mathematics and Theoretical Computer Science	Rutgers	0.200	2.274	0.080
ENVIRONMENTAL TECHNOLOGY				
Hazardous Substance Management Research center	NJIT	26.064	17.026	27.562
Center for Plastics Recycling Research	Rutgers	3.352	6.922	1.461
TOTALS		**116.773**	**95.324**	**111.508**

Examples of Technology Transfer Projects

YEAR	INSTITUTION	CENTER	TECHNOLOGY TRANSFER MERIT PROJECT	AWARD	SIGNIFICANCE
1993	NJIT	TEX/Information Services	New Jersey SwiFT Conference	$50,000.00	140 NJ software companies attended and 4000 were contacted.
1994	Stevens	TEX/Polymer	Inert Gas Extrusion of PVC Foam	$150,000.00	New product technology to build markets for NJ plastics producers.
1994	NJIT	ATC/Center for Mfg. Systems	Agile Manufacturing: Skilled Metalworking	$120,000.00	Help NJ metal fabricators compete through use of improved systems .
1994	UMDNJ	ATC/Advanced Biotechnology and Medicine	Lyme Disease Diagnostic Test	$125,000.00	More accurate test so fewer mis-diagnoses, quicker recovery .
1995	Rutgers	ATC/Fiber Optic Materials	Specialty Optical Waveguides for Device Applications	$97,419.00	Optical sensors for environmental monitoring are insensitive to EMF.
1995	Princeton	ATC/Photonics and Opto-electronic Materials	An Ultrafast Network Interface Unit for Multiprocessor Comm.	$146,129.00	Compact, high density computers require ultra fast optical switches and interfaces.
1995	Rutgers	ATC/Plastics Recycling Research Center	Development of Recycled Polymer Composite Railroad Ties	$68,194.00	New, higher value end use for recycled plastics may open new markets.

Advanced Technology Centers and Programs

supported by the
New Jersey Commission on Science and Technology

CENTERS AND PROGRAMS SUPPORTED BY THE NEW JERSEY COMMISSION ON SCIENCE AND TECHNOLOGY

Biotechnology

Center for Advanced Biotechnology and Medicine
Dr. Aaron Shatkin, Director

Center for Advanced Food Technology
Dr. Myron Solberg, Director

Center for Agricultural Molecular Biology
Dr. Peter Day, Director

TEX Center for Fisheries and Aquaculture
Dr. Richard Lutz, Director

TEX Center for Investigational Cancer Treatment
Dr. David Goldenberg, Acting Director

Advanced Materials

Center for Ceramic Research
Dr. Dale Niesz, Director

Fiber Optic Materials Research Program
Dr. George H. Sigel, Jr., Director

Center for Photonics and Optoelectronic Materials
Dr. Stephen Forrest, Director

Center for Surface Engineered Materials
Dr. David Smith, Director

TEX Center in Polymer Processing
Mr. John Nardone, Director

Environmental Protection Technologies

Center for Hazardous Substance Management Research
Dr. Richard Magee, Executive Director

Center for Plastics Recycling Research
Dr. Raymond Saba, Director

Information Technologies

Center for Computer Aids for Industrial Productivity
Dr. James Flanagan, Director

Discrete Mathematics and Theoretical Computer Science Program
Dr. Andras Hajnal, Director

Center for Manufacturing Systems
Dr. Reggie Caudill, Executive Director

TEX Center for Information Services
Mr. William Kennedy, Executive Director

Venture Development

Technology Help Desk
Mr. Randy Harmon

New Jersey Entrepreneurs Forum
Mr. Jeff Milanette, Executive Director

CARR Business Innovation Center
Mr. Jeff Milanette, Manager

NJIT Enterprise Development Center
Mr. James Reilly, Manager

Stevens Technology Ventures Business Incubator
Ms. Gina Boesch, Manager

Washington Technical Liaison
Mr. Michael Miller, Principal

New Jersey Commission on Science and Technology Supported Advanced Technology Centers and Programs

Center for Advanced Food Technology

The Center for Advanced Food Technology (CAFT), at Cook College of Rutgers University, in New Brunswick, encourages the development of a technologically sophisticated food industry in New Jersey. The food industry is already an important part of the economic base of New Jersey, representing annual shipments of over $7 billion. By expanding its role as a major center of food R&D, processing, and distribution, New Jersey can increase employment and create expanded business opportunities in these areas, as well as in related areas, such as ingredient supply, packaging, instrumentation, warehousing, and waste disposal. The importance of this industry to New Jersey means that whether the state supports extension work aimed specifically at our small food processing firms, or research aimed at large firms (which are strongly represented in New Jersey), a dollar invested in CAFT is very well aimed at economic development in our state.

CAFT's research program has stimulated new R&D activity in the state, as well as product and process improvements by firms headquartered in New Jersey. Moreover, the CAFT has invented sophisticated new sensors and measurement tools for the food industry, and Rutgers is now working with small New Jersey instrument companies to commercialize these inventions for resale to the food industry, keeping this new-business activity in-state to the maximum extent possible. Finally, CAFT's strong reputation has helped it secure for New Jersey significant new inflows of federal funding, including, most recently, a multi-million dollar project in "food quality quantification" supported by the U. S. Army food technology labs at Natick, Massachusetts.

CAFT has also developed an innovative industrial extension program known as FoodTEX, which concentrates on near-term advanced technology support for the 600-700 small and medium-sized food processing firms in New Jersey. In FY 1995, CAFT received a Technology Transfer Merit Program grant from the Commission in support of the FoodTEX activity. FoodTEX shares facilities with (and thus helps maintain in-state) CAFT's major federal matching grant -- the $2 million/year Combat Rations Automated Manufacturing Technology Development Project (CRAM-TD) funded by the U. S. Department of Defense/Defense Logistics Agency.

Center for Advanced Biotechnology and Medicine

An early priority of the New Jersey Commission on Science and Technology was the creation of a world class center in biotechnology. With the assistance of the Commission, such a center has been established, under the joint academic governance of Rutgers University and UMDNJ. The center consists of a core facility, located on the Rutgers and

UMDNJ adjoining campuses in Piscataway, and satellite facilities including a cell fermentation and separation unit at the Waksman Institute at Rutgers, and a clinical research unit in biotechnology at the Robert Wood Johnson Hospital affiliate of the UMDNJ-Robert Wood Johnson Medical School.

Already, CABM has recruited 12 resident faculty. Among the more recent recruits are Dr. Arnold Rabson, a specialist is viral pathogenesis, who accepted a joint appointment to CABM and to the UMDNJ-Robert Wood Johnson Medical School Department of Molecular Genetics and Microbiology, coming from the National Institute of Allergy and Infectious Diseases, where he was a senior staff fellow; and Dr. Eileen White, who focuses on viral transformation, and who has accepted a joint appointment to CABM and to Rutgers department of Biological Sciences, coming from the Cold Spring Harbor Laboratory, where she was a staff investigator.

Additionally, CABM's two satellite facilities, the Clinical Research Center and the Waksman Cell Fermentation Facility, are fully operational. These satellites are intended to make state-of-the-art facilities available to New Jersey businesses, also on a fee basis. Already, the Clinical Research Center already has a waiting list of New Jersey firms wishing to utilize it for clinical pharmacological testing. Simultaneously, CABM has developed a strong base of grant support for both its basic biotechnology research, and for technology transfer activities. For example, In FY 1994, research matching in excess of $9 million was received by CABM and its associated faculty, from federal, industrial, and foundation sources. Increased levels of matching support are expected in FY 1995.

In technology transfer, CABM has been awarded both FY 1994 and FY 1995 TTMP awards from the Commission in support of a collaborative applied research and technology transfer project between CABM and Cytogen, Inc., of Princeton, which is focused on the development of a reliable diagnostic test for Lyme Disease.

Center for Agricultural Molecular Biology

Agricultural biotechnology is emerging as economically critical to the agricultural and "agrichemical" industries in New Jersey and the United States. New plant strains are being developed using biotechnological methods, combining disease and pest resistance with high yields. Researchers are exploring new ways to utilize both agricultural products and agricultural wastes. Scientists are currently investigating the development of new agricultural species, as well as such related areas as direct treatment of genetic diseases, toxic substance avoidance and/or removal in agricultural products, the production of revolutionary drugs using agricultural materials, the synthesis of industrial chemicals, and the recovery of mineral resources from agricultural wastes.

In 1987, the Commission on Science and Technology established the Center for Agricultural Molecular Biology (AgBiotech), located at Cook College of Rutgers University. The Commission is providing $20 million in capital construction funding for

AgBiotech, from the "Jobs, Education and Competitiveness Bond Fund." $17 million of this supports construction of the AgBiotech research facility at Cook College, which is expected to be operational in January 1995; an additional $3 million supported development of a satellite testing facility, which is now operational at the Upper Deerfield.

The AgBiotech Center already has contributed substantially to the state's economy. In its first two years, the Center incubated a small New Jersey startup firm, Envirogen, Inc. Envirogen, which focus on bioremediation technologies and equipment, subsequently has moved into its own facility in Princeton, and has grown from 3 employees in 1990 to 65 in 1993, with another 15 people in a wholly owned subsidiary.

More recently, AgBiotech has "spun off" Phytotech, Inc., a new company founded by several AgBiotech researchers, which was established to commercialize Center-developed technologies which utilize plants to accumulate toxic metals from contaminated soils. This approach dramatically reduces remediation costs, since soil can be cleaned in place, rather than being removed for burial or burning.

Center for Ceramic Research

The program in advanced industrial ceramics at the Center for Ceramic Research is in its eighth year of operation and has succeeded in enlisting the active participation and financial support of industrial members and in raising the research program of the Center to world class status. The Center has been widely recognized for its work in structural ceramics, thin films and coatings, electronic ceramics, and basic processing of gelatins and glasses. The research projects of the Center have been designed to meet the increasing needs of a wide variety of U.S. industries that rely on ceramic materials for their processes and products.

The Center maintains an array of research projects in industrial ceramics in the areas of structural ceramics (with emphasis on techniques for toughening structural ceramic materials to overcome problems of brittleness), thin-film ceramics (especially problems of bonding ceramic films to metallic substrate materials), electronic ceramics (particularly on materials for microelectronic packaging and casing), and high-temperature superconducting ceramics (especially thin-film superconducting ceramics). Moreover, the National Science Foundation has recognized the outstanding quality of CCR's research through an award to CCR in support of a joint undertaking between the Center and the Swedish Technical University (STU) in the area of ceramic composition and production. This award will bring CCR annual support of $125,000 from the NSF. In the past year, the Center received non-state contracts and grants of $7.5 million.

The CCR has developed an innovative mechanism for technology transfer, the Laboratory for Ceramic Processing (LCP). This mechanism is designed to respond to industry's needs for research that is focused, with results available in the near-term. For an annual fee of $30,000, industrial members receive the opportunity to participate in a focused research team effort, which is separate from, but coordinated with, the CCR core program's research projects. LCP members have immediate access to research results and rights to patent discoveries.

Last year, the Center provided assistance to over 50 New Jersey companies. Each year, the Center surveys those companies. Last year, this survey showed that Center assistance created or saved 120 jobs, produced $2,115,00 in increased sales and resulted in cost savings of $240,000 for these companies. Their projections for the impact of the Center's assistance on their business over the next five years were 295 jobs created or retained, $11 million in increased sales and over $1,600,000 in cost savings.

Fiber Optics Materials Research Program

The Commission-sponsored program in Fiber Optics Materials Research, located at the Center for Ceramic Research, has rapidly established itself as a leading center for such research in the United States. The program now has 30 industrial members, who will contribute about $1.5 million to the program in FY 1995. FOMRP's fundamental orientation is the synthesis and development of new or improved optical materials for waveguide transmission, including specialized coatings or materials which can impart unique properties to optical fibers. The program addresses a diverse array of fiber optic technologies, which are unified under focused sensor or specialty fiber applications. In particular, FOMRP is recognized as a national leader in novel optical-fiber applications.

FOMRP has been extraordinarily successful in attracting world-class talent to Rutgers. In addition to Dr. George Sigel, the Director, FOMRP has recruited: Dr. Elias Snitzer, who came to FOMRP from Polaroid Corporation, and is one of the world's foremost scientists in the field of laser glass and rare-earth doped glasses and fibers; Dr. John Matthewson, formerly with IBM, who is recognized as an authority on the mechanical properties of fiber waveguides; and Dr. James Harrington, formerly with Heraeus LaserSonics, who has pioneered the field of infrared fiber optics and laser power propagation.

The Fiber Optics Materials Research Program has rapidly established an outstanding record in attracting a strong core of students, both graduate and undergraduate. Prior to 1985, Rutgers had no program in fiber optic materials. Dr. Sigel and his associates have built a program that now has some 45 graduate, and more than 60 undergraduate students. Significantly, many of these students are outstanding scholars, who have chosen to come to Rutgers solely because of the presence and outstanding strengths of FOMRP. The training of a strong group of students in FOMRP's leading-edge fiber optic material technologies is a powerful force for technology transfer, as these students graduate and take positions in industry.

FOMRP has been very successful in the attraction of substantial private-sector supporting grants. For example, FOMRP received a five-year, $1.65 million grant from Johnson and Johnson, which funded a research effort in biomedical applications of fiber optics, and focusing on fiber sensors, optical imaging, and laser power propagation within the body.

Additional substantial grants have been received from the Keck and Kresge Foundations -- \$250,000 from the Keck Foundation for state-of-the-art equipment, and \$375,000 from the Kresge Foundation as "challenge grant" for a new fiber drawing tower. The Kresge award was contingent on FOMRP's raising an additional \$1.25 million from external sources -- a condition which FOMRP has already met.

Center for Photonics and Optoelectronic Materials

New Jersey's telecommunications industry has spearheaded a major research thrust, embraced as a national priority, to advance photonic technologies as replacements of traditional electronic technologies currently utilized in communication devices and systems. A paradigm shift appears to be occurring in the physical sciences, whereby the electron will be replaced or supplemented by packets of light (photons) as a primary means of telecommunications and transmission. The emergence of photonics as an important technology is not merely of academic interest. As of 1992, fully 85% of the nation's startup firms in photonics were located in New Jersey. Additionally, our state is home to two of the world's largest and most advanced telecommunications research establishments -- AT&T Bell Laboratories, and Bellcore -- which are now focusing on the photonics area.

In 1988, in recognition of the substantial opportunity emerging in photonics, the Commission established the Center for Photonics and Optoelectronic Materials (POEM) at Princeton University as a Commission-sponsored ATC. POEM addresses the pressing needs of this emerging industry for fundamental investigation of the underlying properties of photonic and optoelectronic materials, including new technologies involved in preparation, characterization, and measurement, which are required for advanced products.

At Princeton, POEM leverages substantial additional resources which are associated with the Princeton Materials Institute, under the direction of Dr. Peter Eisenberger. The Institute represents a major, multidisciplinary effort by Princeton to establish a leading role in advanced materials, including, but not limited to, photonics materials. In FY 1995, the Commission awarded POEM a Technology Transfer Merit Program award, in the amount of \$146,129, which funds a project with local optoelectronic companies in partnership with major multinational technology companies, to develop and commercialize all-optical switches.

Center for Computer Aids to Industrial Productivity

The Center for Computer Aids to Industrial Productivity (CAIP) at Rutgers develops industrial applications of modern academic advances in advanced computing. Special focus areas include industrial uses of machine vision; human-machine interfaces that take the engineer out of the programming business; multimedia systems for efficient communication of data, video, voice and "touch"; efficient uses of parallel and distributed computing as alternatives to expensive supercomputing; and use of neural networks in industrial expert-system contexts. The Center offers its industrial sponsors access to a "menagerie" of parallel computers, offered to the Center on favorable terms by various vendors both large and small.

CAIP is a central element in New Jersey's overall research efforts in information technologies -- an industrial sector whose continuing strength is critical to the economic health of our state. An intellectually strong and vital CAIP research effort is important to maintain our leading economic position in information technologies, as shown by CAIP's sponsorship by local firms including AT&T, Bellcore, and the SRI-David Sarnoff Research Center. Other New Jersey-based sponsors include members of the pharmaceutical and specialty-chemical sector such as Merck and Co., Johnson and Johnson, and Hoechst-Celanese.

Several CAIP-developed technologies are in use in industry; for example, a new method for automatically counting virus "plaques" in petri dishes, now being installed at Merck and Co., of Rahway, will improve quality control in vaccine manufacture, and generate new jobs in New Jersey. Merck has invested more than $1 million in partnership with CAIP to bring this new technology on-line. CAIP operates a small-business outreach program, which has helped many small New Jersey companies, such as a minority-owned systems house that borrowed computing resources to develop its product and is now paying back Rutgers from product revenues.

The outreach program has also unexpectedly proved a major generator of federal funds for New Jersey, allowing small businesses to leverage the research reputation of CAIP in their proposals to federal agencies. Recently, a multi-million dollar award was made to CAIP by the Air Force, to develop voice-recognition applications for CAIP-developed neural network technology. This technology will simultaneously serve as the basis for a Rutgers-spin-off small business in New Jersey.

With this award, the CAIP Center became home to one of the world's largest massively parallel computers, the 1024-node nCUBE IIs. Acquisition of this state-of-the-art tool was made possible by a $5.1 million grant to CAIP from the U.S. Air Force, Rome Air Development Center. Having this computing capability places CAIP at the forefront of research in the application of high-performance, massively parallel computing.

The CAIP Small Business Outreach Program is currently working with 14 New Jersey businesses, and has achieved concrete results since its inception almost six years ago. It has been successful because it gives New Jersey entrepreneurs a sounding board for their imaginative ideas, provides high-tech businesses access to top researchers in their fields and to state-of-the-art equipment, and when teamed with CAIP adds credibility to their government proposals. This program has resulted in the following:

(a) Over $4 million of government contracts have been awarded to New Jersey small businesses as a direct result of their affiliation with CAIP.

(b) Three small businesses have moved to New Jersey specifically to be closer to CAIP. Most recently Voxware of Skillman moved from Manhattan to take advantage of our speech research.

(c) During FY'94 CAIP continued its collaborative efforts with Open Systems Solutions, In(d) (OSSI) of Princeton a minority owned, software company which used CAIP's computer facilities (which they paid back as cash flows improved) to develop an ASN.1 compiler product that could be used over a wide range of computer architectures. This product has been in the marketplace for over four years and has attracted a clientele that includes some of the top computer companies in the world. OSSI expanded from 1 to 15 employees, and grossed over $700,000 for FY'94. CAIP continues to provide support and services to OSSI on an as-needed basis. Bancroft Scott, President of OSSI, says if it were not for CAIP his company would not be around today. "CAIP helped us get off the ground at the research stage. As a small, start-up firm we had no way to buy the computers we needed. Using CAIP's specialized technical resources was much more inexpensive, and the people there are very competent."

(d) Speak EZ of New Brunswick is a start-up firm that was established to develop and market the Neural Tree Network and Speech Modulation Model technology developed at CAIP. During FY'94, with the help of CAIP, Speak EZ organized its management team, developed a business plan, received an exclusive license on parts of the key technology from Rutgers University, identified the most receptive markets, and is now in the process of negotiating the strategic partnerships which will initiate the requisite cash flow to produce its first product. Indications are that the marketplace will drive a number of applications for this technology in the near term.

The entire gamut of CAIP technologies is made available to the small businesses including: user interface software for parallel and distributed computing systems, automatic test pattern generation systems, speech processing and synthesis, foveating and 3D sensors/cameras, neural networks, telerobotics, and chemical process engineering. All of these technologies are sufficiently mature to provide an aggressive company with a product that could be further developed for a specific application and thereby present opportunities for manufacturing, support, and sales contracts.

Center for Discrete Mathematics and Theoretical Computer Science

The Commission supports the Center for Discrete Mathematics and Theoretical Computer Science (DIMACS) as an autonomous program of the CAIP Center. Although DIMACS works on problems considerably more abstract in nature than those pursued at most of the Commission's ATC's, its relevance to the high-tech sector in New Jersey is demonstrated by the strong financial support it receives from both AT&T Bell Laboratories and Bellcore.

DIMACS represents the National Science Foundation's largest current investment in academic research in New Jersey -- more than $2 million annually in federal funding, plus associated grants to DIMACS for teacher training and gifted student educational activities. DIMACS also plays a supporting role in the New Jersey Department of Education's application to NSF for major funding for a "Statewide Systemic Initiative" in reform of science and math education at the primary and secondary levels.

As a way of meeting the non-federal matching commitment demanded by the NSF, while still obtaining economic-development value from a program which is highly abstract in its approach, the Commission has taken the approach of providing modest matching funds to DIMACS, targeted at specific goals. For example, in the past state fiscal year, the Commission grant has supported a "special year" at DIMACS, focusing on applications of discrete mathematics to molecular biology. In this special year, the Center has worked collaboratively with the Center for Advanced Biotechnology and Medicine. As part of this program, DIMACS conducted a series of seminars and workshops which have been characterized by participants as highly valuable, and the best of their kind.

The Center for Manufacturing Systems

The Center for Manufacturing Systems (CMS), located at the NJIT, conducts leading-edge research in advanced manufacturing technologies. Research projects are supported in several thematic areas, in partnership with New Jersey-based businesses, and with matching funds from federal agencies such as the National Institute of Standards and Technology (NIST) and the Advanced Research Projects Agency (ARPA).

CMS focuses its research and extension programs on four of New Jersey's core manufacturing industry sectors: metalworking and machinery, electronics, plastics, and textile and apparel. Together, these sectors account for over 200,000 high-quality jobs in New Jersey.

The Center for Manufacturing Systems engages in research and development of advanced precision manufacturing technologies that are environmentally clean in a major effort to support a strong manufacturing base in New Jersey. To initiate new research areas, CMS supports seed research projects in collaboration with New Jersey industry and leverages State funds by seeking major funding opportunities through a variety of federal programs and agencies. For example, the CMS recently received a major grant from the National Science Foundation to expand the development of a novel machining technology using ice pellets instead of abrasives for waterjet cutting. This new technology will be environmentally clean and have broad applications in traditional machining for New Jersey's food processing, electronics, and metalworking industries.

Another research thrust for CMS is the area of ultra-high precision contactless manufacturing and assembly. The primary objective here is to develop next generation ultra-precision machine tools and robotics based on contactless mechanisms and advanced design and control technologies. CMS is leveraging State funding by working collaboratively with AT&T and other major corporate research partners under the umbrella of the National Center for Manufacturing Sciences.

CMS has also received a $1.5 million grant from the U.S. Department of Commerce, Economic Development Administration to establish a service center to assist small defense-dependent electronics firms' transition to the commercial marketplace. The objective is to match company capabilities with new or emerging product and market opportunities and work with the firms to develop the technologies and/or the management skills they need to compete.

With full access to a "factory of the future" and manufacturing-simulation equipment at NJIT's Information Technologies Center, CMS also operates a statewide Technology Extension (TEX) program which works closely with several public and private partners to serve the complex needs of New Jersey's small manufacturing firms. The TEX fosters strategic industry alliances and organizes sectoral service centers across the state through which modern technologies, management practices, and workforce skills can flow efficiently into large numbers of small companies.

Under a $100,000 award from the National Institute of Standards and Technology (NIST), under the State Technology Extension Program (STEP), CMS is delivering technology to the textile printing and dyeing industry through a sectoral service center based in Paterson, the traditional home of that industry, with matching support from the Silk and Rayon Printers and Dyers Association. It also supports delivery of services to the apparel sector through CIM Consortium facilities at Camden County College in South Jersey. The strategic plan for CMS is comprehensive - involving faculty, staff, students and facilities - and cohesive - incorporating the strengths of existing programs across the university and establishing partnerships with industry, other academic institutions, Commission-sponsored centers, and public and private agencies.

Hazardous Substance Management Research Center

The Hazardous Substance Management Research Center (HSMRC) is operated by a consortium led by NJIT, with the participation of Rutgers, Stevens Institute of Technology, the University of Medicine and Dentistry of New Jersey (UMDNJ), and Princeton. HSMRC conducts research in collaboration with the waste-treatment industry and major industrial companies on various new technologies for remediation of hazardous waste contamination. Already, new treatment technologies, such as "pneumatic fracturing," have been developed and patented by NJIT, and are being brought to commercialization in partnership with New Jersey businesses, creating jobs and helping larger firms return contaminated sites in New Jersey to productive economic use.

The HSMRC grant leverages considerable federal funding for New Jersey, since at NJIT the Center is situated within the Center for Environmental Engineering and Science, a larger organization that also conducts advanced research and delivers technical assistance for governmental agencies and industry. For example, HSMRC serves as the headquarters site for a federal EPA-sponsored Hazardous Substance Research Center serving federal Regions 1 and 2, and involving MIT and Tufts as partners. The EPA provides some $1 million annually, at least half of which will be spent in-state at the five HSMRC institutions (NJIT, Princeton, Rutgers, Stevens, and UMDNJ). The Center also receives substantial EPA support through a $1 million per year-Center in Airborne Organics operated in partnership with MIT and Caltech.

NJIT also serves as the lead institution in the Emission Reduction Research Center (ERRC), established in 1992, as a National Science Foundation Industry/University cooperative Research Center dedicated to research in pollution prevention in all environmental media, but with a particular emphasis on air emission reduction. The ERRC consortium includes: Massachusetts Institute of Technology, Ohio State University, and Pennsylvania State University. ERRC is organized around clusters of companies in specific manufacturing areas. The first cluster represents the batch chemical processing industry and draws a high proportion of its membership from the pharmaceutical industry. Other clusters being developed are for the ordnance industry and other types of chemical manufacturing facilities. Current research is focused on separations, solvent replacement, equipment cleaning, and chemical process systems analysis, particularly artificial intelligence decision tools. Research advances are expected to create novel technology applications of improved process design and manufacturing operations that will result in improved emission performance and reduced costs of manufacturing.

In FY 1995, the Commission awarded HSMRC a Technology Transfer Merit Program award in support of a project assisting a New Jersey bioremediation company to integrate its products with the pneumatic fracturing technique invented at HSMRC, and being commercialized by another New Jersey company.

Internationally, formal research initiatives are ongoing with counterpart academic-industrial centers in France and Northern Ireland. Similar centers are being established in Indonesia and the Philippines, and working research relations are currently being developed in Egypt, Germany, Israel, Italy, and Thailand.

CEES with its broad and encompassing activities combining the expertise and talents of industry, government and academia, forms the largest university-based hazardous waste management research program in the United States. The following matrix provides a listing of the federal, state, academic and industrial participation in programs affiliated with NJIT's Center for Environmental Engineering and Science.

	FEDERAL SUPPORT	STATE SUPPORT	PRIVATE SUPPORT	ACADEMIC CONSORTIA	INDUSTRIAL PARTICIPATION	TECHNOLOGY TRANSFER	RESEARCH AREAS
Hazardous Substance Management Research Center (HSMRC) An NSF Industry/University Cooperative Research Center An Advanced Technology Center of New Jersey Commission on Science and Technology	National Science Foundation Department of Energy	New Jersey Commission on Science and Technology	25 industrial members Targeted one-on-one project funding by industrial companies with specific treatment and remediation needs	NJIT *lead institution* Princeton University Rutgers University Stevens Institute of Technology University of Medicine and Dentistry of New Jersey	25-member Industrial Advisory Board selects and reviews projects	yes	■ Waste Treatment ■ Site Remediation
Northeast Hazardous Substance Research Center (NHSRC) An EPA Hazardous Substance Research Center	Environmental Protection Agency Department of Energy	New Jersey Commission on Science and Technology		NJIT *lead institution* MIT Princeton University Rutgers University Stevens Institute of Technology Tufts University University of Medicine and Dentistry of New Jersey	Science Advisory Committee and Technology Transfer and Training Committee: each, with industrial, government and academic representation, selects and reviews projects	yes	■ Site Remediation ■ Waste Treatment
Emission Reduction Research Center (ERRC) An NSF Industry/University Cooperative Research Center	National Science Foundation Environmental Protection Agency Department of Energy	New Jersey Commission on Science and Technology	10 industrial members Targeted one-on-one project funding by industrial companies with pollution prevention needs	NJIT *lead institution* MIT Ohio State University Pennsylvania State University	10-member Industrial Advisory Board selects, monitors and reviews projects	yes	■ Pollution Prevention
Center for Airborne Organics (CAO) An EPA Center of Excellence for Exploratory Environmental Research	Environmental Protection Agency		Industrial support for special technology transfer initiatives	NJIT MIT *lead institution* CalTech	Science Advisory Committee with industrial, government and academic representation selects and reviews projects	yes	■ Sources, transformation and control of organic air pollutants generated by combustion processes
Integrated Pollution Prevention Initiative (IPPI)	Environmental Protection Agency		Targeted one-on-one project funding by industrial companies with pollution prevention needs		Individual companies participate, advise and/or serve as clients on per project basis	yes	■ Pollution Prevention
New Jersey Technical Assistance Program for Industrial Pollution Prevention (NJTAP)	Environmental Protection Agency	New Jersey Department of Environmental Protection and Energy Burlington County, New Jersey			Small business clients receive direct technology transfer and assistance	yes	
International Relationships	National Science Foundation Agency for International Development		Matching funds on project participation basis	QUESTOR (Northern Ireland) RE.CO.R.D. (France) University of Indonesia University of the Philippines Khon Kaen University, Thailand		yes	■ Pollution Prevention ■ Site Remediation ■ Waste Treatment
AFFILIATED ACTIVITIES AT NJIT							
Institute for Hazardous and Toxic Waste Management (IHTWM)	Funded on per project basis	Funded on per project basis	Funded on per project basis	Assembled on per project basis	Participation on per project basis	yes	■ Waste Management

New Jersey Commission on Science and Technology Supported Enhanced Technology Transfer Programs

In FY 1993, the Commission, in an effort to increase its focus on technology transfer, established an Enhanced Technology Transfer Program, which consists of two annual, peer reviewed, competitive grant programs. The first of these, the Technology Transfer Merit Program, funds targeted technology transfer projects operated by Commission-sponsored ATC's and TEX Centers. TTMP proposals are solicited annually, and evaluated for relevance and commercial potential by a review panel drawn from industry, venture capital firms, academic technology transfer experts, and technology development professionals.

The Innovation Partnership Program, which also was re-instituted in FY 1993, as an ETTP component, encourages academic investigators to take on projects, in collaboration with New Jersey industry, which show potential for scientific innovation and commercial development. As with the TTMP, the Scientific Fields Committee has indicated that present funding levels do not permit full support of all deserving proposals.

Technology Transfer Merit Program

The Technology Transfer Merit Program provides direct support, awarded on a competitive basis, to outstanding technology transfer programs proposed and sponsored by the Commission's ATC's and TEX Centers. The TTMP makes awards of up to $300,000 in support of technology transfer proposals which are invited from all ATC's and TEX Centers. These proposals are competitively evaluated against criteria which have been established by the Commission through its Scientific Fields Committee. The TTMP program criteria focus on technology extension, business startup support, and intellectual property development, and incorporates relevant measurement criteria as established by the Commission.

Final reports from FY 1993 and FY 1994 TTMP award recipients indicate that desired industrial linkages have been made, and that technology transfer is occurring. Moreover, the FY 1995 TTMP proposals were judged by the Commission's review panel to be of overall higher quality than in past years; the Commission found that available funding did not permit funding all meritorious FY 1995 projects at ideal levels.

For example, one TTMP grantee, the Center for Ceramics Research, reported the establishment of ongoing technology transfer relationships with eight New Jersey firms, which in turn invested almost $800,000 in transfer-related activities. In addition, CCR provided technology transfer support, including counseling, services, and access to equipment, to six New Jersey startup firms, and technical extension services (telephone counseling, referrals, etc.) to 55 additional companies.

Among the eight firms involved on an ongoing basis under the CCR TTMP was SAGE, Inc., of Piscataway, a startup firm which specializes in electrochromic coatings for windows. As a result of the SAGE-CCR collaboration, SAGE has added four employees, and has recently won a major development award, in collaboration with 3M Corporation, under the federal Advanced Technology Program, sponsored by the US Department of Commerce, National Institute of Standards and Technology.

Innovation Partnership Program

The Commission's Innovation Partnership Program provides direct technology linkage between research faculty and industrial businesses across a diverse range of technical fields, and enhances the transfer of technology from university laboratories to New Jersey business and industry. The IP encourages academic investigators to take on projects, in collaboration with New Jersey industry, which show potential for scientific innovation and commercial development. Consistent with established regulations, the IP program is open to faculty at all New Jersey four-year colleges and universities with baccalaureate science and engineering programs. Required industrial matching support ensures that the program is focused on industrial needs and benefits, with attendant increases in the probability of successful technology transfer.

The IP program can stimulate valuable interactions between academic researchers and New Jersey industry, which lead directly to important commercial results. For example, in FY 1994, the Commission supported a research collaboration between Dr. Edward Arnold, of Rutgers University, and Affinity Technology, Inc., of New Brunswick, which focused on the development of new methods of virus purification and separation. These technologies are potentially very valuable, both for the selective removal of viruses from blood products and tissues (which would enhance the safety of the blood supply), and as possible components of new vaccines targeting viruses -- most notably the AIDS virus. If these lines of development are successful, Affinity Technology will be positioned for substantial growth, and will contribute additional jobs and revenues to the New Jersey economy.

Extension Programs

TEX Center for Fisheries and Aquaculture

The Commission has established a Technology Extension (TEX) Center in Fisheries and Aquaculture, based at Cook College of Rutgers University, to facilitate the transfer of advanced technology to the fisheries industry in New Jersey. Fisheries and related industries form an important component of the New Jersey economy, due to the state's long coastline and the dependence of many coastal communities on these activities. The annual market for New Jersey fishery products exceeds $1 billion. Increasing utilization of advanced technology promises to enhance the productivity of the state's fisheries industry, and result in economic growth, especially in New Jersey's rural and coastal regions.

The activities conducted by the TEX Center are divided into a series of "Mission-Oriented Projects," responding to well-defined industry needs and directed at enhancement of industrial productivity. To date, several broad mission-oriented projects have been identified in response to industrial concerns presented to the Advisory Board by various representatives of the fisheries and aquaculture industries: (1) revitalization of the New Jersey hard clam industry; (2) revitalization of the New Jersey oyster industry through remote-culture of Rutgers-bred disease-resistant strains; (3) improved use for underutilized species; and (4) promotion and demonstration of pond-based finfish aquaculture. Recently, Cumberland County College and Rutgers began a joint venture to promote and sustain the development of New Jersey's aquaculture industry. The Aquaculture Technology Transfer Center (ATTC) will have facilities in Cumberland and Cape May Counties. ATTC will provide training, education, and outreach services, as well as demonstration and research capabilities for commercial aquaculture. The Center works closely with the Maurice River Oysterculture Foundation, has assisted a variety of aquaculture entrepreneurs in dealing with technical startup problems, and has supported the creation of jobs in South Jersey by providing technical assistance to companies like Handy Inc., which built and operates a modern crab-shedding facility at Bivalve (Cumberland County), and Sheppard Farms, which is experimenting with adding striped-bass aquaculture to its existing agricultural operations.

In FY 1991, the TEX Center launched a grant program modeled on the Commission's Innovation Partnership, in order to foster closer ties between the TEX Center and industry. The program offers seed money to extension/research specialists willing to develop programs in conjunction with industry partners. This program is continuing in FY 1995, and is supported in the Commission's FY 1996 request for the TEX Center. The TEX Center also has provided staff support to the Governor's Aquaculture Task Force, which recently completed its work, and submitted a report outlining steps New Jersey can take to develop a thriving aquaculture industry.

TEX Center in Polymer Processing

The Technology Extension (TEX) Center in Polymer Processing, located at the Polymer Processing Institute (PPI) at the Stevens Institute of Technology, provides technical support and training to the plastics industry, creating access to the results of basic and applied research being conducted in polymer science at Stevens and elsewhere. New Jersey's 2000 or so small and medium-sized plastics processors are the beneficiaries of this technical extension work, as are entrepreneurs seeking to create plastic-based products, and large resin suppliers, many of which are New Jersey-based. Recent initiatives are in continuous quality improvement for molders, and in computer-aided engineering.

Using a bank of in-house and freelance (New Jersey-based) consultants, the Center answers telephone or mail inquiries and also makes pro-active field visits to companies throughout the state, either from its Stevens location or from its South Jersey satellite office at Cumberland County College. Laboratory problems are referred to the facilities of the Polymer Processing Institute. The Center helps to generate business for New Jersey firms by answering out-of-state queries with referrals to New Jersey materials suppliers, processors, or consultants.

Some of the Center's fixed operating expenses are leveraged by a major U. S. Navy grant to Stevens and PPI for a Design and Manufacturing Institute, which "guarantees" a certain portion of the billable time of consultants also used by the Center, allowing the Center to retain these persons on-site full-time without paying all their compensation.

TEX Center in Information Services

The Technology Extension (TEX) Center in Information Services provides assistance to New Jersey businesses in the areas of office automation, data base development, and local area networking. and telecommunications -- areas that often present make or break issues for enterprises. CIAT's work in this area serves two types of small business clients -- an array of small businesses who need to choose and use computers and the software industry as a group.

This TEX Center, located NJIT as part of the Center for Information Age Technology, serves on the average of 100 small businesses each year, and seminars and workshops reach several thousand more. The TEX Center maintains a full-time presence in southern New Jersey, with a South Jersey office, presently at Atlantic County College. In FY 1995, the TEX Center has received a Technology Transfer Merit Program grant from the Commission to mount the fifth annual Software Industry Fast Track Conference (NJ SwIFT), intended as a precursor to development of a cohesive software industry association in New Jersey. The goal of this project is to assist New Jersey's small software firms in marketing products developed here and growing their companies.

The role of a university-based center like CIAT is vital to small firms -- the median size of a software firm is nine employees. Small businesses turn to CIAT and other Commission supported technical extension centers for the same reason: universities provide services that the small business could not provide on its own, i.e. research, technological facilities, and professional subject matter expertise.

Business Development Programs

An important component of the Commission's emphasis on technology transfer is to provide increased support for emerging high technology businesses, which are expected to fuel the job growth and capital expansion of the 1990s. These firms, which today make up 85% to 90% of U.S. technology-based businesses, and which typically employ fewer than 20 people, have been failing at an alarming rate.

While small businesses have been receiving some support for start-up through the Department of Commerce and Economic Development and the Small Business Development Centers, there has been no designated focus of support for problems which are specific to science and technology-based companies. The Commission has developed a program of managerial and technical assistance to introduce fledgling technology-based enterprises to needed support and in particular, access to funds, technology and information.

Since FY 1988, the Commission has provided continuous support for a range of programs designed to provide assistance to small, technology-based New Jersey firms, in an effort to improve the performance and survival rate of these firms, which are critical to the creation of technology-based employment in our state. In addition to disseminating information, the Commission provides the following services:

- The Technology Business Incubators program, which currently supports four business incubators, with more than 50 companies in residence, and more than a half dozen having successfully transitioned into the competitive market, is a high priority program.

- The Entrepreneurs Forum, under the administration of the Rutgers Incubator Manager, has made substantial progress in the guidance, mentoring, and support of emerging technology businesses in central New Jersey.

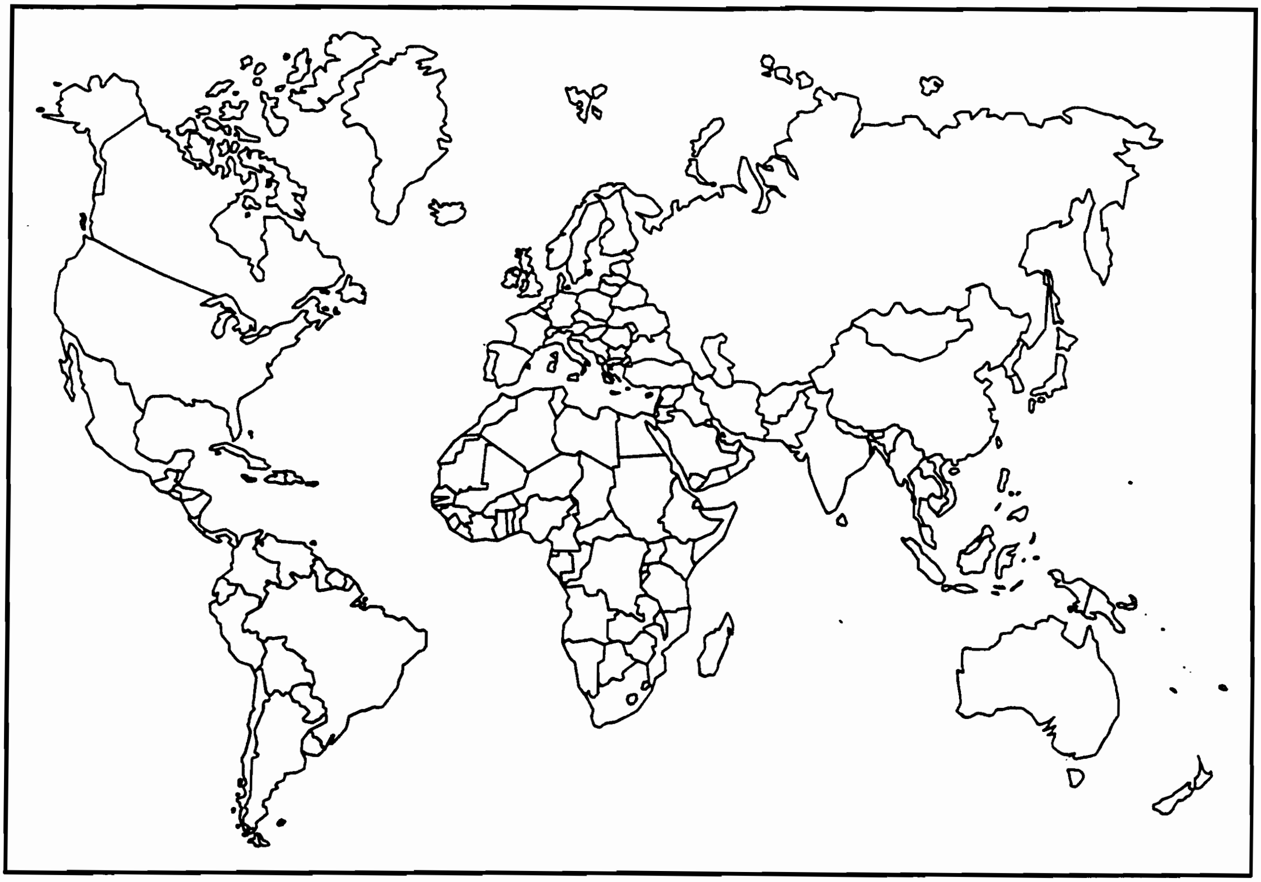
- The Washington Technical Liaison provides "on-the-spot" representation and support, as well as proposal review and counseling, for small New Jersey firms seeking federal grant support.

- A one-stop Technology Help Desk referral hotline (1-800-4321-TEC), where technology entrepreneurs may obtain information on technology and business assistance programs. The Help Desk has begun operations and is successfully serving the needs of small companies that require access to technology, information, and financing.

- An SBIR Bridge Loan Program to help small companies weather the financial problems caused by delays between Phase I and Phase II federal SBIR awards. The federal SBIR program, which subjects proposals to rigorous competitive review, has provided New Jersey firms with more than 200 awards, and $38 million, during the last two years. To protect our firms from financial failure during the delays which often are encountered between federal Phase I and Phase II SBIR awards, the Commission has established a Bridge Loan program, which provides loan guarantees, so that eligible firms can obtain working capital loans from a participating New Jersey lending institution. In its first fourteen months of operation, the Bridge Loan program has provided guarantees to 16 loans, which total $434,000.

- A Small Business Assistance Voucher program, which helps small companies obtain assistance from Commission on Science and Technology sponsored programs. The Voucher Program is intended as a way to address the technical and business-planning needs of technology firms which are not provided for by the Commission's TEX Centers, Advanced Technology Centers, or other programs. The program is open to all technology-based firms in New Jersey with at least two, and not more than 50 employees. These firms may apply for a single voucher with a value of $1,000, by submitting a one-page application to the Commission. First-time voucher requests are considered on a quarterly basis from eligible firms, subject to technical review only, and contingent on the availability of funds. Firms receiving vouchers in this way are eligible to re-apply for additional, "follow-on" vouchers, in amounts up to $5,000. These follow on requests are subject to a substantive review, by the Commission's Technology Business Development Committee. In the case of follow-on voucher applications, companies bear the majority of project costs, with more established and higher-revenue firms providing a greater percentage of overall program costs.

- The Commission supports several Conferences and Workshops. In FY 1995, the Commission will provide support for the annual High Tech Conference, sponsored in cooperation with the New Jersey Small Business Development Center; for a North Jersey Venture Fair, sponsored in partnership with the Entrepreneurs Forum; and for a South Jersey Venture Fair, with anticipated co-sponsorship by the South Jersey Entrepreneurs Network. In addition, the Commission may participate in workshops sponsored by the Biotechnology Council of New Jersey, the Delaware Valley Venture Group, or other regional economic development organizations.



NEW JERSEY ECONOMIC MASTER PLAN COMMISSION

INTERNATIONAL TRADE TASK FORCE

November 4, 1994

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NEW JERSEY INTERNATIONAL TRADE: TODAY AND TOMORROW

PREFACE

In her inaugural address of January 18th, Governor Christine Todd Whitman announced and created the New Jersey Economic Master Plan Commission. The Commission is composed of twelve Task Forces committees which are investigating various aspects of improving the economic growth and prosperity of the State. The major focus of this Task Force is to design both a short and long-term strategy to develop international trade.

The Governor has asked us to not only investigate what other states and countries do, so that we can gain a better understanding of the challenges which international trade presents, but to recommend what sources must be developed, which will afford New Jersey companies the best chance for success in overseas markets.

In our deliberations we have found that while our State's export promotion efforts are an important element in New Jersey's economic development program, export promotion cannot stand alone. It must be supported by other resources and methods of assistance if international trade is to reach the economic development potential which it has attained in other states and countries around the world.

We also found that we require a more opportunistic view of world trade and must identify and understand the challenges which this new and changing globalization brings not only to our businesses, but also to our educational system, social programs, community and other areas of our public and private lives.

The challenge before us is too important to be taken lightly. The direct impact of international trade on the economic health of New Jersey is substantial. For each $1 billion of export sales there is the approximate equivalent of 20,000 jobs. Considering that the latest figures estimate that New Jersey's exports stand at approximately $14.5 billion per year, equal to 290,000 jobs, continued reliance on our international markets is imperative.

This estimate embraces direct employment only. It does not include spin off employment attributable to export related jobs. The spin off could easily result in another 464,000 jobs. This would bring export related employment to a conservatively estimated 754,000 of 18.3% of the State's employment base.

If our efforts could result in increasing New Jersey's exports at a modest rate of only 5% per year, above historical standards, in the next five years we could increase our exports by $4 billion and create 80,000 direct and 128,000 indirect jobs, for a total impact of 208,000 new export related jobs.

But these efforts cannot be the responsibility of government alone. We have to establish deep partnerships within the State's private manufacturing and service industries and the public sector. All of us must focus our attention toward strengthening our economy by increasing our international trade effectiveness.

The International Trade Task Force will prepare immediate, near term and intermediate term recommendations highlighting programs, plans and initiatives directed toward expanding and strengthening the economy of New Jersey through increased international trade and reverse investment. The recommendations and supporting programs shall represent the best efforts of business, banking and government within the State, working together for this common goal.

Our recommendations to the Commission will include new policies, as well as programs that encompass exports, imports and reverse investment, developed after considering industries and markets, qualifying investment potential and establishing information and assistance requirements.

The Commission may further call upon the Task Force to direct and implement the programs in a manner that will ensure measurable and cost-effective results for the State.

Yung Soo Yoo, Chairman
International Trade Task Force
of the New Jersey Economic
Master Plan Commission

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EXECUTIVE SUMMARY

New Jersey's economy is becoming increasingly dependent upon the vitality of its industrial base and its competitiveness in the world economy. New Jersey exports represent a significant share of the state's economic output. Small and medium sized New Jersey businesses in particular will become export dependent as market demand for U.S. goods and services increases world wide.

New export markets are emerging around the world. We need to ensure that New Jersey companies have the government support and financial tools to compete effectively with U.S. and foreign producers.

Recognizing the recent resurgence of the North American economy and that of our region, New Jersey remains a geographically strategic location for domestic and foreign industry. The continued growth of our State economy will also depend upon the attractiveness of our business climate for New Jersey and foreign companies that wish to expand or establish operations here. If we are to be successful in retaining our existing foreign industrial base and attracting new foreign investment, we must become more pro-active in promoting our locational advantages and also keep in close communication with those foreign subsidiaries already in New Jersey.

The following recommendations underscore the Task Force's firm belief that business, banking, government and academia must enter into a long lasting partnership. The catalyst for creating this partnership must be Governor Whitman. Only the Governor can assume the pivotal role necessary to forge a strategic alliance between these leadership components. Suggestions are made regarding the framework of the partnership and the specific programs it would undertake. Implementation of the Task Force's recommendations are predicated upon a commitment by the State to develop a comprehensive trade and investment strategy. Salient components of such a strategy would include the development of an incentives policy for the expansion of small business exports, the development of foreign industry retention and attraction programs, and the restructuring and expansion of trade services offered by business, banking, government and academia.

The Task Force's believes that if their recommendations are followed New Jersey will enjoy success in the growth of business exports of at least 5% per year above historical standards.

Five key recommendations stand out for immediate consideration:

- Develop a new innovative funding mechanism to provide both a direct financial incentive to exporters and a revenue stream to fund trade development and promotion activities including the development of an export directory which inventories exporters, export merchandise and services, target markets and companies, importers, customers and related agencies.

- A firm commitment to expand New Jersey's reverse investment program. With an annual program funding of $2 million, we anticipate that at least 3,200 direct plus 5,100 new indirect jobs per year would be created. New direct employment would in turn generate $32 million in new tax revenue per year.

- Create the New Jersey International Trade Partnership to garner private sector leadership and support to implement international trade initiatives.

- Establish Trade and Executive Ambassadors programs to utilize the reservoir of good will New Jersey has created to promote exports and reverse investment. A key project of the Ambassadors programs will involve the planning of an annual New Jersey International Trade Conference.

- Expand New Jersey Economic Development Authority programming to enhance loan packaging activities and to provide direct loan authority to finance exports of small and medium sized New Jersey businesses.

Taking into account a two year start up to implement new programs and incentives policies, the State can expect a return on investment in the third year which will cover all start up costs and provide a more than satisfactory return in new state and local taxes.

All told we have generated 19 recommendations assigned into one of the following categories: International Trade Development, Reverse Investment, International Finance, International Trade Promotion.

Supporting documentation regarding the Subcommittee's findings are detailed in the attached reports. Five committees were formed to carry out Subcommittee's task. Each committee submitted a detailed report on their respective topic, including: International Trade Development, Reverse Investment, International Finance, International Trade Promotion, International Resource/Promotional Materials.

Projected Annual Growth in NJ Export Sales (1995-1999)

The following table illustrates projected growth in NJ exports at the recent historical rate (1987-1993) of 11% per year and an estimated rate of 11.11% per year. This latter figure represents the Task Force's projected export growth rate if the proposed recommendations are implemented. It assumes that these initiatives will help maintain an 11% growth rate for big business and increase by an additional 5% the marginal growth rate of export sales by small and medium-sized businesses. We estimate that at least 20% of NJ exports come from small and medium-sized businesses. [1]

Year	Historical Growth Rate 11%	Projected Growth Rate 11.11%(Beginning in '95)
93	$14.5 Billion	$14.5 Billion
94	16.10	16.10
95	17.87	17.90
96	19.83	19.89
97	22.01	22.10
98	24.43	24.55
99	27.12	27.28
95-99	$111.26	111.72

Difference: $460 million

The $460 million incremental increase in exports by small and medium-sized businesses will create 9,200 direct jobs and 14,720 indirect jobs, for a total gain in new employment of 23,920.[2]

Direct new employment should generate $92 million in new local and state tax revenues.

Total new employment in 1999 from export growth, assuming proposed program implementation @ 11.11% growth rate should reach 581,360. This reflects an $11.18 billion increase in total NJ exports for 1994-1999.

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[1] "6.959 NJ businesses exported in 1987. Virtually all had fewer than 500 employees."
US Dept. of Commerce/Int. Trade Admin.
Uruguay Round Opportunities, NJ

[2] Assuming 20,000 direct jobs for each $1 billion in exports and 1.6 indirect jobs for each direct job created. Source US Dept of Commerce Press Release July 1994.

INTERNATIONAL TRADE DEVELOPMENT

Priority Recommendation: Do It Now

1. **Recommendation**: The Governor should personally forge a partnership between industry, the financial community and academia to foster an environment to increase international trade and the globalization of New Jersey's economy.

2. **Benefits and Expected Results:** By creating a more conducive environment for international trade and investment, New Jersey will realize increased growth in trade, new job formation, new foreign capital investment, and an expanded tax base.

3. **Cost**: This is a partnership development issue with no specific associated cost.

4. **Individual/Institutional Responsibility for Making it Happen:** The Governor's Office.

5. **Counter Argument(s):** None.

Priority Recommendations Do It Now

1. **Recommendation**: Increase New Jersey's exports by at least 5% per year above historical standards by implementing the following policy initiatives detailed in this report.

2. **Benefits and Expected Results:** By increasing New Jersey's small business exports by 5% per year above historical standards, over the next five years exports would increase by $4 billion and 80,000 new jobs would be created.

3. **Cost:** The new initiatives detailed in this report to expand export sales would be financed by increased state appropriations, an export sales corporate tax credit, and private sector contributions.

4. **Individual/Institutional Responsibility for Making it Happen:** The Governor, the Commissioner of the New Jersey Department of Commerce and Economic Development, and the administration of the proposed New Jersey International Trade Partnership will spearhead these efforts and secure appropriate funding.

5. **Counter Argument(s):** Proposed New Jersey International Trade Partnership initiatives could be executed by the New Jersey Department of Commerce and Economic Development.

Priority Recommendation: Do It Now

1. **Recommendation**: Form the New Jersey International Trade Partnership, a 503c6 corporation, as the New Jersey World Trade Center, a World Trade Center Association franchise.

2. **Benefits and Expected Results:** The partnership would coalesce private sector leadership and financial support to implement the New Jersey Economic Master Plan Commission recommendations on international economic development and champion Governor Whitman's economic development initiatives. The organizational structure of the New Jersey International Trade Partnership will afford program leadership and continuity through ensuing administrations. It will be able to access the commercial intelligence of the private sector to develop the State's strategic plan for international trade development, and execute and monitor a long term strategy for international trade.

3. **Cost**: Set up a 501c3 foundation to serve as a conduit for tax-free corporate donations to fund the trade center. Up to 75% of the cost of establishing and running the World Trade Center and other Partnership initiatives would be borne by private sector contributions. The balance would be borne by the State.

4. **Individual/Institutional Responsibility for Making it Happen**: The Governor would appoint the Partnership's board of directors. They would include cabinet members, industry leaders, and representatives of state and regional authorities and international organizations. The board could be co-chaired by the New Jersey Commissioner of Commerce and Economic Development and an industry leader whose term would extend two years beyond the term of the current administration. The private sector co-chair would be nominated by a committee appointed by the Governor and chaired by the New Jersey Commissioner of Commerce and Economic Development.

5. **Counter Argument(s):** Proposed New Jersey International Trade Partnership functions could be internalized in the New Jersey Department of Commerce and Economic Development, if appropriate resources were allocated. (See Exhibit IV, Page 53 - Draft Proposal For The New Jersey International Trade Partnership).

Priority Recommendation: Do It Now

1. **Recommendation**: Offer a corporate income tax incentive to New Jersey firms.

2. **Benefits and Expected Results:** Increased level of export sales by existing exporters. Incentivize export willing companies to initiate export sales. Expansion of State export manufacturing capacity and creation of new jobs.

3. **Cost:** Total cost is undetermined. Tax credit would be calculated utilizing 105% of 1994 export sales as the baseline and rebating 50% of the new corporate income taxes paid on export revenue only. Subsequent rebates would be predicated on export revenues exceeding the previous year's sales by 5%.

4. **Individual/Institutional Responsibility of Making it Happen:** The Governor, New Jersey International Trade Partnership, New Jersey Economic Development Authority, and the New Jersey Department of Commerce and Economic Development would work together to support the legislation.

5. **Counter Argument(s):** The State would lose access to and control of this revenue.

Priority Recommendation: Do It Now

1. **Recommendation:** Create a combined tax rebate and revenue stream to fund export development, promotion and financing programs for New Jersey businesses. Revenue would be sourced from a state corporate income tax rebate, which could be based on a decreasing scale of annual export sales growth dependent on company sales, size and gross revenues. A "New Jersey Export Fund" would be created to administer and disburse revenue generated by the incentive program. One-half of the proposed rebate would flow back directly to the companies whose export sales increased 5% or more over the base year. The remaining half would fund New Jersey Economic Development Authority, New Jersey International Trade Partnership, and New Jersey Department of Commerce and Economic Development programs to enhance trade finance, development and promotion.

2. **Benefits and Expected Results:** A dedicated tax rebate and revenue stream would demonstrably increase trade development, promotion and finance throughout the State. It would provide a direct incentive to expand exports of small New Jersey businesses and generate the necessary funding to support development, promotion and financing programs to encourage new firms to enter the export market.

3. **Cost:** The State would enact legislation which identifies and segregates State corporate income tax revenue of small and medium sized businesses' export sales which are in excess of 5% of the previous years export sales. One-half of these revenues would flow back directly to the taxpayer, and the balance would be dedicated to export development, promotion and finance programming.

4. **Individual/Institutional Responsibilities for Making it Happen:** The Governor, New Jersey International Trade Partnership, New Jersey Economic Development Authority, and the New Jersey Department of Commerce and economic Development would work together to support the legislation.

5. **Counter Argument(s):** The State would lose access to and control of this revenue.

Priority Recommendation: Do It Now

1. **Recommendation**: The proposed New Jersey International Trade Partnership should coordinate and endorse the existing pre-export development activities of TradeLink-N.J., the Export Hotline and other supporting programs resident in Chambers of Commerce, Economic Development Authority's (EDA's), Service Corps of Retired Executives (SCORE), District Export Council's (DEC's), and Small Business Development Centers (SBDC's) and other willing organizations, to ensure that response to both substantive and casual or random inquiries are provided by those entities willing to provide fundamental services.

If a firm's product has potential, but its structure or management cannot support entry, a determination would be made to either provide management development assistance, or refer the client to an Export Management Company/Export Trading Company (EMC/ETC).

If a firm's management and product are export ready, the recommended route to overseas markets would be coordinated and managed by the New Jersey Division of International Trade. These cases would be directed and managed by senior trade specialists using existing in-house resources, as well as services available through the newly established Export Assistance Centers, and other service providers such as the New Jersey DEC, SCORE and the New Jersey SBDC. The New Jersey Division of International Trade would also augment their management consulting services by providing firms with trade show, matchmaker and trade mission support.

2. **Benefits and Expected Results:** This will result in a coordinated, visible and user friendly pre-export program. It will also enable existing resources within the New Jersey Division of International Trade to focus on activities with high impact including case management, trade fairs and trade missions.

3. **Cost**: 501c3 foundation monies conveyed through the proposed New Jersey International Trade Partnership.

4. **Individual/Institutional Responsibility for Making it Happen:** The New Jersey International Trade Partnership should assume implementation responsibility.

5. **Counter Argument(s):** Proposed New Jersey International Trade Partnership functions could be internalized in the New Jersey Department of Commerce and Economic Development, if appropriate resources were allocated. (See Exhibit IV, Page 53).

Priority Recommendation: Do It Now

1. **Recommendation**: New Jersey Division of International Trade provide a contract foreign market research service to select small and medium sized New Jersey based exporters.

2. **Benefits and Expected Results**: The program would provide selected New Jersey companies a level of specificity that generic international trade research could not approach. Existing British and French models would be copied, which afford their clients customized commercial intelligence.

3. **Cost**: The research cost would be shared by client companies and the State.

4. **Individual/Institutional Responsibility for Making it Happen:** The New Jersey Department of Commerce and Economic Development would implement this program.

5. **Counter Argument(s):** Proposed function would be internalized in the New Jersey Department of Commerce and Economic Development, if appropriate resources were allocated.

Priority Recommendation: Near Term

1. **Recommendation**: Direct the New Jersey Department of Commerce and Economic Development to develop a comprehensive marketing and services strategy that addresses all of the recommendations put forth by the International Trade Task Force.

2. **Benefits and Expected Results:** Increased emphasis on reverse investment and repositioning of New Jersey Economic Development Authority as both a lender and loan packager.

3. **Cost**: Undetermined. The most likely scenario would include the development of a Request for Proposal by the New Jersey Department of Commerce and Economic Development for external assistance by a marketing consultant.

4. **Individual/Institutional Responsibility for Making it Happen:** The New Jersey Department of Commerce and Economic Development.

5. **Counter Argument(s):** None.

Priority Recommendation: Medium Term

1. **Recommendation**: The Task Force recommends the forging of closer alliances between the business and academic communities to expand the sharing of common resources and capabilities, and the revitalization of the Governor's Commission on International Trade's "Lighthouse" program. (See Exhibit II, Page 33).

2. **Benefits and Expected Results**: The concentration of our educational community's assets toward international instruction and research assists exports, strengthens trade policy and generally increases the body of knowledge of the global marketplace.

3. **Cost**: N/A.

4. **Individual/Institutional Responsibility for Making it Happen:** New Jersey International Trade Partnership.

5. **Counter Argument(s):** The New Jersey Department of Commerce and Economic Development could fulfill this role, if additional resources were made available.

Priority Recommendation: Medium Term

1. **Recommendation**: Encourage expansion of export related production capacity by promoting and packaging current and proposed incentives programs, such as the corporate income tax credit, flexible utility rates, and job training credits.

2. **Benefits and Expected Results:** The development of an international incentives program and policy guidelines will make New Jersey more competitive in retaining, expanding and attracting export oriented businesses. In particular, flexible energy pricing would allow New Jersey companies to be more competitive in a global marketplace.

3. **Cost**: Undetermined. However, the opportunity cost of not implementing an aggressive international trade and reverse investment program would far exceed the cost of implementation.

4. **Individual/Institutional Responsibility for Making it Happen**: New Jersey International Trade Partnership would champion international incentives program. Appropriate State agencies to work in tandem developing funding/incentives mechanism and eligibility criteria and guidelines.

5. **Counter Argument(s):** The New Jersey Department of Commerce and Economic Development could provide these services, if appropriate resources were available.

REVERSE INVESTMENT

Priority Recommendation: Do It Now

1. **Recommendation**: Reverse investment marketing and promotion should be expanded to include eight reverse investment missions annually, the development of new promotional materials, the establishment of an ongoing advertising campaign, the initiation of a retention program focused on existing New Jersey based foreign subsidiary operations, and the hiring of five new staff to develop, implement and manage reverse investment programming.

2. **Benefits and Expected Results:** Current reverse investment marketing is generating approximately 800 new jobs and $8 million in new tax revenue per annum. A new and expanded initiative is expected to generate 3,200 new jobs and $32 million in new tax revenue per year.

3. **Cost**: The incremental cost of proposed new staff and marketing activities will be approximately $2 million per year.

4. **Individual/Institutional Responsibility for Making it Happen:** The Governor and appropriate Cabinet Members will need to take a leadership role in strengthening reverse investment programming.

5. **Counter Argument(s):** None.

Priority Recommendation: Do It Now

1. **Recommendation:** Consolidate State foreign office functions, e.g., reverse investment, international trade, ports, agriculture and tourism into each foreign office and expand their number to provide coverage of targeted geographic/market regions. Cross-train staff to maximize networking and marketing opportunities.

2. **Benefits and Expected Results:** Overseas offices will be expanded from three to nine: Tokyo, London, and Mexico City plus Hong Kong, Germany, Singapore, India, Canada, and Chile. A significant number of new trade and reverse investment opportunities will be identified. New Jersey's international visibility will be increased.

3. **Cost**: The New Jersey Department of Commerce and Economic Development will bear the cost of new and expanded foreign offices.

4. **Individual /Institutional Responsibility for Making it Happen:** The New Jersey Department of Commerce and Economic Development should have implementation responsibility.

5. **Counter Argument(s):** None.

INTERNATIONAL TRADE FINANCE

Priority Recommendation: Do It Now

1. **Recommendation**: Reexamine and realign the New Jersey Economic Development Authority's (EDA) international loan making and international packaging policies. This would be accomplished by (1) funding loans up to $250,000 which currently are not being serviced by the financial community, and (2) revisit credit policies to make them less stringent, thereby providing a more conducive environment for approving loans by seeking a reasonable assurance of repayment and (3) become a facilitator and packager of loans utilizing commercial banks and US government programs to a greater extent.

2. **Benefits and Expected Results**: Increased loan activity would result. A friendlier bank environment would also ensue whereby the New Jersey Economic Development Authority would expand services to include preparing loan packages for bank review, resulting in a one stop customer service processing center which facilitates the small business loan approval process. For loans of $250,000 or less, the New Jersey Economic Development Authority would provide direct funding to small businesses who have been denied bank financing.

3. **Cost**: New Jersey Economic Development Authority would shoulder costs of loan packaging and financing. Revenue would be derived from fees and a corporate income tax rebate on increased export sales of small and medium sized New Jersey businesses. Funds would be sourced from the remaining 50% of marginal state income tax generated by export revenue in excess of 105% of base year export sales.

4. **Individual/Institutional Responsibility for Making it Happen:** New Jersey Economic Development Authority would have primary responsibility of program implementation. State financial institutions, the Export-Import Bank of the U.S., and the U.S. Small Business Administration would refer applicants to the New Jersey Economic Development Authority.

5. **Counter Argument(s):** A less stringent credit policy could increase losses due to increased risk. Present lack of resources and funding to implement recommendation.

Priority Recommendation: Do It Now

1. **Recommendation**: New Jersey Economic Development Authority should establish a strategic alliance with the Export-Import Bank of the U.S., the U.S. Small Business Administration (SBA), other government programs, and the private venture capital network.

2. **Benefits and Expected Results:** New Jersey Economic Development Authority would increase access to Ex-Im Bank of the U.S., U.S. SBA and venture capital financing on behalf of New Jersey companies. New Jersey Economic Development Authority will be recognized as a facilitator of export financing and expansion capital for small and medium sized businesses. Financing will become more accessible. General awareness of New Jersey Economic Development Authority services will increase. New Jersey Economic Development Authority will help foster a pro-business export environment in the State.

3. **Cost**: The State must make a small capital infusion to expand the services. Program can be sustained by increased volume of loan processing fees.

4. **Individual/Institutional Responsibility for Making it Happen:** The New Jersey Economic Development Authority should assume primary responsibility with assistance from the private sector including venture capital companies.

5. **Counter Argument(s):** None.

Priority Recommendation: Near Term

1. **Recommendation**: Have an external source benchmark the New Jersey Economic Development Authority's (EDA) export financing performance by determining and comparing best practices of competing states and the development of specific performance measures including ratios which illustrate the relationship between state EDA budget and state EDA financed export sales.

2. **Benefits and Expected Results**: Will identify most effective export financing programs and establish measurable goals and objectives to track performance. Export services should improve dramatically.

3. **Cost**: Cost of external firm's services.

4. **Individual/Institutional Responsibility:** EDA will have implementation responsibility. New Jersey Department of Commerce and Economic Development can provide oversight.

5. **Counter Argument(s):** None.

Priority Recommendation: Medium Term

1. **Recommendation**: Dedicate 50% of the proposed corporate income tax credit on export sales to fund trade promotion, trade development and other new trade finance and development initiatives.

2. **Benefits and Expected Results:** A New Jersey Economic Development Authority export fund would be developed to finance new loans, offset financial losses and finance new and expanded marketing support programs. In the long term, an export fund could grow to become an independent source of financing. It would also support the development of baseline information and tracking mechanism to follow, measure and project export sales.

3. **Cost**: The "New Jersey Export Fund" would be the funding mechanism. (See page 12).

4. **Individual/Institutional Responsibility for Making it Happen**: New Jersey International Trade Partnership and the New Jersey Economic Development Authority.

5. **Counter Argument(s):** New Jersey Department of Commerce and Economic Development could offer additional trade development and promotion services if additional resources were provided.

INTERNATIONAL TRADE PROMOTION

Priority Recommendation: Do It Now

1. **Recommendation**: Establish Trade and Executive Ambassadors Programs.

2. **Benefits and Expected Results:** The Trade Ambassadors include 100 recent foreign national graduates from New Jersey public and private universities who would serve as liaisons and matchmakers between New Jersey export ready companies and their home country's industry and government. Trade Ambassadors would facilitate the sale of New Jersey products in their respective countries.

Executive Ambassadors consist of at least twenty leading New Jersey based executives of Fortune 500 companies and leading mid-sized companies. Membership would reflect New Jersey geographic diversity and balance, as well as representation of targeted industries identified for inward investment. Executive Ambassadors would assist the Governor in recruiting and retaining foreign investment in New Jersey.

3. **Cost:** The Trade Ambassadors program would have a start up cost of $40 - 50,000 and a maintenance cost of $10,000 per year. The New Jersey Division of International Trade would bear program costs.

4. **Individual/Institutional Responsibility for Making it Happen**: The Governor and the New Jersey Department of Commerce and Economic Development.

5. **Counter Argument(s):** None.

Priority Recommendation: Do It Now

1. **Recommendation**: Convene an annual New Jersey International Trade Conference.

2. **Benefits and Expected Results:** This event will showcase New Jersey's trade and reverse investment opportunities. It will also serve to educate New Jerseyans regarding the value of international trade and reverse investment. Increased export sales, foreign capital investment, and new jobs would result.

3. **Cost**: Conference expenses would be sponsored by a private sector company rotated annually, plus conference fees and vendor table rental income.

4. **Individual/Institutional Responsibility for Making it Happen**: The New Jersey Department of Commerce and Economic Development.

5. **Counter Argument(s):** None.

Priority Recommendation: Do It Now

1. **Recommendation**: Charge the New Jersey Department of Commerce and Economic Development with the responsibility of taking inventory and promoting export related services available throughout New Jersey. Services information should be promoted through the development and dissemination of trade directories and a toll free number for use by in-state export ready/willing companies and foreign based importers, customers, agencies and governments.

2. **Benefits and Expected Results**: New Jersey based export oriented companies will be able to easily identify and access appropriate export related services. Foreign buyers will be able to identify and access services, agencies and New Jersey companies that can facilitate import of New Jersey products.

3. **Cost**: Funded through New Jersey Division of International Trade, directory sales, and paid advertising within directories.

4. **Individual/Institutional Responsibility for Making it Happen:** The New Jersey Division of International Trade.

5. **Counter Argument(s):** None.

October 14, 1994

TO: Economic Master Plan Commission
International Trade Committee

FROM: Subcommittee On International Trade Development

SUBJECT: Final Draft of Recommendations

The Subcommittee for Trade Development, acknowledging current budgetary restraints, recognized three basic objectives in responding to its mission:

That a reduction of resources requires a sharpened redefinition of existing trade development support and deployment.

That emphasis must be placed on activities with longer term value and any short term, event driver, projects must be de-emphasized.

And that the utilization and harnessing of the talent and experience of New Jersey's international business community is essential if we are determined to strengthen our state's economy through international growth.

The reduced availability of public sector funds requires the New Jersey Division of International Trade (DIT) trade specialists to be relieved of low impact routine duties. This will allow them to deliver high impact services to firms which offer the greatest export potential.

It is imperative that response to casual or random inquiries be provided by private and public entities which are willing to furnish fundamental services, such as the TRADELINK Network, or similar collaborative efforts of utilities, local chambers of commerce, county EDAs, community colleges, etc. They will support export willing individuals and organizations who are beginning to examine their international trade potential.

These basic client services should be offered through telephone counseling, Pre-Export Workshops, and occasionally, one-on-one assistance. Services should include audit, education and evaluation of firm's suitability for trading to determine which program assistance is appropriate.

An intermediate level of support should also be made available. It should consist of secondary research and market entry planning under guidance of experienced trade development agencies, i.e. SCORE, DEC, NJSBDC, etc., and private sector volunteers to determine if the firms product and management are export ready.

If a firm's product has potential, but its structure or management can not support entry, a determination would be made to either provide management development assistance, or refer the client to the private EMC/ETC. network.

If a firm's management and product are export ready, the recommended route to overseas markets would be coordinated and managed by the DIT. These cases would be directed and managed by senior trade specialists using existing in-house resources, as well as services available through the newly established Export Assistance Centers, and other service providers such as DEC, SCORE and the NJSBDC. The DIT would also augment their management consulting services by providing firms with trade show, matchmaker and trade mission support.

The services enumerated above should be amplified by utilizing and harnessing the talents of New Jersey's experienced international business community. This collaborative business and education network would further strengthen the state's international resources by providing business-to-business networking and educational services of the highest caliber to the business community. To focus these strengths and utilize them for the greatest community benefit, it is recommended that the Governor create the "New Jersey International Trade Partnership", a 503c6 corporation, and designate it as the New Jersey World Trade Center, a World Trade Center Association franchise.

While the majority of the subcommittee recommend that the "Partnership" should be completely supported by private sector funds, a minority held that public funding of 20-25% would demonstrate New Jersey's commitment, provide critical seed money for smooth efficient start up and mitigate the potential of dominance by any particular industry sector.

The "Partnership" would be co-chaired the New Jersey Commissioner of Commerce and Economic Development and a private sector business person with substantial international stature from a company headquartered in New Jersey. Board members would include other cabinet members such as the Commissioners of Agriculture and Transportation along with representatives of the Port Authority of New York and New Jersey and the Delaware River Port Authority, the World Trade Association, The World Trade Council, the Regional Business Partnership and other regional and statewide international business organizations. Additionally, board members would be appointed from major multinational manufacturers, major service sector organizations and academic leaders.

A director of the "Partnership" would report to the board and be responsible for management, administration and operation. See Exhibit I, Page 32 - for Organization, staffing and budget requirements.

Ideally, the "Partnership" would reside in a donated facility, identified as the New Jersey World Trade Center, which would offer reception, modest meeting and briefing facilities, along with general office and administrative space., It should be located in a safe, pleasant, central site with access to mass transportation and near a concentration of service and manufacturing industries. Convenient off-site private and public facilities for major conferences should also be available. The New Brunswick area or a site within Newark Airport would offer such a location.

The "Partnership" would develop, administer and manage forums, "Roundtables", where companies and trade officials would share their knowledge on particular foreign markets, industry sectors and other specific trade issues. The "Partnership" would also sponsor general meetings on a regular basis so that members could share information and network on an on-going basis. The "Country Round Tables" would utilize New Jersey based foreign subsidiaries as a resource to assist local companies by providing advice and contacts for penetrating their markets. Rountables would give service sector firms the opportunity to network, market their capabilities and learn how to best serve their international customers. A group to New Jersey's multinationals could provide the core for "Large Company Roundtables" where they could share information with each other, New Jersey's top government and trade officials. The "Large Company Roundtables" would be invaluable in harnessing the market intelligence network and utilizing that intelligence to develop a coordinated public and private sector strategic plan for international trade development.

The network, forum and roundtable activities, would be augmented by other membership services including reduced rate access to all events, members only briefing on special issues, trade contact services, introduction to foreign delegations hosted by the "Partnership" and the added exposure of member's services to potential customers. Additionally, as a World Trade Center Association franchise, the "Partnership" members could access all WTC facilities and services worldwide.

The "Partnership" would also coordinate a response-oriented information service of data and commercial intelligence sources, leveraged and maintained by NJBDC, and available through their statewide centers and other appropriate locations within the state. The service would support both fundamental and intermediate levels of international trade assistance. Trained professional researchers would be utilized to guide clients through research and data analysis, prepare reports, etc., on a fee-for-service basis.

It was also discussed that the subcommittee would support and endorse the continuation of its activities or the appointment of a task force to study and report a tax incentives program and an advanced information system for New Jersey's exporters.

The incentive program should include the recommendations submitted at the public hearings by Messrs. Edson and Savage and suggestions proposed by the Chairman and members of the Executive Committee of the EMP's Trade Committee. The EMP group suggested that a tax incentive program be based on a trigger point of a 5% increase of yearly exports. The revenue generated would be apportioned between a tax credit for the firm and a trade development program fund for programs such as the "Partnership".

Using the Edson/Savage model, the first years calculations would be:

Base Year Summary	
Domestic Sales:	$4,000,000
Int'l Sales:	400,000
Taxes (Int'l Sales)	37,500
First Year Calculations	
Domestic Sales:	$4,000,000
Int'l Sales: (15% increase)	460,000
Tax Rate:	x .09375
Taxes, Int'l Sales	43,125
Taxes, Base Year	- 37,500
First Year Differential	5,625

The apportionment of a 50% tax credit to 50% program funding would result in a tax credit of $2,800 with $2,800 being applied to the trade development program fund.

Another program suggested by the Executive Committee, which would be creatively funded, is an advanced trade information-gathering apparatus which would provide access to market and product intelligence over and above the system already proposed through the "Partnership".

Global communication, while facilitating the transmission and assimilation of market data, also accelerates the rate at which the data becomes stale. The specialization of technology and the narrowing of product markets also increases the difficulty of providing accurate and timely intelligence. Traditional trade data and the routine methods of their collection and distribution have become less valuable in general and in particular to individual companies with special needs, particularly in the high tech field.

The feasibility of using foreign or domestic private market research consultants at a subsidized rate and the underwriting of in-house research should be studied. The program would provide selected New Jersey companies a level of specificity that general generic international trade research could not approach. There are British and French models, which should be examined, each helps small to medium sized firms in obtaining or developing customized, narrowly targeted commercial intelligence. The information is very specific to the individual firm's needs and the government shares some portion of the cost.

The subcommittee also recommends the forging of closer alliances between the business and academic communities to expand the sharing of common resources and capabilities, the revitalization of the Governor's Commission on International trade's "Lighthouse" program. (See Exhibit II, Page 33). The concentration of our educational community's assets toward international instruction and research assists exports, strengthens trade policy and generally increases the body of knowledge of the global marketplace.

The educational community should be considered full partners along with the state's industry and government in enhancing the state's international trade potential. The educational institutions are already overseas and have developed strategic partnerships with foreign companies, governments and universities. Degree programs in International Business must also be developed. The effective leveraging of these existing resources by government and industry will strengthen our position in the global economy.

Respectfully submitted,

R. K. Meisenbacher, Chair
Timothy R. Comerford
Charles S. Ellis
Thomas G. Gaspar
James R. Good
George Higgs
Carlos T. Kearns
Cheryl A.Mills
Elizabeth K. Nitze
Warren E. Rebell

EXHIBIT I

DRAFT BUDGET FOR YEAR 1 OPERATION
OF INTERNATIONAL TRADE PARTNERSHIP

START-UP EXPENSES	$170,000
Office/Computer Equipment	20,000
WTCA Affiliated Membership	150,000
OPERATING COSTS	$313,500
Salaries	$160,000
Benefits	32,000
Phone/FAX	12,000
Copier	12,000
Program Expenses	50,000
Postage	20,000
Membership Expenses	10,000
CPA/Legal	7,500
Travel Expenses	15,000
WTCA Annual Dues	3,000
Network	2,000
TOTAL COSTS	**$343,500**

Assumptions:

A) Four Employees
B) Salaries at $70,000, $40,000, $25,000, $25,000
C) Free Rent and Furniture

EXHIBIT II

GOVERNOR'S COMMISSION ON INTERNATIONAL TRADE'S "LIGHTHOUSE" PROGRAM

The "Lighthouse: would send out a beacon which could be acknowledged for its success and replicated statewide.

State grants would be provided to a limited number of Lighthouse Projects and the criteria used to evaluate proposals would be based on the degree of collaboration, the promise for continuation of the program after the grant expires, and the potential value for dissemination of other institutions and finally to the relationship of the proposal to New Jersey's strategic goals. Preference would be given to projects of strategic commercial interest to New Jersey and its citizens.

The submission of detailed annual budgets would be required of all projects. The Education Subcommittee will seek funding to obtain seed money to create the Lighthouse Projects programs. Applicants will be encouraged to seek financial support from existing state programs, private foundations and corporate partners.

Examples of Lighthouse Projects

One Lighthouse Project might be designed to focus on international economics, which would call upon the expertise and opportunities afforded by area schools, colleges and corporations. Another might be oriented towards science and technology and have as its objective the teaching of students and community members about the relationship of advances in science and technology to local and international economic development. Still another project could involve the community, as well as corporate employees, college and high school students and officials in focusing on international language, culture and history, perhaps by selecting the language, culture and history of a firm which is a major employer in that area.

August 29, 1994

TO: Y. S. Yoo, Chairman
International Trade Subcommittee
of the New Jersey Economic Master Plan

FROM: Leonard J. Goldner, Chairman of the
Reverse Investment Subcommittee

SUBJECT: The State of New Jersey's
Reverse Investment Program

The following subcommittee members were present at a special meeting held on August 24, 1994:

1. Youn Suk Kim

2. Shahid Mahmood

3. George Tobjy (alternate to J. McNamara)

4. Donald H. Rainear, a subcommittee member, did not attend but was polled by phone on all matters.

5. Dennis J. Donovan, Senior Managing Director of the Wadley-Donovan Group also participated. Mr. Donovan has prepared supporting comments which are attached to this report. (His hospitality of the use of his office and his sage advice is greatly appreciated.)

The entire subcommittee membership agreed on the following recommendations for the operation of the Office of Reverse Investment (The Office) in the New Jersey Division of International Trade.

A NJ Executive Ambassador Group should be formed to help sell the State as a location, composed of 20 to 50 mostly foreign nationals who hold executive positions with their firms in New Jersey. This Governor approved esteemed group could be part of a larger group to include ambassadors for domestic marketing and business retention/expansion.

Public/Private Partnership - To increase the resources and capabilities of The Office, The Office should coordinate all attraction and retention activities with the NJ International Ambassador Group, the utilities, the 2 port authorities, the economic development offices of the state, counties and municipalities, the banks, the law firms, the accountants, the chambers, the industry associations, consultants, and other public and private organizations with similar capabilities.

Attraction - There should be at least 8 overseas missions, conferences or seminars, coordinated with the Public/Private Partnership and NJ International Ambassador Group. The countries targeted should be Japan, the UK, Germany, Canada, Mexico, Netherlands, Switzerland, Korea and Taiwan. Over the long term, other countries such as Italy, Sweden and China should be considered. The industries considered should be pharmaceutical, environmental services, biotech, food processing, chemical, electronics, information services, and metal working.

Other Attraction Requirements

1. Produce literature and videos in foreign languages.

2. Advertise in foreign magazines, journals, etc. and coordinate where practical, with overseas reverse investment events.

3. Encourage joint ventures, mergers, acquisitions, strategic alliances, etc.

4. Cross train foreign trade representatives on reverse investment principles and call on foreign firms in conjunction with trade missions and shows.

5. Cross cultural training for Department of Commerce and Economic Development staff, foreign business executives establishing new operations in the state, and other officials playing a part in the reverse investment process.

6. Foreign based manufacturers in New Jersey should identify suppliers who might have the greatest propensity to establish a US warehouse or plant in New Jersey, and these suppliers could become prime targets for direct mail and visitations on reverse investment missions.

7. Obtain testimonials from existing firms to attract new investors.

8. Governor give recognition to existing foreign firms for their outstanding contribution to the State of New Jersey.

Retention

1. Survey by mail, phone, and fax all 1300 foreign firms in the state to determine what they think of New Jersey, to see if they would be interested in our Ambassador Program, to see if they need assistance in expansion, to obtain referrals for overseas prospects, and to update the foreign firms data base.

2. Visit New Jersey foreign firms on an ongoing basis.

3. Organize at least 3 in-state conferences of seminars for New Jersey foreign firms on subjects such as transfer pricing, immigration, civic participation, etc.

Open New Offices Abroad - Utilizing the overseas facilities of the 2 port authorities, CPA firms, law firms, corporations, etc., the following offices, in order of importance, should be considered: Hong Kong, Mexico, Singapore, Bombay, Canada and Chile.(These offices are in addition to the existing offices in Tokyo, London and Bremen.)

The Council to Promote Reverse Investment - This council, made up[of members of the NJ International Ambassador Group and Public/Private Partnership, should meet at least 4 times per year to coordinate and cooperate on programs spelled out in this report and to initiate any new programs for the attraction and retention of foreign firms.

Personnel - The office of Reverse Investment should increase its staff as follows: 1 chief or assistant director, 2 senior reverse investment specialists, 1 junior reverse investment specialist, 1 full time secretary, 1 full time clerk typist. (Presently, the office is staffed by a Chief and 1 part time secretary). An internship program should also be utilized.

Budget - The Office of Reverse Investment ;should increase its budget which is presently about $160,000 to $960,000 as follows:

Salaries	$350,000
Fringe Benefits	85,000
Overseas missions, conference seminars, etc.	150,000
Advertising and Promotion materials	300,000
Telephone, postage, misc.	75,000
Total	**$960,000***

* Does not include overseas advertising and public relations.

A special thanks should be given to my subcommittee members without whom this report would not be possible.

REVERSE INVESTMENT

October 1994

TO: International Trade Subcommittee

FROM: Dennis J. Donovan
Senior Managing Director
The Wadley-Donovan Group, Ltd.

1. Establish a NJ Ambassadors Group to sell the state as a location of foreign companies. This group will be part of an overall Ambassadors program to include three components, viz., Domestic, International, Retention.

2. NJDCED should operate at least 9 overseas offices

3. A minimum of 8 reverse investment missions should be undertaken each year. The missions should be targeted by industry and country.

4. Support programs for the international reverse investment initiative should also embrace the following: sales literature in foreign languages, cross cultural training for persons selling NJ, foreign companies operating in NJ identify suppliers for salespersons to contact.

5. A full fledged marketing effort aimed at the international community in the US should be enacted.. This includes direct mail, advertising, and personal relationship building.

6. A special retention effort should be aimed at international firms based in NJ. The effort should include: Annual surveys to the 1300 firms located in NJ, inperson calls to at least 250 of these firms (as part of the survey effort), at least three seminars per year of significant interest to foreign companies operating in New Jersey, call on head quarters of foreign companies operating in NJ when conducting reverse investment missions overseas.

7. A special international advertising endeavor should be seriously considered by NJDCED. This would include advertising in general business publications, specialty journals(such as corporate real-estate), and trade industry journals.

8. At a minimum NJDCED staff should be increased form 1.5 persons to 6.

9. Incremental cost, excluding special overseas advertising, would be about $960,000 for NJDCED.

10. The incremental cost with special advertising would be around $4 million per annum.

11. Currently, the Department's reverse investment program creates an estimated 800 direct jobs a year. This translates into roughly $8 million a year in tax revenue to the state of New Jersey.

12. We believe that the incremental efforts would yield the following:

Current Effort ***Jobs/Tax Revenue***	**Proposed Effort no advertising** ***Jobs/Tax Revenue***	**Proposed Effort with advertising** ***Jobs/Tax Revenue***
800/$8 million	2,500/$25 million	4,500/$45 million

RETURN ON INVESTMENT NO ADVERTISING

Incremental:

Cost	Jobs	Revenue
$1 million	1,700	$17 million

RETURN ON INVESTMENT WITH ADVERTISING

Incremental:

Cost	Jobs	Revenue
$4 million	3,700	$37 million

As can be seen, the cost of instituting aforementioned recommendations can be quickly recouped. The multiplier effect used for the above estimates represents national averages utilized by the US Chamber of Commerce.

October 14, 1994

TO: Yung Soo Yoo, Chairman
International Trade Subcommittee of the
New Jersey Economic Master Plan

FROM: Daniel J. Skalski, Chairman
International Finance Subcommittee

SUBJECT: International Finance Subcommittee
First Draft - Recommendations

The International Finance Subcommittee (IFS) is pleased to offer some general conclusions as well as specific recommendations to promote financing programs.

New Jersey's small and mid-sized firms are generally not predisposed to exporting. Although there is considerable activity provided by public and private sources to assist and promote the exporting process, generally smaller companies see little financial incentive, compared to the initial outlay of time and money, to engage in exporting.

One means to encourage the exporting of goods and services by New Jersey small and mid-sized firms is to offer a corporate tax incentive. It is suggested the incentive be in the form of a rebate based on a firm's total yearly export sales and annual export sales growth. As the incentive is not intended to assist large firms who possess the staffs and financial resources to enter the export process, firms, to be eligible, would have to meet certain criteria such as sales size and total export sales. For example, firms with total sales over $100MM and export sales over $50MM would not be eligible for tax rebates.

IFS would like to suggest a specific corporate rebate formula of 50% to create the necessary incentive.. Also IFS strongly recommends that an equal portion of any rebate be allocated to a "New Jersey Export Fund." Such a fund would provide an income stream to support export financing and service programs provided by the State.

IFS has also concluded that the current Export Loan Program, "New Jersey Worldwide", provided through the New Jersey Economic Development Authority (NJEDA) is not competitive with other available programs such as the US Export Import Bank (EXIM) and Small Business Administration (SBA) Working Capital Guarantee Programs which offer more extensive guarantees - 90% to participating financial institutions.

Recommendations

For the purposes of making its specific recommendations, IFS has defined exporter requirements for financing into three categories:

Category 1- Firms with minimum export experience and insufficient capital to finance export sales. Export financing needs are primarily transactional in nature.

Ranges: low - requires capital

High - financing possible with capital infusion.

Category II- Companies relatively highly leveraged with growing export financing needs. Export financing needs are both transactional and revolving in nature.

Ranges:

Category II minus - Pre-export finance critical but banks unwilling to take 10% exposure.

Category II normal - Pre-export finance support required but firm's condition allows banks to fund under Eximbank Working Capital Program.

Category II plus - Pre-export finance not critical if foreign accounts receivable can be financed.

Category III*- Financially strong firms with good export experience. Export financing needs are more sophisticated in nature. Usually has sufficient manpower and capital resources dedicated to exporting.*

With these categories in mind, the IFS makes the following ***recommendations****:*

(1) Continue to utilize NEED as a vehicle to provide export financing programs and services. This Authority has the lending capabilities and experience in working with the New Jersey export community. However, at this time the Authority is inadequately staffed to take a pro-active role in expanding its export financing activities. To accomplish the recommendations outlined below the NJEDA must have increased funding initially from the State and eventually from the "New Jersey Export Fund" (tax rebate allocation).

Additionally, to increase export loan activity and enhance its image as an "export financing source," NJEDA should consider revising its lending credit policies to provide for a "reasonable assurance of repayment" for export loans. While such a posture may increase the risk of loan losses, it would demonstrate to small and mid-sized exporters that the State understands and is responsive to the needs of these firms when conventional sources are unable or unwilling to assist.

Also, these proposals necessitate NJEDA establishing an ongoing relationship with U>S> Government export lending agencies; namely, EXIM and SBA to begin a dialogue to find ways to compliment each other's programs for the benefit of New Jersey exporters.

(2) Proposed NJEDA lending/guarantee activity for Category I and Category II exporters:

Category I *(Low) Referral by NJEDA to approved venture capital firms with appropriate preference for investment. A NJEDA objective will be to develop a list of qualified venture capital firms. NJEDA gets fixed referral fee.*

Category I *(high) If infusion of either venture capital equity of NJEDA/SBA permanent working capital/capital financing allows consideration of financing under the Eximbank Working Capital Guaranty Program (EWCP), one of these approaches could be taken:*

(a) For facilities/transactions under $250M, NJEDA provides direct funding which itself is financed through securitization of pre-export loans, with credit enhancement Standby Letters of Credit (SBLC's) issued by New Jersey banks under a New Jersey State Guarantee (state exposure - 10% of a portfolio of small loans.) State uses the 1 1/2% Exim fee to fund SBLC fees and other costs. This assumes State has obtained delegated authority under EWCP Master Guaranty Agreement.

OR

(b) NJEDA provides financing under the EWCP from a pool funded by tax rebate allocations. State either guarantees residual 10% exposure or negotiates with Eximbank for 100% cover for amounts up to $250M. State uses Exim fee to partially underwrite risks/costs.

Category II *(Category II minus - Category II normal) - NJEDA/Bank partnership under EWCP with lending/funding mechanism determined by size of facility/transaction.*

(a) Less than $250M - As per Category I, above.

(b) $250M to $1,000M - NJEDA provides referral/credit analysis/loan servicing. Banks fund loans make by NJEDA under Exim master guarantee agreement/delegated authority.

NJEDA reviews/analyzes credit application

NJEDA obtains EXIM Preliminary Commitment as lender and refers to NJ bank for funding

NJEDA disburses/receives payments and provides services necessary to maintain Exim guaranty

NJEDA keeps Exim fee (1 1/2%) and spread between bank funding rate and its loan rate

State maintains (or oversees) an umbrella Exim Bank multi-buyer or small business export credit insurance policy which:

Allows compliance with EWCP requirements for export credit insurance.
Serves as export credit insurance for firms financing export receivables in accordance with the Category II plus program.
State keeps brokerage fees to offset cost.

(c) $!,000M to $2,000M - NJEDA refers application to New Jersey bank for loan under bank's Exim Master Guaranty Agreement under two options.

1. The exporter establishes a full banking relationship. Bank provides all services required, takes risk. NJEDA gets fixed referral fee .

2. Bank provides financing as a stand-alone transaction. Bank does analysis, takes risk, funds <u>through</u> NJEDA. NJEDA provides services necessary to maintain bank's guaranty in place. NJEDA gets Eximbank fee to cover costs. Banks set loan spread to cover risk.

<u>Category II</u> *(Category II plus) - Post export finance*

(a) NJEDA refers single transactions to New Jersey banks with -

Eximbank Master Guaranty Agreement
Eximbank Insurance Policy
Ability to provide forfeiting/non-recourse finance

Bank takes risk, NJEDA gets fixed referral fee

(b) NJEDA refers ongoing export receivable borrowing base transaction.

Requires establishment of full banking relationship.

Bank lends against foreign receivable insured under NJEDA's Exim "Umbrella" policy.
NJEDA monitors "hold harmless"/multi-buyer policy compliance
NJEDA provides "hold harmless" cover to bank for amount of insurance cover
NJEDA keeps brokerage fee

*(3) General **Category III** exporters have achieved a high degree of services and usually have an export department or staff. Financing sources are readily available; however, knowledge of export financing programs and sources can be erratic and dated. To assist these firms and other exporters in the State, an <u>Export Financing Education Program</u> is proposed to be presented through a private/public partnership vehicle. Such an entity would be overseen by the NJEDA which would monitor and provide standards for such events. Conferences, seminars, and written materials would be produced by the public/private partnership vehicle and monitored by the NJEDA for its consistency in both timeliness and geographical need as well as providing a marketing vehicle for the State's export programs.*

(4) To identify and monitor usage of current export financing programs and services and to design future programs and services, the IFS recommends that the New Jersey Division of International Trade and the NJEDA jointly contract to have an "<u>Exporter Survey</u>" conducted of New Jersey exporting firms. In addition to identifying financial needs, the survey could provide a data base of basic exporter information and identify those firms which would benefit from public and private programs.

A special thanks to my subcommittee members whose contributions made this report possible.

<u>International Finance Subcommittee</u>

John J. Ahearn	*The Bank of New York*
John F. Duffin	*Midlantic National Bank*
Paul E. Holland (Alt.)	*Midlantic National Bank*
Russel F. Hall	*National Westminister Bank*
Harry Menta	*US Small Business Administration*
Adam Mukerji	*New Jersey Economic Development Authority*
Michael A. Conte (Alt.)	*New Jersey Economic Development Authority*
H. Kenneth Staffin	*Procedyne Corporation*
Norbert R. Beyer (Alt.)	*Procedyne Corporation*

October 1994

TO: International Trade Task Force

FROM: Bruce D. Newman, Chairman
International Trade Promotion Subcommittee

SUBJECT: Final Draft of Recommendations

New Jersey is, indeed, fortunate to have many organizations committed to promoting international trade. In order to maximize the efforts of government, port authorities, utilities, private consultants, etc., New Jersey needs to coordinate what is already readily available in a way that is user-friendly and benefits our state economy. Furthermore, the subcommittee endorses an expansion of select on-site locations in high-potential trading countries to encourage international trade and reverse investment. These would include selected Asian, Western European and Latin American countries as well as Canada and Israel.

Our committee has thoroughly explored the establishment of trade and executive ambassadors programs, as well as the potential of an annual international trade conference in New Jersey. The results of our efforts are as follows:

TRADE AMBASSADORS:

The International Promotion Subcommittee concluded that it is feasible to identify and recruit foreign national graduates from New Jersey public universities and, possibly, private universities over a 10-year period to become trade ambassadors. This trade ambassador program will be unique in the country; there is no similar program in any other state in the nation.

A trade ambassador would provide a New Jersey corporation desirous of conducting international trade with a particular country and in a particular industry with an English-speaking contact from that country who is already familiar with New Jersey. Trade ambassadors would be helpful in identifying government and industry contacts, provide knowledge about a particular country and industry as to trade regulations and practices and give useful information on cultural, environmental, political and other matters. Of particular importance is that they would be in a position to alert the New Jersey Department of Commerce about timely opportunities for trade.

It is recommended that the trade ambassador program initially be formed with a volunteer corps of 100 individuals from high-trade potential countries and in industries where New Jersey has a comparative advantage. The program will need coordination of the New Jersey Department of

Commerce. Initial identification, recruitment and training would have a one-time cost of $40,000-$50,000 and an on-going program of communication, training and database maintenance would cost approximately $10,000 per annum.

EXECUTIVE AMBASSADORS:

An executive ambassador program would encourage foreign investment in New Jersey. The program would also help New Jersey corporations who are pursuing or expanding international trade by getting the benefit of senior-level experience from an executive in their industry. Executive ambassadors would:

a. Be on call to help the economic development professional service reverse investment prospects (e.g. attend meetings, participate in social events, meet one-on-on, etc.)

b. Serve as a resource to help the foreign corporate location decision maker access the resources necessary to fully evaluate New Jersey's assets for international businesses (e.g. put the executive in touch with persons and/or organizations who can provide relevant information and insights)

c. Serve as a resource to help foreign executives and their families settle in New Jersey

d. Occasionally participate in reverse investment missions overseas

e. Call on selected companies requested by state economic development professionals during business travel to out-of-state areas

The cost of establishing and maintaining a 20-member executive ambassador program would be $10,000 per annum which would cover identification, training and recognition expenses. These costs could go higher if there is any reimbursement of out-of-pocket expenses to the executive ambassadors.

Ten executive ambassadors would be appointed from Fortune 500 companies headquartered in New Jersey and ten from companies in the $10 million-$200 million sales range representing industries where New Jersey has a comparative advantage. Public data bases and a screening committee composed of the Commerce Commissioner, several other economic development officials and representatives from foreign corporations operating in New Jersey in the area of international trade should develop a list of potential candidates which would be pre-screened through a survey and then reviewed again by the screening committee for recommendations to the Department of Commerce and the Governor's Office. It would be essential for the Governor's Office to play a major role in the recruitment of these highly selective ambassadors and for the Department of Commerce to be responsible for maintaining the program.

NEW JERSEY INTERNATIONAL TRADE CONFERENCE:

The Trade Promotion Subcommittee recommends that the Department of Commerce run a two-day conference in support of Governor Whitman's International Trade Day with the theme of New Jersey: The State of Opportunity. The purpose of the conference would be three-fold:

a. Executive and trade ambassadors would be motivated and trained in their responsibilities

b. New Jersey would be showcase for trade and reverse investment

c. Seminars for start-up, expanding and mature businesses in international trade areas would be conducted on such topics as " Evaluating your Export Potential" and "Selecting Effective Overseas Distributors"

Besides the obvious benefits of the conference and its three-fold mission, it will highlight for New Jerseyans the importance of developing international trade and the role it plays in our economy. Too few trade conferences take place in New Jersey compared to other states.

Costs for the conference would be borne by rotating a host corporation similar to the practice followed by the New Jersey Sales Executives Club. Atlantic Electric, through Kenneth LeFevre who is a member of International Promotion Subcommittee, volunteered to host the first conference in Atlantic City. Conference fees and vendor table rentals should provide added sufficient revenue for the conference. The only concern that the subcommittee raised was whether the trade ambassadors would use their own resources to attend the conference. Perhaps a subsidy or hardship sponsorship could be provided out of conference revenue to overcome this obstacle.

CONCLUSION:

The idea of establishing volunteer networks to augment the substantial efforts already going on to foster international trade in New Jersey is an idea whose time has come. However, those volunteers will need sustained guidance, training, motivation, on-going communication and recognition to be fully effective. The Department of Commerce must be prepared to devote the professional manpower and support personnel to sustain this vital volunteer resource.

In order to facilitate the recommendations of the international trade promotion subcommittee, the committee has prepared a work plan and schedule of implementation for the Department of Commerce. (See Exhibit III, Page 48)

ACKNOWLEDGMENTS

I would like to thank the members of my committee for sharing their knowledge and experience and lending their time and service in preparing this report on international trade promotion.

Dr. William Branson
International Monetary Fund
Washington, D.C.

Joseph Gillespie
New Jersey District Export Council
Chester, New Jersey

Kenneth C. LeFevre
Economic Development Director
Atlantic Electric
Pleasantfille, New Jersey

Richard Meisenbacher
Small Business Development Center
Faculty of Management
Rutgers, The State University of New Jersey

Bruce Newman
Committee Chair
President
Rutgers University Foundation

Trade Ambassadors

Charge: Identify and recruit 100 Trade Ambassadors representing selected Asian, Western Europe, Latin American countries, Canada and Israel from more than 18,000 foreign nationals who graduated from New Jersey universities in the last ten years.

Work Plan and Schedule of Implementation

Establish duties, length of service, and recognition.

Develop selection criteria.

Seek the cooperation of each university and approval for their participation in this project. Assess institutions' costs for computer programming, if needed, and secure funding.

Develop a database directory of the estimated 18,000 NJ graduates who are foreign nationals.

Design a survey instrument to assess foreign nationals' interest in and qualifications for Trade Ambassadorship, and implement survey.

Input survey information into database directory.

Analyze data to identify and recruit 100 Trade Ambassadors representing selected Asian, Western Europe, Latin American countries, Canada and Israel and high potential industries for NJ. Use governor's office to recruit.

The Department of Commerce or an International Trade Center should coordinate inquiries for assistance and generate responses. Publicize and introduce Trade Ambassadors to the many groups encouraging international trade in New Jersey.

Establish ongoing dialogue between the Department of Commerce and Trade Ambassadors.

Define evaluation criteria for success and measure results on an annual basis.

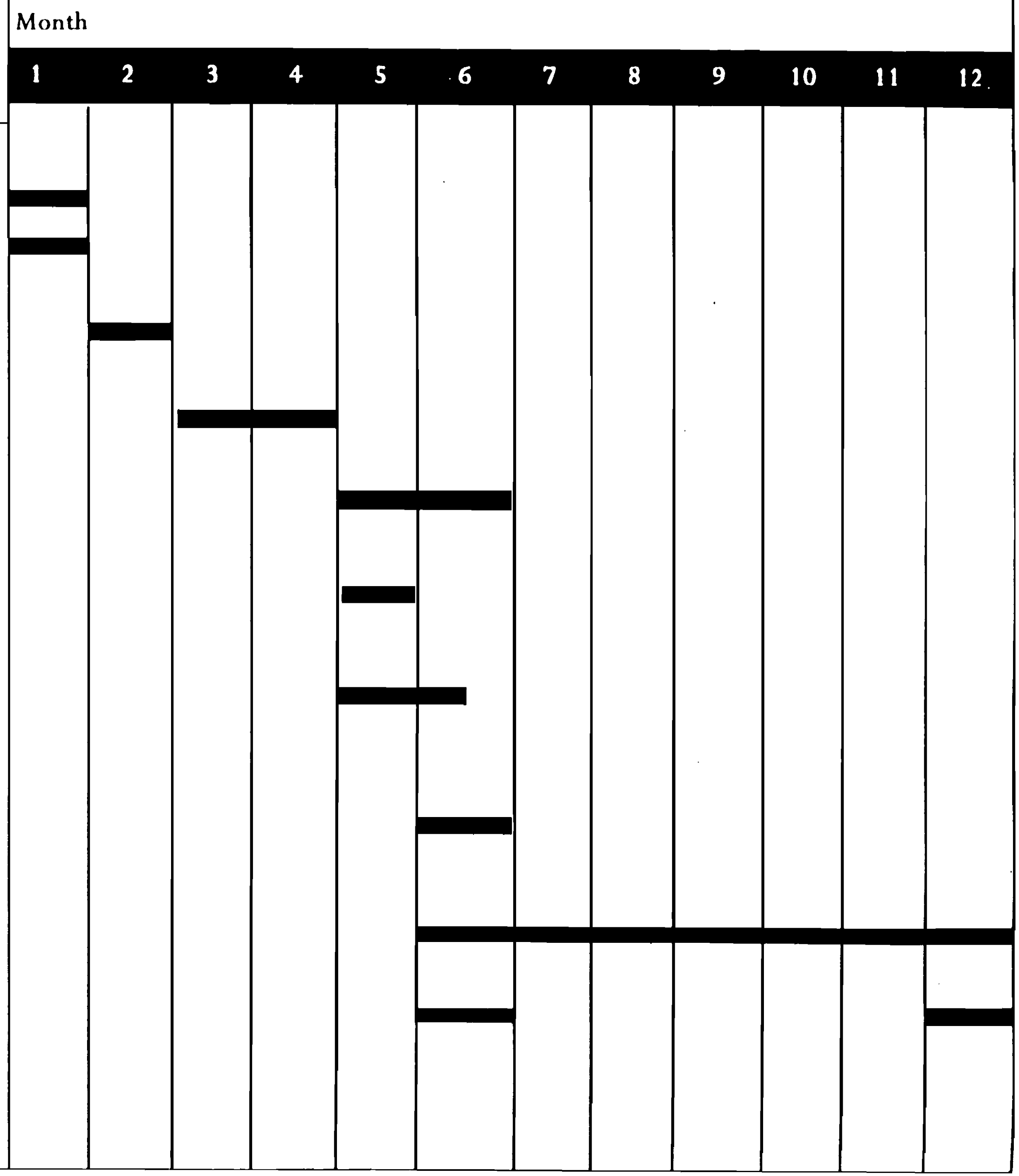

EXHIBIT III

xecutive Ambassadors

Charge: About 20 Executive Ambassadors, 10 representing Fortune 500 corporations and 10 at the $25 million to $200 million level and high potential export/import industries, will be identified and recruited from New Jersey Business leaders who are experienced in international trade and who travel overseas regularly. The Executive Ambassadors will work in cooperation with the Trade Ambassadors whenever the Executive Ambassadors travel abroad to promote international trade in New Jersey. To the extent possible, Executive Ambassadors should be included in any export trade promotions led by the Governor.

Work Plan and Schedule of Implementation

Task	Month 1	2	3	4	5	6	7	8	9	10	11	12
Determine duties, term, and recognition.	■											
Develop criteria for selection.	■											
Prepare Survey.		■										
Survey 100 potential candidates (25 Fortune 500 and 75 small business) using public databases and a screening committee composed of the Commerce Commissioner, etc.			■									
Screening Committee recommends 20 Executive Ambassadors				■								
Commerce Commissioner, with Governor's office, selects 20 Executive Ambassadors.					■							
Recruit through the Governor's Office for maximum for results.						■						
Publicize the Executive Ambassadors to the groups or agencies that foster international trade in New Jersey.							■	■				
Develop evaluation criteria and assess progress on an annual basis.							■					■

International Trade Conference

Charge: Develop a two-day conference in support of Governor Whitman's International Trade Day with the theme New Jersey: a State of Opportunity.

Work Plan and Schedule of Implementation

Task	Month 1	2	3	4	5	6	7	8	9	10	11	12
Consult with the Department of Commerce on what it desires to accomplish with the International Trade Conference. The conference should focus on helping small and medium-sized businesses realize the potential for international trade, launching the trade and executive Ambassadors programs and showcasing New Jersey for international trade purposes.	■											
Seek input from Trade Ambassadors and Executive Ambassadors on the training needs and other ways to carry out their responsibilities and be more familiar with all of the available groups fostering international trade with New Jersey.		■	■									
Seek input from the various groups fostering international trade and the academic community in developing the sessions and in choosing the speakers for the conference.			■	■								
Select a chair for the conference and enlist professional support from the Commerce Department.			■									
Select a date and a site in Atlantic City for the conference.			■									
Develop a budget for the conference.				■								
Prepare an invitation list including Executive and Trade Ambassadors, appropriate representatives of state and federal government, foreign commercial attaches, New Jersey corporate representatives responsible for international trade, port authorities, international trade consultants and banking, etc.					■	■	■					
Develop promotional materials to encourage attendance at the conference.					■	■	■					
Conference.											■	
Conference assessment.												■

October 1994

TO: International Trade Task Force

FROM: Ed Stominski; Chairman

SUBJECT: International Resource/Promotional Recommendations

Some components have been effective export promotion programs, we have just itemized them and come up with a lot of suggested areas that we ought to get involved in, a lot of them were touched on Carlos Kearns.

1. The first one that we had to put down was an extensive and frequent personal contact with would be and current exporters, concerning on small and mid-size firms. Obviously, you are considering doing that by virtue of your regional operations, we see an extension of that throughout the entire state. There is activities already ongoing with the utilities in this particular area where we are contacting be it either through TradeLink, a PSE&G program, the Export Hotline program, what have you. We would like to probably unify that and put it all in one nice neat package. So everybody is working essentially in the same direction.

2. Obviously, seminars, workshops, a lot of things could be co-sponsored by the community colleges, the chambers of commerce, SBDC's and others. So we are suggesting that we formulate an activity such as that. We have a calendar of events that could take place throughout the year that would be with regards to exporting.

3. Also a toll free hotline, staffed by knowledgeable people. When I say staffed by knowledgeable people, instead of voice mail, instead of we will get back to you, advertise it to the effect that it is only through the day time hours, but somebody that could call, they could get a person on the other end that is knowledgeable about it, so that there could be direct relationships with different firms. That they recognize there is somebody to reach out for, let there be somebody there that is intelligent enough to give them some answers, or at least say to them I'll get back to you with the appropriate answer.

4. A network of service providers that companies can be referred to, and this gets to the point of possibly some kind of a directory. There is an effort that has already been started along this line through the consulting firm of Wadley-Donovan, of which the utilities have participated, to try get them to help us package a lot of this. We are in the midst of finding out exactly who exactly who the players are out there in New Jersey, so we will have actual documentation as to who is involved in international trade, the names, phone numbers. Also this will be in con junction with a program that PSE&G is presently involved in, and I think if we can put all that together, we can come with the assemblance of what might be a very good directory. We are somewhat thankful in that this has been thought about. It is just a matter of bringing it all together. I will be glad to report back to the Governor's office, or sit down with the Governor's office and kind of go over what has been happening to date in that regard.

5. Another item that would be effective would be a newsletter. That would take the form of a

newsletter, calendar of events, type that would be put out on a periodic basis, and circulated obviously to the different companies in the State, by way of promoting the activities and the benefits of how you can actually promote additional exports.

Putting together reports from the county, letting the counties do industry type opportunity reports, customized research to be able to scan existing databases, business, business plan guidance and review. We can use the community college as a basis for that. A formal matchmaking program. There is a whole host of things we have not delved into a great deal of detail, but we have looked at it in generalities and I think that we ought to do is put a lot of heads together and come up with formal applications as to how we can actually put this together for the sake of the entire State. You talk about export financing, loan guarantees, and things of that sort, working with EDA and trying to accomplish some of those things, I think would be appropriate and then obviously, we are looking at it from the standpoint of promotion. Make the State realize what is available to them. At least four trade missions a year. I think that is essential in trying to promote New Jersey, and at least ten trade shows per year. Participation in the GoldKey program, which is promoted by the US Department of Commerce. From my limited knowledge of it seems to be a very worthy program to get involved in.

6. The final item that we have recognized was setting up a relationship wit the media, especially newspapers, to make sure that we have an ongoing effort to publicize everything that is available to businesses in the State of New Jersey, a rather important ingredient because obviously we don't want to do all this in a vacuum, we want the entire State to recognize that it is available to them and the best way to do it through business editors, through and media source in the State to convey our message. That is essentially the recommendation that we suggest that we have come up with.

9/9/94

EXHIBIT IV

State of New Jersey
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
20 WEST STATE STREET
CN 820
TRENTON NJ 08625-0820

CHRISTINE TODD WHITMAN
Governor

GUALBERTO MEDINA, ESQUIRE, C.P.A.
Commissioner
(609) 984-2333

DRAFT PROPOSAL FOR THE NEW JERSEY INTERNATIONAL TRADE PARTNERSHIP

The cornerstone of effective trade policy for New Jersey depends on leveraging resources of public and private agencies to deliver quality service to export-ready companies and foreign firms looking to invest in New Jersey. These efforts need to have a statewide voice, and to reflect the Governor's plan for export growth and encouragement of foreign direct investment.

The New Jersey International Trade Partnership is the vehicle to bring these resources together. The Partnership will be under the direction of the Department of Commerce and Economic Development, Division of International Trade, and will consist of a series of regional coalitions throughout the State. This will insure delivery of services by local providers wherever possible. The Commissioner of Commerce will co-chair the Partnership with a private sector partner which will rotate on an annual basis. The board will consist of large and small manufacturers, utilities, port authorities, service providers and export trade and management firms.

The mandate of the International Trade Partnership will be in the areas of export promotion and inward investment. In fulfilling these mandates, the Partnership will seek to attain increased sale of New Jersey goods and services, and increased foreign investment. This program will not involve any additional state appropriations to begin operation nor will it result in the creation of parallel bureaucratic structures. This is sound public policy, and delivers on the Governor's committment to sustained economic growth for the State.

As discussed, the Partnership will function under the direction of the Commissioner of Commerce and a board of directors. Implementation of the Partnership mandate will be the responsibility of the Division of International Trade. The Division will concentrate its resources exclusively in the areas of export promotion and inward investment.

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I **EXPORT PROMOTION**

1. REGIONAL PARTNERSHIP ACTIVITY

The International Trade Partnership will consist of a series of strategic alliances between the Division and the Port Authority of New York and New Jersey, the Delaware River Port Authority, the U.S. Department of Commerce, New Jersey public utilities, economic development groups, service providers, export trade and management firms,and private sector entities. Partnership activities will be in the areas of:

A. Counselling of export-ready firms and new to export firms.

B. Participation in specific industry trade shows and missions in markets of strategic trade partners on New Jersey.

C. Market research and statistical analysis

D. Publicity for trade seminars and conferences by specific geographic regions.

E.Identifying New Jersey manufacturing and service companies for inclusion in the industry directories of the Division.

F. Establishment of an export database on New Jersey firms by industry sector. The database will also include a listing of foreign owned firms.

G. Location of foreign office representation.

H. Inward Investment promotion.

2. CONSULAR AND FOREIGN FIRMS TRADE INITIATIVES

The Division will work closely with the consular corps of major strategic trading partners accredited to New Jersey, under a program entitled, "Strategic Trading Partner's Initiative." The Initiative will consist of planning and executing jointly sponsored trade events. Each activity will look to identify agents, distributors and joint venture partners. It will also serve to promote New Jersey as a distribution facility for companies in target countries wishing to make market entry into the United States. Contact will begin with a meeting between the Commissioner, senior staff, consular officials, and senior management from foreign owned firms of the target country. The Governor will be invited to address the group. From this meeting will emerge a framework for mutual trade promotion activities. It will also allow the Governor and Commissioner the opportunity to recognize the importance of the investment in New Jersey made by these foreign firms, to encourage their business expansion, and promote future investment by other firms of that country.

3. Export Finance

The Division will work with EDA and federal agencies to actively promote access to export financing by New Jersey firms. This will be accomplished by counselling firms on the EDA Worldwide program and by a series of statewide seminars targeted to export-ready firms.

The Division will also work closely with government banks of target foreign markets to arrange credit facilities which can increase the sale of New Jersey products in those markets.

II INWARD INVESTMENT

Strategic alliances will be developed between the Division, port authorities, public utilities, and private sector groups to aggressively promote New Jersey as an investment location.

Promotion activities will consist of investment seminars conducted in strategic markets worldwide by the Division's Senior Trade Representative for Inward Investment, and strategic partners. Recruitment for such events will be done by trade ministries in country, New Jersey international offices in London, Bremen and Tokyo, port authority foreign offices, firms from that country already operating in New Jersey, and New Jersey firms with a multinational presence.

The Division will participate in selected industry trade shows with an inward investment focus. Participation and co-sponsorship in such events will be open to public utilities, port authorities and other New Jersey economic development agencies.

The Division will also seek Partnership participation in the preparation of promotional material and advertizing campaigns to highlight the state for foreign investment.

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REAL ESTATE TASK FORCE

REPORT

TO THE

GOVERNOR'S ECONOMIC MASTER PLAN COMMISSION

OCTOBER 28, 1994

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Real Estate Task Force Report

Executive Summary

The price of housing in New Jersey is among the highest in the nation. New Jersey consistently ranks in the top three states in terms of median price for homes. But it was not always so. In 1980, the median priced home in the United States was $62,200; in New Jersey in 1980, the median price was $57,500, **7.5% below the national median.** Just eight years later in 1988, the median price in the U.S. was $89,300; in New Jersey, the median price was $141,900, or **58% higher than the national median.**

In 1960, the actual hard building construction costs (the "bricks and sticks") accounted for 70% of the cost of a home. Today, it stands at about 42%. Thus, **over 50% of the cost of building a home today are costs other than the actual structure of the house. The fees alone account for about 11% of the cost of a home!** Higher housing costs mean higher wages, a condition not conducive to attracting new or expanding businesses.

Why?

The culprit in large measure is the geometric increase in the number and scope of regulations and the duplicative and redundant nature of many of those regulations. This increase in regulations so permeates the approval process that today it requires over 150 different permits or approvals to obtain permission to construct a development. It takes over 3 years to work through this maze on average, while getting to the same point in many other states takes only a few months.

Why should we care?

The real estate industry in New Jersey does not just build homes or construct offices or shopping centers or warehouses. While the real estate industry is a significant employment component of the state's economy by itself, and is a major engine in each economic recovery (representing approximately 20% of the total job growth in each of the last two economic recoveries), the very important role that real estate plays in the state's economic drama is less obvious This *critical indirect* supporting role that the real estate industry plays is in supplying the housing for employees and commercial and industrial space for all business and industries.

This indirect role is so important because **the cost of living in New Jersey is the third highest in the nation, 20% above the national average.** It is higher than all its neighbors, even New York. This high cost of living makes New Jersey extremely uncompetitive in a highly cost conscious, competitive business environment. **Failure to take action to address the high cost of real estate will render all other Economic Master Plan strategies largely useless -- like painting over measles, the disease will still remain.**

The Real Estate Task Force has suggested eighteen recommendations. **<u>The principal recommendation is the fundamental reform of the permit and approval process.</u>** This reform would have the entire process compressed to a single point for application and approval, the local level, and completion of the entire process in 90 days. This is accomplished in many states in that time or less. This can be accomplished without any loss of environment protection. The effort is in eliminating the duplicative reviews and placing the responsibility for reviewing and approving at one level, rather than the many levels that exist under the current system. There really is no need for the drainage plans for a project in Mercer County to be reviewed seven different times by seven different agencies.

This principal recommendation is not radical; it is not even new to New Jersey. The state has been working very well with a nearly identical system in the actual design and construction of the homes themselves for decades. Why should a system that works for the actual construction of the home, the structure that houses our families, not work for the design of the land and improvements on which the homes and buildings are constructed?

The fundamental reform of the permit and approval process will greatly increase its speed and predictability, eliminate millions of dollars from the state budget without shifting the cost to municipalities, and further local control of land use decisions with no diminution to the environment and an improvement in the overall quality of life in New Jersey.

If New Jersey is to become a business-friendly state; if New Jersey is to have a sound economy that can carry it into the next century; if New Jersey is to compete with other states offering an open invitation to businesses; if the quality of life in New Jersey is to improve, the high cost of real estate must come down. If not, all other efforts are destined to fail.

Introduction

The Real Estate Task Force (RETF) consisted of 20 members, all experienced real estate experts and practitioners. The membership included all the major industry trade groups, from both the residential and non-residential sides of the real estate industry, the banking industry, large corporate users, residential builders, commercial builders and property owners, labor, academia, and state government.

The RETF met four times, held three public hearings, received input from many groups and individuals, including those groups represented on the task force, as well as the State Planning Commission, the Council on Affordable Housing, New Jersey Future, and reviewed data and research provided by Rutgers, the New Jersey Economic Development Agency, Public Affairs Research Institute, and others.

The RETF first attempted to determine the role of the real estate industry in New Jersey's economy, then attempted to identify the issues that were most severely impacting the real estate industry, and finally suggested recommendations to improve the real estate industry in New Jersey.

Industry Profile

Overview

Real estate should be considered on two levels. First, like any other industry, it should be considered for its direct role. As the statistics below indicate, real estate as an industry has played a major direct role in the state's employment growth. Notwithstanding the current real estate cycle, the residential real estate industry had produced in excess of four billion dollars of sales and the commercial sector has produced in excess of -- billion dollars of construction in the last year alone. It is a significant contributor to the Gross State Product, comprising about 4.5% of the annual Gross State Product.

It is difficult to measure employment in the real estate industry since it is not measured separately as other industries are. However, one component of real estate, construction employment *is* measured separately. According to a recent Rutgers study, construction employment has represented approximately 10% of all job growth during the prior two growth cycles in New Jersey, 1982-1989 and 1992-1994. In and of itself, construction is a major employer in this state.

JOB GROWTH IN NEW JERSEY*
(in thousands)

	1982-1989	**1989-1992**	**1992-1994**
Total job growth	621.5	(261.9)	100.3
Construction	57.9	(53.4)	9.8
Construction job gains (losses) as percent of all jobs	9.3%	(20.4)	9.8%
Real estate job gains (losses) as percent of all jobs (est.)	18.6%	(40.4)	19.6%

*Based on the Rutgers July 94 report "Anatomy of a Recovery"

The entire real estate industry plays a greater role. Rutgers estimates that the broader real estate industry, incorporating architecture, mortgage banking, engineering, etc. would employ an amount roughly equal to the construction sector. Therefore, real estate has represented approximately 20% of all job growth in the last two recoveries. As such, it is a *major* direct contributor to the state's economic engine. If the impacts from employment in related businesses (office and residential furniture, carpeting, wallpaper, lighting fixtures, appliances, etc.) were considered, real estate would be responsible for an even greater percentage of the employment growth.

It is difficult to assess how many new real estate industry businesses have been established in New Jersey since separate statistics for real estate sector businesses are not kept. However, it is fair to say that there has been a slight increase in new developers of residential property due to the increase in homebuilding permits and an examination of the advertising in the real estate sections of the newspapers. But it would be unfair to rely too heavily on this since many developers may start anew under different corporate names.

The actual number of building permits for construction of new homes in New Jersey has been declining , even during the peaks of the various cycles. The last peak occurred in 1986 when total building permits reached about 57,000. By 1990, only about 14,000 permits were issued, the lowest level since World War II. During the current economic "recovery", 1993 saw about 28,000 permits issues. 1994 appears on track to be about 10% **less** than 1993. Not only is this a bad sign since it means that the up cycle was only two years, but the peak will have been significantly below the average of the 1980's of 38,000 per year.

However, real estate should be considered on a second, much broader level -- as **THE** major contributor to making New Jersey the state with the third highest cost of living in the nation (over 20% above the national average). This has obvious implications for all industries in our state. The cost of housing our employees is a huge factor in this high cost of living. The median sales price for new homes in the U.S. in 1993 was $106,800; in northern New Jersey, $173,200. by way of comparison, North Carolina's median sales price for the same year was $106,100 in Charlotte and $94,700 in Greensboro. **The Governor can do little to stimulate economic prosperity and compete with other states if the high cost of real estate and hence the cost of living does not come down.**

State Regulatory Issues

Introduction

As documented in numerous reports,[1] the complexity and unpredictability of New Jersey's approach to regulating development discourages the prudent investments necessary to providing its citizens with afordable shelter and its labor force with adequate workplaces. This system increases the costs of labor (due to higher housing prices) and space (reflected in higher rents) to all businesses, thereby diminishing New Jersey's competitive position. There can be no doubt that the state's long term economic vitality and quality of life depend directly on success in reforming its cumbersome apparatus for regulating development.

The state's approval requirements constitute a seemingly endless web of overlapping laws, regulations and interpretations emanating from a host of agencies operating at several levels of government. The complexity and uncertainty of the process make it almost impossible to predict the outcome of even the most straight-forward applications; it is a process that wastefully consumes enormous financial and human capital in its ad hoc determinations of what will be required and what can be approved.

The inefficiencies in New Jersey's regulation of development are truly extraordinary, estimated in one study to add in excess of twenty-five percent to the cost of new construction in New Jersey. to the cost of new construction in New Jersey.[2] Rather than recount the well-documented findings of those studies, a few quick examples and the accompanying charts succinctly and graphically illustrate the degree to which New Jersey's review procedures place the state at a competitive disadvantage.

In Mercer County, the drainage plans for a typical site plan or subdivision are reviewed by seven different layers of government, from the local planning board to the county planning board to regional agencies to several divisions in the DEP. For sanitary sewerage extensions, the plans are reviewed by the local municipal engineer, then by the local sewerage authority engineer, and then by the DEP. Changes required by any of these layers of bureaucracy require the applicant to go back to all the other layers for a new approval.

Over the past five decades, the state has adopted numerous programs governing development. Almost without exception, new requirements have been layered atop of old, without regard to redundancy or the relevancy of programs that may have been superseded. As a consequence of this policy by accretion, there are over 150 different development permits in New Jersey, far more than those states with whom we compete.

As a consequence of the detailed reviews that typically attend applications for the myriad of requisite permits, including repeat reviews necessitated by the sequential nature of the application process, the average lag between initial application and final action in New Jersey more than doubles that found elsewhere.

Such delays not only increase costs, but they also make it virtually impossible to anticipate the economic conditions and market preferences that will prevail when a project eventually gains all of its approvals. Real estate is a cyclical industry, and the ability to move quickly while the market is favorable is critical to its success. The commercial sector cannot possibly compete for users looking for "build to suit" sites.

As a consequence, the ability to make prudent business decisions concerning development in New Jersey is seriously compromised. Such artificial inflation erodes the state's competitive position and retards its economic vitality. It forces tens of thousands of households into substandard dwellings, even homelessness; it increases joblessness by making the state less attractive to employers.

While there are very legitimate policy objectives in the state's efforts to protect the environment, enhance its infrastructure and safeguard consumers, there is no justification for programs which pursue these objectives inefficiently and ineffectually; nor is there support for requirements which impede the state's economic vitality or diminish its quality of life through the myopic pursuit of one set of objectives at the expense of all others.

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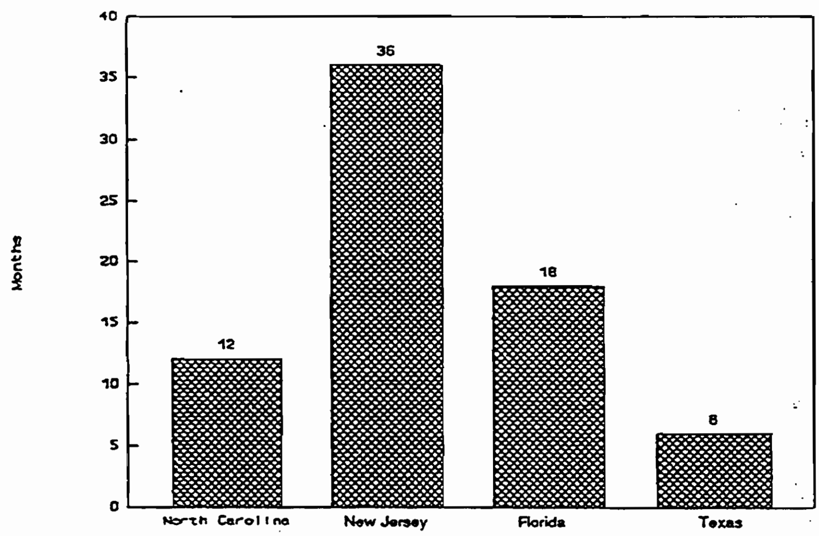
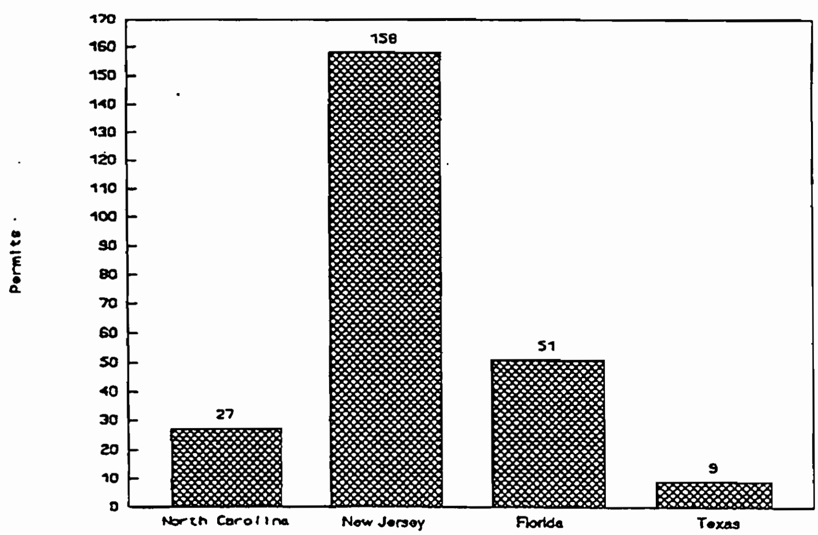
[1] See, for example, the 1988 report of the "Study Commission on Regulatory Efficiency", the 1991 report of the Governor's Economic Conference, and the 1994 report to the Legislature of the New Jersey Institute of Technology.

[2] Government Regulations and Housing Costs, Center for Urban Policy Research, The rutgers University, 1977.



TYPICAL NUMBER OF MONTHS REQUIRED FOR DEVELOPMENT APPROVAL



TYPICAL NUMBER OF PERMITS REQUIRED FOR DEVELOPMENT APPROVAL

economic vitality or diminish its quality of life through the myopic pursuit of one set of objectives at the expense of all others.

The cited studies and others[3] identify a number of actions that could be taken to increase the efficiency, predictability and timeliness of the current system without any diminution in its effectiveness with respect to its non-development purposes. Although certain short-term actions are needed to sustain the tenuous recovery in the state's development sector, experience suggests that piecemeal reform is not effective; instead, it may even complicate the situation. Accordingly, the Task Force offers recommendations for both the short and longer term.

Short Term Responses

In responses to the real estate depression of 1989-1992, all development approvals, with but a few exceptions, were extended by the Permit Extension Act. This legislation assumed that, as a result of a normal economic recovery, otherwise viable development projects would be built and brought to market before the end of 1994.

As is now apparent, the state's economic recovery has lagged significantly behind the rest of the nation; by every measure, it has progressed far more slowly than past rebounds. As a consequence, the Act's expectations with respect to the pace of improvement in the development sector have proven unduly optimistic. Unless the Permit Extension Act is renewed, an estimated $5 billion in residential, commercial and industrial developments, representing thousands of jobs and significant ratables, are in danger of losing their approvals, portending inordinate delays and even outright cancellation[4].

Two years of experience demonstrates the significant economic potential of the Permit Extension Act, while laying to rest the fears expressed by its original opponents. By extending approvals granted under the nation's strictest regimen of land use restrictions in the nation, the Permit Extension Act balances the benefits of those regulations even as it protects the good faith investments made in reliance on the terms of those regulations. **Accordingly, the Task Force recommends the extension of the Permit Extension Act for two years.**

In March 1994, the New Jersey Department of Environmental Protection (DEP) assumed authority for administering the federal government's responsibilities with respect to most freshwater wetlands. Upon assumption, the DEP eliminated the exemptions of all projects which had satisfied the "grandfather" requirements of the New Jersey Freshwater Wetlands Protection Act of 1987, even where those projects otherwise satisfied the conditions of federal and state law.

The DEP's termination of all grandfathers, particularly those relating to transition areas adjacent to freshwater wetlands, exceeded both the provisions of the state statute and the conditions of the federal regulations under which the DEP assumed federal authorities. Not only has this action severely impaired numerous developments, disrupting many mid-stage, it has forced the DEP to rely on an inherently unworkable set of administrative procedures and criteria.

To demonstrate that the state of New Jersey will respect private sector commitments made in reasonable reliance on laws and regulations in place at the time of the investment, **the Task Force recommends that the DEP bring into conformity with the 1987 state statute its regulations with respect to the "grandfathers" established pursuant to the Freshwater Wetlands Protection Act of 1987.**

In January 1994, then-Governor Florio adopted Executive Order 114 mandating state agency compliance with the plan adopted by the State Planning Commission in June 1992. While there may be some difference of opinion as to

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[3] See for example "Not in My Back Yard: Removing Barriers to Affordable Housing", the 1991 report to the President and Secretary of HUD by the Advisory Commission on Regulatory Barriers to Affordable Housing, chaired by former Governor of New Jersey Thomas H. Kean.

[4] $5 billion represents direct construction costs. The residential figure, representing $3 billion was provided by the NJ Builders Association. The $2 billion commercial and industrial construction amount is detailed in the report Nonresidential Construction in New Jersey: The Struggle to Regain a Foothold, Donald M. Scarry, Ph.D., New Jersey Economics, October 1994. Dr. Scarry points out that the commercial and industrial construction impact expands to $4.7 billion in new expenditures in New Jersey when U.S. Department of Commerce secondary multipliers are applied.

the force and effect of Executive Order 114, there is no question that it raises considerable uncertainty among those in the private sector who are considering real estate investments in New Jersey. Such uncertainty interferes with prudent assessments of the potential risks and rewards of real estate investments, compounding the already considerable wariness concerning such investments in New Jersey. Accordingly, **the Task Force recommends that Governor Whitman rescind Executive Order 114 and, in its stead, direct state agencies to publish a schedule of actions, and associated fiscal requirements, necessary to implement the State Plan, whereupon the Governor can make an informed determination on how best to proceed.**

Near Term Response

As noted above, the labyrinthine complexity and utter unpredictability of the systems regulating development in New Jersey threaten the state's longer term economic vitality and, with it, the quality of life of all of its citizens. Those most familiar with the current patchwork describe it as "fragmented, inconsistent, duplicative, erratic and ineffectual." These same individuals are virtually unanimous that only a thorough overhaul will yield a system that addresses the manifold objectives of sustainable economic growth, affordable housing and adequate workplaces for households from across the economic spectrum, and protection of the environment and conservation of our natural resources.

To effectuate fundamental reform in the regulation of development in New Jersey, the Task Force recommends:

1. **Consolidation of approval authority for <u>all</u> permits (i.e., state, regional, county and municipal) under the jurisdiction of one licensed review official who will be responsible for assuring optimum compliance with the relevant plans and rules governing land use, environmental protection, infrastructure capacity, economic development and shelter needs developed at the appropriate state, county and local levels. The various levels of government will still develop the apropriate laws and regulations, but the local licensed review official will issue the permits after review of applications for conformance with the promulgated laws and regulations.**
2. **Designation of the licensed review official locally (as is done with building code officials) to be the approving professional for all permits and approvals.**
3. **Privatization of the review process by requiring the licensed review officials to contract-out all technical reviews consulting professionals, whose competence will be certified by state authorities, and who can demonstrate their objectivity and total independence from all potential applicants, with all the costs of the reviews financed by application fees. This is virtually identical to the construction code process.**
4. **Codification of all application procedures and permit standards, subject to review and revision pursuant to a predetermined schedule, in a manner that enables applicants (and appellants) to rely on the standards in force at the time an application is deemed complete by the licensed review official;**
5. **For preliminary applications, the detailed requirements for submission should be only those minimally necessary to determine the consistency with the approved zoning standards and laws; the detailed engineering requirements should follow the preliminary approval and be reviewed at the time of final approval. This should save considerably by not requiring the detailed engineering to be done twice.**
6. **Specification of allowable review periods, and requests for additional information, not to exceed 90 days, with penalties for those contracting consultants that fail to adhere to the schedule, and monitoring of those localities and professionals with excessive time delays or numerous "incomplete" findings on applications.**
7. **Public hearings and public notice on Master Plans and zoning ordinance changes should be expanded and improved so that public involvement in the "use of land" decisions is enhanced. This will enable the local planning board to return to its more appropriate role of that of planning," rather than "engineering" the minutiae of individual applications that they are not professionally qualified to review anyway. The planning and zoning boards' role in review of individual applications will then be eliminated except for use variance type applications. the licensed review professionals will handle the detiled reviews ina normal work week, thus saving additional money for both consultants time and the local offical's time.The result should be better Master Plans and a greater**

involvement of the entire public in the planning of the municipality than just those interested in a particular application.

8. **Revision of the dispute resolution process for land use issues away from reliance on the courts to a system of alternative dispute resolution, such as land use arbitration boards, or a land use court.**
9. **Require that appeals of approved development applications be accompanied by a bond or other security to cover the cost of the delay should the appeal ultimately be denied, as is done in Pennsylvania.**

The State Plan

In the mid-1980s, the State Planning Act was adopted in response to this systemic dysfunction. Whatever its merits, what emerged under the Act is a plan based upon the regulatory framework that was in place at the time the Act was adopted; it does not address the systemic dysfunction of that framework, not does it anticipate the type of reform implicit in the previous recommendation.

In 1992, the State Planning Commission adopted its first plan pursuant to the State Planning Act. Necessarily, the plan is predicated upon a host of assumptions, few of which are within the control of public policymakers, many of which have been rendered obsolete by the structural changes that New Jersey's economy continues to experience. At the same time, many of the plan's key assumptions concerning changes in public policies, especially local policies, which are essential to its success have yet to materialize. As a consequence, the State Plan has become a source of uncertainty in both public and private sector decision making.

In its comments to the Task Force, the Office of State Planning indicated that there are various aspects of the 1992 plan that are not consonant with the contemporary economic and administrative realities. For example, the centers concept, which is at the heart of the plan's strategy, is not emerging as the plan originally assumed. The Office of State Planning notes that the recent recession and its attendant financial crisis have seriously impacted the private sector's capacity to advance centers; while at the same time, the practices of governmental entities have remained unchanged. In the view of the Office of State Planning: "trying to develop centers can result in additional time which translates into added cost."

It is universally acknowledged that if New Jersey's development sector is to recover and prosper, that the costs imposed by the public sector must be reduced, not increased. After more than two years of experience, it is increasingly apparent that, for a variety of reasons, the 1992 plan is working at variance with the objective of a more efficient, less costly regulatory process. With the plan subject to its statutorily mandated triennial review and revision, it is an opportune time for the State Planning Commission to examine alternative approaches to the goals of the State Planning Act. Accordingly, while remaining supportive of the concept of statewide planning and reiterating its recommendation concerning Executive Order 114, **the Task Force recommends that the State Planning Commission reiterate that the 1992 plan was intended to be advisory only and that, in 1995, it intends to undertake a fundamental review of the assumptions, approaches and alternatives to achieving the goals of the State Planning Act.**

The development community supported enactment of the State Planning Act in the belief that it could provide the framework within which equally valid, but sometimes competing, policy objectives could be reconciled. As experience with statewide planning elsewhere demonstrates, transforming the theoretical benefits of statewide planning into reality requires experimentation, flexibility and a willingness to learn from experience. Oregon is widely touted as having a viable and successful state plan. But Oregon's current plan was not adopted under the original legislation. Rather, the citizens and legislature of Oregon examined its state planning initiatives after a few years and made significant modifications. Florida has dramatically altered its mid-1980's state planning type initiatives, most significantly the virtual elimination of the Development of Regional Impact concept, originally hailed as a major milestone in statewide planning. If New Jersey is to reap the benefits of its commitment to statewide planning, these lessons cannot be forgotten.

Since its enabling statute requires triennial revision of the State Plan, the document adopted in 1992 will be subject to review by the State Planning Commission in 1995. It is the view of the Task Force that, as the Commission conducts its review of its plan, a more detached examination of the State Planning Act, its structure and the way it has been implemented is in order.

In the nine years since enactment of the State Planning Act much has changed in New Jersey; if this legislation is to be responsive to the long term vitality of the state, it should be examined with an eye toward the changes that have occurred and the lessons that have been learned over the past several years. **Accordingly, the Task Force recommends that the Governor and Legislature jointly appoint an independent review body to examine the State Planning Act, its experience to date and how New Jersey can advance the goals of statewide planning.**

It is not the Task Force's intent, in making this recommendation, that yet another planning initiative be undertaken; nor is it suggested that the reviewers seek to pass judgment on the substance of the plan. Instead, the proposed advisory body should review the structure of the act, its implementing organizations and procedures, and recommend how, based on a decade's experience, these can be improved upon. The review body should also determine if the State Planning Act can be used to reconcile and harmonize the diverse interests that affect development in New Jersey.**It is not "anti-environment" or "anti-green" to support a review and examination of the nearly ten years of experience and working with the current State Plan. To the contrary, such a review can only enhance the prospects of achieving the goals of sound statewide planning.**

Industry Relevant Tax Policy Issues

Introduction

New Jersey's overall tax regime differs markedly from most other states in the country due to our high degree of reliance on property taxation. By any measure, this state's property tax burden is exceptional.[5] In a study done by the Public Affairs Research Institute, New Jersey ranked as the third highest per capita combined state and local government property tax revenues for fiscal 1988, trailing only Alaska and New Hampshire. New Jersey's $1933 figure was higher than New York's $860 and Pennsylvania's $439. This places the state at a competitive disadvantage, discouraging investment and, therefore, impeding economic growth. Property taxes are regressive, with their inequity falling most harshly on low and moderate income households who are inadequately sheltered.

Reliance on property taxes is at the heart of the continuing constitutional controversy involving the provision of a thorough and efficient education to all of the state's school children. Simultaneously, this very same fiscal device serves as an almost insuperable barrier to the Administration's commitment to urban revitalization. Unless and until the urban areas' confiscatory property taxes are significantly reduced (concurrent with substantial increases in the availability and quality of a host of public services), the state's distressed cities will continue to wallow in an economic backwater; on the other hand, properly structured consumption taxes, and business and personal income levies would be neutral with respect to decisions affecting the intra-state location of real estate investments and would reflect more contemporaneously than property taxes to the economic capacity of the taxpayer.

The Task Force recommends, especially in light of the most recent Supreme Court decisions involving school financing, that the Governor direct the Council of Economic Advisors to report on whether her goal of reducing the state's tax burden cannot be more efficiently and equitably achieved through a program of tax reform that would align the state's tax structure in ways that would complement other public policy goals and stimulate private economic initiative.

Property Tax

Since the largest revenue source for municipalities in New Jersey is the property tax, it is only natural that municipalities look for ratables that produce the highest net taxes to the town. The results are not advantageous to New Jersey and particularly to the real estate providing sector.

Towns prefer to have ratables that do not provide school children since the cost of schooling usually exceeds the tax revenues provided. Additionally, towns compete with one another for the choice ratables to the detriment of

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[5] "New Data on New Jersey Property Taxation," Public Affairs Focus, Public Affairs Research Institute of New Jersey, Issue Number 9, February 1990

other socially desirable, but fiscally undesirable uses. A good example is the willingness of many municipalities to zone for senior citizen multi-family housing because no school children come with such housing, but the refusal to zone for non-age retricted multi-family housing.

This 'zoning for dollars" is detrimental not only from a planning standpoint, but from other public policy perspectives as well. In other states, school taxes are collected on a county or regional basis. In others, education is funded through income taxes, without any reliance on property taxes. The effect is less concern among local elected officials over education funding issues. In New Jersey, this would probably have a positive impact on the constitutional requirement of a thorough and efficient education.

Administration

Large owners of commercial real estate are treated unfairly within the existing local real estate based tax system, as they must deal with ongoing reevaluations in (567) separate municipalities. The larger the commercial taxpayer the greater disadvantage in multiple communities, as real estate taxes must be paid current and ultimately tax appeals take years to settle through the courts in each community the property is located.

The system for appealing tax assessments must be made more efficient. Currently, each county has a Board of Taxation to which appeals can be made. Decisions of the Tax Boards can be appealed to the Tax Court of New Jersey. If an appeal involves an assessment in excess of $750,000, it can be made directly to the Tax Court.

Unfortunately, County Tax Boards, comprised of political appointees, have failed to be realistic forums for most commercial disputes. Moreover, the Tax Court has made the process of appeals expensive and time consuming. Reversals by the Appellate Division of recent key cases and a burden of proof thought by many to be unreasonable make this forum somewhat less than ideal also.

Commercial tax appeals are an ideal candidate for alternative dispute resolution. Panels to hear these disputes should be balanced ideally with a three member panel consisting of appraisers and related real estate professionals. Of the professionals on the panel, one each should be selected by the parties in dispute and the third member chosen by the two selected panelists. Appeals from the decisions of this panel should be limited.. The loser should bear the full cost of the proceedings, not including lawyers fees for both sides. The loser should also be required to pay interest at a rate of two percent above prime rate, or other appropriate rate of interest to offset the taxpayer's cost of funds.. Excessive assessments are not interest-free loans.

Currently, New Jersey law requires anyone appealing a tax assessment to have paid their taxes based upon the assessment under dispute. This is not equitable. **The Task Force recommends that anyone appealing their taxes should only have to pay tax up to the amount of the prior year's tax until the dispute is resolved.**

Alternative Taxes

Attainment of the Governor's goal of reduced tax burdens and lessened levels of spending is critical to the longer term economic vibrancy of New Jersey; equally important, Governor Whitman's determination to deliver on her campaign promises will go a long way to restoring the credibility of the state's elected officials generally, which can have salutary effects on the business climate.

The Governor has made clear her belief that her program of tax reduction at the state level should not affect the fiscal health of local governments, so long as those governments manage prudently their expenditures. Nevertheless, given that property taxes represent the primary source of locally derived revenues, the real estate sector is understandably concerned about potential attempts by localities to raise taxes. **Accordingly, the Task Force recommends the creation of a fiscal watchdog, with access to and support from the Commissioners of Education and Community Affairs, whose purpose will be to monitor and report to the public on 1) general trends in local government taxes and spending; 2) the specific performance of individual municipalities and school districts; and 3) to make recommendations concerning local fiscal trends.**

Tax Incentives for Urban Development and Redevelopment

Real Estate Improvement Tax Credit

A critical need of the commercial real estate industry in New Jersey is the rehabilitation of older buildings to retain/attract tenants and to generally maintain the viability of the asset. Current economic conditions require the property owner to invest substantial equity in the renovations. To encourage this investment by private property owners/developers, it is recommended that the State seriously consider offering an investment tax credit to stimulate these improvements. This tax credit could be used to offset either sales taxes on materials used to renovate the building or the income tax of the real estate holding company. Most of these buildings are located in areas in need of development as stipulated in the State Development and Redevelopment Plan.

Tax Increment Financing

In cases where traditional funding sources for infrastructure are limited or exhausted, Tax Increment Financing can provide a flexible approach for developers and municipalities seeking to reduce the financing costs for land acquisition and public improvements such as roads, water and sewers. New Jersey had adopted TIF legislation in 1980's. The statute was regarded as flawed and it expired.

Tax increment financing is a method of funding public investments in an area slated for redevelopment by recapturing, for a time, all or a portion of the increased tax revenue that may result if the redevelopment stimulated private investment. That "increment" is diverted to a special fund that can only be used to pay off any bonds or debt incurred by the locality to finance or leverage the redevelopment. This approach does not require developers to pay any more in local property taxes than would otherwise occur under traditional practices. Today, over 40 states, including New York and Pennsylvania, have TIF legislation on the books.

The TIF process begins with the identification of a redevelopment area. A district plan must then be drawn up and approved. The tax base existing when the plan is approved is considered the base from which any revenue increments will be calculated. The existing tax base is never affected. Only tax revenues directly attributable to the TIF-financed property are involved. Each taxing jurisdiction continues to receive only its base year tax revenue for a predetermined period of time ranging from five to 30 years, depending on state law.

TIF may be particularly interesting to developers since their property taxes are being used to finance development costs at lower, tax exempt interest rates. Consideration of TIF at this time is important when hard to redevelop urban sites and projects in newly developing areas are being promoted and when government assistance is severely limited.

Avoid Tax Shifting

Governor Whitman has made clear that the transcending goal of her fiscal policy is a reduction in the aggregate amount of resources directed through the public sector. Attainment of this goal is essential to the state's longer term economic competitiveness.

While much attention has been given to avoiding increases in local taxes as a substitute for reduced state taxes, the Task Force is concerned that similar attention has not been focused on the tendency of public agencies to increase fees in order to offset cuts in general revenues. Fees can rise in a number of ways, some highly visible such as increases in rates or schedules, some less visible such as increases in the frequency of reviews/inspections or through the imposition of expanded regulatory requirements that bring with them new applications, reviews and inspections--and their attendant fees.

Although the Governor and her Cabinet are aggressively pursuing the Administration's fiscal goals, there does not appear to be in place an independent mechanism for reviewing all existing fee schedules, proposed modifications of such schedules and the instigation of programs that will require new or increased fees to finance them. **The Task Force recommends that the Governor, by Executive Order, create (perhaps within OMB, perhaps within the purview of the Secretary of State's business advocacy functions) an independent fee review authority**

whose responsibility will be to assure that: 1) fees reflect only the costs of processing the applications or conducting the requisite reviews/inspections; 2) fee-financed programs are designed and administered in an efficient, cost-effective manner, and 3) to the maximum extent possible, fee-financed programs are competitively bid and privatized.

Tax Efficiency

Consolidated Returns

Traditionally, due to a variety of financing and liability issues, real estate developers have formed corporations for each project. This can mean dozens or even hundreds of separate corporations. For Federal tax purposes, corporations that are owned by a common parent corporation can elect to file a consolidated tax return. In addition to reducing administrative work, this allows for the losses from one project to offset the gains from another. This is the case in most other states.

However, in New Jersey each corporation must file a separate state tax return. Consolidated tax returns are not permitted. The income or loss of each corporation must be determined separately. Each corporation is assessed its own tax and must make its own tax payments. Losses of one corporation cannot be used to offset the gains of another corporation. Rather, losses are carried forward for a seven year period. Losses can only be used against the future income of the corporate that generated the loss. After the carry forward period, the losses expire. A commonly owned group of corporations may have substantial New Jersey state income tax liabilities and have minimal or no profit on a consolidated basis. In addition, from New Jersey state government's perspective, the process increases their administrative work tremendously by requiring the review of many individual returns instead of one consolidated return.

The Task Force recommends that New Jersey should allow consolidated income tax returns like most other states.

Key Legal Issues:

Resolve Logjam in Judicial Decision-Making

The Court system has proven over and over again that it cannot handle disputes involving development projects in a timely fashion. In 1992, in a case involving a housing project which had been pending for almost two decades, Supreme Court Justice Daniel O'Hern, a former DEP Commissioner, in a dissenting opinion was driven to criticize his brethren for erecting "judicial barriers to affordable housing," through the slow pace of judicial decision-making. Unfortunately, such delays are not uncommon, particularly for major projects. As a result, Court timetables bear no relationship to business needs.

The problems are two-fold. First, individual cases take forever to decide. Even where cases are based on a record made before a planning or zoning board, and thus no new testimony is required, two years will normally elapse before an initial trial court review and then an appellate decision. Where new testimony is required, as it typically is on a takings case, the time period can stretch to easily five years or more. The famous Loveladies Harbor case, for instance, has been in litigation in one kind or another since the 1970's.

In addition, judicial decision making is not centralized. One trial judge may consider the validity of a particular zoning ordinance. Another would consider the site plan or subdivision approval. A third trial judge might be involved with litigation over a contract of sale of the property or other internal issues relating to the developer, and a fourth would hear infrastructure issues concerning sewer and the like. Should a challenge to a State permit also be involved, then the scene shifts entirely out of the trial courts into the Appellate Division following review by the Office of Administrative Law of any factual issues. For that reason, one project could find itself beset by three or four Superior Court proceedings, several separate Appellate proceedings, and hearings before the Office of Administrative Law. In reality, judicial decision making with respect to economic development repeats and worsens the confusion of state and local reviews that the administrative process places in the way of development. This judicial review system is dysfunctional.

There are good models for change. Oregon now has a Land Use Board of Appeals that is supposed to, and in a great majority of cases does, hear appeals involving development projects in 77 days. Ontario has an entity called the Ontario Municipal Board which at least provides a single tribunal for all aspects of a project. One Toronto practitioner told an American Bar Association audience several years ago that the mere existence of this Board tended to reduce the number of disputes.

Moreover, the resistance to change is waning. The League of Municipalities has itself proposed a land use arbitration board for dealing with certain kinds of planning disputes. In sum, municipalities are as fed up with the uncertainty and expense of the judicial process as the private sector.

As part of the systemic change discussed earlier, the process for resolving disputes in the land use process is in drastic need of change. The Task Force recommends change in the method of such dispute resolution such as arbitration or other alternate dispute resolution, or a new land use court.

Related Legal Issues

Both the presumption of validity and the time of decision rule should be revised by legislation. The enabling acts governing municipal development review powers and State regulatory powers should be amended to protect against changes in the regulatory ground rules after applications have been filed or litigation is commenced.

Legislation could shift to an agency the burden of showing that regulations are both reasonable and consistent with the enabling legislation. We could oblige administrators to compile sufficient evidence to justify a regulation, and to make careful findings of fact based on this evidence. The U.S. Supreme Court has suggested just such an evaluation of regulations where a taking of property is alleged, in Dolan v. Tigard, the Oregon case decided June 24, 1994. A similar testing would be appropriate for reviewing regulations even where they do not constitute a taking. Thus, the Legislature should adopt a statute denying a presumption of validity to any land use regulations which are not supported by a record of such evidence and not based on careful findings of fact that show consistency with the enabling legislation.

Time of Decision Rule

Developers and businesspersons have difficulty determining what zoning rules are going to be applied to them. Where a development application is filed, but the ordinance is changed before it is actually approved, the application is no longer valid, despite the fact that tens of thousands of dollars in engineering and other costs have been expended on the application.

Further, if an approval is denied and the developer challenges the denial in Court, the municipality still has the option of changing the rules and thus mooting the litigation. In its recent Pizzo-Mantin v. Randolph ruling, the N.J. Supreme Court refused to decide whether the ordinance under which a developer has been litigating for years, or a new ordinance, should be applied to an eight year old development plan. The trial court will now have to decide whether the new ordinance, which would severely disrupt the proposed development, or the old one, will be applied to the pending development. The resolution of this question will depend on the judicial balancing of the interests, a rather vague approach that will certainly add many more years to an already prolonged litigation.

There ought to be a time at which the rules of the game -- local, state or regional -- governing a development can no longer be changed while that development is under consideration. There is nothing more wasteful than spending years trying to proceed under existing rules, only to have those rules changes just before final approval of the development permits, or final resolution of a lawsuit.

A user friendly state cannot afford this bait and switch. The Economic Master Plan Commission should recommend that the time of decision rule be re-examined by legislative enactment that will curb abuses such as, for example, the 19 year development process criticized by Justice O'Hern above. **The Task Force recommends that the Legislature adopt laws stating that the time of decision rule is effective as of the date an application is deemed complete.**

Presumption of Validity

Under present law, all local, county and state permitting and development decisions are presumed to be valid. This presumption can only be overcome if a developer can clearly show arbitrary and capricious behavior on the part of government.

All too frequently, this presumption of validity serves as a cloak that allows courts to ignore the hardships imposed by administrative actions. In many technical areas, such as wetlands determinations, there is no realistic hope whatsoever that a Court would override an agency's determination. Rather, the Courts will presume the agency's determination to be valid and refuse to seriously examine whether the wetlands line determination, or other technical determination, was carried out fairly.

The presumption of validity also hits hard where a business entity attempts to challenge State regulations. Such challenges are heard directly in the Appellate Division, which will not permit the introduction of evidence of the unreasonableness of the regulation, except in very unusual cases. As a result, in dealing with State regulations, business not only has the handicap of the presumption of validity, it is also effectively hamstrung in its capacity even to produce evidence that might conceivably overcome that presumption. Because of this permutation of the presumption of validity, state regulators can regulate with impunity, with no effective check on the scope of reasonableness of the regulation by the courts.

Legislation could shift to an agency the burden of showing that regulations are both reasonable and consistent with the enabling legislation. We could oblige administrators to compile sufficient evidence to justify a regulation, and to make careful findings of fact based on this evidence. The U.S. Supreme Court has suggested just such an evaluation of regulations where a taking of property is alleged, in Dolan v. Tigard, the Oregon case decided June 24, 1994. A similar testing would be appropriate for reviewing regulations even where they do not constitute a taking. Thus, the Legislature should adopt a statute denying a presumption of validity to any land use regulations which are not supported by a record of such evidence and not based on careful findings of fact that show consistency with the enabling legislation.

The Task Force recommends that the Legislature and Governor enact appropriate laws to remove the presumption of validity in land use matters.

Require Bonding for Third Party Objectors to Approved Development Plans

The approval process is arduous, lengthy and costly. The opportunities for citizen involvement are many. From the master plan hearings to the individual development applications at the local, county, regional and state levels, citizens have numerous opportunities to affect applications. But once an application has been approved, once the public bodies charged with the task of deliberating and deciding on applications has made the decision, then the risks should change slightly. An objector challenging an approved development application in court should be required to post a bond to cover the losses the approved applicant would sustain due to the time delays inherent in an unsuccessful court challenge. Such a requirement is used in Pennsylvania. In this way, an objector could not use the court system merely to delay an application. The objector would have to believe in the merits of the objection, and not use the courts merely to delay. Frivolous lawsuits would be eliminated. **The Task Force recommends that the Legislature and Governor enact laws to require the posting of bond or similar security by appellants seeking to overturn approved development applications.**

Quality of Life

Introduction

The quality of life affects the real estate industry in a different way than most industries. For most companies, the quality of life affects their ability to attract employees and therefore affects their decisions regarding facility locations.

For the real estate industry, there is usually no alternative for where employees must work, or where facilities must be located. If you are building in New Jersey, generally your employees or your facilities must be located in New Jersey.

Instead of affecting the ability to attract employees, the quality of life affects the ability to attract customers. While issues like regulation, law and infrastructure affect the supply side of the business, the quality of life affects the demand side. If New Jersey has a poor quality of life, people are not going to want to live here and companies are not going to want to locate here.

The cost of living in New Jersey is 20 % above the national average, making the state the third highest cost of living state in the nation.[6] While the northeast is the highest region in the country, New Jersey tops every state except Alaska and Hawaii. New Jersey's index of 120.0 is significantly higher than New York's of 109.2 and Pennsylvania's of 100.5. It is not a surprise that the growth states of Arizona, Florida, Nevada, and North Carolina are all at or below the national average. If New Jersey is to become more competitive with these states, the cost of living must come down.

The task force thought this was an important issue for our industry. Specifically, some of the principal areas that affect quality of life are:

1. the lack of affordable housing located conveniently to work;
2. the high cost of doing business (including rents);
3. crime; and
4. a decaying urban environment.

We believe that solving the problems regarding the high cost of housing and commercial space can be resolved by instituting some of the suggestions discussed in the regulatory, legal and infrastructure sections of this report. This will help reduce the artificial restraint on supply thereby making prices more competitive. Supporting the Mount Laurel laws will help ensure that housing is available in all locations, including those near places of employment. Regarding crime and the decaying urban environment, our task force felt it was beyond their scope to suggest solutions.

INFRASTRUCTURE

Introduction

New Jersey must create a statewide infrastructure master plan strategy to reflect the priority of good roads, well-maintained bridges, port channels, water, sewer, solid waste disposal, etc. The task force focused its efforts on wastewater, roadways and utilities.

Wastewater Treatment and Water Supply

Planning

Waste water systems design standards vary greatly throughout the state. Some municipal plants operate at a horrendous level while treatment plants owned and operated by private or quasi-public enterprises discharge gray water that is clearer than many of the rivers and streams currently flowing through New Jersey. There should be some equitable distribution and equalization of waste water systems management implemented. The historical and self imposed municipal limitation on development through poor planning for waste water systems does not serve the people or business needs of New Jersey.

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[6] Source: The American Chamber of Commerce Researchers Association, data from 1993 as reported in New York Times, August 5, 1994. See chart attached.

The Cost of Living, State by State

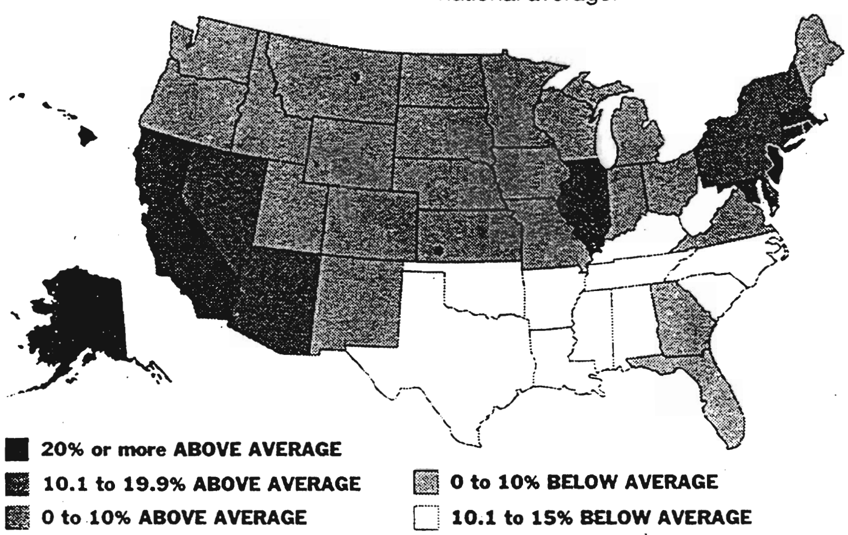
The Government does not systematically analyze regional differences in the cost of living, but a few private organizations try to do so.

The research department of the American Federation of Teachers has devised this index using Government data from 1992. The index measures the cost of living in each state, relative to a national average of 100.

The American Chamber of Commerce Researchers Association has devised a similar index to measure differences in living costs among urban areas. The data, from 1993, were collected by local chambers of commerce. Some examples are shown at the end of the table.

Below, how the cost-of-living index in each state relates to the national average.

UNITED STATES	100.0
D.C.	133.8
Alaska	132.9
Hawaii	132.5
N.J.	120.0
Conn.	119.2
Mass.	115.7
Calif.	112.3
Md.	110.6
R.I.	110.5
N.H.	109.3
N.Y.	109.2
Del.	105.6
Ill.	103.8
Nev.	103.3
Pa.	100.5
Vt.	100.3
Ariz.	100.2
Colo.	99.8
Wash.	99.8
Minn.	99.1
Me.	98.4
Ohio	97.8
Mich.	97.4
Wisc.	96.5



Mo.	95.8	Wyo.	93.2	Tenn.	89.0		
Ore.	95.6	Va.	92.7	S.C.	88.3		
Ind.	94.8	Fla.	92.4	Ala.	88.2		
Iowa	94.3	S.D.	91.9	Ky.	87.9		
Neb.	94.3	Idaho	91.4	La.	87.7		
Utah	94.3	Ga.	90.4	Okla.	87.3		
Kan.	94.1	Mont.	90.4	Ark.	87.2		
N.D.	93.7	N.C.	89.6	Miss.	86.7		
N.M.	93.2	Tex.	89.2	W.Va.	86.7		

URBAN AREAS	
United States	**100.0**
N.Y. City*	208.7
Anchorage, Alaska	132.9
Philadelphia	131.1
Los Angeles	127.9
Cleveland	109.8
Miami	108.2
Pittsburgh	107.7
Denver	105.4
Syracuse	103.4
Atlanta	98.6
Salt Lake City	96.8
New Orleans	95.6
Little Rock, Ark.	91.5
Nashville	91.4
Amarillo, Tex.	89.2
Tulsa, Okla.	89.0
Dothan, Ala.	87.4

*Manhattan

The availability of public waste water treatment facilities is the most significant determinant of the continued viability of commercial and residential development, at economically attractive densities. Responding to the need for this critical resource, the New Jersey Department of Environmental Protection has spent many years, in conjunction with County Government, to develop and approve "208 Waste Water Management Plans," designating those areas that are currently served by public sanitary sewer facilities as well as contiguous locations to be serviced by future plant expansions.

Unfortunately, this work product has been completely ignored in the formulation of "planning areas" as proposed in the State Development and Redevelopment Plan. It would seem obvious that areas designated for higher density development should correlate with those "208 areas" approved for sewer service. Similarly, locations with waste water infrastructure already in place should not be set aside as environmentally sensitive and restricted to low density development. An intelligent approach to future planning for development statewide, demands an understanding of the ultimate potential build-out of waste water infrastructure. If New Jersey is to be economically competitive with adjacent states, we must maximize development density, especially for affordable residential housing, in those designated areas.

Consideration should be given to the idea of privatizing sewerage authorities. Sewer treatment is essentially a public utility like water service, electric, and gas. Private companies provide these services very well. Their rates are subject to approval by the BPU. Sewerage authorities could be treated similarly.

Financing

In order for this potential build-out of waste water infrastructure to be fully realized, low cost financing vehicles, available to local and regional sewer utilities, must be created. Currently, the State's "Waste Water Trust Fund", although moderately effective, is not capable of providing the entire range of financing required. Expansion of the current program as well as more creative low cost programs designed for rural locations with a modest rate base need to be developed so all areas approved for infrastructure can fulfill the intent of the "208 Plan" through local plant expansion. Additionally, because in many instances it is the obligation of the private developer to install the actual sewer lines, consideration needs to be given to the creation of low cost financing opportunities available to private sector developers and builders. Tax increment financing discussed earlier is one possible low-cost financing alternative. **Accordingly, the Task Force recommends that the Waste Water Trust Fund be expanded and that low-cost alternatives, such as tax increment financing legislation be adopted for additional funding of infrastructure.**

Highways and Roadways

The existing highway system is in serious need of renewal. New Jersey must upgrade present corridors to increase efficiency and capacity for distribution of people and goods.

The New Jersey Transportation Trust Fund was created in 1984 when state voters approved a constitutional amendment dedicating 2.5 cents of gas tax revenue for transportation purposes. The three independent toll road authorities agreed to contribute $24.5 million annually and $30 million in trucking fees was made available. In addition, a Transportation Trust Fund Authority was empowered to issue short term debt to supplement annual state appropriations.

When the trust fund was renewed in 1988, the gas tax was raised to 10.5 cents per gallon with the understanding that succeeding legislatures would statutorily earmark 4.5 cents to the trust fund, thus a total of 7 cents from the 10.5 cent per gallon gas tax was to be made available for transportation.

The Trust Fund Authority was authorized to issue up to $1.635 billion in debt. The trust fund is coming due for renewal because it is expected to reach its $1.635 billion debt ceiling by June 30, 1995. After that point the trust fund will be capable only of retiring debt and meeting obligations incurred under the current capital program. The financing capacity of the trust fund was impacted by the increased reliance on short term borrowing during the past three state budgets as a result of reduced appropriations by the Legislature. The $331 million that had been appropriated annually was reduced to $155 million in the 1993 budget, $160.4 million in the 1994 budget and $213.4 million in the current budget.

A healthy trust fund is vital to New Jersey's future. The $565 million in state financing generated annually through the trust fund enables New Jersey to capture $900 million in federal aid. A vibrant capital program ensures steady job creation in the construction industry and enables the state to undertake essential public works projects such as bridge repairs, highway reconstruction and new rail service extensions.

Renewal of the trust fund, which is due to expire on June 30, 1995, is essential to maintain the safe and dependable transportation system New Jersey needs to stimulate the real estate industry and overall economic growth.

The Task Force recommends that the Transportation Trust Fund be renewed, but the diversion of funds to general purposes be prohibited.

CAPITAL AVAILABILITY

IMPEDIMENTS TO CREDIT AVAILABILITY

The availability of financing for real estate development has increased during the past 12-24 months as bank balance sheets have normalized. Major home builders are finding their syndicated credit facilities oversubscribed, when only last year they weren't sure they'd be able to fill them up. Banks have sold large bulk packages of real estate for cash, and are once again competing with one another and driving down spreads on high quality loan transactions. Some important barriers to credit availability remain, however, and are unlikely to diminish unless the legal arena in New Jersey become more hospitable to creditors' legitimate contractual rights.

The lender on a troubled real estate project can expect approximately 12 to 24 months of litigation, in which the abuse of process by the defaulting borrower is common, before the lender can obtain a judgment of foreclosure. The lender must then wait for the county sheriff to schedule a sale, which may take another several months. On the eve of the sale, it is not uncommon for the defaulting borrower to file for bankruptcy protection and thus delay further the lender's pursuit of its remedies. The costs associated with such unproductive litigation are enormous, requiring banks to direct human and financial resources away from their primary missions of meeting the community's financial needs and earning a profit for their shareholders. In pricing and setting credit terms for a portfolio of real estate loan assets, a bank must account for the cost of collection on some percentage of them that will inevitably go bad. The burden of that cost is theoretically borne by all borrowers, with the payers effectively subsidizing the non-payers. If New Jersey's collection costs are higher than they need to be, our developers pay the price as outlined above. In addition, out-of-state lenders have less incentive to direct their capital to finance New Jersey projects, resulting in less competitive pricing for developers than would otherwise be available.

In addition to these procedural obstacles, there is a widespread and reasonably well-founded impression among lenders that some judges in New Jersey have a pro-debtor orientation that results in unpredictable interpretations of loan documents. On the other hand, borrowers may have legitimate defenses or counterclaims against lenders that only a judicial process will afford the opportunity to be heard.

Despite the recovery in some sectors of the real estate market, a number of institutions that were once active players no longer finance real estate development in New Jersey. Their decisions to withdraw from this segment of lending were deeply influenced by the time, cost, and unpredictability of the process of exercising remedies in a default.

THE ROLE OF STATE PROGRAMS

New Jersey's HMFA multi-family unit serves an important role in providing construction and permanent financing for non-profit sponsors with limited experience and resources. By providing technical assistance and time to shepherd such sponsors through the development process, HMFA is enabling the creation of housing by people who would otherwise not be bankable.

The NJEDA's Small Business Loan Pool has been crucial in enabling bank financing for some commercial mortgages, as have the efforts of the N.J. Urban Development Corporation and the Cooperative Business Assistance Corporation (CBAC).

The Housing Incentive Finance Act was enacted into law in 1992. thus far, there has been no activity under this law as a workable set of regulations has yet to be agreed upon.

UTILITIES

Attracting and retaining manufacturing industries in this State requires a serious revamp of the regulatory bureaucracy, not only the environmental bureaucracy, but also the bureaucracy governing energy pricing and services. There should not be an elimination of energy regulation, but a cognizant recognition that flexible energy policies and regulation can help foster business expansion and job creation, and the State should pursue those changes where warranted.

Energy costs, along with labor, taxes and raw materials, are important components of a facility's operating costs and impacts a company's expansion/location decisions. Energy pricing requires a different regulatory focus in today's world, to help businesses to succeed in a globally competitive marketplace. Businesses are seeking competitive prices and services to improve their own business operations. Many other states, through statutes or regulatory policies, have recognized the importance of energy pricing, and have directed their regulators to pay particular attention to business needs, including manufacturing, when setting electric and gas rates that can foster economic growth. Flexible negotiated energy rates, terms and conditions are a valuable incentive to locate and expand businesses in New Jersey.

The utility rate making methodology in the State has traditionally been more rigid, and less responsive to business needs. Few tariff options are offered, with little flexibility to meet specific customer requirements. All members of a rate class are treated the same, regardless of operating characteristics. Business intervention for utility service is, for the most part, only permitted in litigated rate cases; an extremely costly and time consuming practice. Competitive pressures on businesses require more timely responses than are available currently and without bureaucratic second guessing, and protracted decision making. Businesses are becoming much more sensitive to establishing partnerships with suppliers to better control costs, improve performance and operate in a competitive environment. Partnerships with utilities should be no different. State policy should permit utilities more latitude to deal with customer needs and respond quickly to changing markets. The State should streamline the rate setting process to provide added certainty to energy prices that businesses can incorporate in their operating plans.

In addition, compliance with the Clean Air Act requirements will place an added burden on business expansion and location in New Jersey in the future. It will also require significant emissions reductions from existing industries in the State. This will further hamper economic development efforts. Utilities may be in a unique position to incorporate environmental improvements in their own facilities that are more cost effective and efficient than can be done by other industries. Such over control of emissions can be used as offsets to new business development/expansion, or as credits for existing businesses. The State should evaluate the Clean Air Act impact on economic development and utility involvement in this area.

The Task Force recommends that State energy policy be modified to provide added incentives for utilities to operate efficiently and reduce costs by removing regulatory barriers that are not performance driven and that do not foster economic development, and that regulatory flexibility in utility pricing and service options for businesses to better meet their specific needs be permitted.

Workforce

Introduction

Labor costs in New Jersey are higher in New Jersey than other states for a variety or reasons.

Workforce Training

For New Jersey to remain competitive, there must be a more effective link between the county colleges, the variety of technical schools that now exist in New Jersey and industry. This is necessary to insure that the work force of the future is trained for the jobs being created in our State. Likewise, it is important that industry be able to have a reliable source of effective and relevant training.

In order to accomplish this, the county colleges and other educational institutions such as vo-tech schools, receiving state funds should be required to demonstrate their outreach to the private sector and must establish direct communications with the major industries in their communities. Courses and programs of study must be made relevant to the jobs available in the area. Liaison boards composed of personnel management from local industries and educators should be established at each institution to work to coordinate the offerings of that institution with the realities of the job market.

The Task Force recommends that the Department of Commerce and the NJEDA work closely with county colleges and technical schools to insure that new industries coming to New Jersey, as well as those already here seeking to expand or modernize, have an efficient and effective partner in training.

Competition

The issue of competition with other states with respect to real estate relates to the efforts by New Jersey to encourage economic development. For the purposes of this section, the Task Force utilized the work of the New Jersey Economic Development Strategy Team[7] and their consultant, The Wadley-Donovan Group, Ltd.

In judging New Jersey's competitiveness, we must define the geographic areas with which we compete. The first area includes states within our region, such as Connecticut, Maryland, New York and Pennsylvania. Another competing area includes the southern states of Virginia and North Carolina. Through these analyses of competing state programs, New Jersey can focus on designing effective and efficient strategies for economic development. In short, the State can focus on policies necessary to become competitive within the locational marketplace.

Utilizing the experience and research of the Wadley-Donovan Group, Ltd., a corporate locational consultant engaged by the New Jersey Economic Development Strategy Team, rating were developed for the economic development programs of the states mentioned above. Ratings were based on programs and initiatives involving start-up and small business, exporting, incentives, tourism, economic development focus, customer service, retention/expansion, and both domestic and international recruitment.

On a scale of A-F, New Jersey received an overall rating of "D+." The State rates a "D" with regard to its economic development focus. The rating is based upon the state's absence of economic development plans and programs. **The New Jersey Economic Development Authority is a bright spot**, but considerably more is needed to make New Jersey competitive.

New Jersey rates a failing "F" for customer service, for a lack of adequate funding and staffing to meet customer needs, a lack of leadership and commitment to meaningful economic development efforts, lack of resources devoted to business information and research, and the lack of a viable business relations program.

With regard to retention/expansion efforts, the state was rated a passing "C". Recruitment of out-of-state firms is virtually nonexistent and New Jersey again received a failing "F" for the lack of effort. The State's business start-up and small business programs received a "B-" in light of several fine programs that are not well promoted and difficult to access. Exporting programs, including state trade missions and field representatives, received the highest rating, an "A-." The State's incentive programs received a "C+" based upon a very good EDA. However, New Jersey's programs are limited to urban states and most mid-Atlantic states have more extensive programs that contain less geographic restrictions and are available for retention. Finally, the State's tourism program was given a "C+" due to limited funding. It was recognized however, that the tourism programs do well with these limits but require linkage with other state initiatives.

New Jersey's overall "D+" rating compares to Connecticut's "B+, " New York's "C," Pennsylvania's "B+," and Maryland's "A." The southern tier states of North Carolina and Virginia both received overall ratings of "A+." Of

[7] The Economic Development Strategy Team is a consortium of utility and local economic development organizations acting in an advisory capacity to the Economic Master Plan Commission. Its members include the major electric providers, New Jersey Bell, NJIT, NAIOP, the Alliance for Action and representatives of county and local economic development agencies.

significant note is that all of our competitor states have superior programs and the gap is widening. Most of our competitors are well focused and have well developed formal economic development strategies. Most importantly, most of our competitors target New Jersey-located business for their recruitment efforts.

Support

As indicated in the above section, New Jersey does not measure up to the efforts of other states in attracting new business to New Jersey. The Department of Commerce and Economic Development must have the necessary resources and direction to provide the kinds of services to prospective businesses that are available in competing states.

As a beginning, the Task Force recommends:

1. a master locational factbook (available in hard copy and diskette);

2. a fact summary brochure;

3. statistical overview of each county and major city;

4. brochure summarizing New Jersey's attractions for international businesses;

5. target industry brochures'

6. coordinating and supporing preparation of locational profiles for each county and major city; and

7. expanding the Department;s research capabilities to conduct customized analyses, compare New Jersey with other states and countries, examine target industry tends, and generally support industry recruitment and retention initiatives.

The State must take advantage of the many resources that exist in the private, government and non-profit sectors that provide economic development services. In servicing customers interested in New Jersey locations or retaining a present location, the Department must take advantage of organizations that currently undertake that function (e.g. utilities and local economic development agencies). By utilizing these resources, prospects can be satisfactorily served in the most cost effective manner.

REAL ESTATE TASK FORCE

LIST OF RECOMMENDATIONS

1. Nine-part fundamental reform of the permit and approval process for land development

2. Extension of Permit Extension Act for two years.

3. Preserve wetlands "grandfathers".

4. Reduced reliance on property tax.

5. State Development and Redevelopment Plan

6. More equitable tax appeal process.

7. Fiscal watchdog to monitor trends in local government finances.

8. Consolidated corporation income tax filing.

9. Investment tax credit for older building rehabilitation.

10. Tax increment financing for infrastructure.

11. Review of fee-based programs.

12. Revise "presumption of validity" rule.

13. Wastewater treatment infrastructure plans.

14. Financing for wastewater treatment.

15. Renew transportation trust fund.

16. Flexible state energy policy.

17. Work force education.

18. State promotion for new business.

NEAR TERM

FUNDAMENTAL REFORM OF PERMIT AND APPROVAL PROCESS

1. **Recommendation:** A **nine-part fundamental reform of the permit and approval process for land development** in the state:

   a. **Consolidation of approval authority** for all permits (i.e. state, regional, county and municipal) under the jurisdiction of one licensed review official who will be responsible for assuring optimum compliance with relevant plans and rules governing land use, environmental protection, infrastructure capacity, economic development and shelter needs developed at the appropriate state, county and local levels. The various levels of government (state, regional, county and municipal) will still develop the appropriate laws and regulations for the permits, but the local licensed review official will issue the permits after review of applications for conformance with the promulgated laws and regulations.

   b. **Designation of the licensed review official locally** (as is done with building code officials), to be the approving professional, for all permits and approvals.

   c. **Privatization of the review process** by authorizing the licensed review officials to contract-out all technical reviews beyond their technical expertise to consulting professionals, whose competence will be certified by state authorities, and who can demonstrate their objectivity and total independence from all potential applicants, with the costs of the reviews financed by application fees: This is virtually identical to the construction code process.

   d. **Codification** of all application procedures and permit standards, subject to review and revision pursuant to a predetermined schedule, in a manner that enables applicants to rely on the standards in force at the time an application is deemed complete by the licensed review official;

   e. For **preliminary applications**, the detailed requirements for submission should be only those minimally necessary to determine the consistency with the approved zoning standards; the detailed engineering requirements should follow the preliminary approval.

   f. Specification of allowable review periods and requests for additional information, **not to exceed 90 days**, with penalties for those contracting consultants that fail to adhere to the schedule and monitoring of those localities and professionals with excessive time delays or numerous "incomplete" findings on applications.

   g. Public hearings and public notice on Master Plans and zoning ordinance changes should be expanded and improved so that **the public involvement in the "use of land" decisions is enhanced**. This will enable the local planning board to return to its more appropriate role of that of "planning", rather than "engineering" the tiny details of individual applications. **The Planning Board's role in review of individual applications will then be eliminated**. The licensed review professionals will handle the detailed reviews in a normal work week, thus saving additional money in consultants' time. The result should be better Master Plans and a greater involvement of the entire public in the planning of the municipality than just those interested in a particular application.

   h. Revision of the dispute resolution process for land use issues away from reliance on the courts to a system of alternative dispute resolution, such as land use arbitration panels , or a land use court.

2. Benefits and Expected Results

Near-term: significant savings in time and money for applicants and approving agencies; reduction in costs to state government by removing permit responsibility; greater certainty in the timing and outcome of applications; better overall planning; ability of private market to time itself to market cycles; ability to attract "just-in-time" users to state previously unable to attract due to lengthy approval time; reduce costs of housing and rents; improve quality of life through reduced cost of living; greater consistency of review of plans

Longer term: same as near-term benefits plus more stable land market; better overall planning since municipalities better able to spend time planning for long term

3. Cost significant savings to government, private sector, and citizens; some cost-shifting of approval responsibility from state, regional and county to local level, but nearly all of this cost was already borne by the private sector in fees that now will be paid to a different level of government.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Will ultimately require legislative and gubernatorial action to pass appropriate legislation amending Municipal Land Use Law and other statutes governing land use; will also require administrative agency action to revise regulations as appropriate; in short-term, may require appointment of task force to suggest appropriate measures for legislative and agency action; municipalities will have to staff appropriately to handle new responsibilities and adopt appropriate fees for applications to cover costs

Public/Private: Will require active participation by private sector in cooperation with public sector to work on best methods of implementing change; private consultants (engineers, planners and other licensed professionals) will need to absorb appropriate help from state agencies to be able to handle privatized permit review responsibilities

5. Counter-argument(s):some groups will oppose change because they like present system of long delays as it slows down growth; municipalities may be skeptical of cost neutral feature of plan to them; state employees may not like proposal because it may cost state jobs; groups seeking to delay plans in hopes they will be abandoned in time will not be happy.

DO IT NOW

EXTEND PERMIT EXTENSION ACT

1. Recommendation:
Immediate action to renew the Permit Extension Act for two years.

2. Benefits and Expected Results
Near-term: Continue economic recovery; create jobs; avoid additional costs for approved housing projects and commercial developments; provide opportunities for expansion of existing N.J. companies and enable serving of out-of-state companies to enter state on short notice; positive impact on banks real estate owned portfolio.

Longer term: Maintain more solid economic base for fundamental economy in balance of decade; maintain more balanced land availability market for housing; maintain more even pipeline of projects in planning

3. Cost: No cost for action; significant additional cost for failure to adopt in additional fees, carrying costs, property tax losses to municipalities;

4. Individual/Institutional Responsibility for Making it Happen:
Administrative/legislative (i.e. government only solution): passage of pending legislation extending the Permit Extension Act for two years through December 1996, and signing by Governor.

Public/Private: None.

5. Counter-argument(s): environmentalists argue damage to wetlands (not so since law carries through earlier wetlands protections and State has achieved wetlands delegation from Corps of Engineers; municipalities argue negative impact on property rezoned since original passage of Permit Extension Act (not so since amendment in pending bill protects municipalities where zoning has changed since original passage.

DO IT NOW

PRESERVE WETLANDS "GRANDFATHERS"

1. Recommendation: DEP bring regulations on freshwater wetlands into conformity with 1987 statute regarding grandfather clauses

2. Benefits and Expected Results

Near-term: enable many projects to be completed which were otherwise disrupted midstream; allow for more certainty in starting and completing projects; end costly litigation for private parties and state

Longer term: enable DEP to work with consistent and workable set of regulations for all projects going forward

3. Cost: no cost to anyone; rather, a cost saving since it will end litigation and enable designers to work under regulations no longer in dispute.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): DEP activity to end litigation and announce it will honor the grandfathers

Public/Private: agree with DEP to settle litigation

5. Counter-argument(s): DEP argues that it had authority to terminate the grandfathers.

NEAR TERM

REDUCED RELIANCE ON PROPERTY TAX

1. Recommendation: That, especially in light of the most recent Supreme Court decisions involving school financing, that the Governor direct the Council of Economic Advisors to report on whether her goal of reducing the state's tax burden cannot be more efficiently and equitably achieved through a program of tax reform that would align the state's tax structure in ways that would complement other public policy goals and stimulate private economic initiative.

2. Benefits and Expected Results

Near-term: allow reasoned review of tax structure and focus on other public policy goals, such as affordable housing and property tax relief, and achieve compliance with Supreme Court's directive on education

Longer term: resolve education funding problem while simultaneously addressing other public policy goals concerning affordable housing, urban decay and quality of life

3. Cost: no cost short-term; possible costs depending on outcome of report and recommendations concerning tax structure

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Governor's directive

Public/Private: none

5. Counter-argument(s): possible argument that this limited action will not go far enough in resolving thorough and efficient education issue.

STATE DEVELOPMENT AND REDEVELOPMENT PLAN

1. Recommendation: The Task Force has several recommendations concerning the State Plan:

a. That the State Planning Commission reiterate that the 1992 State Plan was intended to be advisory only and that, in 1995, it intends to undertake a fundamental review of the assumptions, approaches and alternatives to achieving the goals of the State Planning Act.

b. Governor should rescind Executive Order 114 adopted by Gov. Florio, and in its stead, direct state agencies to publish a schedule of actions, associated fiscal requirements, necessary to implement the State Development and Redevelopment Plan, whereupon the Governor can make an informed determination on how best to proceed.

c. That the Governor and Legislature jointly appoint an independent review body to examine the State Planning Act, its experience to date and how New Jersey can advance the goals of statewide planning.

2. Benefits and Expected Results

Near-term: These actions will remove the high degree of uncertainty among municipalities, property owners, and businesses as to the status of the 1992 State Plan and provide for the review of state planning in light of fundamentally different assumptions and facts than existed in 1985 when the State Planning Act was passed. This is similar to the Oregon experience where initial efforts at state planning recognized the need for significant alteration of the initial State Plan and resulted in a much improved state plan following this broad-based review.

Longer-term: This will enable the state to have a realistic and workable state plan for the balance of the decade and beyond. When combined with the significant reforms of permitting and approval process suggested elsewhere in this document, a complete framework for sound statewide and local planning in an atmosphere of expeditious approvals for projects consistent with the approved planning objectives can be achieved.

3. Cost: There should be no cost; only positive fiscal benefit in having the potential for greater investment in the state in a better planned way.

4. Individual/Institutional Responsibility for Making It Happen:

Administrative/legislative (i.e. government only solution): Legislature and governor to adopt law and/or resolution to appoint review body: Governor to rescind Governor Florio's E.O. 114; State Planning Commission to adopt policy statement.

Public/Private: None.

5. Counter-argument(s): Not enough time has been given for current State Plan to work.

MORE EQUITABLE TAX APPEAL PROCESS

1. Recommendation: That any taxpayer appealing their local property taxes should only have to pay tax up to the amount of the prior year's tax until the dispute is resolved; that alternative dispute resolution be used for tax appeal disputes; and that interest be paid at a rate equal to the cost of the taxpayer's funds.

2. Benefits and Expected Results

Near-term: makes the tax appeal process more equitable to taxpayers; would discourage municipalities from overassessing property in order to achieve short-term interest-free loans

Longer term: will speed up the appeal process; benefits both municipalities and taxpayers by q speedier resolution with reduced professional costs; also helps municipalities faced with large appeal awards in later tax years and consequent impact on current taxpayers in municipality.

3. Cost: Will have impact on municipalities that abuse process by overassessing properties and using tax payments as short-term loans for short-term fiscal problems; ultimately should have positive impact by reducing overall administrative costs of taxation.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Legislature and Governor to enact appropriate statutory amendments.

Public/Private: None.

5. Counter-argument(s): Municipalities will argue that this will negatively impact their fiscal situation by forcing them to raise taxes on other taxpayers in order to meet budgetary needs; they will also argue that system is not being abused and there is no need for a major reform to accommodate a few problems.

FISCAL WATCHDOG TO MONITOR TRENDS IN LOCAL GOVERNMENT FINANCES

1. Recommendation: Creation of a fiscal watchdog, with access to and support from the Commissioners of Education and Community Affairs, whose purpose will be to monitor and report to the public on (1) general trends in local government taxes and spending; (2) the specific performance of individual municipalities and school districts; and (3) to make recommendations concerning local fiscal trends.

2. Benefits and Expected Results

Near-term: Should help keep property taxes from rising too rapidly since close scrutiny will be paid to municipalities budgets; help legislature deal effectively with tax reduction efforts knowing that property tax issue is being closely watched; by keeping local property taxes under control, housing affordability and rents can be kept in check thereby improving cost of living and hence, quality of life improved.

Longer term: Allow time for proper balance between property taxes and other fiscal revenue sources to be put in proper balance given competing public policy goals; enable governor and legislature to address overall tax issue with results of fiscal watchdog reports available

3. Cost: should have positive benefits by keeping close eye on expenditures at local level

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Action by Governor, perhaps with support of Legislature, to create position of fiscal watchdog.

Public/Private: none

5. Counter-argument(s): Municipalities may argue that existing system is sufficient; that the voters have ultimate say in whether they are being fiscally correct; will argue that it will unfairly pit municipality vs. municipality; and that it deflects criticism from income tax reductions and consequent rise in property taxes.

MEDIUM TERM

CONSOLIDATED CORPORATION INCOME TAX FILING

1. Recommendation: That legislation be enacted permitting the filing of consolidated corporate income tax returns like most other states so that losses from one subsidiary can be set off against profits from another subsidiary.

2. Benefits and Expected Results

Near-term: Reduce cost of doing business and housing and rents in New Jersey. Fairness to taxpaying entities. Encourage more businesses to incorporate in New Jersey and to do business in the state. Should reduce work of Division of Taxation since there will be many fewer returns to be reviewed.

Longer term: Same as near-term. Another part of overall program to put New Jersey on map as a business friendly state.

3. Cost: Perhaps some short-term loss of revenues as businesses utilize new structure. In long term, should be revenue neutral or positive as more businesses do business in state.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Legislative and governor to enact laws permitting the consolidated filing of corporate income tax returns.

Public/Private: None.

5. Counter-argument(s): State cannot afford loss of revenues in short-term.

NEAR TERM

INVESTMENT TAX CREDIT FOR OLDER BUILDING REHABILITATION

1. Recommendation: Investment tax credit for rehabilitation of older commercial buildings.

2. Benefits and Expected Results

Near-term: Will encourage property owners to invest in older buildings to retain and attract tenants, and to generally maintain older assets that would otherwise fall into disrepair.

Longer term: Since most of these buildings are in urban areas, will help to achieve public policy objective of rehabilitating urban areas of state; will offer opportunities for improved ratable base in older areas thus improving property tax situation of these areas.

3. Cost: Some short-term negative costs in reduced state taxes, but if structured properly, will result in increased taxes as a result of improved ratable; some tax sharing of later years taxes could be implemented in order to even out impact of short-term effects.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Legislative enactment of appropriate statutes and possible administrative agency action by Division of Taxation to implement change

Public/Private: Once enacted, use by private sector of the tax credit; input to legislature and Division of Taxation on how best to make this concept work in real world.

5. Counter-argument(s): State cannot afford short-term negative impact on revenues.

TAX INCREMENT FINANCING FOR INFRASTRUCTURE

1. Recommendation: Adopt tax increment financing as method of funding public investments in designated areas. Tax increment financing recaptures for a period of time all or a portion of the increased tax revenue resulting from private investment in areas or for improvements that otherwise would not have been made.

2. Benefits and Expected Results

Near-term: Can provide flexible approach for infrastructure investment in areas where such investment would otherwise probably not be made, such as inner cities in need of redevelopment, or areas where costs are too high without a reduced interest cost, since rates are at tax-exempt rates..

Longer term: Can provide significant opportunities for redeveloping urban areas and enabling private sector to create infrastructure which would otherwise not be built. Make New Jersey consistent with other 40 other states that have tax increment financing statutes on the books, including New York and Pennsylvania.

3. Cost: Should have positive cost effect since no new taxes are created except those necessary to fund newly created infrastructure; existing tax base is not affected; possible argument that additional need for municipal serves would be created with no income available to offset cost of providing such services.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Legislative and Governor enact appropriate legislation; possible state agency action to implement solution and offer suggested financing vehicle such as bonds. May require municipality to back bonds in event legislation requires it.

Public/Private: Use of vehicle once adopted.

5. Counter-argument(s): Possible negative tax consequences if bonds fail and government at whatever level has to back bonds and pay them off. Should not be a problem if properly structured.

REVIEW OF FEE-BASED PROGRAMS

1. Recommendation: That the Governor, by Executive Order, create an independent fee review authority whose responsibility will be to assure that: (1) fees reflect only the costs of processing the applications or conducting the requisite reviews/inspections; (2) fee-financed programs are designed and administered in an efficient, cost-effective manner; and (3) to the maximum extent possible, fee-financed programs are competitively bid and privatized.

2. Benefits and Expected Results

Near-term: Will reduce the costs of obtaining permits which will reduce the cost of housing and cost of doing business in the state. Force state agencies to operate more efficiently since they will be operating only within the budget from general revenues and proper fees.

Longer term: Will reduce generally the aggregate amount of resources directed through the public sector. Will enable the private sector to operate more efficiently, thus reducing costs generally and encouraging more private investment.

3. Cost: Perhaps a short-term impact on state revenues as fees are shifted to general budget. Should result in leaner, more efficiently run departments.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Governor, through executive order power.

Public/Private: None.

5. Counter-argument(s): Government cannot afford "hit" at this time. Impact will be felt by state employees who may lose jobs. Argument may be that this is unnecessary since agencies already price fees properly.

MEDIUM TERM

REVISE "PRESUMPTION OF VALIDITY" RULE

1. Recommendation: That the Legislature and Governor enact appropriate legislation to remove the "presumption of validity" accorded municipal agencies and state departments in land use matters. This standard requires that the applicant demonstrate that the agency acted in an arbitrary or capricious manner in order to overturn the agency's decision. This is an extremely difficult burden to meet.

2. Benefits and Expected Results

Near-term: This will permit a more level playing field in land use decisions. Under current law, courts do not consider a weighing of the evidence, but rather look only to whether the agency acted in an arbitrary or capricious manner. Appeals of state agency determinations are heard directly by the Appellate Division with no opportunity to introduce evidence of the unreasonableness of the regulation under which the application was reviewed, thus creating a double whammy for the appellant. The benefits, near-term and long-term would be to even out the playing field and allow for a fair hearing on the agency's decision-making and the underlying rule or regulation. Ultimately, this should produce better developments and less costly approvals.

Longer term: Same as short-term.

3. Cost: Should result in cost-savings for all concerned in the long run as more settlements should occur and quicker dispute resolutions.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Legislative and gubernatorial enactment of appropriate legislation. Possible action by Supreme Court to implement the enacted legislation.

Public/Private: None.

5. Counter-argument(s): Municipal and state agency determination are entitled to be accorded the presumption of validity since they are the work of the elected and appointed representatives of the people with no financial stake in the outcome.

MEDIUM TERM

WASTEWATER TREATMENT INFRASTRUCTURE PLANS

1. Recommendation: State sewer plans and municipal sewer plans and State Development and Redevelopment Plan should be coordinated so that areas approved for sewer match with areas designated for development. this requires that "208" waste water management plans should be done with appropriate densities for development in mind.

2. Benefits and Expected Results

Near-term: More intelligent overall planning with resultant cost-saving to all. Would permit affordable housing in locations served by sewer. Would also enable planning to designate those environmentally sensitive areas as not appropriate for sewer service.

Longer term: Enable state to be more competitive with adjoining states as we maximize densities in appropriate areas.

3. Cost: Should be no cost except for cost of bringing plans in conformance.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Coordination among various state agencies, DEP, State Planning Commission, and municipalities and regional sewer systems.

Public/Private: None.

5. Counter-argument(s): Anti-growth advocates like current system since it discourages development in otherwise appropriate locations.

MEDIUM TERM

FINANCING FOR WASTEWATER TREATMENT

1. Recommendation: Create low-cost financing vehicles, including tax increment financing, to fund built-out of wastewater infrastructure. Currently, the state's "Wastewater Trust Fund", although moderately effective, is not capable of providing the entire range of financing required.

2. Benefits and Expected Results

Near-term: Would enable areas not currently sewered to become so at low-cost. Would enable fulfillment of "208" plans.

Longer term: Enable state to achieve development in appropriately designated and planned areas at reasonable cost for certain infrastructure. Makes the state more competitive with other states.

3. Cost: Low-cost way of funding infrastructure needs. If tax-increment financing used, benefits of development while keeping tax burden on new development at reasonable rate.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): State agency action and possible legislative authorization for financing activity.

Public/Private: Support and encouragement for activity.

5. Counter-argument(s): Cost at a time when state and municipalities cannot afford any additional cost.

NEAR TERM

RENEW TRANSPORTATION TRUST FUND

1. Recommendation: That the Transportation Trust Fund be renewed prior to June 30, 1995, but the diversion of funds to general purposes be prohibited.

2. Benefits and Expected Results

Near-term: Enables the state to capture $900 million in federal aid; assures continued job creation in construction industry; enables state to undertake essential public works projects such as bridge repairs, highway reconstruction and new rail service extensions.

Longer term: This is essential to the long-term health of the state's economy and infrastructure. Prohibition of diversion to the general funds is important to maintain the Fund for its intended purpose.

3. Cost: Should be short-term for greater return, thus making it a fiscal positive with the return of federal dollars.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Action by Legislature and Governor to renew Fund.

Public/Private: None.

5. Counter-argument(s): Difficult to find any.

MEDIUM TERM

FLEXIBLE STATE ENERGY POLICY

1. Recommendation: Encourage state energy policy to provide added incentives for utilities to operate efficiently and reduce costs by removing regulatory barriers that are not performance driven and that do not foster economic development. Allow regulatory flexibility in utility pricing and service options for businesses to better meet their specific needs.

2. Benefits and Expected Results

Near-term: Will make the state significantly more business and industry friendly. Enable businesses and utilities to respond more quickly to changing markets. Cleaner environment.

Longer term: Same as short-term with larger impacts as more time goes by with these policies in place.

3. Cost: Should be none as plan should be revenue neutral.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Administrative agency action by DEP and BPU.

Public/Private: Cooperation between utilities, state agencies, and businesses.

5. Counter-argument(s): Too much flexibility may drive-up costs thus hurting consumers.

MEDIUM TERM

WORK FORCE EDUCATION

1. Recommendation: Forge more effective link among county colleges, technical schools and industry.

2. Benefits and Expected Results

Near-term: Create better and more appropriately trained workforce for jobs needed by industry.

Longer term: Assure satisfactory workforce for industry needs. Reduced unemployment in future.

3. Cost: None, probable cost-saving in long run.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Establish monitoring of colleges and vocational technical schools with industry to match job needs with curriculum. Department of Commerce and the NJEDA should work closely with colleges and schools.

Public/Private: Industry should maintain close contact with colleges and schools to show what job skills are needed and what jobs are available in area.

5. Counter-argument(s): Difficult to think of any.

MEDIUM TERM

STATE PROMOTION FOR NEW BUSINESS

1. Recommendation: That the State improve efforts in attracting new business to New Jersey through promotion by Department of Commerce and Economic Development as is done by many other states. Recommend preparing more complete and relevant information for use by corporate prospects in evaluating state's locational resources; coordinating and supporting preparation of locational profiles for each county and major city; expanding the Department's research capabilities to conduct customized analyses,, comparing New Jersey with other states and countries, examining target industry trends, and generally supporting industry recruitment and retention initiatives.

2. Benefits and Expected Results

Near-term: Send strong signal to industry that New Jersey is again business friendly. Should help bring in quality industry and businesses, thus improving ratables and revenue sources, as well as helping to create jobs and maintain economic recovery.

Longer term: Enable New Jersey to compete more effectively with other states and countries that are already more business friendly. General improvement of economy in state with resultant job growth.

3. Cost: Very little up front cost for significant upside return.

4. Individual/Institutional Responsibility for Making it Happen:

Administrative/legislative (i.e. government only solution): Action by Department of Commerce and Economic Development.

Public/Private: Cooperation with Department to help implement program.

5. Counter-argument(s): Difficult to think of any.

REPORT OF THE

"GOVERNOR'S COMMISSION ON ECONOMIC DEVELOPMENT"

SMALL, MID-SIZED AND EMERGING BUSINESSES

TASK FORCE

PRESENTED TO THE FULL COMMISSION

ON OCTOBER 19, 1994

CHAIRMAN, DENNIS BALDASSARI

Task Force Members

Nina Anuario
Connie Calisti
Bruce Dansbury
Mike Forney
Bill Healey
Henry Henderson
Joseph Longo, Sr.
Curtis Macysyn
Donald McCambridge
Dr. Patricia Peacock
Herbert Spiegel
Glenn Steiger
Penny Wild

REPORT OF THE
"GOVERNOR'S COMMISSION ON ECONOMIC DEVELOPMENT

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

INTRODUCTION AND METHODOLOGY

The Small, Mid-Sized and Emerging Businesses Task Force of the New Jersey Economic Master Plan Commission was formed in July, 1994 under the chairmanship of Dennis Baldassari, President and Chief Operating Officer of Jersey Central Power & Light Company. Business owners, corporate executives, educators and senior staff people from the New Jersey State Departments of Commerce and State served on the Task Force.

The Task Force made a concerted effort to reach a representative cross section of businesses by type and geographic location. Businesses were contacted from lists supplied by local and county economic development agencies and chambers of commerce representing every county in New Jersey. The Task Force conducted personal interviews and mailed in-depth questionnaires to some **300** businesses and associations. A total of **80** surveys were completed and returned, most of which were consisted of interviews by Task Force members.

The Task Force also held public hearings at Bloomfield, Camden and Middlesex County Colleges during the month of August. Testimony was received and transcribed from **18** participants, including two New Jersey State legislators, speakers from several associations representing both business and labor, and senior executives from a variety of businesses and industries.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

SUMMARY

New Jersey is not perceived by business to be an ideal state in which to locate, let alone conduct business. While some complaints and concerns were industry or region specific, several main issues cut across all parts of the state and all business segments.

"The relationship between state government and business in New Jersey is highly adversarial, punctuated by mistrust and the application of the classic bureaucratic tactics of delay and rigidity," one businessman told the Task Force. Insensitivity and "turf protection" also characterized local government attitudes toward business.

New Jersey's education system also prompted considerable criticism for its perceived failure to teach basic reading, writing and math skills to many of its students.

Frivolous lawsuits, extensive business and personal liability and an antiquated, complex and overburdened legal system make New Jersey distinctly inhospitable to existing businesses in the state, and to those companies considering a move here.

The cost of doing business in New Jersey is perceived to be higher than in most other states. Insurance costs came under specific criticism, running the gambit from vehicle coverage to business and personal liability coverage.

New Jersey state government is becoming more sensitive and supportive to business in the past several years, respondents said. But state programs developed to assist business were criticized for being too complicated, poorly promoted and wrapped too tightly in bureaucratic red tape.

The Corporation for Enterprise Development, a not-for-profit organization in Washington, D.C. produces an annual "Development Report Card for the States." We spoke with their senior analyst, Daphne Clones, who said they rate states on three factors - Present economic performance, general business vitality and development resources and capacity. Within the three factors are 58 separate indexes which include everything from long-term employment growth to business openings and closings.

"In 1994 New Jersey received an 'average' score in economic performance with the third worst employment market in the country, but the second best job quality coupled with top notch pay and strong employer health coverage," the report said. However, New Jersey's grade improved substantially in business vitality, showing the third best score in the country, "fueled by continued strength in the competitiveness of the state's firms as well as a turnaround (from the previous year)...on entrepreneurial energy (new companies and new business job growth)," the report continued.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

SUMMARY (cont'd)

New Jersey's development capacity also ranked very high because of its skilled work force and continued strength in technology and financial resources. "The state did rather well in comparison to others," Ms. Clones said. "We would expect New Jersey to be very competitive when the state's economy gets back on track," she said.

Businesses responding to the Task Force gave New Jersey high marks for its communications infrastructure, ready access to consumer and industrial markets, and its harbors, rail and highway transport facilities. Property, sales and income taxes were considered no worse than most other states (and more competitive than neighboring Pennsylvania). Quality of life was also considered to be an asset, particularly in less industrialized areas of the state

Task Force members were very impressed with the cooperativeness and enthusiasm of the business executives who participated in our written surveys, personal interviews and public hearings. As one Task Force member reported, "These fellow business persons are very proud of our Garden State and are most willing to work with government to improve conditions and achieve progress."

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

KEY FINDINGS

Here, in detail, are key findings of the Task Force.

1. **REGULATORY POLICIES**

Virtually every business respondent who had attempted to expand or build a new facility recited disturbing tales of delays, roadblocks, municipal, county and state jurisdictional disputes, excessive government fees and bureaucratic diffidence.

Tri Products, a small machine shop business in Belmar, has tried to expand their facilities since 1991. Only 6,000 square feet of new space is needed. Joan Mauger from the company told the Task Force that they prepared a total of ten separate site plans for the local municipality. Then the county became involved when they discovered the site was adjacent to a county road. After spending more than $10,000 to obtain initial approvals, they learned that an additional $110,000 in site work would be necessary. The expansion was abandoned.

Carl Ford, the owner of four "**Flowers by Ford**" florist shops in southern New Jersey ran into similar problems adding a 2,000 square foot building to his existing facility at Carneys Point in Salem County. It took him 4 days and $15,000 to build the addition. But the approval process cost $9,000 and took 18 months!

Phillipsburg National Bank has now begun the approval process for a 2,200 square-foot addition. Even though a wetlands review is not required for additions of less than 10,000 square feet, a representative of New Jersey's Department of Water and Soil Conservation has "suggested" to the bank's Chief Executive Officer Barbara Harding that an informal review would be advisable. The Department will charge a $500 fee for the review. And, should Mrs. Harding and her architect request a meeting at the building site, rather than Department headquarters in Hackettstown, an additional $130 will be charged for "travel expenses." Mrs. Harding is working with the Department's director and a representative from the Secretary of State's "ombudsman" office to remove the agency from the permitting process.

Thomas Banker, Executive Director of the **Essex County Improvement Authority** was particularly critical of the state's policy on wetlands replacement. "The state does give you an opportunity to replace one wetland area with another, but they require that you give back twice as much as you take. Some bearded bureaucrat thought that one up," he said.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

KEY FINDINGS (cont'd)

In most instances, the time and money required to gain approvals and permits to build or expand came close to the actual cost of construction, if construction proceeded at all!

Working with or responding to the New Jersey State Department of Environmental Protection was even more costly and frustrating for respondents. Untold millions of dollars which could have been used for capital expansion have been diverted to meet rigid environmental standards and DEP regulations which frequently make little economic sense.

"What defines success in environmental regulation?" Banker of the **Essex County Improvement Authority** asked. "We don't place reasonable numbers on what success would be. We had to remove 25 fuel storage tanks from the grounds at Essex County Airport. The hoops we had to jump through were outrageous, especially since the tanks were left by Curtiss-Wright, the former tenant. The cost of removing the dirt ran neck and neck with the cost of proving that it was dirt with oil in it," he told Task Force members.

Koh-I-Noor, a German-owned company headquartered in Bloomsbury and Greenwich Township (Hunterdon and Warren Counties) has experienced a disheartening story of government pressure and delays. A $300,000 water "scrubbing" plant mandated by the New Jersey Department of Environmental Protection had to be built next to their main building to clean up water contaminated when the former owner - a farm machinery repair company - spilled oil on the surface soil. The company employs 800 people at their New Jersey facilities in the Bloomsbury area and Cranford. (They also have satellite manufacturing facilities in Ohio and Tennessee.) Their efforts to expand their present New Jersey operations into a 700-acre site in Greenwich Township requires a waste water treatment plant (only for human waste, not chemicals) or connection to a sewer system in Phillipsburg. Delays at the Department of Environmental Protection, disputes between Warren County and the State of New Jersey regarding classification of the subject land, and requests for "further water flow" studies have kept the project at a standstill. Koh-I-Noor's only option may be to expand at one of their out-of-state plants.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

KEY FINDINGS (cont'd)

Other business owners have shared similar stories with the Task Force. **The Falstrom Company**, a sheet metal fabricator employing 90 people in its Passaic facility has spent 36 weeks and $500,000 on a device to remove trace elements of chromite from its waste water discharge. There is no real evidence that chromite even exists there.

The Clement Pappas Company, a food processor employing 350 people in Cumberland County spent 50% of their capital budget the past two years to build a waste water disposal facility when the municipal plant they were using had reached only 40% of capacity. "Government looks upon us as a bunch of criminals trying to pollute the environment, not as an employer creating jobs and putting out a good product," Pappas said.

Materials Processing Technology, Inc. has spent $30,000 in legal fees and nearly 500 hours of senior management time to obtain a relatively simple batch production permit from the DEP. "The state must be more responsive to our needs," said Norman Alworth, the president of the firm. "At least make the regulations reasonable and simplify their compliance mechanisms," he said.

All Seasons Marina, spent over $750,000 on a sewage treatment facility and was subsequently fined $250,000 for non-compliance in operating the plant. When owner Mr. Dilks told the DEP representative that the fine would put him out of business, the reply was "you will have to shut down if you cannot pay the fine". "We would like to work with the State in solving our problems rather than fight to stay afloat in finding ways to pay fines", lamented Mr. Dilks.

Regulatory fees, property taxes and a vast web of usage fees and assessments layered atop high utility charges and labor costs strain the budgets (and the viability) of many businesses in New Jersey. Respondents in the Task Force's Bloomfield public hearing recited a long list of government "revenue producers" including sewerage use assessments, sprinkler system stand-by water fees, BTU usage assessments (for gas-burning heaters), Catastrophic Illness Fund contributions, filing fees to track hazardous waste, and Right to Know and Pollution Prevention Control costs.

KEY FINDINGS (cont'd)

2. **Work Force**

There are 700,000 functionally illiterate residents in New Jersey today. Only 30% of public school eighth graders are testing "competent" in mathematics-related proficiency standards established by the New Jersey State Board of Education.

"We may have the most expensive education system on a cost per pupil basis," Alworth of the Patterson-based **Materials Processing Technology, Inc.**, testified. "But it is no longer the best," he said. "Approximately 90% of the 'off-the-street' entry level job applicants we see cannot effectively read, write or even understand basic English," Alworth said.

Tripp Hindle, president of **Hitran**, a Flemington manufacturer of massive custom electric transformers said his workers struggle with more complicated tasks because they have difficulty reading or following instructions despite repeated training.

Poor work attitudes were frequently mentioned . Clement Pappas, Chief Executive Officer of **The Clement Pappas Company,** his own food processing company in Cumberland County said workers here have an "entitlement" attitude. "I've been directly involved with similar production facilities in California, Wisconsin, Florida and Arkansas. Employees there are consistently more cooperative, better educated and more productive than my work force in New Jersey," he said.

Fred Clauser, president of **Koh-I-Noor** in tiny Bloomsbury was one of the few business leaders pleased with the quality of his work force. However, Clauser was quick to add that his employees performed highly intricate manufacturing tasks which required some five years of classroom and on-the-job training. His turnover is very low and employee loyalty (and length of service) is high.

3. **State Assistance To Business and Industry**

The September, 1994 issue of *Nation's Business* featured the activities and programs of states seeking to retain existing business and attract new ones. With the exception of recent state corporate tax relief to Sub Chapter S Corporations, New Jersey was conspicuously absent from the article.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

KEY FINDINGS (cont'd)

New Jersey does have a wide variety of assistance programs, including tax-free development loans, job training credits and information and consultation programs to promote business growth. The Whitman Administration's charge to Secretary of State Lonna Hooks to perform a role as "business ombudsman" has signaled a higher state government commitment to the business community.

But business leaders generally find New Jersey's government programs complicated, difficult to implement and only marginally valuable. "I was really impressed with the help I got to obtain EDA (Economic Development Authority) funding," one Bergen County manufacturer said. "But I became frustrated with the paper work and confusing requirements of other state offerings. We just didn't have the time, patience or inclination to pursue them," he said.

Assemblywoman Joanna Gregory-Scocchi, herself the president of a growing employment and executive search firm, said emerging businesses have the most critical need for help, but are the least able to ask for it because of their small size and the overwhelming start-up demands placed on the principals. "They just don't have the time to wade through the bureaucracy to find programs suited to their needs," she said.

4. **Tort Liability**

"Deep pockets should be viewed by state government as a source for economic growth, not as a potential litigant to clean up someone else's mess." Norman Alworth of **Materials Processing Technology** made that statement to the Task Force, not only as a criticism of New Jersey Department of Environmental Protection procedures, but also as a broader indictment of New Jersey's legal system.

"Frivolous lawsuits abound here," another business leader said. Long delays and archaic judicial procedures also make New Jersey one of the least friendly jurisdictions for business.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

CONCLUSIONS

I. Most respondents perceived an "us against them" attitude; the entrepreneur against the system. This is not hard to understand when we learned that cooperation vis-a-vis the seventeen separate state agencies remains the exception, not the rule. Inquiries are shuffled from desk to desk, often without resolution. Savvy owners call on politicians to resolve issues. State government computer databases are incompatible. Certification is not unilaterally accepted. It is the business owner who must anticipate the need for additional information and keep abreast of constantly changing policies and regulations, and there appears to be no interdepartmental effort to eliminate paperwork, fees or improve responsiveness.

We agree with Thomas Banker, the Executive Director of the Essex County Improvement Authority who described what he called "a clash of cultures" in his public testimony at our Task Force hearing in Bloomfield. "Bureaucrats are process-driven, not product driven...it is not rewarding for you (a bureaucrat) to go out on a limb to try to help someone because for the 19 times it works, no one will notice, and the one time it goes wrong, you'll be on page one of the Star Ledger for going beyond the set of rules. That's why bureaucrats love procedure." Banker says we need to establish standards in state government which give bureaucrats latitude to take some risk and reward or punish them on the outcome, not their ability to blindly follow process and procedure.

2. The 1994 report from the Corporation for Enterprise Development gives us encouragement regarding New Jersey's business potential. But we must recognize that keeping the businesses we have and getting new ones is a competitive undertaking. There is much to learn by reviewing what development programs have been initiated by other states, not only to spot successful ideas, but also to gain more insight into the competition New Jersey faces from others states. In our view, many of the "business help" programs are already in place. But they need to be coordinated and simplified so that the average business person will learn about them and use them. It also appears that few "bottom line" incentives such as tax credits, abatements or special grants-in-aid are available to businesses wishing to relocate to New Jersey.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

CONCLUSIONS (cont'd)

3. Legislation introduced in New Jersey now requires some form of economic impact statement. It appears to us that these statements are far too general and fail to adequately identify the cost in time and resources (human and financial) required for implementation. Moreover, there is no standard for measuring what cost is acceptable. Unless legislators, regulators and bureaucrats become more accountable for the impact of their actions on the businesses, institutions, county and municipal governments and private citizens of New Jersey, we have little hope that the burgeoning maze of rules, regulations and interagency conflicts will be controlled.

4. State environmental regulations are too complicated and the compliance process is far too lengthy and difficult, particularly for smaller businesses. The level and frequency of fines and penalties also reaches absurd heights in marginal violations. We recognize the unique environmental issues New Jersey faces with highly-concentrated, aging manufacturing and industrial facilities. But some judgment needs to be exercised to establish and maintain reasonable and practical standards of clean-up and compliance.

5. The Whitman Administration's creation of a business "Ombudsman" through Secretary of State Lonna Hooks' office is an important step in helping businesses cut through the state bureaucracy. (Mr. Healy was a participant in our Task Force and intervened quickly and effectively when we found business people who were having difficulties with a state agency.) While it is unfortunate that such a function is needed, it is clear that both the business community and the state will suffer if some process is not in place to help retain existing businesses and attract new ones. We do believe, however, that the resources committed to the business "Ombudsman" program are insufficient to meet the need. (The Task Force was impressed with the "gridlock-buster's" program instituted by Governor Pete Wilson in California. According to a recent Nation's Business article: "When Wilson's office hears that a company is considering leaving the state, the California government dispatches one of it's Red Teams... who cut through red tape and knock over obstacles to keep and create jobs."

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

CONCLUSIONS (cont'd)

6. The state's education system is not preparing many of its students with the basic reading, writing and math skills which are necessary to enter the working world. This seems to be especially true in urban areas of the state. Public-private partnerships may be one effective way to assist New Jersey educators in defining and implementing more effective school curriculums. Programs like "Future Works" (funded by private companies in Camden County to train prospective employees in basic communications and work skills) offer potential alternatives to solve education problems for the near term until changes can be integrated into the state's education system.

7. Despite a vast (and impressive) array of state programs and services, few business executives responding to the Task Force used them, primarily because they found (or perceived) that programs were too complicated to understand and implement. We think an important goal of the Whitman Administration should be to significantly increase small business participation in state-funded assistance programs. This can be done through more effective promotion of programs and services. However, more state resources must be applied to evaluating individual business needs, assisting business owners in identifying specific programs which can help them, and providing the hands-on guidance businesses need to apply for and implement these programs.

8. Meaningful vehicle, personal, business and professional liability and health insurance reform is long overdue in New Jersey. This should be an important priority in this administration.

9. Tort reform is presently receiving high level administration attention through the Governor's special legal counsel Peter Verniero. We strongly encourage this initiative and suggest, among other things, that costs associated with frivolous law suits be borne, in large measure, by unsuccessful plaintiffs.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

RECOMMENDATIONS

The recommendations below are direct results of the conclusion from the data accumulation, interviews, and public hearings as discussed earlier.

1. **Begin an aggressive program to privatize state government functions, particularly those which are heavily involved in compliance activities, such as environmental regulations, motor vehicle inspections, fire and safety regulations.**

2. **Eliminate at least 15 % of all state regulations. Begin with all those regulations that exceed Federal standards and those which represent duplications between state agencies.** Then institute a "one in/one out" policy of regulation as a recognition that there is a limit to the aggregate regulatory burden that government can impose on business. (An independent authority, such as the one used at the national level to eliminate military bases through a one-time, no exception all-or-nothing Congressional vote, may be necessary to cut through special political and bureaucratic interests.)

3. **Direct all fees and fines collected by state agencies to the General Treasury, rather than to individual department budgets.** (The Task Force strongly believes that the present practice which many agencies use to fund their own operations through fees and fines is a direct conflict of interest and encourages the kind of anti-business and anti-economic behavior which characterizes departments such as Consumer Affairs, Banking and Environmental Protection.

4. **Institute a "one-stop-shop" to assist any business in locating state-funded assistance programs.**

5. **As with the Base Closure Commission, The Governor should call upon the legislature to agree to the formation of a Regulatory Relief Commission, mandate of which will be to identify the regulations that should be eliminated and to present them to the legislature for a one-time "up or down" vote.** This will place Senators and Assemblymen in a position which will compel them to vote "yes" or "no" on the issue of whether we are "over-regulated" in New Jersey. While a piece-meal approach to this problem will almost assuredly fail, this approach will place many liberal and otherwise pro-regulation legislators in the politically untenable position of having to effectively vote for over-regulation, which many will be unwilling to do.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

1. Recommendation: Institute a "one-stop-shop" to assist any business in locating state-funded assistance programs.

2. Benefits and Expected Results

Near-term: Less confusion among small business in determining where to find help and how to comply with any regulation.

Longer term: Becomes a strong sales point in promoting economic development in New Jersey.

3. Cost: The resources required to staff the "one stop shop" should be available from existing departments. Costs should be minimal.

4. Individual/Institutional Responsibility for Making It Happen:

Administrative/legislative (i.e. government only solution): Regulatory agencies must be directed by the governor to allocate resources to assure the formation of this activity.

Public/Private: An ongoing business/government committee to develop and oversee implementation would assure a "customer focus."

5. Counter-argument(s): Present configuration with business ombudsman argues that this may not be necessary.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

1. Recommendation: As with the Base Closure Commission, the Governor should call upon the legislature to agree to the formation of a Regulatory Relief Commission, mandate of which will be to identify the regulations that should be eliminated and to present them to the legislature for a one-time "up or down" vote. This will place Senators and Assemblymen in a position which will compel them to vote "yes" or "no" on the issue of whether we are "over-regulated" in New Jersey. While a piece-meal approach to this problem will almost assuredly fail, this approach will place many liberal and otherwise pro-regulation legislators in the politically untenable position of having to effectively vote for over-regulation, which many will be unwilling to do.

2. Benefits and Expected Results

Near-term: In conjunction with "eliminating 15% of regulations." It will streamline regulatory processes.

Longer term: Position New Jersey as a leader in regulatory reform. Improve economic development.

3. Cost: None

4. Individual/Institutional Responsibility for Making It Happen: Governor decree. Enabling legislation.

Administrative/legislative (i.e. government only solution):

Public/Private: None

5. Counter-argument(s): Specific interest groups will argue that "forced elimination" will alter the specter of positive regulation.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

1. Recommendation: Begin an aggressive program to privatize state government functions, particularly those which are heavily involved in compliance activities, such as motor vehicle inspections, fire, environmental and safety regulations.

2. Benefits and Expected Results

Near-term: A break in the established "us vs. them" culture. State to look for ways to help aline compliance, rather than force unrealistic penalties.

Longer term: Much more efficient & cost-effective process. The establishment of New Jersey as a very friendly place to do business.

3. Cost: No up front cost. Should result in substantial cost-savings as government bureaucracy is replaced.

4. Individual/Institutional Responsibility for Making It Happen:

Administrative/legislative (i.e. government only solution): Governor must define departments to be privatized. Legislature must pass enabling legislation.

Public/Private: Entrepreneurial firms must structure a quick, efficient means to accomplish customer-focused accomplish compliance activities.

5. Counter-argument(s): Civil service will argue that governmental structure is best suited for this responsibility. Loss of government jobs will be issue. Competence of private firms will be questioned.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

1. Recommendation: Eliminate at least 15% of all state regulations. Begin with all those regulations that exceed Federal standards and those which represent duplications between state agencies. Then institute a "one in/one out" policy of regulation as a recognition that there is a limit to the aggregate regulatory burden that government can impose on business. (An independent authority, such as the one used at the national level to eliminate military bases through a one-time, no exception all-or-nothing Congressional vote, may be necessary to cut through special political and bureaucratic interests.)

2. Benefits and Expected Results

Near-term: Businesses will start to have confidence in the sincerity of government to make it easier to operate in New Jersey.

Longer term: Future regulatory policy will require a very measured and "customer focused" approach to instituting new regulation.

3. Cost: None

4. Individual/Institutional Responsibility for Making It Happen:

Administrative/legislative (i.e. government only solution): Governor decree enabling legislation.

Public/Private: Effective lobbying effort to determine the "right number and right regulations" to reduce.

5. Counter-argument(s): Environmental, consumer, and special interest groups will object to the reduction of regulations that will impact their areas.

SMALL, MID-SIZED AND EMERGING BUSINESSES TASK FORCE

1. Recommendation: Direct all fees and fines collected by state agencies to the General Treasury, rather than to individual department budgets. (The Task Force strongly believes that the present practice which many agencies use to fund their own operations through fees and fines is a direct conflict of interest and encourages the kind of anti-business and anti-economic behavior which characterizes departments such as Consumer Affairs, Banking and Environmental Protection.

2. Benefits and Expected Results

Near-term: Incentive to penalize will be minimized. Incentive to help with compliance errors will be increased.

Longer term: New Jersey's reputation as a high "regulatory penalty" state will change to tight but helpful regulation.

3. Cost: No significant change.

4. Individual/Institutional Responsibility for Making It Happen:

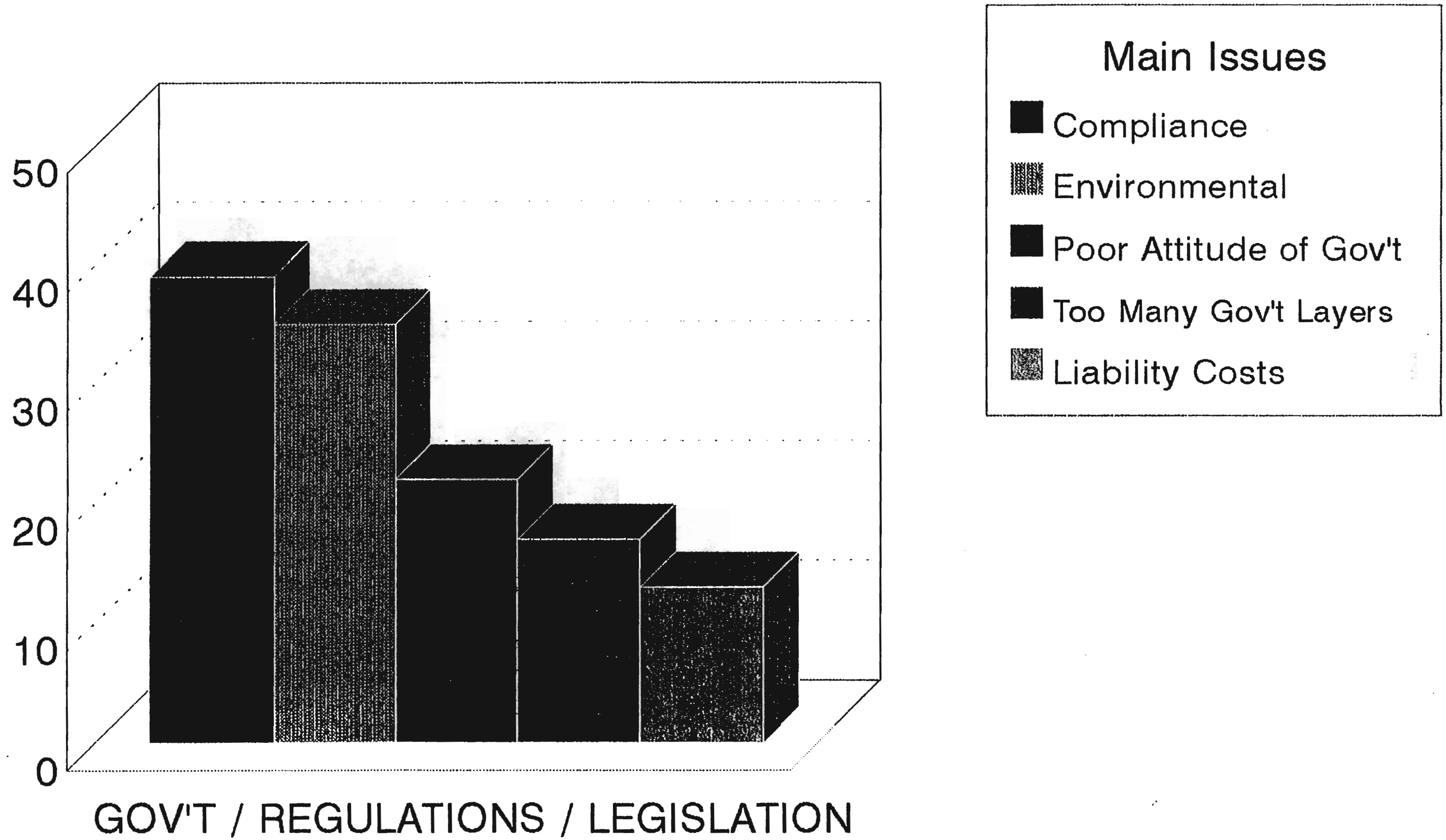
Administrative/legislative (i.e. government only solution): Governor decree. Enabling legislation.

Public/Private: None

5. Counter-argument(s): Regulatory departments will argue that they will not be given adequate budgetary support.

SMALL, MID-SIZED & EMERGING BUSINESSES

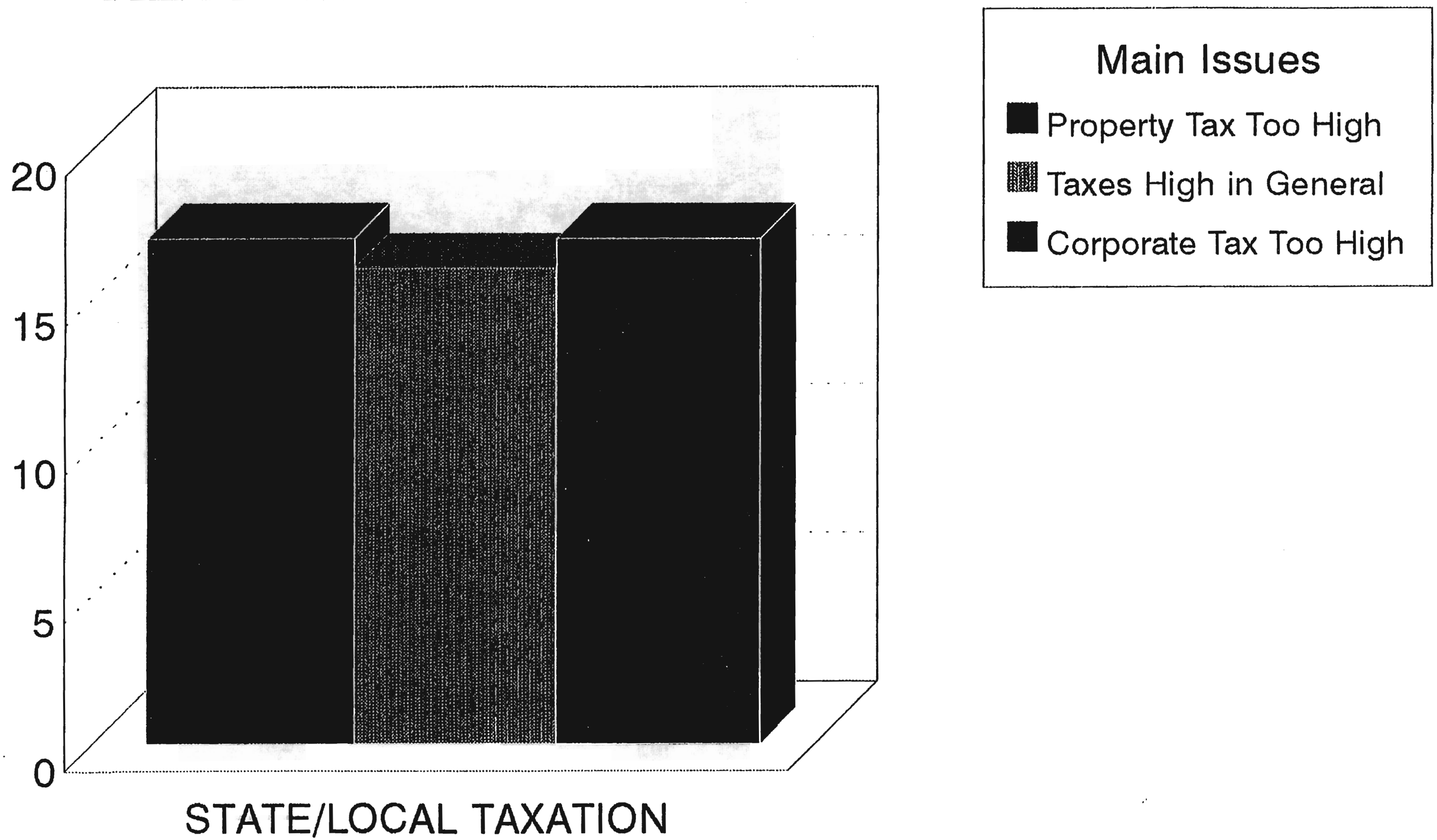
MAJOR ISSUES AFFECTING THEIR ABILITY TO DO BUSINESS IN NJ



Out of 80 Surveyed

SMALL, MID-SIZED & EMERGING BUSINESSES

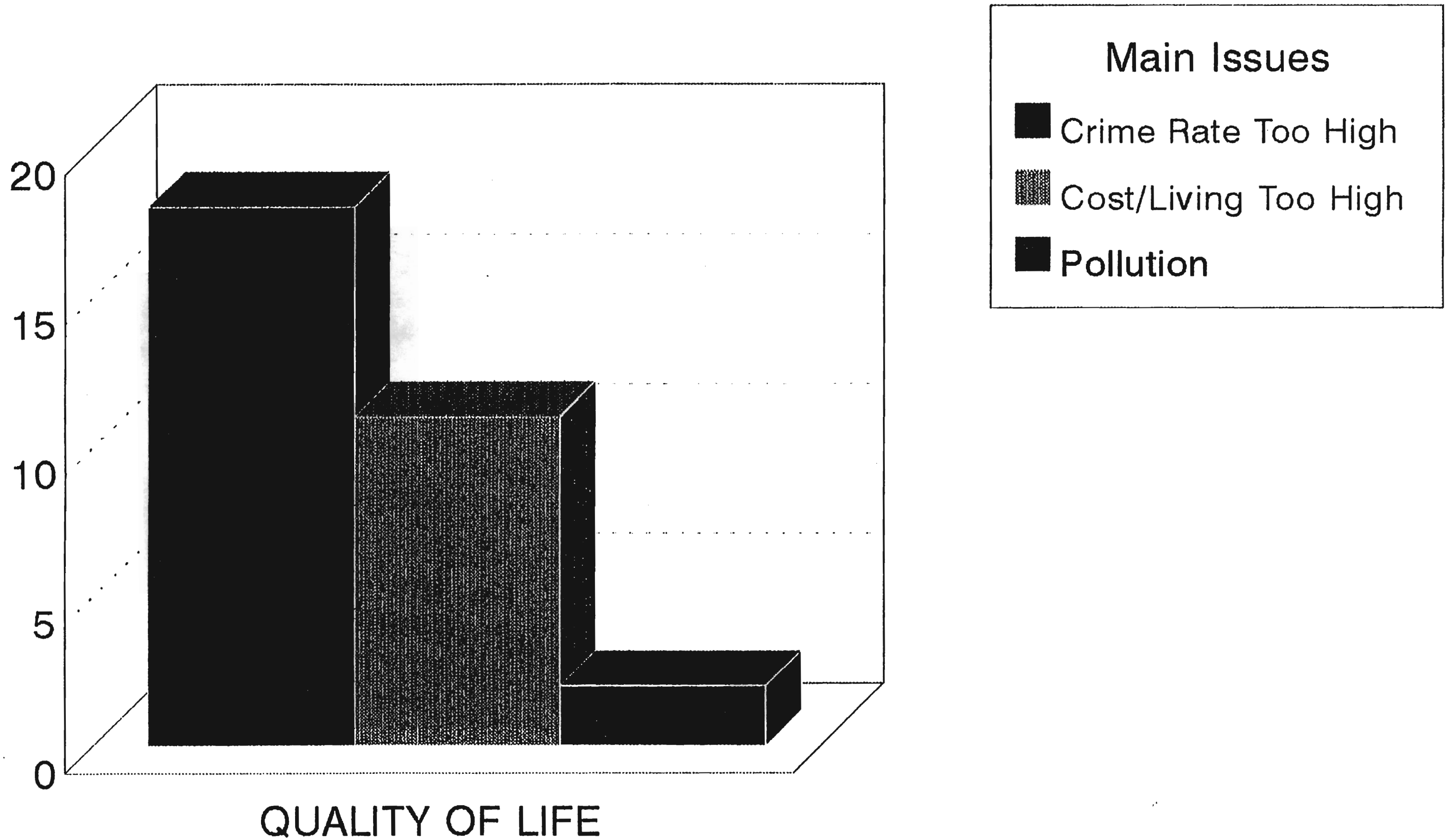
MAJOR ISSUES AFFECTING THEIR ABILITY TO DO BUSINESS IN NJ



Out of 80 Surveyed

SMALL, MID-SIZED & EMERGING BUSINESSES

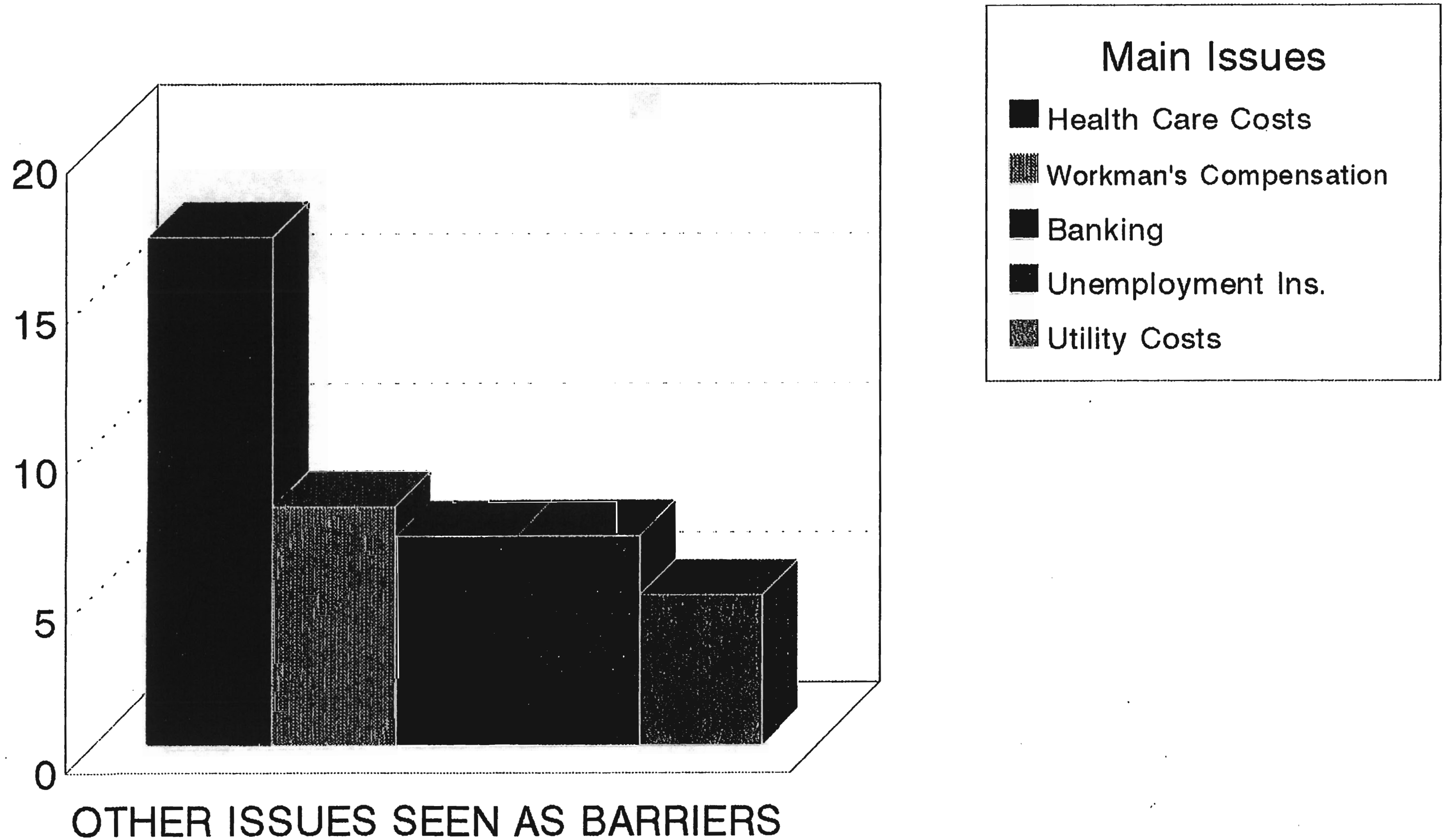
MAJOR ISSUES AFFECTING THEIR ABILITY TO DO BUSINESS IN NJ



Out of 80 Surveyed

SMALL, MID-SIZED & EMERGING BUSINESSES

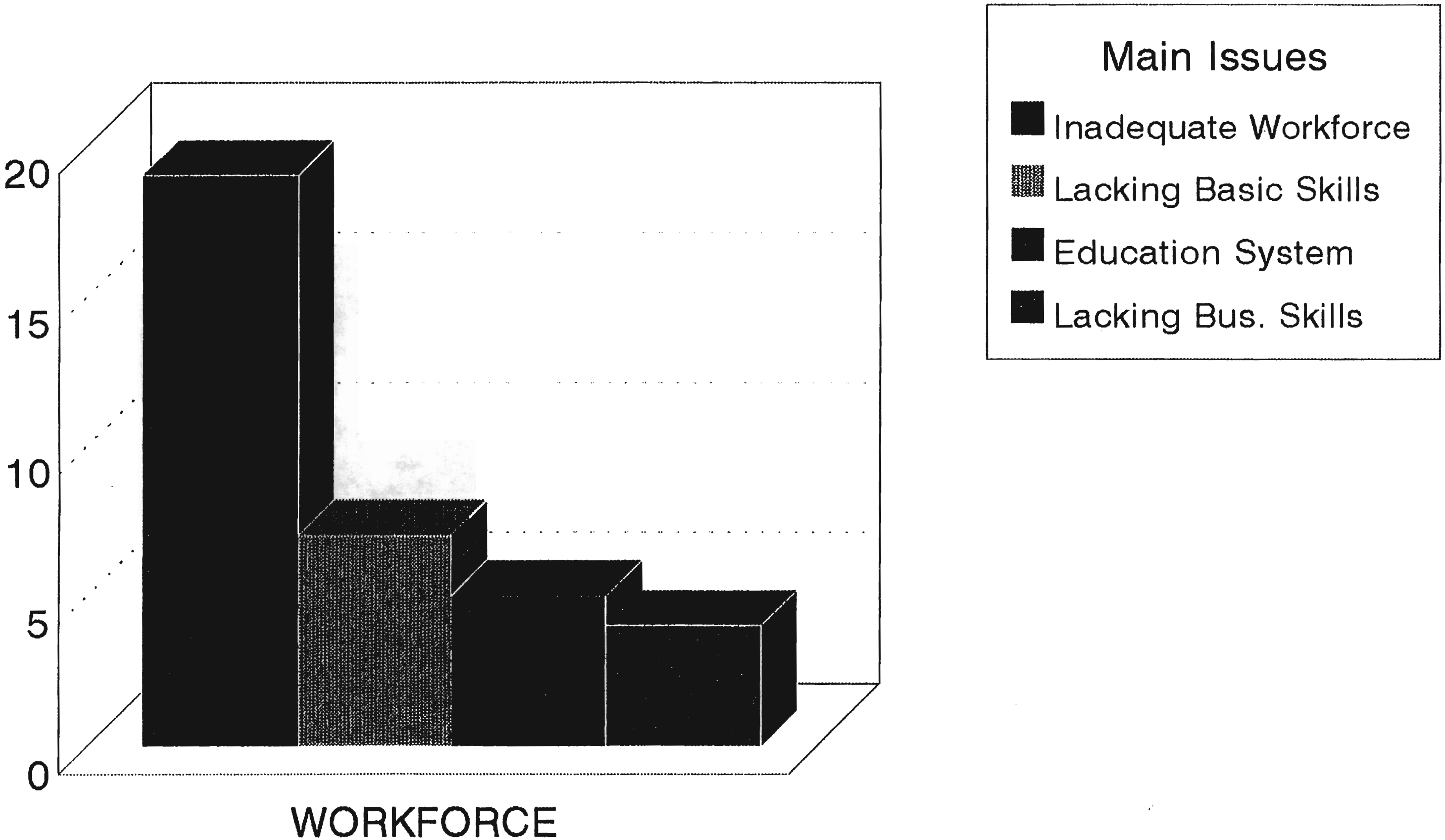
MAJOR ISSUES AFFECTING THEIR ABILITY TO DO BUSINESS IN NJ



Out of 80 Surveyed

SMALL, MID-SIZED & EMERGING BUSINESSES

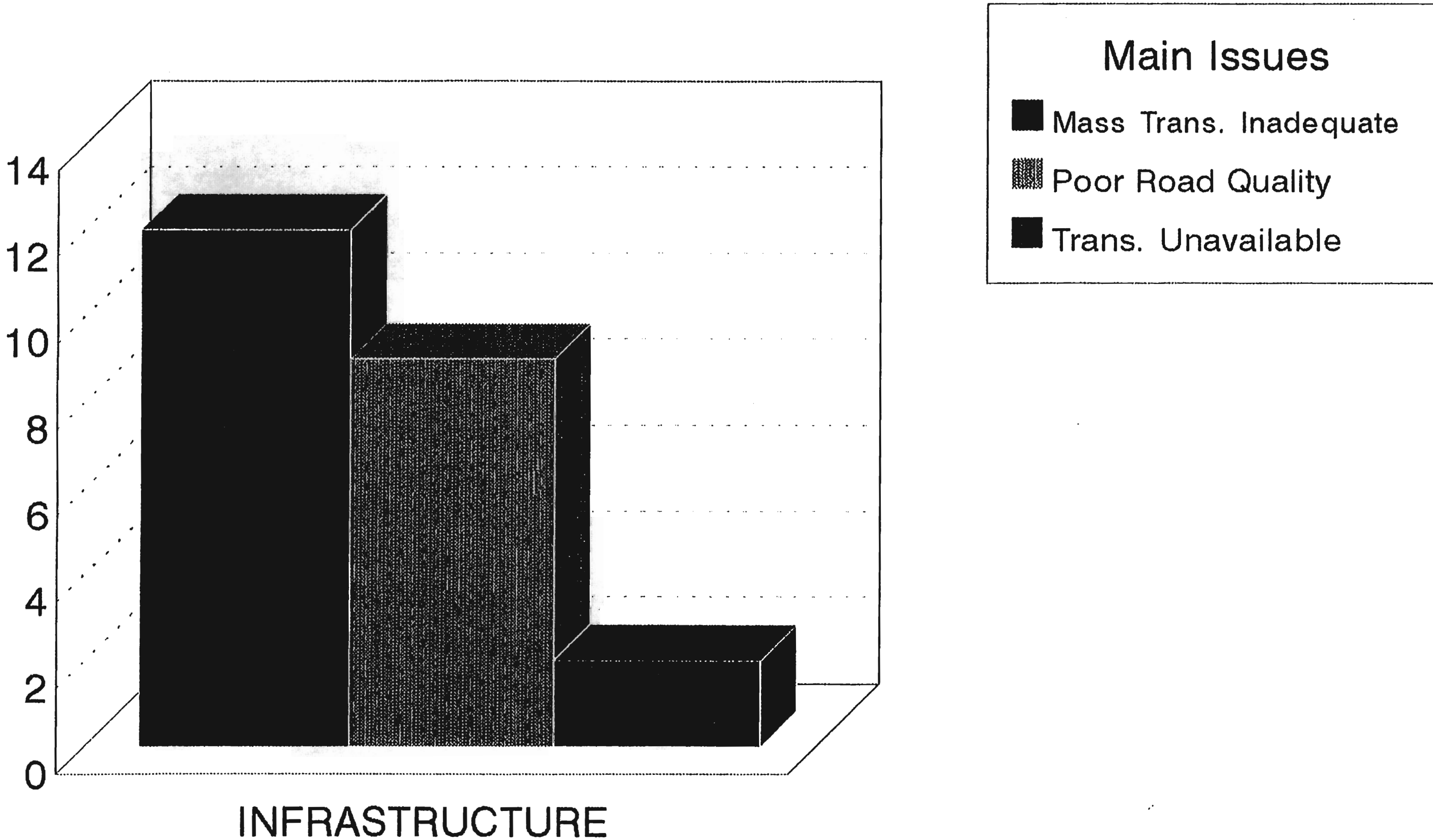
MAJOR ISSUES AFFECTING THEIR ABILITY TO DO BUSINESS IN NJ



Out of 80 Surveyed

SMALL, MID-SIZED & EMERGING BUSINESSES

MAJOR ISSUES AFFECTING THEIR ABILITY TO DO BUSINESS IN NJ



Out of 80 Surveyed

ISSUES AFFECTING YOUR BUSINESS

How have the following issues affected your business?

NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION

(Environment, industry specific regulation, conflict between local, state and federal requirement, liability reform, tort reform, health insurance, etc.)

____

____

____

STATE/LOCAL TAXATION

(Policy, tax rates, assessments, industry-specific taxes, income, property, corporate, sales, etc.)

____

____

____

WORKFORCE

(Availability, education, quality, training, etc.)

____

____

____

INFRASTRUCTURE

(Communications, utilities, transportation, real estate/facilities, etc.)

____

____

____

QUALITY OF LIFE

(Crime, environment, cost of living, climate, cultural access, recreation, etc.)

____

____

____

OTHER ISSUES THAT IMPACT YOUR BUSINESS

Please specify any issues that you feel have a direct impact on your business.

____

____

____

What do you think are the most serious barriers to maintaining a viable business in New Jersey?

____

____

____

What do you think are the most valuable assets New Jersey has to offer both newly emerging and established businesses?

____

____

____

What do you think state government should do to improve the business climate in New Jersey?

____

____

____

Respondent's Name: ____________________ Title: ____________

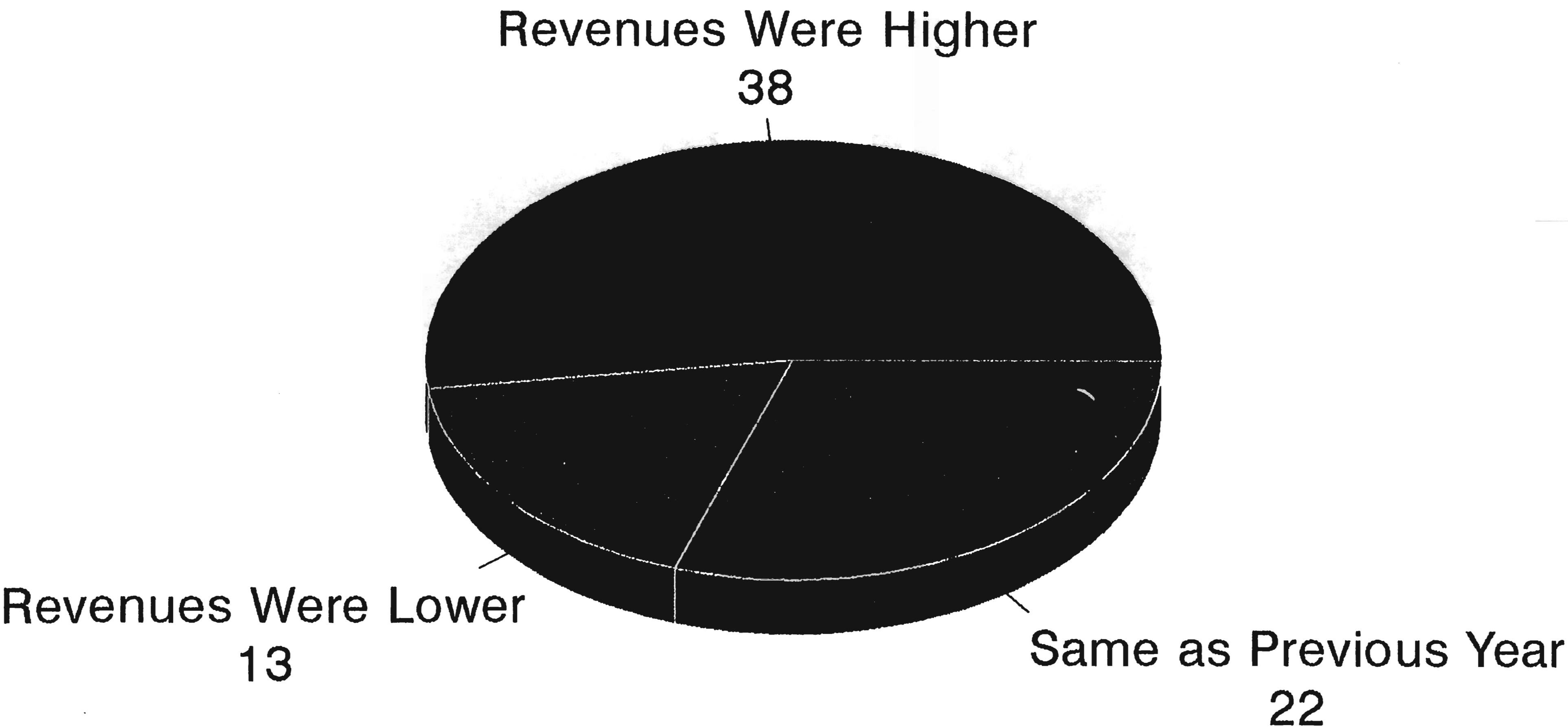
Phone No.: ____________________

Mail-in / Date Rec'd: ____________________

or Interviewer's Name: ____________________ Interview Date: ______

COMPANY VIABILITY

CHANGE IN REVENUE

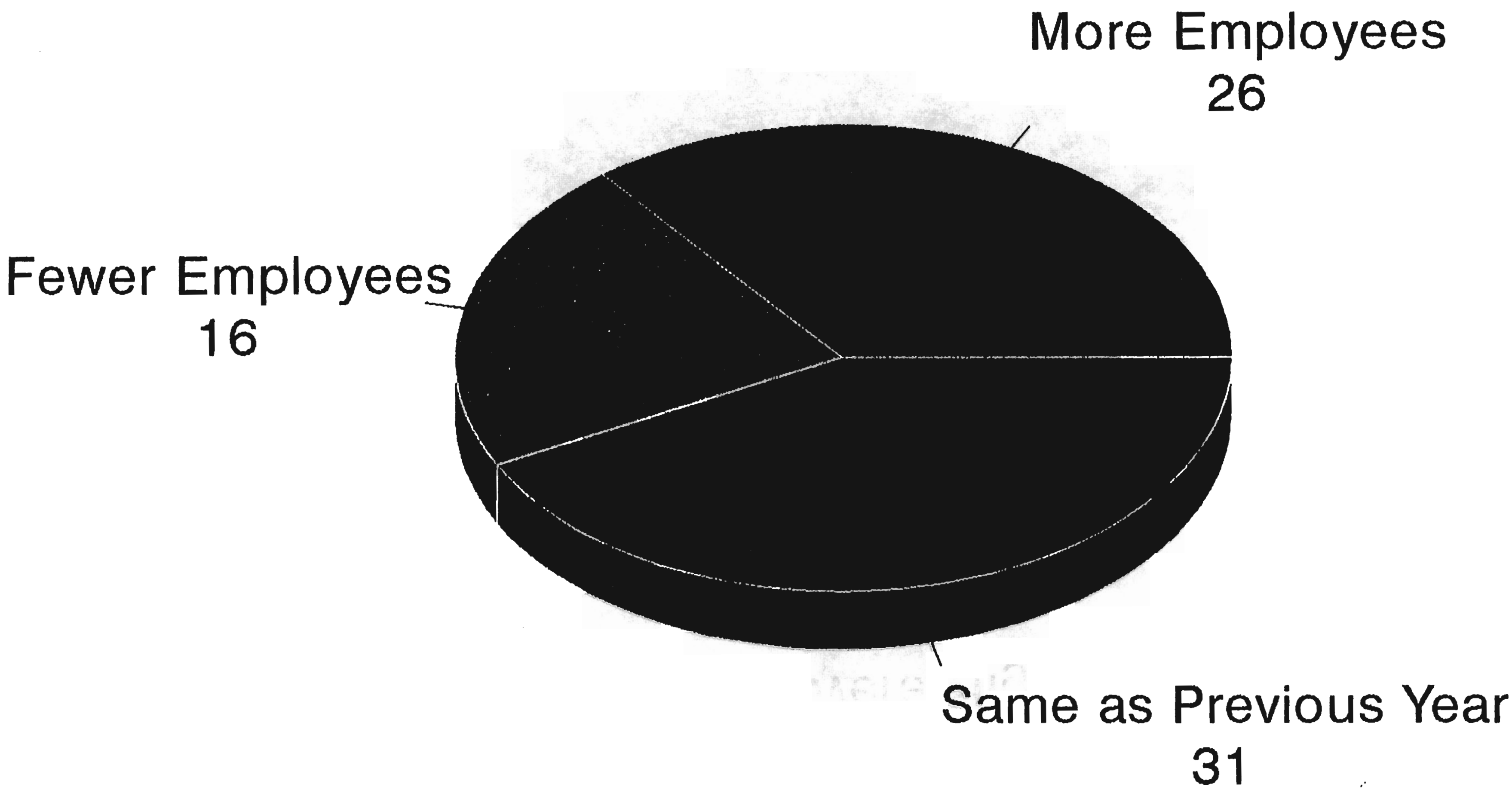


HOW BUSINESS IS DOING IN 1994

Out of 80 Surveyed

COMPANY VIABILITY

CHANGE IN NUMBER OF EMPLOYEES

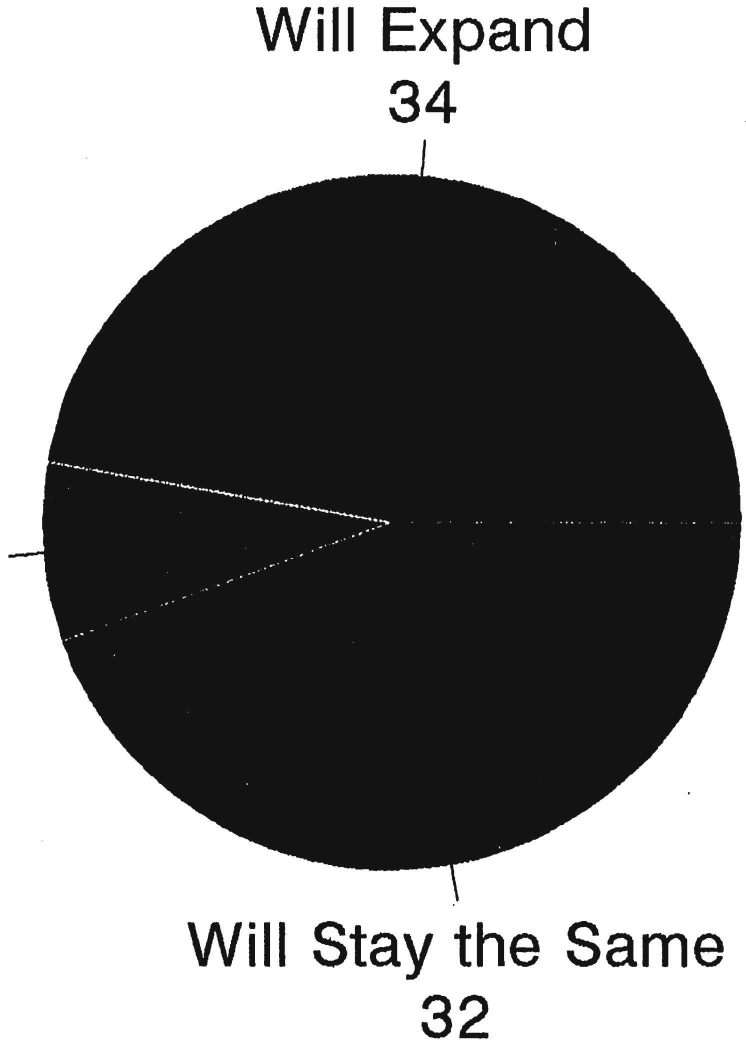


HOW BUSINESS IS DOING IN 1994

Out of 80 Surveyed

COMPANY VIABILITY

FUTURE PLANS



HOW BUSINESS IS DOING IN 1994

Out of 80 Surveyed

NEW JERSEY ECONOMIC MASTER PLAN COMMISSION
SMALL, MID-SIZED AND EMERGING BUSINESSES
TASK FORCE

S U R V E Y

GENERAL INFORMATION

Company Name: ______________________________

Street Address: ______________________________

City: ______________ County: ______________ Zip: ______

BUSINESS INFORMATION

Type of Business:
- [] Retail
- [] Manufacturing
- [] Service
- [] Construction
- [] Finance/Insurance/Real Estate
- [] Transportation/Public Utilities
- [] Agriculture
- [] Other (Please Specify) ______________

SIC Code: ______________

No. of Full-Time Employees: ______________

No. of Part-Time Employees: ______________

HOW IS YOUR BUSINESS DOING IN 1994?

Revenues: HIGHER, LOWER, SAME AS last year? (Circle One)

If revenues changed, by how much? ________%

Employees: MORE, FEWER, SAME as last year? (Circle One)

If employment changed, by how much? ________%

Future Plans: Will you EXPAND, DOWNSIZE, STAY THE SAME in 1995? (Circle One)

If plans will change, approximately how much? ________%

If you plan to expand or downsize, what has prompted this?

____

SUPPORTING STATISTICS FOR THE

REPORT OF THE

"GOVERNOR'S COMMISSION ON ECONOMIC DEVELOPMENT"

SMALL, MID-SIZED AND EMERGING BUSINESSES

TASK FORCE

PRESENTED TO THE FULL COMMISSION

ON OCTOBER 19, 1994

CHAIRMAN, DENNIS BALDASSARI

Task Force Members

Nina Anuario
Connie Calisti
Bruce Dansbury
Mike Forney
Bill Healey
Henry Henderson
Joseph Longo, Sr.
Curtis Macysyn
Donald McCambridge
Dr. Patricia Peacock
Herbert Spiegel
Glenn Steiger
Penny Wild

CATEGORIZED ISSUES

THERE WERE A TOTAL OF 80 SURVEYS

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	35
WORKMEN'S COMPENSATION(DOL)	8
TOO MANY LAYERS OF GOVERNMENT	17
LABOR LAWS	3
COMPLIANCE	39
PERMITTING COSTS TOO HIGH	3
UNEMPLOYMENT INSURANCE TOO HIGH	7
LIABILITY INS TOO HIGH	13
OVERREGULATION IN GENERAL	2
TORT REFORM	7
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	10
TAXES TOO HIGH(general statement)	16
PROPERTY TAXES TOO HIGH	17
USER/LICENSING FEES TOO HIGH	2
UNFUNDED STATE/FED MANDATES	2
WORKFORCE	
WORKFORCE INADEQUATE	19
ON THE JOB-TRAINING PROGRAM(difficult to access)	3
EDUCATION SYSTEM	5
LACKING BASIC SKILLS	7
LACKING BUSINESS SKILLS	4
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	12
MASS TRANSIT AVAILABILITY INADEQUATE	2
ROAD QUALITY POOR	9
REGIONALIZE COSTS - INVEST	1
QUALITY OF LIFE	
CRIME RATE TOO HIGH	18
COST OF LIVING TOO HIGH	11
POLLUTION	1
OTHER ISSUES	
HEALTH CARE COSTS	17
BANKING(asset requirements; available financing)	7
POOR COOPERATION WITH GOV'T AGENCIES	22
UTILITY COSTS	5
TELEPHONE COSTS	2
INSURANCE COSTS	4
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	2
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	6
RECREATION	5
GOOD HIGHWAYS(accessability to tri-stae area)	9
GEOGRAPHICAL LOCATION	21
NEW GOVERNOR(willing to make changes)	3
PRESENCE OF CORPORTATE HDQTRS	1

EDA ASSISTANCE	2
COMMUNICATIONS(fiber optics)	3
WORKFORCE	11
TOURISM	0
URBAN ENTERPRISE ZONE	1

Records selected:157

COMPANY VIABILITY

THERE WERE A TOTAL OF 80 SURVEYS

CHANGE IN REVENUE:

HIGHER:	38
LOWER:	13
SAME:	22

CHANGE IN NUMBER OF EMPLOYEES:

MORE:	26
FEWER:	16
SAME:	31

FUTURE PLANS:

EXPAND:	34
DOWNSIZE:	6
STAY THE SAME:	32

CATEGORIZED ISSUES BROKEN OUT BY NUMBER OF FULL TIME EMPLOYEES

RANGE OF EMPLOYEES FROM 1 TO 10

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	5
WORKMEN'S COMPENSATION(DOL)	2
TOO MANY LAYERS OF GOVERNMENT	1
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	8
PERMITTING COSTS TOO HIGH	2
UNEMPLOYMENT INSURANCE TOO HIGH	1
LIABILITY INS TOO HIGH	4
OVERREGULATION IN GENERAL	0
TORT REFORM	2
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	1
TAXES TOO HIGH(general statement)	5
PROPERTY TAXES TOO HIGH	6
USER/LICENSING FEES TOO HIGH	1
UNFUNDED STATE/FED MANDATES	1
WORKFORCE	
WORKFORCE INADEQUATE	4
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	1
LACKING BASIC SKILLS	3
LACKING BUSINESS SKILLS	2
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	1
ROAD QUALITY POOR	3
REGIONALIZE COSTS - INVEST	1
QUALITY OF LIFE	
CRIME RATE TOO HIGH	5
COST OF LIVING TOO HIGH	1
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	5
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	4
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	3
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	1
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	1
RECREATION	1
GOOD HIGHWAYS(accessability to tri-stae area)	2
GEOGRAPHICAL LOCATION	5

NEW GOVERNOR(willing to make changes)	1
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	2
WORKFORCE	1
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:34

CATEGORIZED ISSUES BROKEN OUT BY NUMBER OF FULL TIME EMPLOYEES

RANGE OF EMPLOYEES FROM 11 TO 50

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	12
WORKMEN'S COMPENSATION(DOL)	3
TOO MANY LAYERS OF GOVERNMENT	8
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	3
COMPLIANCE	14
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	4
LIABILITY INS TOO HIGH	5
OVERREGULATION IN GENERAL	2
TORT REFORM	2
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	6
TAXES TOO HIGH(general statement)	5
PROPERTY TAXES TOO HIGH	6
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	6
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	2
LACKING BASIC SKILLS	3
LACKING BUSINESS SKILLS	1
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	1
ROAD QUALITY POOR	2
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	5
COST OF LIVING TOO HIGH	4
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	8
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	9
UTILITY COSTS	0
TELEPHONE COSTS	1
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	1
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	3
RECREATION	2
GOOD HIGHWAYS(accessability to tri-stae area)	2
GEOGRAPHICAL LOCATION	5

NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	1
EDA ASSISTANCE	2
COMMUNICATIONS(fiber optics)	0
WORKFORCE	5
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:61

CATEGORIZED ISSUES BROKEN OUT BY NUMBER OF FULL TIME EMPLOYEES

RANGE OF EMPLOYEES FROM 51 TO 100

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	7
WORKMEN'S COMPENSATION(DOL)	1
TOO MANY LAYERS OF GOVERNMENT	5
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	5
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	1
LIABILITY INS TOO HIGH	2
OVERREGULATION IN GENERAL	0
TORT REFORM	0
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	2
TAXES TOO HIGH(general statement)	3
PROPERTY TAXES TOO HIGH	3
USER/LICENSING FEES TOO HIGH	1
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	3
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	0
LACKING BASIC SKILLS	0
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	1
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	3
COST OF LIVING TOO HIGH	1
POLLUTION	1
OTHER ISSUES	
HEALTH CARE COSTS	2
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	3
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	1
RECREATION	1
GOOD HIGHWAYS(accessability to tri-stae area)	0
GEOGRAPHICAL LOCATION	4

NEW GOVERNOR(willing to make changes)	2
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	1
WORKFORCE	3
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:37

CATEGORIZED ISSUES BROKEN OUT BY NUMBER OF FULL TIME EMPLOYEES

RANGE OF EMPLOYEES GREATER THAN 99

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	11
WORKMEN'S COMPENSATION(DOL)	2
TOO MANY LAYERS OF GOVERNMENT	3
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	12
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	1
LIABILITY INS TOO HIGH	2
OVERREGULATION IN GENERAL	0
TORT REFORM	3
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	1
TAXES TOO HIGH(general statement)	4
PROPERTY TAXES TOO HIGH	2
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	6
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	2
LACKING BASIC SKILLS	0
LACKING BUSINESS SKILLS	1
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	3
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	5
COST OF LIVING TOO HIGH	4
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	2
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	6
UTILITY COSTS	0
TELEPHONE COSTS	1
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	1
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	1
RECREATION	1
GOOD HIGHWAYS(accessability to tri-stae area)	5
GEOGRAPHICAL LOCATION	7

NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	2
TOURISM	0
URBAN ENTERPRISE ZONE	1

Records selected:25

CATEGORIZED ISSUES BROKEN OUT BY REGIONS

MID CENTRAL REGION INCLUDES:
MERCER, SOMERSET COUNTIES

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	1
WORKMEN'S COMPENSATION(DOL)	0
TOO MANY LAYERS OF GOVERNMENT	3
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	2
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	0
LIABILITY INS TOO HIGH	1
OVERREGULATION IN GENERAL	0
TORT REFORM	0
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	0
TAXES TOO HIGH(general statement)	1
PROPERTY TAXES TOO HIGH	1
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	0
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	0
LACKING BASIC SKILLS	0
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	0
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	2
COST OF LIVING TOO HIGH	1
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	0
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	2
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	1
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	0
RECREATION	0
GOOD HIGHWAYS(accessability to tri-stae area)	1

GEOGRAPHICAL LOCATION	2
NEW GOVERNOR(willing to make changes)	1
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	3
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:8

CATEGORIZED ISSUES BROKEN OUT BY REGIONS

NORTH CENTRAL REGION INCLUDES:
ESSEX, MIDDLESEX, UNION COUNTIES

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	5
WORKMEN'S COMPENSATION(DOL)	2
TOO MANY LAYERS OF GOVERNMENT	2
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	6
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	1
LIABILITY INS TOO HIGH	4
OVERREGULATION IN GENERAL	0
TORT REFORM	0
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	0
TAXES TOO HIGH(general statement)	3
PROPERTY TAXES TOO HIGH	6
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	6
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	1
LACKING BASIC SKILLS	0
LACKING BUSINESS SKILLS	2
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	2
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	4
COST OF LIVING TOO HIGH	3
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	4
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	3
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	1
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	1
RECREATION	0
GOOD HIGHWAYS(accessability to tri-stae area)	2

GEOGRAPHICAL LOCATION	2
NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	1
COMMUNICATIONS(fiber optics)	1
WORKFORCE	2
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:28

CATEGORIZED ISSUES BROKEN OUT BY REGIONS

NORTH EAST REGION INCLUDES:
BERGEN, HUDSON, PASSAIC COUNTIES

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	8
WORKMEN'S COMPENSATION(DOL)	1
TOO MANY LAYERS OF GOVERNMENT	2
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	4
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	0
LIABILITY INS TOO HIGH	1
OVERREGULATION IN GENERAL	1
TORT REFORM	1
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	2
TAXES TOO HIGH(general statement)	2
PROPERTY TAXES TOO HIGH	2
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	2
WORKFORCE	
WORKFORCE INADEQUATE	1
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	1
LACKING BASIC SKILLS	2
LACKING BUSINESS SKILLS	1
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	0
REGIONALIZE COSTS - INVEST	1
QUALITY OF LIFE	
CRIME RATE TOO HIGH	4
COST OF LIVING TOO HIGH	2
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	2
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	2
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	2
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	0
RECREATION	0
GOOD HIGHWAYS(accessability to tri-stae area)	0

GEOGRAPHICAL LOCATION	2
NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	1
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:23

CATEGORIZED ISSUES BROKEN OUT BY REGIONS

NORTH WEST REGION INCLUDES:
HUNTERDON, MORRIS, SUSSEX, WARREN COUNTIES

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	9
WORKMEN'S COMPENSATION(DOL)	0
TOO MANY LAYERS OF GOVERNMENT	3
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	1
COMPLIANCE	11
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	1
LIABILITY INS TOO HIGH	1
OVERREGULATION IN GENERAL	0
TORT REFORM	1
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	2
TAXES TOO HIGH(general statement)	2
PROPERTY TAXES TOO HIGH	0
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	3
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	1
LACKING BASIC SKILLS	1
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	2
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	1
COST OF LIVING TOO HIGH	2
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	3
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	5
UTILITY COSTS	0
TELEPHONE COSTS	1
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	1
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	1
RECREATION	1
GOOD HIGHWAYS(accessability to tri-stae area)	3

GEOGRAPHICAL LOCATION	3
NEW GOVERNOR(willing to make changes)	2
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	1
WORKFORCE	1
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:29

CATEGORIZED ISSUES BROKEN OUT BY REGIONS

SOUTHERN REGION INCLUDES:
ATLANTIC, CAPE MAE, CUMBERLAND, GLOUSTER, SALEM COUNTIES

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	4
WORKMEN'S COMPENSATION(DOL)	2
TOO MANY LAYERS OF GOVERNMENT	3
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	8
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	2
LIABILITY INS TOO HIGH	3
OVERREGULATION IN GENERAL	1
TORT REFORM	2
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	2
TAXES TOO HIGH(general statement)	3
PROPERTY TAXES TOO HIGH	6
USER/LICENSING FEES TOO HIGH	1
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	5
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	1
LACKING BASIC SKILLS	3
LACKING BUSINESS SKILLS	1
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	2
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	4
COST OF LIVING TOO HIGH	0
POLLUTION	1
OTHER ISSUES	
HEALTH CARE COSTS	5
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	7
UTILITY COSTS	0
TELEPHONE COSTS	1
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	2
RECREATION	2
GOOD HIGHWAYS(accessability to tri-stae area)	0

GEOGRAPHICAL LOCATION	6
NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	0
TOURISM	0
URBAN ENTERPRISE ZONE	1

Records selected:29

CATEGORIZED ISSUES BROKEN OUT BY REGIONS

SOUTHERN REGION INCLUDES:
ATLANTIC, CAPE MAY, CUMBERLAND, GLOUSTER, SALEM COUNTIES

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	5
WORKMEN'S COMPENSATION(DOL)	2
TOO MANY LAYERS OF GOVERNMENT	4
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	8
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	2
LIABILITY INS TOO HIGH	4
OVERREGULATION IN GENERAL	1
TORT REFORM	3
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	2
TAXES TOO HIGH(general statement)	3
PROPERTY TAXES TOO HIGH	6
USER/LICENSING FEES TOO HIGH	2
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	5
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	1
LACKING BASIC SKILLS	3
LACKING BUSINESS SKILLS	1
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	2
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	4
COST OF LIVING TOO HIGH	0
POLLUTION	1
OTHER ISSUES	
HEALTH CARE COSTS	5
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	7
UTILITY COSTS	0
TELEPHONE COSTS	1
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	3
RECREATION	2
GOOD HIGHWAYS(accessability to tri-stae area)	0

GEOGRAPHICAL LOCATION	8
NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	1
TOURISM	0
URBAN ENTERPRISE ZONE	1

Records selected:36

CATEGORIZED ISSUES BROKEN OUT BY REGIONS

SOUTH WEST REGION INCLUDES:
BURLINGTON, CAMDEN COUNTIES

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	3
WORKMEN'S COMPENSATION(DOL)	2
TOO MANY LAYERS OF GOVERNMENT	1
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	0
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	1
LIABILITY INS TOO HIGH	0
OVERREGULATION IN GENERAL	0
TORT REFORM	0
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	2
TAXES TOO HIGH(general statement)	1
PROPERTY TAXES TOO HIGH	1
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	1
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	0
LACKING BASIC SKILLS	1
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	1
ROAD QUALITY POOR	0
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	1
COST OF LIVING TOO HIGH	0
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	0
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	1
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	0
RECREATION	0
GOOD HIGHWAYS(accessability to tri-stae area)	2

GEOGRAPHICAL LOCATION	1
NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	1
EDA ASSISTANCE	1
COMMUNICATIONS(fiber optics)	0
WORKFORCE	0
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:7

CATEGORIZED ISSUES BROKEN OUT BY BUSINESS TYPE

BUSINESS TYPE: AGRICULTURE

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	0
WORKMEN'S COMPENSATION(DOL)	0
TOO MANY LAYERS OF GOVERNMENT	0
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	0
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	0
LIABILITY INS TOO HIGH	0
OVERREGULATION IN GENERAL	0
TORT REFORM	0
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	0
TAXES TOO HIGH(general statement)	0
PROPERTY TAXES TOO HIGH	1
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	1
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	0
LACKING BASIC SKILLS	0
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	0
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	1
COST OF LIVING TOO HIGH	0
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	1
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	0
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	0
RECREATION	0
GOOD HIGHWAYS(accessability to tri-stae area)	0
GEOGRAPHICAL LOCATION	1

NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	0
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:1

CATEGORIZED ISSUES BROKEN OUT BY BUSINESS TYPE

BUSINESS TYPE: CONSTRUCTION

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	1
WORKMEN'S COMPENSATION(DOL)	0
TOO MANY LAYERS OF GOVERNMENT	1
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	2
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	0
LIABILITY INS TOO HIGH	1
OVERREGULATION IN GENERAL	1
TORT REFORM	1
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	0
TAXES TOO HIGH(general statement)	1
PROPERTY TAXES TOO HIGH	1
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	0
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	0
LACKING BASIC SKILLS	0
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	0
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	1
COST OF LIVING TOO HIGH	0
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	1
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	1
UTILITY COSTS	0
TELEPHONE COSTS	1
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	1
RECREATION	1
GOOD HIGHWAYS(accessability to tri-stae area)	0
GEOGRAPHICAL LOCATION	1

NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	0
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:7

CATEGORIZED ISSUES BROKEN OUT BY BUSINESS TYPE

BUSINESS TYPE: FINANCE/INSURANCE/REAL ESTATE

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	2
WORKMEN'S COMPENSATION(DOL)	0
TOO MANY LAYERS OF GOVERNMENT	3
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	3
PERMITTING COSTS TOO HIGH	0
UNEMPLOYMENT INSURANCE TOO HIGH	0
LIABILITY INS TOO HIGH	2
OVERREGULATION IN GENERAL	0
TORT REFORM	1
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	0
TAXES TOO HIGH(general statement)	1
PROPERTY TAXES TOO HIGH	1
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	0
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	0
LACKING BASIC SKILLS	0
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	0
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	3
COST OF LIVING TOO HIGH	2
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	2
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	3
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	2
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	0
RECREATION	0
GOOD HIGHWAYS(accessability to tri-stae area)	3
GEOGRAPHICAL LOCATION	2

NEW GOVERNOR(willing to make changes)	1
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	4
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:16

CATEGORIZED ISSUES BROKEN OUT BY BUSINESS TYPE

BUSINESS TYPE: MANUFACTURING

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	18
WORKMEN'S COMPENSATION(DOL)	5
TOO MANY LAYERS OF GOVERNMENT	7
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	0
COMPLIANCE	17
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	3
LIABILITY INS TOO HIGH	1
OVERREGULATION IN GENERAL	0
TORT REFORM	2
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	7
TAXES TOO HIGH(general statement)	6
PROPERTY TAXES TOO HIGH	8
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	11
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	2
LACKING BASIC SKILLS	2
LACKING BUSINESS SKILLS	2
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	1
ROAD QUALITY POOR	1
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	7
COST OF LIVING TOO HIGH	4
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	4
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	12
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	2
RECREATION	1
GOOD HIGHWAYS(accessability to tri-stae area)	6
GEOGRAPHICAL LOCATION	8

NEW GOVERNOR(willing to make changes)	1
PRESENCE OF CORPORTATE HDQTRS	1
EDA ASSISTANCE	2
COMMUNICATIONS(fiber optics)	0
WORKFORCE	4
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:59

CATEGORIZED ISSUES BROKEN OUT BY BUSINESS TYPE

BUSINESS TYPE: RETAIL

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	2
WORKMEN'S COMPENSATION(DOL)	1
TOO MANY LAYERS OF GOVERNMENT	4
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	1
COMPLIANCE	5
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	1
LIABILITY INS TOO HIGH	3
OVERREGULATION IN GENERAL	0
TORT REFORM	1
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	0
TAXES TOO HIGH(general statement)	3
PROPERTY TAXES TOO HIGH	1
USER/LICENSING FEES TOO HIGH	0
UNFUNDED STATE/FED MANDATES	0
WORKFORCE	
WORKFORCE INADEQUATE	3
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	1
LACKING BASIC SKILLS	2
LACKING BUSINESS SKILLS	0
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	1
ROAD QUALITY POOR	4
REGIONALIZE COSTS - INVEST	0
QUALITY OF LIFE	
CRIME RATE TOO HIGH	4
COST OF LIVING TOO HIGH	2
POLLUTION	0
OTHER ISSUES	
HEALTH CARE COSTS	4
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	3
UTILITY COSTS	0
TELEPHONE COSTS	0
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	0
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	0
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	1
RECREATION	2
GOOD HIGHWAYS(accessability to tri-stae area)	0
GEOGRAPHICAL LOCATION	3

NEW GOVERNOR(willing to make changes)	1
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	0
WORKFORCE	0
TOURISM	0
URBAN ENTERPRISE ZONE	0

Records selected:20

CATEGORIZED ISSUES BROKEN OUT BY BUSINESS TYPE

BUSINESS TYPE: SERVICE

	TOTAL FOR ISSUE
NEW JERSEY GOVERNMENT REGULATIONS/LEGISLATION	
ENVIRONMENTAL ISSUES(regulation, zoning, planning)	8
WORKMEN'S COMPENSATION(DOL)	1
TOO MANY LAYERS OF GOVERNMENT	2
SHIPPING REGULATIONS/COSTS	0
LABOR LAWS	2
COMPLIANCE	8
PERMITTING COSTS TOO HIGH	1
UNEMPLOYMENT INSURANCE TOO HIGH	2
LIABILITY INS TOO HIGH	5
OVERREGULATION IN GENERAL	1
TORT REFORM	2
STATE/LOCAL TAXATION	
CORPORATE TAXES TOO HIGH	3
TAXES TOO HIGH(general statement)	4
PROPERTY TAXES TOO HIGH	4
USER/LICENSING FEES TOO HIGH	2
UNFUNDED STATE/FED MANDATES	2
WORKFORCE	
WORKFORCE INADEQUATE	2
ON THE JOB-TRAINING PROGRAM(difficult to access)	0
EDUCATION SYSTEM	2
LACKING BASIC SKILLS	3
LACKING BUSINESS SKILLS	2
INFRASTRUCTURE	
MASS TRANSIT INADEQUATE	0
MASS TRANSIT AVAILABILITY INADEQUATE	0
ROAD QUALITY POOR	3
REGIONALIZE COSTS - INVEST	1
QUALITY OF LIFE	
CRIME RATE TOO HIGH	2
COST OF LIVING TOO HIGH	2
POLLUTION	1
OTHER ISSUES	
HEALTH CARE COSTS	3
BANKING(asset requirements; available financing)	0
POOR COOPERATION WITH GOV'T AGENCIES	2
UTILITY COSTS	0
TELEPHONE COSTS	1
BUILDING/CONSTRUCTION REGULATIONS	0
INSURANCE COSTS	2
LOCAL GOVERNMENT	0
FACILITY REINVESTMENT	1
MOST VALUABLE ASSETS NJ HAS TO OFFER	
CULTURAL ACCESS	2
RECREATION	1
GOOD HIGHWAYS(accessability to tri-stae area)	0
GEOGRAPHICAL LOCATION	5

NEW GOVERNOR(willing to make changes)	0
PRESENCE OF CORPORTATE HDQTRS	0
EDA ASSISTANCE	0
COMMUNICATIONS(fiber optics)	3
WORKFORCE	3
TOURISM	0
URBAN ENTERPRISE ZONE	1

Records selected:41

OCTOBER 28, 1994

Report

GOVERNORS COMMISSION ON ECONOMIC DEVELOPMENT

Tourism, Gaming, Arts and Culture Task Force

TASK FORCE MEMBERS

CHAIR: HELEN WALSH

TOM BALLEZZI
PAT KILLIAN
ALFRED CADE
YVONNE DOGGETT
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CAROL CRONHEIM
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LAUREN MOORE

NEW JERSEY ECONOMIC MASTER PLAN COMMISSION
TOURISM, GAMING, ARTS AND CULTURE
TASK FORCE

FINAL REPORT

INTRODUCTION:

Tourism is New Jersey's second largest industry. It is a vital component of our state's economy. As a leading industry and top employer, tourism brings nearly $20 billion to the state in income through tourist expenditures, $3 billion in tax revenues, and almost 500,000 jobs.

New Jersey's tourism industry is composed of numerous and varied segments, all of which are service providers. These segments include: accommodations, restaurants, amusements, campgrounds, museums, historic sites, theaters, retail establishments, airlines, motor coach operators, tour operators, travel agents, parks and recreation areas, and casinos. Many of these segments consist mainly of small- to medium-sized businesses that are family-owned and operated.

The Task Force examined the tourism industry as a whole. Representatives from the tourism industry, including gaming, arts and culture, came together for the first time ever to discuss their common areas of concern.

METHODOLOGY:

The objective of the Tourism, Gaming, Arts and Culture Task Force is to identify the key issues and challenges facing New Jersey's tourism industry and deliver recommendations for meeting them. The recommendations and conclusions put forth in this report were evolved through a series of six meetings of the Task Force and much deliberation by the three Task Force subcommittees. In addition, the Task Force held a public hearing in Trenton at which 15 people testified. Information sources such as the Longwoods International Travel Research Program report, the Roundtable Discussions Results Document, the Tourism at the Crossroads white paper, the 1992-93 report The Arts in New Jersey: A Study of Economic Activity, Local Incentives for Historic Preservation, State Tax Incentives for Historic Preservation: A State by State Summary, The National Park Service Annual Report, and the Crossroads Casino Regulation in New Jersey: The Case for Reform were used by the Task Force.

INDUSTRY PROFILE:

The Task Force examined the industry in three parts: the "regular" travel and tourism sector, gaming, and arts and culture. Although for the purpose of this report all fall under the broader umbrella of "tourism," it is useful to look separately at the parts that make up the whole industry.

Travel and Tourism:

As discussed above, New Jersey's tourism industry is a major contributor to the State's economy. The most recent figures, which are included in the Longwoods International Travel Research Program report for 1993, indicate that tourism expenditures reached $19.8 with $2.9 billion collected in revenues from direct and indirect taxes. The industry also provided 473,000 jobs with a payroll of $8.5 billion. In addition, for every one dollar spent promoting the state, more than $100 was reaped in economic benefits.

These figures represent tremendous growth and increase over the past three years, prior to which no reliable data is available. The following chart tracks expenditures, tax revenues, jobs, and payroll for the 1991, 1992 and 1993 travel years.

	1991	1992	1993
Expenditures (in billions)	$17.8	$17.9	$19.8
Tax Revenues (in billions)	$2.5	$2.6	$2.9
Payroll (in billions)	$7.5	$7.6	$8.5
Jobs	353,000	346,000	473,000

Source: Center for Survey and Marketing Research
(Includes both direct and indirect impacts)

The shore areas were responsible for over half of the total travel expenditures. These same regions generated 40% of all tourism-related jobs, 48% of the payroll and 55% of the state and local taxes.

Table 1 illustrates the 1993 Travel Expenditures for the six Regions.

Arts and Culture:

The Task Force attempted to consider the impact of New Jersey's cultural industry, which is made up of three areas: the arts, history, and the humanities. Because not all of the cultural industry is captured in the Longwoods Report, the figures above may actually underestimate tourism's economic impact.

The Task Force Subcommittee on Arts, History, and the Humanities represents the first time common issues affecting these three areas have been seriously studied together. The industry profile below is offered in the knowledge that it is not a complete accounting of the "arts and culture" industry. As an industry, it is difficult to define, and only a minimal amount of statistical data has been compiled. However, the information available shows that the industry has both a substantial direct and indirect economic impact on the state. Even more important, its activities are one of the key elements to the quality of life in New Jersey, making it more attractive place in which to live and work.

The Arts:

The conventional non-profit oriented definition of the "arts" encompasses such organizations as orchestras, opera, theater, dance companies, and art museums, as well as individual creative artists such as painters, sculptors, choreographers, poets, and writers of classic fiction.

Examining just non-profit arts organization, a recent New Jersey State Council on the Arts study demonstrates through a very conservative model that the combined annual impact of direct spending and patron spending exceeds $630 million per year. A study surveying the 17 county region of the New York/New Jersey Port Authority (including 8 northern NJ counties) concluded that the non-profit and for-profit sectors combined have a $9.8 billion impact on the region's economy. The non-profit arts employ about 5,000 full-time staff. They provide 125,000 job opportunities for artists. (New Jersey is home to over 47,000 professional artists.)

History:

In terms of the breadth and variety, New Jersey's historic sites are among the nation's finest. There are 1,226 sites encompassing over 26,000 buildings listed on the New Jersey Register of Historic Places. An additional 30,000 buildings are eligible to be listed on the Register. The history sector comprises three overlapping groups: the historic preservation design and construction industry, those people involved in historic preservation and education, and historians involved in pure scholarship. Several hundred private sector firms based in New Jersey specialize in work on historic buildings, employing architects, engineers, conservators, and contractors. In addition, New Jersey has 750 history groups, including 93 preservation commissions and 21 county historical commissions. The League of New Jersey Historical Societies estimates that at least 40,000 of our citizens participate in non-profit history organizations.

The economic impact of historic preservation is substantial. A survey of projects funded through the New Jersey Historic Preservation Bond Fund (in operation since 1990) indicates that every $10,000 awarded generates one job for the design profession or construction trades. Matching funds leveraged through historic "bricks and mortar" grants are estimated at $223,092,248, or approximately $10 of non-bond funding to $1 of bond funding.

The preservation of older buildings creates three times as many jobs as state-funded new construction, reflecting the labor intensive nature of historic preservation. The federal government has concluded that 5 to 9 more construction jobs will be created per project with rehabilitation than with new construction, and that 4.7 more new jobs will be created elsewhere in the community with rehabilitation than with new construction.

After only three years of operation, the Main Street New Jersey Communities program, a downtown revitalization initiative for historic areas, reports that in its nine downtown districts, 232 new businesses were created, 333 building improvement projects were undertaken, 1,227 jobs were created, and private reinvestment in building improvement projects totaled $33,070,419.

The Humanities:

Unlike the arts, and often history, the humanities are not organization-based. They are programmatic and take place in a variety of forums. A partial lists includes 52 New Jersey colleges and universities (with an estimated 2,328 humanities faculty); over 500 local public libraries; literary societies; historic sites and societies; public, private and parochial schools (with an estimated 85,000 faculty members); and educational programs at senior centers, houses of worship, etc.

The aggregate economic impact of the humanities in New Jersey has never been measured. However, grant making activity is documented. The National Endowment for the Humanities makes annual federal grants in New Jersey totaling approximately $3 million. All of these dollars are matched by non-federal local support, for a total direct economic impact of $6 million. The New Jersey Council for the Humanities, an affiliate of the National Endowment for the Humanities, funds and sponsors public humanities programs in over 80 locations each year and has an annual economic impact of $1.6 million.

Gaming:

The gaming industry, which is included in the Travel and Tourism profile, is one of the strongest industries in the state in its own right:

-- Direct casino hotel employment, 41,000 jobs.

-- Indirect employment impact of casino hotels, 34,400 jobs.

-- Share of New Jersey employment generated by New Jersey gaming industry, 2 percent--2 of every 100 jobs in New Jersey.

-- Total annual gaming industry payroll for wages, salaries and benefits, $1.2 billion.

-- Total reported industry employee gratuity income, $155 million during 1993.

-- Number of New Jersey counties in which 500 or more casino hotel employees reside, seven counties.

-- Total New Jersey gaming industry payments for state taxes and fees, $400 million annually.

-- Total gaming industry contribution to annual state government budget revenues, 3 percent.

-- New Jersey gaming industry purchasing from other New Jersey businesses, $1.4 billion in 1993 from 4,093 New Jersey businesses located in all 21 counties.

In the past five years New Jersey gaming has seen its expansion come to a halt with regard to the development of new casino hotel properties, although the existing industry plans for significant facility expansion in the next several years.

Competition is springing up in new jurisdictions, including proposed legalization of casino gaming in New York and Pennsylvania. A lack of interest in new gaming industry investment in Atlantic City is attributable in substantial measure to the highly restrictive business environment created by the New Jersey casino regulatory system, and the industry supports legislation to grant regulatory relief that will improve the business and investment climate for New Jersey gaming.

Proposals to allow riverboat casino gaming elsewhere in the state have been discussed with the strong conclusion that such investments, which would clearly be counter to the present state constitutional limitation that allows casinos only in Atlantic City, would establish inequitable competition within New Jersey.

Such competition would be a threat not only to the Atlantic City gaming industry, but also to the job, tax and community investment benefits the industry delivers to the state. The state's considerable investment in the region would also be at risk.

Experts in the investment community have commented frequently on the need to improve the gaming industry investment picture in Atlantic City. Many of these experts have identified gaming regulatory relief as a key measure to rejuvenate investment interest in the New Jersey gaming industry.

MAJOR ISSUES, CONCLUSIONS, AND RECOMMENDATIONS:

Issue I - Industry Relevant Tax Policies:

Tax issues were addressed from a variety of angles. Discussion focused on the negative effects that the implementation of new taxes on tourism services could present to the industry. Currently, revenues are raised for the industry through dedicated portions of local or city taxes, as in the case of Wildwood, or established and existing taxes like Atlantic City's occupancy and parking taxes.

It is important to the industry that portions of the existing revenues generated for the state by tourism activity be dedicated to the industry for tourism development and program implementation.

Conclusions and Recommendations:

The Tourism Subcommittee recommends that no new tourism taxes or expansion of taxes be imposed, as the industry provides enough revenue and employment and a tax would be a disincentive to new tourism businesses and travelers.

Issue Ib-Tax Incentives:

Federal and state tax incentives for historic preservation have also proven to be strong economic engines of development. In its heyday in the 1980s, the federal rehabilitation tax credit created the biggest boom preservation has ever known, stimulating more than $16 million in private investment, resulting in the rehabilitation of 25,000 historic buildings. Welcome increases in sales revenues, taxes, and jobs followed this boom. New Jersey benefited from the federal rehabilitation tax credit program as 363 approved projects generated $304 million in investment and created 12,150 jobs in the state prior to 1986.

Unfortunately, changes in the federal tax laws in 1986 have resulted in dramatic drops in these numbers. But some aggressive states have had the foresight to continue this preservation success by introducing state-level rehabilitation tax incentives. State tax credits for the rehabilitation of historic structures have been enacted in Colorado, Maryland, New Mexico, Rhode Island, West Virginia and Wisconsin. Tax abatements and exemptions for properties undergoing rehabilitation are now in place in Alabama, Arizona, Florida, Georgia, Indiana, Iowa, Louisiana, Mississippi, Montana, Oregon, South Carolina, South Dakota, Tennessee, Texas, Vermont, Virginia, and Washington. New Jersey can enjoy the same spur to revitalization while preserving significant historic buildings throughout the state.

The committee heard testimony from individuals relating to the importance of preserving historic buildings. Patricia D. Wilson of the Mid-Atlantic Regional Office of the National Trust for Historic Preservation offered the following: *"Preserved buildings and neighborhoods are important elements in heritage tourism, the fastest growing segment of the huge tourism industry. Travelers don't seek out communities that have transformed themselves into a hodgepodge of cookie-cutter housing tracts, cluttered commercial strips and bleak downtowns."*

Conclusions and Recommendations:

Integrate a state tax incentive into development planning as a tool to preserve historic sites and buildings and bolster arts and humanities organizations to aid in urban redevelopment efforts.

Issue II - State Regulatory Policy:

Over-regulation and overlapping regulation of the industry is a concern since tourism and related business can fall within the jurisdiction of several areas of government, i.e. DEP, DOT, DCA, Health, and numerous other departments and agencies at the local and county levels. Most affected are the businesses that include accommodations (hotels, motels, inns, bed and breakfasts, campgrounds), amusements, and food service.

The permitting and inspection processes are the primary cause of confusion and difficulty. Tourism businesses must adhere to a myriad of permit and inspection procedures, many of which are unrealistic and outdated, before receiving operating approval. In addition, because of the disorganization and autonomy under which the regulatory agencies operate, the whole process often takes too long for the small businessperson, jeopardizing financing of projects.

Conclusions and Recommendations:

A three-pronged recommendation was formulated by the subcommittee. The first aspect for consideration is the consolidation, or at least cooperation, of regulatory agencies at every level to develop more realistic fee and time schedules. A second facet recommends consideration of the privatization, where appropriate, of "fee and penalty" based organizations, particularly those that generate potentially self-sustaining revenues. Lastly, the recommendation reminds the government to consider the effects that other regulatory policies have on tourism, for example gasoline taxes, changes in health and other benefit programs, and the deinstitutionalization of the emotionally unbalanced and criminals into areas where tourism is a mainstay.

It is recommended, therefore, that the mission of the Tourism Advisory Council be revised to incorporate government cabinet-level members to review all state decisions that affect the tourism industry. Such an advisory body exists as a model on the federal level.

Issue IIb-Gaming Regulatory Issues:

The issue of regulatory relief is closely tied to improving the gaming investment climate in Atlantic City. As the industry's report observed, during the past five years no new gaming property has been built or opened in Atlantic City but in the same time span Las Vegas has experienced the greatest growth spurt in its history. In Las Vegas five new major theme casino hotel resorts have opened since 1989. Combined, the new Las Vegas properties offer more that 18,000 hotel rooms, equivalent to twice the casino hotel room inventory in Atlantic City. During August 1994 the operators of one of those new Nevada facilities announced plans to build still another 3,000 hotel room casino project in Las Vegas.

In an ironic sense the success of New Jersey in fostering a gaming industry whose integrity is above reproach helped encourage other states to legalize gaming which now competes with the industry in New Jersey. While Las Vegas experiences enormous growth and riverboat gaming spreads across the nation, absorbing billions of dollars worth of gaming industry investment capital, Atlantic City development has slowed to a halt. The gaming industry has identified the New Jersey casino regulatory system as one of the leading impediments to developing investment interest in the Atlantic City region.

Conclusions and Recommendations:

In a recent report entitled Crossroads Casino Regulation in New Jersey: The Case for Reform the Casino Association of New Jersey reviewed gaming regulation in New Jersey and proposed a series of amendments to the Casino Control Act to provide regulatory relief for the gaming industry. The industry made its proposals to enhance and maintain the competitive position of New Jersey gaming, and to bring to the attention of policy makers the fact that more than 16 years of actual gaming operations in the state establishes a fair and reasonable basis on which to reevaluate New Jersey gaming regulations for the purpose of improving the business climate in Atlantic City.

The industry proposals do not seek to relax the stringent licensing and integrity standards that New Jersey law and regulation have constructed to ensure the honesty of the gaming industry. They would create greater business flexibility and regulatory cost savings while maintaining business integrity. Chief among the industry's recommendations are:

-- Preserving the significant tourism and convention industry advantages of a major land-based urban gaming venue by continuing to restrict casino gaming in New Jersey to Atlantic City;

-- Reducing and capping the total combined commission and division budgets (now nearly three times the amount appropriated for the Board of Public Utilities for the regulation of all public utilities in the state). As Martin F. Blumberg, Chairman of the Greater Atlantic City Chamber of Commerce, said:
"It is embarrassing for us in New Jersey to spend almost three times more to regulate our twelve casinos, than is spent in all of Nevada. We propose a mandatory regulatory cost reduction of 50%."

Issue III - Key Legislative Issue:

The primary legislative concern of the Tourism Subcommittee is the continued and aggressive funding for the Tourism Master Plan. The subcommittee looks to the Legislature to dedicate levels of funding that will maintain a high level of activity, realizing that research indicates that tourism generates an elevated return on investment. Improved and aggressive state funding support of tourism will allow the Division of Travel and Tourism to reinstate grant and partnership programs, which empower tourism businesses and organizations and position them for success.

Conclusion and Recommendation:

Fund a five-year, comprehensive State Tourism Master Plan, incorporation gaming, arts, history, humanities, ecotourism, agritourism, etc into it for the first time. The plan should be reviewed every two years. Research proves that the state's investment in tourism directly affects the value of the return on investment received. Tourism brings new revenues into the state and is a leading industry. Increased funding will allow the Division to go forward with the Plan.

Issue IV - Workforce Availability:

Workforce availability encompasses two separate issues relating to tourism. Education and training directly affect the quality of the tourism product New Jersey is able to deliver. Cultivating a trained workforce through job fairs that will attract students to the hospitality, travel and tourism fields. Implementation of hospitality, travel and tourism courses or degrees at the college level, initiation of tourism and related apprenticeships, internships, and cooperative programs, and instituting a job data base of available positions will also improve the quality of the services delivered and provide many individuals with the skills to pursue a successful career.

Conclusion and Recommendations:

Assistance and support must be provided for individuals who want to enter tourism, hospitality, and travel fields through cooperative programs, internships, and increased data bases for employment within the state.

Issue V - Infrastructure:

Tourism is heavily dependent on New Jersey's facilities infrastructure for its success. The state's attention to the improvement and maintenance of services such as roads, signage, visitor centers, public transportation, and its tourism attractions -- such as the beach -- determines the quality of the product it is able to deliver. Projects including the Coastal Heritage Trail, Scenic By-ways, the Beach Replenishment Program, and the expansion of the Atlantic City and Newark International Airports are contributing greatly to the enhancement of New Jersey tourism.

Infrastructure is an important factor in the functioning and success of travel and tourism. Visitors must be able to reach their destinations quickly, easily and safely, equipped with the proper information and presented with a quality experience when they arrive.

Conclusions and Recommendations:

-- Provide for the continuation of the $15 million annual stable funding program for shore protection and preservation in order to make available matching funds for major U.S. Army Corps beach restoration projects, and to pay for state and local coastal area initiatives. Well-established, engineered beaches are necessary for two important reasons: to provide meaningful storm protection to upland areas, and to provide added recreational opportunities for residents and visitors alike.

-- Expand and improve existing Visitor Centers and locate new visitor facilities at major places of entry to New Jersey such as rail stations, international airports, the Garden State Parkway, New Jersey Turnpike,and interstate highway locations. Specifically, points of entry like the western corridor of I-78 and the new section of I-287 near the New York border. Also local tourism offices should be encouraged in historic buildings and at sites, many of which are already unofficially serving in that capacity.

-- Improve signage for and identification of places of interest to travelers, especially out-of-state and international visitors. Cultural sites and other tourism attractions should be linked on roadways with prominent, consistent, attractive signage.

-- Expand the coastal heritage trail and connect it to an interior heritage trail introducing visitors to the central and northern cultural and historic areas of the state.

-- Coordinate and support statewide efforts to help bring about urban revitalization and reinvestment in our older cities and towns.

Issue Vb-Atlantic City Infrastructure

The preamble of the Casino Control Act declares that a vital purpose is to make legal casino gambling "...a unique tool of urban redevelopment." To implement that mandate, the state and various agencies have embarked on a series of infrastructure development and investment projects designed to make Atlantic City an important national and international tourism and convention destination, reinforce the significant capital investment and job creation produced by the gaming industry, and protect the state's sizable investment.

The redevelopment of Atlantic City is happening now on a scale that will yield important public dividends in the years ahead. But, as much as has been done in the past 16 years, more must be done now in the face of changed circumstances brought about by competition to the New Jersey gaming industry from the expansion of legal casino gambling across the nation and the approach of gaming on the state's borders. The State Economic Master Plan should recognize the need to maintain the momentum of state investment in the Atlantic City region, where the gaming industry has become the anchor of the South Jersey economy.

Conclusions and Recommendations:

The state should continue directing and expanding state infrastructure investments in the Atlantic City region, including:

-- Completion of Atlantic City Convention Hall, a $254 million investment of the New Jersey Sports and Exposition Authority. The new hall will contain 500,000 square feet of exposition space.

-- Completion of the Atlantic City Corridor Project, an ambitious undertaking to remake the corridor of streets that connect the new convention hall with the boardwalk.

-- Continued development of CRDA projects to improve the Atlantic City region.

-- Strategic planning and action to establish Atlantic City International Airport as a regional airport and reliever of major metropolitan airports in the Mid-Atlantic and Northeast regions.

Issue VI - Quality of Life and Environmental Issues:

New Jersey's image as a crowded, polluted, dirty place prevails among people with no awareness of the state's attributes and qualities. This image can be improved through better advertising and public relations efforts. However, keeping the state clean, safe, and pastoral is the challenge. With the proper funding, programs can be instituted to support and maintain open space areas in the Highlands, the Pinelands, along the shore, in agricultural communities, and even in older developed areas. Public safety, as well, is key in the development of a successful tourism industry.

Conclusion and Recommendation:

The Task Force supports greater advertising and publicity efforts to increase awareness of New Jersey's open spaces, clean beaches, and tourism attributes. Greater awareness will bolster the argument for the preservation of these assets.

Issue VII - The State's Direct and Indirect Support Role:

State support is vital to the continued development and advancement of New Jersey's tourism industry. Through the Division of Travel and Tourism, the state can directly affect the progress made within the industry on a variety of levels and in a number of areas. Increasing the Division's funding will benefit both the state's public and private sectors. As Michael Francis, Chairman of the New Jersey Sports and Exposition Authority, testified: *"Why does there need to be a statewide strategy for attracting these events? The Final Four will bring New Jersey national attention, $50 to $100 million dollars in impact, and priceless positive television exposure....Yet for the Sports Authority the net revenue return is minuscule. For us alone it is hardly worth expending the marketing dollars. But the State would truly miss out if we had not. That is the dilemma which demands a statewide solution!"*

Conclusion and Recommendations:

In an effort to further develop New Jersey's tourism industry, the state should encourage groups to revitalize downtown, historic, cultural, and other areas that are potential tourist attractions, actively promote and use the airports and other transportation hubs in publicity programs, and include a tourism development component in EDA project assessment and bond allocation.

Issue VIIb - History, Arts and Humanities:

Revitalizing historic and cultural sites and their programming will restore an image that is recognizable and attractive to new and return visitors. It will create more attractions overall, and add destinations for tourism packages.

Our Task Force heard compelling testimony on this subject from the Director of the Mid-Atlantic Center for the Arts, B. Michael Zuckerman, Ph.D.: *"Nationwide, the most successful cultural tourism destinations combine charming historical and/or natural ambiance with outstanding cultural programming. Each is able to project a distinctive, instantly recognizable image that attracts visitors from afar. Here in New Jersey we have to honestly face the fact that only a handful of communities meet this standard. Besides Cape May, I can most easily imagine Princeton, Morristown, Waterloo Village, Wheaton Village, Clinton, and even Newark (once its Performing Arts Center is in place) as major contenders in the national cultural tourism sweepstakes. To focus resources on these communities, however, will require an act of great political courage--comparable to that shown by the State Arts Council in its support of Major Impact organizations."*

To achieve the goal of an improved tourism climate, the state should enter into funding partnerships and cooperative programs with private corporations and businesses. Companies with headquarters in the state should be tapped as funding sources, and all businesses should be encouraged to participate in partnerships to fund tourism programs. Testimony offered to our Task Force by Marshall E. Murdaugh, Executive Vice President of the Atlantic City Convention and Visitors Authority, not only reinforces this concept, but goes a step further by introducing the international marketing element as well: *"Growth of international air service at Newark International, as well as high volumes of international visitors in New York and Philadelphia, make New Jersey a strong potential destination for the high spending international visitors coming to the United States. With New York City holding the position of most frequently visited city by international travelers, New Jersey should capitalize on the opportunity to work with its own private sector, neighboring states, and the Port Authority of New York and New Jersey to stimulate growth in this market segment."*

Conclusion and Recommendations:

The Division of Travel and Tourism plays a key role in the development of tourism in New Jersey. The Division must further define its role with the New Jersey Travel Industry Association, regional tourism councils, and corporate partners. Each entity needs to be aware of its part in promoting the state as a tourism destination. Increased promotional and publicity efforts need to focus on advancing these goals at the Governor's Conference on Tourism and improving the state's image and identity as a tourism destination.

In addition, the governor should be actively involved in promoting the state and assume the role of "Tourism Ambassador."

Most important, the state must invest in the promotion of its Travel and Tourism industry and commit the marketing resources to the Division of Travel and Tourism to accomplish its goals.

CONCLUSION:

New Jersey is a small state with giant tourism opportunities -- an old state with great untapped potential. The goal of the Task Force was to take a new look at how tourism has operated in the past and examine possibilities for its role in our state's future.

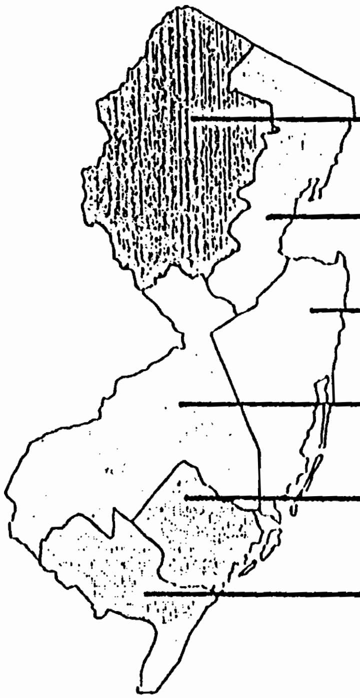
There are as many things to do in New Jersey as there are kinds of people -- and there are almost as many fresh approaches.

The job of the tourism industry is to find creative new ways to draw our residents and out-of-staters to our many attractions.

Tourism is important for our economy, important for our state, and important for our quality of life. It may be the second largest industry, but it's first in its ability to bridge common ground among our many residents.

With a strong state emphasis on its benefits to New Jersey, we can see what a difference a healthy tourism industry can make in all our lives.

1993 Travel Expenditures by Region



Skylands	$1.7 Billion
Gateway	$5.2 Billion
Shore	$2.1 Billion
Delaware River	$2.2 Billion
Greater Atlantic City	$6.5 Billion
Southern Shore	$2.1 Billion

TABLE 1

Source: Centre for Survey and Marketing Research

TOP 5 PRIORITY RECOMMENDATIONS
DO IT W

1. Recommendation: Fund a five-year, comprehensive State Tourism Master Plan, incorporating gaming, arts, history, humanities, ecotourism, agritourism, etc., into it for the first time. Review every two years.

2. Benefits and Expected Results

- *Near Term:* It would fulfill the legislative mandate – the Master Plan is supposed to be done every year, but has not been done in 14 years. Improve the return on investment of state dollars that go to tourism. Right now, for every one dollar we spend promoting the state, we reap more than $100 in economic benefits. Right now, the state collects $2.9 billion in revenues from direct and indirect taxes on tourism. This number could be increased.

- *Longer Term:* Raised profile of the state's assets. A better idea of how arts, history, humanities, gaming, environment, agriculture can be funded and nurtured. An increase in tourists, expanded job opportunities, and more revenue for the State Treasury.

3. Cost: No less than $250,000 in the first year FY '96

- *Who bears cost, how to pay for?* Additional funds in the Department of Commerce's Division of Travel and Tourism Budget or a separate line-item for the Tourism Master Plan.

4. Individual/Institutional Responsibility for Making It Happen:

- *Administrative/Legislative (i.e., government only solution):* Legislative revision -- revise law making it a five-year master plan with biannual updates. Budget change by Executive and Legislative branches.
- *Public/Private:* The Division of Travel and Tourism may be able to get some industry support.

5. Counter Argument(s):

- *What is opposition view?* It costs too much money. Plans are rarely used. and are not implementable.

TOP 5 PRIORITY RECOMMENDATIONS

DO IT NOW

1. Recommendation: Review gaming regulatory structure for changes that will enhance the efficiency of the industry and eliminate regulatory duplication between the Casino Control Commission and the Division of Gaming Enforcement.

2. Benefits and Expected Results:

- *Near and Long Term:* Reduction of excessive gaming regulatory costs; cost savings can be diverted toward development projects in the Atlantic City region.
- *Longer Term:* Improved gaming investment climate and removal of the impediments to development investment interest in Atlantic City.

3. Cost:

- *Who bears cost, how to pay for:* No cost; provides substantial capital for continued development of Atlantic City as a regional destination resort.

4. Individual/Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e., government only solution):* Executive Branch and Legislature.

5. Counter Argument(s):

- *What is opposition view?* Concern about integrity of the industry, objections from state employee unions.

TOP 5 PRIORIT' ECOMMENDATIONS
L. IT NOW

1. Recommendation: Create a permanent Governor's Blue Ribbon Economic Council for History, the Arts, and Humanities composed of public and private members to propose new and reliable revenue streams to allow cultural organizations to eliminate deficits, create endowments, provide ongoing operating support, address backlogs of capital construction and facilities needs, advance organizational planning and program development, create "visitor-ready" status, and develop strategies such as business incubators, technical assistance, etc. The Council should also consider the organization of the industry and develop a funding plan.

2. Benefits and Expected Results:

- *Near Term:* Provision of an official forum for the arts, history, and humanities to work together as one industry and establish an institutional foundation for consensus-building and problem-solving. Better long-term planning and integration into state economic plans. "Visitor-ready" status for more institutions, improved public outreach, and more options for New Jerseyans.

- *Longer Term:* Stabilization of the arts, history, and humanities industry, an improvement in its ability to contribute to the state's general economy and tourism industry, a stronger tourism industry, expanded job opportunities, increased revenue for the State Treasury, and ratables for local governments.

3. Cost:

- *Who bears cost, how to pay for:* Minimal administrative costs, paid either by the Governor's Office, a volunteer private sector partner, or by a combination of both.

4. Individual/Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e. government only solution):* Executive Order.

- *Public/Private:* Volunteer members appointed by the Governor from the public and private sectors.

5. Counter Argument(s):

- *What is opposition view?* It's just one more study group.

TOP 5 PRIORITY RECOMMENDATIONS

DO IT NOW

1. Recommendation: Include a tourism development component in the New Jersey Economic Development Authority project assessment and bond allocation process.

2. Benefits and Expected Results

- *Near Term*: Development and enhancement of New Jersey's tourism industry. Encouragement of revitalization of downtown, historic, cultural, and other areas that are potential tourist attractions.

- *Longer Term:* Improved cities, expanded job opportunities, lower social service costs, and greater revenue for the State Treasury.

3. Cost: Unknown.

- *Who bears cost, how to pay for?* Targeting of existing resources.

4. Individual/Institutional Responsibility for Making It Happen:

- *Administrative/Legislative (i.e., government only solution:)* Governor's Office, Economic Development Authority.
- *Public/Private:* EDA funds can be loans or grants matched by private sector financing.

5. Counter Argument(s):

- *What is opposition view?* One more burdensome criteria, and it's too vague. Doesn't everything affect tourism?

1. Recommendation: Existing state-controlled leasing, grants-in-aid, and real estate purchasing programs should give priority to the preservation and development of cultural resources, like reusing historic buildings for government offices, local tourism offices, affordable housing, downtown revitalization, creating cultural districts and improving the quality of design of the built environment.

2. Benefits and Expected Results:

- *Near Term:* A better, more efficient, targeted use of existing resources. Lower infrastructure and development costs.
- *Longer Term:* Enhancement of community and the quality of life in New Jersey. An improved environment by maintaining open space, encouraging redevelopment of urban areas and older communities, providing a stronger foundation for cultural tourism and improving the image of the state.

3. Cost:

- *Who bears cost, how to pay for:* Targeting of existing resources.

4. Individual/Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e. government only solution):* Executive Order with compliance demonstrated in budget requests.
- *Public/Private:* Public initiative that supports the private sector and non-profits.

5. Counter Argument(s):

- *What is opposition view?* It would take time to implement and change department and agency procedures and operations to a degree. It would rely on good faith efforts.

TOP 5 PRIORITY RECOMMENDATIONS
NEAR TERM (18 MONTHS)

1. Recommendation: Revise the mission of the Tourism Advisory Council to incorporate government cabinet level members to review all state level decisions that affect the Travel and Tourism industry.

2. Benefits and Expected Results:

- *Near Term:* Interagency cooperation on matters relating to tourism development -- DCA, DEP, NJDOT, etc.
- *Longer Term:* Attention to consistency of agency regulations bearing on tourism development.

3. Cost:

- *Who bears cost, how to pay for:* No additional cost--same as is currently allocated for the Tourism Advisory Council.

4. Individual /Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e., government only solution):* Governor's Office and the Department of Commerce and Economic Development.

5. Counter Argument(s):
What is the opposition view? Just a revamped state council. Cabinet-level officials won't have time.

TOP 5 PRIORITY RECOMMENDATIONS

NEAR TERM(18 MONTHS)

1. Recommendation: Develop and support training programs for individuals who want to enter or are currently employed in the tourism, hospitality, and travel fields through cooperative programs, internships, and the establishment of professional curricula at higher education institutions.

2. Benefits and Expected Results

- *Near Term*: Encouragement for more people to go into the tourism industry and better training of those already working in tourism.

- *Longer Term:* Creation of a positive "first impression" on visitors, enhancement of the delivery of tourism services, resulting in a higher quality travel experience, more return visits, expanded job opportunities, and greater revenue for the State Treasury.

3. Cost: Unknown.

- *Who bears cost, how to pay for?* Encourage the casinos and other members of the tourism industry to work with the state's higher education institutions to develop programs. Opportunity for creative public/private partnerships.

4. Individual/Institutional Responsibility for Making It Happen:

- *Administrative/Legislative (i.e., government only solution:* Executive Branch, private sector tourism interests, and New Jersey's higher education institutions.
- *Public/Private:* Cooperative effort between private sector and willing institutions.

5. Counter Argument(s):

- *What is opposition view?* There may not be enough interest from students and workers in the tourism industry.

TOP 5 PRIORITY RECOMMENDATIONS

NEAR TERM (18 MONTHS)

1. Recommendation: Continue redevelopment of the Atlantic City region through the effective utilization of private/public funds to diversify it as a tourist destination, making it more attractive to families, non-gamblers, etc.

2. Benefits and Expected Results

- *Near and Long Term:* Establish Atlantic City as a regional tourist destination, improve the entire Atlantic City region, protect the state's considerable investment in Atlantic City, increase the number of visitors to the region, expand job opportunities, and return more money to the State Treasury.

3. Cost

- *Who bears cost, how to pay for:* Casinos currently generate approximately $40 million annually for reinvestment.

4. Individual/Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e., government only solution):* State Government.

- *Public/Private:* Policy would encourage private sector investment and partnerships.

5. Counter Argument(s):

- *What is opposition view?* Investments would be more equitably distributed statewide.

TOP 5 PRIORITY RECOMMENDATIONS
NEAR TERM (18 MONTHS)

1. Recommendation: Continue exclusive concentration of the New Jersey gaming industry in Atlantic City.

2. Benefits and Expected Results:
Near Term and Longer Term:
- Protect and enhance the State's existing infrastructure investments such as the Atlantic City Convention Center, the Altantic City International Airport, and the Corridor Project. The State must ensure that its investment in these projects is realized
- Protection and preservation of the state's other tourism assets. as well as the state's cultural fabric.
- Protect and enhance the industries current investment in Atlantic City which is responsible for:
- a. 75,000 direct and indirect jobs which represents two percent of employment in New Jersey.
- b. Annual direct payroll of $1.2 Billion.
- c. Generating an estimated $1.4 Billion over 25 years for redevelopment projects.
- d. Providing over $600 Million annually in taxes to the state and other governmental entities.
- e. Since 1978 contributed over $2.8 Billion to the Casino Revenue Fund to aid senior and disabled citizens.
- f. Purchasing more than $1.4 Billion annually in goods and services from more than 4,000 New Jersey businesses.
- g. Preserves diversity of state.

3. Cost:
- *Who bears cost ,how to pay for:* Policy decision; no cost.

4. Individual/Institutional Responsibility for Making it Happen:
- *Administrative/Legislative (i.e. government only solution):* State Government. (Expanding gambling to other areas of the state would be at odds with the constitutional amendment that authorized casinos exclusively in Atlantic City, and in contravention of the 1974 referendum in which the public rejected statewide casino locations.)

5. Counter Arguments(s):
- *What is opposition view?* Various additional forms of gaming throughout New Jersey would be beneficial.

TOP 5 PRIORITY RECOMMENDATIONS

NEAR TERM (18 MONTHS)

1. Recommendation: Develop and implement a plan to link tourism attractions, including cultural and historic sites, on roadways with prominent, consistent, attractive signage, and to develop a comprehensive network of strategically located visitor centers. Review other states' systems of signage and visitor centers for ideas.

2. Benefits and Expected Results:

- *Near Term:* New attractive, consistent signs, a decrease in travel frustration, a safer route to sites, better traffic flow, etc. Higher visibility for sites, and better access to information on what's available in the Garden State.

- *Longer Term:* Increase in in-state and out-of-state tourism and a better state image. Increased attendance at sites, repeat tourism, local awareness, more jobs, and increased revenue for the State Treasury.

3. Cost: Unknown.

- *Who bears cost, how to pay for:* ISTEA funds, or Transportation Trust Fund money.

4. Individual/Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e. government only solution):* Executive Order to create an Executive Branch Advisory Panel which includes appropriate representatives from the DOT, DOC's Division of Travel and Tourism, NJSCA, NJHT, NJCH, DEP, various highway authorities, the State Association of Cultural and Heritage Commissions, the 6 regional tourism councils, county and municipal road supervisors, and any other representatives that the Advisory Panel feels are needed.

- *Public/Private:* Public initiative with private and non-profit input.

5. Counter Argument(s):

- *What is opposition view?* Some existing signs will have to be removed and incorporated in the new system. Funds for visitor centers better spent elsewhere.

TOP 5 PRIORITY RECOMMENDATIONS
MEDIUM TERM (MORE THAN 18 MONTHS)

1. Recommendation: An additional funding allocation to the Division of Travel and Tourism for the division's advertising and marketing efforts as well as funding for implementation of the Master Plan and for the regional councils.

2. Benefits and Expected Results:

- *Near Term:* Market NJ's "assets" (cultural, historic, scenic, gaming), and increase current rate of return of $100 for every dollar invested in tourism.
- *Longer Term:* Increase domestic and international visitors and increase average length of stay.

3. Cost:

- *Who bears cost, how to pay for:* Public /Private partnership -- for every marketing and advertising dollar allocated in the Division's budget, efforts must be made to get a private sector match.

4. Individual/Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e., government only solution):* Executive/Legislative Branches -- budget process.
- *Public/Private:* Division of Travel And Tourism, NJ Travel Industry Association and the Regional Tourism Councils.

5. Counter Argument(s):

- *What is opposition view?* The State doesn't have the money at this time. Why invest more when the return is good now?

TOP 5 PRIORITY RECOMMENDATIONS

MEDIUM TERM (MORE THAN 18 MONTHS)

1. Recommendation: To spur private sector investment, develop and implement a plan to use tax incentives to aid the growth and development of the cultural/tourism industry. Such a plan might include measures like creating a state-level charitable deduction for donations (including gifts of appreciated property) to non-profit arts, history, and humanities organizations similar to that allowed by the federal government, giving favorable state and property tax treatment for easement protected properties (e.g. taxing properties at current use) and for private-sector preservation efforts, giving state income tax credits for private, owner-financed historic rehabilitation or corporate contributions to non-profit preservation project owners, etc.

2. Benefits and Expected Results:

- *Near Term:* Increased economic activity centering around cultural and tourism organizations and sites.
- *Longer Term:* Increased tourism activity, more jobs -- particularly in urban areas, and increased revenue for the State Treasury.

3. Cost:

- *Who bears cost, how to pay for:* Initial loss of revenue to State Treasury offset by increased economic activity and private sector investment in cultural resources.

4. Individual/Institutional Responsibility for Making it Happen:

- *Administrative/Legislative (i.e. government only solution):* Governor's Office and Department of Treasury with private sector input, then legislation.
- *Public/Private:* Public plan to empower the private sector and non-profits.

5. Counter Argument(s):

- *What is opposition view?* The State can't afford short-term loss of potential revenue at this time.

TOP 5 PRIORITY RECOMMENDATIONS
MEDIUM TERM (MORE THAN 18 MONTHS)

1. Recommendation: New Jersey should strenuously support and provide for the continuation and expansion of the $15 million annual funding program for shore protection and beach preservation.

2. Benefits and Expected Results

- *Near Term*: Preservation of required matching funds for federally funded beach restoration projects and provision of funding for local coastal area initiatives.

- *Longer Term:* Maintenance and preservation of beaches and coastal areas will further enhance the overall quality of the state's tourism, increase return visits, expand job opportunities, and generate more revenue for the State Treasury.

3. Cost:

- *Who bears cost, how to pay for?* No additional cost, continuation of Real Estate Transfer Tax allocation.

4. Individual/Institutional Responsibility for Making It Happen:

- *Administrative/Legislative (i.e., government only solution:* Governor's Office and Legislature.
- *Public/Private:* Public allocation of taxes paid by the private sector.

5. Counter Argument(s):

- *What is opposition view?* Funds better spent elsewhere.

REPORT

URBAN ECONOMIC DEVELOPMENT TASK FORCE

Members of the Urban Economic Development Task Force

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REPORT
TASK FORCE ON URBAN ECONOMIC DEVELOPMENT

I. INTRODUCTION

Christine Todd-Whitman's first Executive Order as Governor of the State of New Jersey established the Economic Master Plan Commission to develop recommendations for stimulating the State's economic growth and prosperity. The Commission created nine industry and three cross-cutting task forces to achieve its objective. Each task force was charged with responsibility to research its subject, conduct public hearings and interviews, and present a report to the Commission.

The Task Force on Urban Economic Development is a cross-cutting task force; the issues are not industry-specific but encompass all the issues that define "urban environment."

While the citizen task force approach to identifying and resolving the State's urban economic ills is innovative, urban problems are by no means a recent phenomena. Both the State and Federal government have grappled to find solutions to the problems of New Jersey's cities for the past thirty years. *EXAMPLES: Model Cities (1966),Community Development Block Program (1974),Governor Byrne's Atlantic City Project, Enterprise Zones (1980), Gov. Florio's Camden Initiative (1992).*

Despite these government initiated programs, the citizens of New Jersey's cities are worse off today than they were thirty years ago. The urban flight to the suburbs has left behind a population that feels abandoned. Vacant stores, deteriorating properties, an eroding tax base, inadequate educational systems, and a growing fear of crime - perceived or real - have created a descending spiral of decay.

Basic services that suburban New Jerseyans take for granted, such as neighborhood grocery stores with reasonable prices, community banking institutions, safe recreational and entertainment facilities like movie theaters and playgrounds, are disappearing in urban centers.

Reverend Brian McCormick of Martin House, Trenton, best described the modern condition of New Jersey cities in his testimony before the Task Force:

"We have a society in which there is a permanent underclass. They have been processed out and cannot get into the dominant society. This constitutes a subculture with its own rewards and punishment as real as any third world

country that's discussed in academia."

Does this indictment mean that we should abandon our cities? On the contrary, witnesses at the Public Hearings would agree with the assessment of the drafters of the New Jersey State Development Plan when they stated:

"Urban areas represent a valuable asset. They reflect substantial prior investments; occupy strategic geographic locations; provide more efficient land-use patterns; and contain significant, yet often untapped, human potential."

Witnesses saw a direct link between the prosperity of the non-urban areas and the economic vitality of cities, sharing the belief that "as our cities go, so goes the State."

"This State of ours will only get strong and vibrant if the cities are strong and vibrant. Cities are what's happening. We need to make investments, not handouts." Honorable Douglas Palmer, Mayor, City of Trenton.

"For every $2 that is generated in an urban area, an additional dollar is automatically generated in a suburban area, and in terms of property values, for every dollar that's created in commerce in an urban area, property values in suburban areas increase by about 90 cents." Alan Mallach, Director, Dept. of Housing and Economic Development, Trenton

Economic growth is the driver for urban survival; yet the Task Force recognized that economic growth cannot be separated from the underlying social issues - those quality of life issues - that, in many cases, become the determining factors in a decision to locate a business or purchase a home in an urban area. As Richard Belotti, Editor of the Trenton Times, testified, *"Economic development cannot be viewed as a downtown oriented initiative separated from affordable housing, decent medical care, quality education, and clean and safe neighborhoods."*

II. IDENTIFICATION OF ISSUES

The Task Force identified that the American economy and the business of its cities has shifted away from traditional manufacturing to a technology driven economy, and brain power is now the natural resource of choice in this age of the ever down-sizing company.

The Task Force recognized that the definition of the problems was as critical as the identification of the solutions. Given the complexity of the issues and their cross-cutting potential, the Task Force searched for a focused definition of "Urban Economic Development" and a statement of the objectives to be achieved.

Urban Economic Development = Job Creation and Business Retention

Objective: Identify projects that offer the greatest local multiples for employment creation and successfully contribute to enhancing the quality of life in urban centers.

The Task Force then identified three priority issues they believed represented the greatest barriers to achieving job creation and business retention; these barriers were confirmed in the Hearings and Interviews.

- Job Training/Workforce Readiness
- Financing and Technical Assistance to Smaller Businesses
- Environmental/Regulatory Issues

- **JOB TRAINING/WORKFORCE READINESS:** Jobs are the top concern in cities worldwide. A United Nations survey of 130 mayors from every continent found unemployment to be the number one urban problem, followed by inadequate housing (reported in the Wall St. Journal, 8/23/94.) New Jersey's experience bears this out. While jobs throughout the state have doubled over the last several decades, jobs in our major cities have declined by more than 35%. Compounding the decline in available jobs in our cities, is the growing problem of an underskilled, untrained employee market for businesses that choose to start or expand their operations in urban centers.

  "The most serious obstacle to economic growth in Newark is the lack of properly educated and trained employees. From factory workers to secretaries to telephone operators by far the biggest problem we have in operating in Newark is finding and keeping competent, educated workers. The local schools simply do not produce enough young adults with the basic skills needed to succeed at relatively simple entry-level jobs. Paul Kurland, VP and Chief Financial Officer, Handy Store Fixtures, Newark

- **FINANCING:** There is a perceived lack of capital for new business start-ups and smaller, character-based loans in urban areas. It is believed that there needs to be a special focus on financing and financial incentives to keep and attract businesses to the cities.

  "Micro businesses have historically not been able to obtain start-up funding or funding for business expansion. Consequently, many minority business enterprises continue to have businesses that are very often of the Mom & Pop variety and are forced to maintain a hand-to-mouth

existence." Lesley Carter, Noir Communications, Inc.

- **ENVIRONMENTAL/REGULATORY ISSUES:** The actual physical condition of urban properties, the unpredictability of permits and approvals, the cost of remediation, and the lack of incentives are major impediments to recruiting, retaining, and expanding businesses in urban areas.

  "The cost and time required to treat the environmental problems which are part of living, working, building, and developing in the city of Newark and other cities, must be addressed on a broader basis beyond the project, and beyond municipal boundaries, because the fees for controlling and improving these conditions, jeopardize their rehabilitation." Rosemary Hocking, Director of Development, City of Newark

IMPLEMENTATION

The Task Force believes that the key to the successful implementation of these recommendations is the development of targeted public/private partnerships with both state and local government and community groups working in concert to achieve mutual goals.

Governor Whitman has taken a very important first step by having her Office of Policy and Planning focus on the development of an urban strategy. This is the start of a process that will focus on cooperative problem solving partnerships between the state and our cities.

An Urban Coordinating Council will bring together representatives from key departments of State Government to address urban issues. To be effective, this process must be replicated on the local level. Governmental departments or agencies, such as the Department of Labor, Environmental Protection, or Commerce, should deliver these services through the local Urban Coordinating Council.

The local Urban Coordinating Council members - representing non-profits, CDCs, churches, local EDCs, financial institutions, etc. - must work together as a team to identify critical issues, develop a strategic plan, and pool resources to achieve their objectives. State Government should stand ready to leverage, not replicate, those resources. State services must be efficient, non-duplicative, and meet the needs of the community - in short, a "bottom up" approach to governance.

A strategic link in community empowerment is the creation of ownership by residents and local business people. Without a stake in the neighborhood or larger community, the quality of life in the cities will go unchanged. It will continue to be "someone else's problem." Ownership engenders concern about neighborhood safety, vandalism, property values, and local schools. We believe that an environment that attracts business and creates jobs, also empowers the residents to take control of their lives, their neighborhoods, and their cities.

"We can build all the nice buildings and have as many stores as we want, but if the people in the neighborhood and in the community do not have a shared interest in those, then what's going to happen is that there's going to be graffiti laden (buildings), there's going to be crime, there's going to be problems."
Honorable Douglas Palmer, Mayor, City of Trenton

III. PUBLIC HEARINGS

Public hearings were conducted in Trenton, Newark and Millville during the months of August and September. Sixty people, representing a broad cross-section of public officials, small business owners, community non-profits, churches, and economic development professionals testified.

Witnesses were requested to outline what they perceived to be the three primary barriers and solutions to economic development and doing business in New Jersey urban areas. The findings of these hearings served to shape the recommendations that we have outlined in this report.

(List of Witnesses - Attachment I. Summary of Testimony - Attachment II. Complete Testimony available through Dept. of Commerce).

IV. INTERVIEWS

Phone Interviews with industry leaders and letters to the Task Force Chairperson confirmed the hearing documentation. **(Interview Contact List - Attachment III).**

V. URBAN PROFILE

Ironically, defining the term "urban" became another hurdle to overcome. Very often the eight cities designated as urban centers in the State Plan (Atlantic City, Camden, Elizabeth, Jersey City, New Brunswick, Newark, Paterson, and Trenton) are considered to be the "only" urban areas in New Jersey.

However, we found that more and more cities around the State share the problems of the "Big 8" and are clamoring to receive special assistance as regional centers. Cities that have been assigned an "Urban Level 1" classification by the State's Office of Management and Budget's (OMB)

Municipal Distress Index, argue that they too should be recognized as regional centers and receive special attention and assistance to avoid their future decay.

The index prepared by Office of Management and Budget (OMB) rates New Jersey's 567 municipalities in the areas of unemployment, per capita income, ratio of older and sub-standard housing, percentage of children on welfare, rate of population change, average equalized tax rates and the equalized valuation on real property per capita. This data in turn is used to determine each municipality's "urban level" on a scale from one to five.

Municipalities assigned the "Urban Level 1" classification are considered to be the most urban. The State Plan has defined cities in this category to be "densely settled and developed core communities that serve as the administrative and business centers for their surrounding areas."

Of New Jersey's 567 municipalities, 29 have been assigned the Urban Level 1 classification. In addition to the traditional eight urban centers, this list includes cities such as Asbury Park, Cape May, Dover, Englewood, Flemington, Millville, Somerville, Vineland, and Wildwood. **(Designated Urban Centers - Attachment IV, Multiple Stress Index - Attachment V.)**

As the Urban Level 1 classification illustrates, cities are meant to be economic centers for their surrounding regions. This approach to "urban issues" is essential to the entire State's future, as the State's economic prospects cannot be broken down between the cities and suburbs.

As Commissioner of Commerce and Economic Development Gaulberto Medina reminded us, *"Besides Washington, D.C., New Jersey is the only jurisdiction in this country with a population that is considered to be 100% metropolitan by the U.S. Census Bureau."* Some might consider this label to be an indictment; however, leaders in the field of urban issues believe that New Jersey's metropolitan status is actually an opportunity for the State to be a national model in regionalization.

"I think we need to begin to look at cities as centers of regional commerce. By doing that, by looking at them in a sense of being not an anchor, not a weight, but as a very positive focus for economic activity, only then can we begin to do something about the decline of our urban areas in New Jersey."
Robert Prunetti, County Executive, Mercer County.

"There is no development plan or single set of strategies that can work for Newark without considering the relationship between Newark and Roseland. One cannot survive without the other. We can address this problem by recognizing the real economic connections with regions that connect, not divide, city and suburbs."

Sam Crane, Executive Director, Regional Business Partnership

VI. FINDINGS

A common theme emerged from the Hearings and the Interviews - the need for local communities to accept responsibility for and be actively involved in addressing and solving their own problems, with the financial and technical support of State government. The Task Force believes in this philosophy so strongly that we recommend it as the guiding principle of the Governor's Economic Strategy for New Jersey.

The way we define the "problems" of our cities is as important as the "solutions." Problems are most always defined by outside "experts." There seems to be a basic assumption that our cities are failing largely because of administrative mismanagement and lack of technical expertise. To some degree, this is surely true.

However, the reality is that traditional "good government" principles being applied to urban management will not solve the problems. We must challenge this "top-down" paradigm.

Across the country, governments are finding that the best results are coming from a growing number of relatively small initiatives arising from public/private partnerships. Over the past 15 years in particular, local organizations, from CDCs to churches to intermediaries, are succeeding where government programs have failed.

Importantly, a growing number of urban organizations are becoming technically competent in real estate, economic, and social service development. This phenomenon should define the new paradigm shift for the Administration. The questions should be, "How do we push decisions down to as local a level as possible?" How does public policy foster this more market and consumer driven movement?"

What is important:
- How are the problems being defined?
- Who feels ownership over the results?
- How do we create ways to involve those we intend to serve?
- How do we get the experts out of the way?

PREFACE

- The Urban Task Force recommendations focus on the "doables", the short-term actions that can be implemented, not through spending more dollars, but through reallocating existing resources and shifting priorities to meet the Governor's urban objectives. We have carefully avoided the "further study" category for we believe that the Governor must act now to restore our cities.

- We recognize that the complexity of urban Quality of Life issues require longer-term solutions. However, we address the subject in this report because the Task Force believes that there is an inexorable link between economic vitality and the quality of life of those who work and live in urban areas. Safety, affordable housing, good schools, recreational areas, clean buildings and streets, and access to food markets and consumer goods cannot be overlooked in the Governor's plan for our cities.

  We believe, as previously stated, that over time the creation of jobs will provide the environment and incentives needed to instill personal and neighborhood pride, deter crime and vandalism, and reduce school truancy and dropouts.

  Short-term, we offer a few innovative recommendations:

  a) Experiment with new approaches to education in urban areas, such as the voucher system, to stimulate improvements in the educational system and demand more accountability from educational insititutions.

  b) Provide incentives to municipal firefighters and police officers to establish residency in city of employment. Examples: homesteading, tax abatements, property rehabilitation grants, mortgage forgiveness for pre-determined period.

  c) Enhance urban environment through additional open space preservation and improvement projects, such as community gardens.

  d) Support public/private partnerships for special improvement districts.

VII. RECOMMENDATIONS

- LOCAL INITIATIVES
- JOB TRAINING/WORKFORCE ISSUES
- FINANCING and TECHNICAL ASSISTANCE ISSUES
- REGULATORY and TAX ISSUES

1) **LOCAL INITIATIVES**

BARRIERS: **Those most affected by state urban policies - urban residents, businesses, and their respective organizations - rarely participate in or take ownership of the definition of urban problems or their solutions.**

In addition, there is a perception that state regulations and management thwart local initiatives and innovation, preventing economic growth.

TESTIMONY:

"Most of the time, we're driven by the agenda of the state rather than our organization being driven by our own mission and purpose." Monsignor Robert McDermott, St. Joseph's Carpenter Society, Camden

"The State has got to provide resources, but to do so in a way that respects the ability of these communities to set their own priorities, plan their own strategies, and carry them out. The State has to be a partner, not a ruler." Alan Mallach, Director, Department of Housing and Development, Trenton, NJ

"I believe State government needs to strongly support and encourage community-based nonprofit groups as the principal planners and implementers of local programs." Dick Frank, Director of Program Development, New Jersey Community Loan Fund

"It is imperative that municipal government bring the entire community, including businesses, labor organizations, community-based organizations, the educational community, and residents together as partners in identifying and defining problems, and in the rebuilding task." Jim Phillips, Director of Program Planning, New Jersey Department of Labor

SOLUTIONS:

a) Provide incentives to local private and public organizations to engage in formal economic and community development action planning in order to qualify for special state funds and programs.

b) Encourage use of local and neighborhood development corporations to attract private and public funding and to create innovative public/private partnerships for revitalization activities.

c) Provide urban areas with greater latitude to develop and implement local incentives for economic development, such as tax abatements, environmental cleanup and rehabilitation regulations. (Refer to Senator Richard LaRossa's homesteading concept.)

d) Establish an inclusive ongoing forum to discuss urban economic development. The Governor's Urban Coordinating Council should give highest regard to locally defined problems and solutions.

e) Reassess the financial return of urban enterprise zones to individual businesses and the community before recertifying or expanding program.

2) JOB TRAINING/WORKFORCE ISSUES

BARRIER: **Current training programs on Federal, State, and Local levels need to do more to prepare urban residents for today's marketplace. Too often, today's programs give little hope or skill beyond entry level positions.**

TESTIMONY:

"On-the-job training doesn't work. It takes too much time from our existing employees to maintain our regular flow."
Thomas B. Royal, H.M. Royal, Inc.

SOLUTIONS:

- **Partner with Government and local resources to customize current training programs to meet today's market needs for a skilled and reliable workforce.**

  a) Strong emphasis should be placed on "work ethics/life skills" training for urban unemployed and under-employed. Moreover, life skills training should be required in the public education system beginning at the early elementary school level.

  b) Utilize the resources of community colleges to:
     1. Create and computerize an urban job bank program to connect employed/underemployed with local employers;

2. Provide the technical and basic skills training required for the job market;

3. Coordinate child care services at the college for students who require this accommodation to attend classes.

c) Work through local churches and community groups to recruit workers and partner with business in on-the-job training. (Many role models exist throughout the State. Directory of Witnesses is excellent resource.)

d) Conduct an audit of the Office of Customized Training for efficiency, timeliness, service, customer focus, and job placement/retention rates to insure the Office meets the customer's needs.

e) Evaluate value of financial/local tax incentives for hiring local workers.

3) FINANCING and TECHNICAL ASSISTANCE ISSUES

BARRIER: **Current access to start-up equity and micro-loan funds is limited, especially in urban areas.**

TESTIMONY:

"If we are serious about urban area development, the private financial sector must be enticed by public sector programs to lend, or at least consider more seriously and frequently, the investment projects presented to them." Christopher Vernon, Owner, Auto Valet Car Wash, Trenton

SOLUTIONS:

- **Create Venture Capital Programs**

a) Develop corporate partnerships between public entities (such as the NJEDA, NJDA, and CRDA) and private lending institutions and non-profit groups (such as Community Development Corporations) to fund medium-risk start-up businesses that have high growth potential.

- **Create Micro Loan Funds**

a) Amend New Jersey Development Authority's enabling legislation to expand funding capability to areas outside the Atlantic City region. This will enable the NJDA to offer micro-loans to urban operated businesses throughout the State.

b) The Departments of Banking, Commerce and Community Affairs should reallocate resources to provide matching loans or grants for operating costs to Community Development Corporations as an incentive to start community loan pools. This investment will enable CDCs to fill the financing gap for small business loans under $50,000.

Recognizing limitations of capital and the need to monitor performance, this should be a targeted program in a limited number of locations. Participating CDCs must demonstrate that their leadership (i.e. members of its board) and staff have extensive backgrounds in economic development.

c) Encourage State/Private financing institutions to participate in, guarantee, or buy character-based loans made by CDCs. This will serve to create a revolving source of start-up capital for small business loans under $50,000 and help to overcome the banking industry's wariness of such loans because they are expensive and have a high loss ratio.

BARRIER: There is insufficient private investment capital going into large urban projects that showcase urban centers, such as office complexes, museums, and entertainment centers.

TESTIMONY:

"I believe that cities need to be perceived as educational, cultural, and living centers." Dick Frank, Director of Program Development, New Jersey Community Loan Fund

SOLUTIONS:

a) Reinstate and expand the legislation for Tax Increment Financing for urban communities on a competitive basis throughout the State.

To determine eligibility, the Departments of Community Affairs and Commerce should sponsor an application process similar to the one for federal Empowerment Zones, and award tax increment financing eligibility to a limited number of municipalities for specific projects each year.

BARRIER: **Although the NJEDA has made more loans to businesses and projects in the state of New Jersey than any other agency of its kind in the country, there appears to be a lack of awareness among small business owners as to the availability of capital and the process required to access it.**

TESTIMONY:

"Most in the inner cities have no idea where to even get started, or if they do, there's enough red tape to discourage them from going any further." *Reverend John Harris, Galilee Baptist Church, Trenton*

"There are a plethora of assistance programs out there. However the information is not getting through to the small business person who needs assistance." *Glenn Patterson, Director, Department of Planning & Economic Development, New Brunswick*

SOLUTIONS:

- **Sponsor Education Programs**

  a) Expand and/or model finance-linked local training programs for entrepreneurs after the Entrepreneurial Training Institute, currently sponsored by New Jersey Development Authority in Atlantic City. These programs will provide potential small business owners in urban areas with the technical assistance they need to start a small business, apply for a loan, and keep the business going.

  b) Encourage public and private lending institutions to sponsor training sessions on credit evaluation and loan processing for Community/Economic Development Corporation loan officers.

  This could be done in two ways: by establishing a new program at the Department of Labor's Office of Customized Training taught by banking professionals; or by encouraging banks to allow CDC/EDC loan officers to participate in their regular training programs.

- **Market Existing State Programs**

  a) Expand Governor Whitman's "What a Difference a State Makes"

Campaign to highlight the State's currently successful programs, such as the Economic Development Authority and the Office of Customized Training.

b) Distribute information on loan programs through local channels, such as utility bills, county clerk's office, library computer information, community colleges, community bulletins. Provide information in English and Spanish.

4) Regulatory and Tax Issues

BARRIER: **New Jersey's high environmental standards are an incentive to recruiting clean industry, such as R&D, bio-tech companies, and financial services. However, DEP regulations are perceived as barriers to economic development.**

TESTIMONY:

"We have spent $3 million on our project to date.... but I believe that this could have been done with 1/3 (of the money). The mitigation plan we had two years ago is exactly the one we have approved now. It just took a couple of million dollars and 2 years to convince DEP that it was the right solution." Peter Aagaard, Managing Partner, OENJ Corporation

"We had an opening scheduled for late July, 1989. We had people hired, advertisements done. The day before opening, the DEP stepped in and shut us down for six months. We virtually got within an inch of bankruptcy. And it had nothing to do with us; it was a problem with the town's sewer system." Alfred Pedemonti, Owner, Wheaton Village Hotel, Millville

SOLUTIONS:

- **Reassess DEP Urban and Statewide Regulations and Enforcement Policies in terms of their user friendly and customer service approach to business.**

a) Modify (not compromise) DEP standards for urban properties - industrial, commercial or residential - which consider the historical condition of the site, the cost of compliance, and the realistic future use of the property.

b) Conduct Performance Audit of Hazardous Discharge Site Remediation Fund which was instituted under ISRA in 1993 to measure its effectiveness in returning abandoned sites to tax rolls in urban areas. Take remedial action, if necessary.

c) Establish standard for conceptual approvals to alleviate fear of unknown costs and time experienced in complying with DEP regulations.

d) Establish "sign offs" for DEP environmental approvals so that a site may not be revisited or incur further fines or restrictions, unless there is evidence of new contamination.

e) Eliminate DEP's fee-based revenue system by diverting fees to the General Treasury to create a less hostile relationship between the agency and the client, but insure that DEP receives adequate funding from the Treasury to do its job well.

f) Certify private environmental consultants to outsource development of site cleanup plans from DEP. This would give government the approval "rights" but take them out of the inspection and planning business.

g) Conduct a user-based audit to determine DEP's impact on urban small businesses and develop recommendations on how DEP can better assist these businesses.

- **Consider effectiveness of flexible utility rates and service options as enticements for recruiting new business to urban areas.**

- **Establish special building codes for urban rehabilitation projects.**

- **Assess land value taxation barriers to redevelopment. Research impact of reform in other states, such as Pennsylvania.**

VIII. CONCLUSION

The Task Force is convinced that the philosophy of "grass roots" organization must be the theme of the Governor's efforts to stimulate urban economic development. The Task Force also recognizes that to be most effective in the individual cities we not only need a continuous improvement approach but a contiguous approach.

While the Task Force has addressed short-term solutions, State Government must make a long-term commitment to resolving the problems of urban economic development.

We believe that State Government can make significant strides by enabling local initiatives to flourish.

"OUR CITIES ARE NEW JERSEY'S CONTRIBUTION TO URBAN CIVILIZATION, AND WE SHOULD TAKE THE SAME PRIDE IN THEM THAT WE DO IN OUR SHORE, OUR FARMLAND, AND OUR MOUNTAINS."

New Jersey State Planning Commission

ATTACHMENTS

URBAN ECONOMIC DEVELOPMENT TASK FORCE

NEWARK HEARING WITNESSES: AUGUST 30, 1994

Commissioner Gualberto Medina
Department of Commerce & Economic Development

The Honorable Raul Garcia
Assemblyman, Union City

The Honorable William Pascrell
Mayor, City of Paterson

Anne S. Babineau
Wilentz, Golden & Spitzer

Sam Crane
Greater Newark Partnership

Robert Horowitz, Owner
Checkers Restaurant
East Orange

Alfred Faiella
Executive Director
Newark Economic Development Corp.

George W. Williams
Sr. Economic Development Coordinator
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Samuel M. Convissor, President
Partnership Against Illiteracy

Tom Moritz
Greater Newark Conservancy

George McLoof
Longstreet Development Corp.

Owen Tonkins
Director of Community Development
City of Paterson

Vincent Cortese, President
Greater Paterson Chamber of Commerce

Marcial Huertas, President
Hispanic Chamber of Commerce

Glenn S. Patterson, Director
Planning & Economic Development
City of New Brunswick

Paul Kurland, Owner
Handy Store Fixtures, Inc.

Gerard Joab
Local Initiatives Support Corp.

The Honorable Mark L. Scotland
Councilman, East Orange

Omar Barbour
MLK Neighborhood Development Corp.

Peter Tomasi, V.P.
NatWest Bank
Government Participation Unit

William Hunter, Executive Director
Urban Resource Dev. Corp., Irvington

Rosemary Hocking
Director of Development
City of Newark

Monsignor William Linder
New Community Corporation

Tom Ahearn
Executive Director
Jersey City Economic Dev. Corp.

Stanley Weeks, Senior V.P.
City National Bank

Glenn Langberg
Real Estate Developer

Attachment I-2

TRENTON HEARING WITNESSES: AUGUST 24, 1994

The Honorable Douglas Palmer
Mayor, City of Trenton

The Honorable Arnold W. Webster
Mayor, City of Camden

Robert Prunetti, County Executive
Mercer County

Reverend Brian McCormick
The Martin House, Trenton

Alan Mallach, AICP Director
Department of Housing
& Development
Trenton

Dick Frank
NJ Community Loan Fund

Nancy Beer
Roebling Community
Development Corp.

Harry Moscatello
Accutech Environmental Services

Anthony A. Santana, Jr.
President and Executive Director
Hispanic State Chamber of Commerce

Elizabeth Johnson
Director, Department of
Recreation and Natural Resources

Reverend John Harris
Galilee Baptist Church

Lesley Borges Carter
Noir Communications Inc.

Glen Fishman, President
First New Jersey
Real Property Management Group

Roger Hinton
International Minority Business Corp.

Clinton Crocker
Monmouth County Urban League

Richard Belotti
Publisher
The Trenton Times

Peter Aagaard
OENJ Corporation

Robert Furlong, Owner
The Fair Clothing Company

Thomas B. Royal, President
H.M. Royal, Inc.

Christopher Vernon, Owner
Auto Valet

Paul Grogan, Executive Director
Local Initiatives Support Corp.

Kathleen Smallwood Johnson
Trenton School District

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MILLVILLE HEARING WITNESSES: SEPTEMBER 8, 1994

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Assemblyman, 1st District, Vineland

The Honorable Robert Shannon
Mayor, City of Millville

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Director of Development
City of Millville

Reverend Robert McDermott
St. Joseph's Carpenter Society
Camden

Kevin Kirshner
City of Vineland

Robert Blough
City of Vineland

Mr. Sam Pappalardo
Director of Economic Development
Gloucester County

Martin Manco
Camden Laboratory LP
Camden

Carol Ann Clements
JEN-CYN Enterprises
Camden

Thomas E. Hoverson
Comarco Quality Pork Products
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Alfred Pedemonti
Wheaton Village Hotel, Millville

Michael Lascarides
Director of Economic Development
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Attachment II

UBAN ECONOMIC DEVELOPMENT TASK FORCE
SUMMARY OF TESTIMONY FROM PUBLIC HEARINGS

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Bob Prunetti Mercer Co. Econ. Dev.	*Regional strength is key*	Need loan pool facility	Environ regs are a problem	Homeownership is key		$2 in city stimulates $1 in suburbs.
Mayor Palmer Trenton	Investments, not handouts.	Need floating bonds for envir. clean up		Job training needs improvement	Small business funding needed	*Convention/ tourism focus on history*
Rev. McCormick Martin House	Inner city is dumping ground		*Lack of risk/benefit assessment. Bldg codes, etc., burden*	Permanent under-class - Need to humanize		Need delivery system to benefit urbanites!
Alan Mallach Trenton E.D. Director	State is key to resources	*Unpaid tax forgivenenss imp Need tax incents*	Expand Urban Enterprise Zone Assistance Fund -	Training must target urbanites	State Procurement provides $. Need low int loans	Need State $ for site cleanup
Harry Moscatello Environ. consultant	ECRA has chilling effect Need certainty in cleanups		Review industrial site recovery act	*Why not train for remediation jobs?*	Need low int. SB loans	Clean-up Cost assistance critical

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Christopher Vernon Bus. onwer	Problems are money, support & perception		Negativity problem		Investr,official inspectors need one goal	Perception must be changed
Mayor Webster Camden	Negativity, lure to suburbs & promises caused exodus	*Tax breaks for small bus. & non-profits*		Fair funding for education	Need $ for demolition, repair & upgrade	Crime control
Paul Grogan E.D. LISC	Barriers: concentration of poverty, inadequate $, lack of security	CDCs need help		*"Vouching" of workers necessary for advancement*	Look for untapped & underserved markets	Need to connect to suburbia
Elizabeth Johnson Trenton Weed and Seed	Need One Job per family		*Environmental Remediation & open space*	Professional Internships for student		Regionalism important
Dick Frank Assoc. ED NJ Commty Loan Fund	Unemployment #1 problem	*Facilitate CDCs*	Lender's liability a problem		State should Partner with non-profits	Tie Education & Culture with Living
Nancy Beer Roebling CDC	*Need Tourism - "fun & excitement"*				$118 m retail sales left city in '88	Strengthen assets & encourage work/ life mentality
Anthony Santana Hispanic Chamber	Abandonment, affordability & access	Exemptions, credits, rebates important	Water & sewer upgrades		Fund historic districts	Identify mixed use patterns

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Rev. Harris Galilee Baptist Church	Remove red tape	*Change :ex. Can't have checking Acct & be on welfare*		Need back to basics approach - self-respect, reliance & responsibility	Need training on access of $ - avoid city mismanagement	Need a "handup" of encouragement. "Dare to Care:
Richard Belotti Publisher Trenton Times	Abandon "mega project" solutions Need commitment to the science of humanity			Need to improve educational systems	Need venture capital funds for minorities	*Solutions must come from neighborhoods.*
Glen Fishman	Need renovation incentives	HMFA requires tax breaks (?)	*Need way for tax roll property to be put into local investor hands*	Need a better way for small business to access job training	Need to create local ownership	Need better advertisement of "vanilla" lenders & pooling for small loans with risk
Clinton Crocker Monmouth Co. Urban League	Funds available - teach folks to access & reallocate them	Tax abatement for rehab. Expedite city acquisition of blighted property		*Use Community College/City partnerships.*		

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Roger Hinton Business owner	Corporations going to "national supplier" Problem for small business	Give corps. tax incentive for dealing with urban supplier		Business mentoring programs for HS students	Need character loans	Need venturing & other joint efforts for Small Business
Robert Furlong Long Branch Tomorrow	Need "coordinated" approach from agencies & group projects	Need tax incremental financing law		Create jobs to meet the skills existing	*Get state "out of the way"*	Downtown NJ should be part of EDA
Tom Royal Business Owner	Need "change in attitude" - NJ wants you!	Need tax incentives	Need to attract "clean" manufacturing	Work force can perform most manufacturing jobs- St. Job Trng takes too much time.		*Greatest obstacle is safety of employees & security of prop.*
Peter Aagaard OENJ Corp.	Use "conceptual approvals" - limit # of people involved and establish time limits on approval process	*Reduce environmental risk so developer doesn't lose* time & $				At some mtgs 40 or more "officials" attended. Reduce bureaucracy

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Lesley Borges Carter Mercer Co. Minority Business Co		Set asides ineffective			*Need micro-loan facilities, relaxation of regs.*	Need EDA/SBA assessment of why minority firms aren't getting $
Smallwood Johnson Trenton School District				Work-study programs work		
Msgr Linder New Comm. Corp.	Include Lower Income people		Need regulatory environ for creativity	*Bring Training to the worksite*	State should fund CDCs directly	Need shared vision for residents in cities
Rob Horowitz Checkers	NJEDA has a "can-do" attitude					
G. Patterson NBrunswick Dir. of Dev.	Need one-stop shopping		*Use incentives, not penalties*	Simplication needed badly		Need to change perception
Sam Crane Pres, Reg. Bus Ptrship	Home rule is a barrier to regional development		Need to empower regional efforts			Need regional perceptive and approach
Tom Moritz Nwk Conservancy	Education is key			*Greenways offer opportunities & can teach skills*	Urban non-profits need $$$	

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Owen Tonkins Patterson E.D	Cops should be required to live in city		Need more tax incentives to SM		Need $$$ for life issues	
Gil Medina Commiss.	Need Mayor's Summit for strategies of investment & to create competition	*Need decertification of enterprise zones, too*		Need job incentive programs	Consider Additional Bond Issues	
Rosemary Hocking Newark E. Dev.		Need land assembly/ remediation help	*Need relaxation of some DEP regs or land will always be vacant*		Access to funds is slow & burdensome	Time lost in approvals, etc., is killing projects
Sam Convissor Literacy Advocate	20,000 students drop out of school each year in NJ (?)			*Have patchwork approach to training. $70 m spent on literacy - but results limited*		
Anne Babineau Attorney	Regional development also helps cities - need to think through more.	*Need to amend zoning statutes to reduce acreage limit*	Do LIHT credits at State level for small businesses		Need more EDA type methods	Need to amend NJSA 40A:12A-14 and NJSA 40:55C-15.
Alfred Faiella, Newark ED		*Need incentives for operating expenses for SB*	Need flexibility for utility rate setting		*Need 2nd and 3rd mortgage loans*	Need DEP cooperation and relo incentives for urban development

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
George Williams East Orange	Use "bottoms-up" approach		Streamline ISRA for urban areas	Need training programs for immigrants		
Paul Kurland	Difficulties of small business	Need tax relief				
Mayor Pascrell Paterson	Development cannot be isolated.	Property tax issues critical	More home rule and mixed use projects	Need clean mfg jobs for immigrants	Banks/realtors have to be more creative in packaging	*Need to get "all interested officials" in same room to facilitate project approval*
Peter Tomasi Nat West Bank	Consider cooperative ESOPS for small business		Greater coordination needed	*Owners need counselling on business/finance*	Programs in place - need better communica- tion & imple- mentation	
Mark Scotland Business Owner	CRA compliance is problem	*Need support on taxes when SB in trouble (better than no taxes)*		Need technical training, business planning support	Lender/state programs need Urban criteria	More business partnership facilitation needed

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Marcial Huertas Business Owner, Hispanic advocate	Need CRA for small businesses	*Need to streamline licensing process Set aside program should be enforced*	Need commitment to move through all conditions & be more flexible	Need more job force readiness (basics)	Need bond issues with banks to be creative	Must eliminate duplication
Glenn Langberg	Taxes, Insurance, garbage all issues	Streamline "minority business" certification	Need urban preferential treatment			*Developing expenses & operating expenses more in Urban areas. Banks, etc. need to be sensitive.*
George McLoof	*Need to attack press & get positive stories*	Expand EDA & UDC			Compel banks to relax credit standards for urban factors	Public/private partnerships where public assumes greater risk
William Hunter Irvington Urban Dev.	Non-profits have more barriers		*Be sure Non-profit CDCs have tax advantages*		CRA must be enforcer	Small business needs cooperative purchasing & tax rebates
Stanley Weeks City National Bank	State must cheerlead this effort	Need guarantees from state & tax abatements from cities		Better way for business to train directly	Need pools of funds - state assistance.	*Need to design solution for "vacant buildings"*

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Omar Barbour Jersey City CDC	Need 3-way partnership with banks/ govt/ citizens			Can't continue to throw $ away in education.		Check Pittsburgh mentoring programs.
Assblymn. LoBiondi	Offered help in Committee -		*DEP is still biggest obstacle. Need to eliminate disparity of state regs to fed*		Need to address redundancy & eliminate	Keeping jobs in state is key - Requires coordination within state agencies
James Phillips Millville ED	Absence of coordinated strategy problem			Need training in basic skills	*Companies don't know so can't exploit new financial opportunities*	DOL needs to train workers assist businesses disseminate job info
Kevin Kirshner Millville Licensing	Timing for approval needs attention		*Need Environmental sub-code*	Need training for migrant workers		Should be able to consolidate approval process - let municipal level handle all 3 reqs.
Robert Blough	*Need continuing education of licensed professionals (realtors, builders, etc)*		DEP is a real problem. DOT requires "final approval" before they get involved	More training for those involved in development, etc. might help		Need a "can-do" approach -

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Msgr Robert McDermott St. Joe's Society	Need to find ways to keep workers in cities. Also need state help to control drug traffic.		Need residential requirements for city workers- and ENFORCED	*Need leadership training for CDCs*		Immigration a tremendous issue for Camden
Michael Lascarides	Send authority back to municipalities		*DEP has profound influence on development in delays, cost and created fear/fines*	Worker training not the problem. Worker Ethic is.	DEP fines can be negotiated!!! - but fines cause businesses to go out of business.	DEP needs outer limits - delegation to local municipalities.
Carol Ann Clements Owner, small business	Camden should roll out red carpet, not present red tape	3% sales tax great incentive.	Need systematic approach to development Workers comp favors employee - penalizes business.	*Garnishments real disincentive to going back to work Concept of going to work each day is foreign*		*Need state police on streets - relief from insurance costs (e.g., Workers Comp)*

WITNESS	GENERAL COMMENTS	TAX ISSUES	LEGISLATION/ REGULATION	WORKFORCE	ACCESS TO CAPITAL	INFRASTRUCTURE
Alfred Pedemonti Wheaton Village Hotel	DEP closed him down night before grand opening - took 6 months to resolve.		*State must look at businesses as CLIENTS*	Work force not a problem	Need "connections" to get financing...but EDA helpful to him	EDA paperwork tremendous. *Query - can EDA use existing forms?*
Sam Pappalardo	Need Guidelines for E.Dev Marketing Counsel and Community Dev. strategy		Local counsellors should be available for small businesses	Need business owner training	*Learning about access as difficult as access*	He provides individualized support for marketing plans, etc
Tom Hoverson Small Business owner	Local utility incentives VERY important to him	Taxes are too high - considering benefits received	*Treatment by DEP representatives very hard on small business*			Need to focus on "bigger small business" under $15m rev./75 employees
Marty Manco RE developer	EDA support excellent		Rules keep changing - paperwork a nightmare	Job training doesn't produce deliverables	Appraisals cause problems	*Perceived & actual dangers in Camden dissuade most businesses.*

Attachment III

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Attachment V

MUNICIPAL DISTRESS INDEX: Ranking of New Jersey Municipalities, 1993

Municipality	County	Urban Level	Resident Population 1990	Population Percent Change 1980-90	Children on AFDC per 1000 Persons 1992	Per Capita Income 1989	Unemployed Rate 1990	Equalized 3 Yr. Local Tax Rate 1990-92	Equalized Valuat'n Per Capita 1992	Housing Built Pre-1940 1990	Housing Substandard Percent 1990
Asbury Park	Monmouth	1	16,799	-1.3%	76.25	11,267	11.84	3.48	24,219	35.50	0.23
Atlantic City	Atlantic	1	37,986	-5.5%	68.09	12,017	9.64	2.05	172,244	36.72	0.98
Bridgeton	Cumberland	1	18,942	0.8%	69.53	10,346	9.97	3.06	18,430	40.93	0.49
Camden	Camden	1	87,492	3.0%	138.20	7,276	16.35	4.33	12,186	42.05	1.76
Cape May	Cape May	1	4,668	-3.8%	9.32	15,884	6.35	1.37	166,314	29.29	0.25
Dover	Morris	1	15,115	3.0%	11.38	15,344	7.20	2.37	44,298	41.03	0.84
Dover Twp.	Ocean	1	76,371	18.5%	6.67	17,305	5.03	1.76	72,586	3.23	0.19
East Orange	Essex	1	73,552	-5.6%	64.83	12,376	11.77	3.95	19,651	34.66	1.01
Elizabeth	Union	1	110,002	3.6%	37.84	12,112	9.93	2.23	32,130	40.81	1.08
Englewood	Bergen	1	24,850	4.8%	13.10	25,820	5.32	2.03	88,271	34.12	0.50
Flemington	Hunterdon	1	4,047	-2.1%	9.88	17,343	4.17	2.92	76,548	42.61	0.32
Hackensack	Bergen	1	37,049	2.8%	12.38	20,217	5.79	2.12	71,309	20.90	0.94
Jersey City	Hudson	1	228,517	2.2%	55.20	13,060	10.84	2.96	31,083	50.80	1.20
Long Branch	Monmouth	1	28,658	-3.9%	31.56	16,104	8.63	2.43	49,484	33.42	0.50
Millville	Cumberland	1	25,992	4.7%	35.68	13,748	6.42	2.80	32,616	30.09	0.98
Morristown	Morris	1	16,189	-2.6%	10.04	22,036	5.03	1.82	83,677	34.90	0.00
New Brunswick	Middlesex	1	41,711	0.6%	32.87	11,252	8.88	2.54	32,869	37.49	1.69
Newark	Essex	1	275,221	-16.4%	92.83	9,424	14.74	2.99	22,980	35.14	2.08
Passaic	Passaic	1	58,041	10.6%	33.95	11,057	10.95	3.14	23,979	45.48	1.43
Paterson	Passaic	1	140,891	2.1%	42.48	10,518	11.05	3.06	21,292	37.97	1.17
Perth Amboy	Middlesex	1	41,967	7.7%	39.61	11,351	10.92	2.23	38,412	39.32	1.69
Plainfield	Union	1	46,577	2.2%	35.09	14,742	8.65	2.52	33,579	36.56	0.68
Red Bank	Monmouth	1	10,636	-11.6%	21.20	19,091	6.12	2.51	67,997	39.89	0.43
Somerville	Somerset	1	11,632	-2.8%	13.15	17,804	5.46	2.51	55,839	29.01	0.25
Trenton	Mercer	1	88,675	-3.7%	57.86	11,018	10.89	2.99	22,790	59.84	0.99
Union	Hudson	1	58,012	4.4%	47.37	11,089	10.88	3.12	24,310	49.46	1.74
Vineland	Cumberland	1	54,780	1.9%	29.03	12,963	7.22	2.52	30,294	20.06	0.59
Wildwood	Cape May	1	4,484	-8.7%	67.13	10,079	18.56	2.58	136,935	41.97	0.53
Woodbury	Gloucester	1	10,904	5.3%	23.20	13,842	8.21	2.49	34,684	44.78	0.14
		Total	1649760.00		1185.73	406485.00			$1,541,007.13	1068	
		Average	56888.28		40.89	14016.72			$53,138.18	37	

Designated Urban Center

DESIGNATED URBAN CENTERS

Atlantic City
Camden City
Elizabeth City
Jersey City
New Brunswick City
Newark City
Paterson City
Trenton City

URBAN LEVEL 1

Asbury Park City
Bridgeton City
Cape May City
Dover Township
Elizabeth City
Flemington Borough
Jersey City
Millville City
New Brunswick City
Passaic City
Perth Amboy City
Red Bank Borough
Trenton City
Vineland City
Woodbury City
Atlantic City
Camden City
Dover Town
East Orange City
Englewood
Hackensack City
Long Branch City
Morristown City
Newark City
Paterson City
Plainfield City
Somerville Borough
Union City
Wildwood City

RECOMMENDATIONS

URBAN ECONOMIC DEVELOPMENT TASK FORCE

CATEGORY: LOCAL INITIATIVES (1 of 4)

Recommendation:

Provide incentives to local private and public organizations to engage in formal economic and community development action planning. A good incentive would be to require such planning in order for municipalities and organizations situated in them to be eligible for special state funds and programs.

Benefits and Expected Results:

Better planning will improve accountability at the local level and create a greater sense of community ownership. Planning as a requirement to receive state assistance would help provide incentives for regionalization in the future.

Cost:

Shared by state and by local organizations.

Individual/Institutional Responsibility for Making it Happen:

Local entities would be responsible for the actual planning; however, it is essential that the state host public forums with broad participation for local groups to exchange ideas. The technical assistance necessary to achieve these local plans could be coordinated by the Urban Coordinating Council.

Counter Arguments:

Local organizations and government will plead lack of funds for formal planning.

CATEGORY: LOCAL INITIATIVES (2 of 4)

Recommendation:

Encourage use of local and neighborhood development corporations to attract private and public funding and to create innovative public/private partnerships for revitalization activities.

Benefits and Expected Results:

This action will promote local involvement in the form of greater volunteer and consumer participation, and allow communities to leverage their resources, both financial and natural, to the best possible use.

Cost:

Re-direct current state funding, as well as attract dollars from private foundations, corporations and local governments.

Individual/Institutional Responsibility for Making it Happen:

Community non-profit organizations and their intermediaries would have to coordinate their efforts on the local level. On the state level, administrative responsibility could be divided between the Urban Coordinating Council, DCA, and Commerce.

Counter Arguments:

Opposition may arise from turf concerns and an unwillingness to delegate responsibility on the part of local government. Questions may also arise as to how best to evaluate such an initiative.

CATEGORY: LOCAL INITIATIVES (3 of 4)

Recommendation:

Provide urban areas with greater latitude to develop and implement local incentives for economic development, such as tax abatements, environmental cleanup and rehabilitation regulations.

Benefits and Expected Results:

A greater latitude from the state for urban areas will allow local officials to take responsibility of ownership and accountability for making change in their communities, which will encourage more creativity in the development process and present a broader range of possibilities.

Cost:

Primarily locally driven.

Individual/Institutional Responsibility for Making it Happen:

The Legislature would need to take action in order to allow municipalities this greater flexibility.

Counter Arguments:

State government may not wish to relinquish the control it has over municipalities.

CATEGORY: LOCAL INITIATIVES (4 of 4)

Recommendation:

The Governor's Urban Coordinating Council should give highest regard to locally defined problems and solutions and establish an inclusive, ongoing forum to discuss urban economic development.

Benefits and Expected Results:

A state-wide forum focused on local issues will promote better communication between state and local officials, as well as among local officials from different regions of the state. This heightened communication will encourage the cross-pollination of ideas.

Cost:

Little cost borne by state.

Individual/Institutional Responsibility for Making it Happen:

Governor's Office of Policy and Planning would be the coordinating entity on the state level. On the local level, local non-profit groups and community leaders would be the driving force behind this initiative.

Counter Arguments:

Public officials may worry about exposing their lack of expertise. The management of such a process would be immense, and some may argue that too many opinions would be involved.

CATEGORY: WORKFORCE TRAINING (1 of 4)

Recommendation:

Place a strong emphasis on literacy and "work ethic/life skills" training for urban unemployed and under-employed. Improved literacy programs should be made readily available to those whose reading and conversational skills prevent them from entering employment market. "Work ethic" training should also be incorporated into K-12 educational system.

Benefits and Expected Results:

This redirection of current workforce training programs would reduce the number of people unemployed and upgrade the skills of the under-employed, while expanding the cadre of quality workers. Better educated urban residents will have a higher level of self-esteem and the "domino-effect" will spread the same result across the community.

Cost:

Restructure existing programs.

Individual/Institutional Responsibility for Making it Happen:

Workforce partnership between the Departments of Labor and Education; encourage private institutions to participate and provide funding.

Counter Arguments:

Possible reluctance on the part of the Departments of Education and Labor to modify current curriculum/programs.

CATEGORY: WORKFORCE TRAINING (2 of 4)

Recommendation:

Establish community colleges as workforce readiness centers responsible for maintaining urban job banks and providing training. These college workforce centers should develop strong relationships with local church and community groups to recruit workers and partner with business in on-the-job training.

Benefits and Expected Results:

Expanding community colleges' involvement in workforce development will create a seamless system for urban job creation and workforce development from the bottom up, providing a more efficient community based resource for training and matching people and jobs while identifying the needs and the resources within the community.

Cost:

No new costs. Redirecting resources to community colleges and community-based organizations.

Individual/Institutional Responsibility for Making it Happen:

Key to this initiative would be a cooperative relation between the Departments of Labor and Higher Education, local businesses, non-profit groups and Community Colleges.

Counter Arguments:

Department of Labor might not want to give up responsibility for a functional area.

CATEGORY: WORKFORCE TRAINING (3 of 4)

Recommendation:

Conduct an audit of the Office of Customized Training to determine if it is meeting the needs of its clients.

Benefits and Expected Results:

An audit will best determine how the office of Customized Training can best improve client satisfaction which will improve the competitiveness of New Jersey firms.

Cost:

Volunteer "Big 6" accounting/management firms to perform audit.

Individual/Institutional Responsibility for Making it Happen:

Department of Labor would engage an accounting firm to perform the audit, publish its results, and institute any changes that are suggested.

Counter Arguments:

Many believe that Office of Customized Training is already as responsive as it can be.

CATEGORY: WORKFORCE TRAINING (4 of 4)

Recommendation:

Evaluate the financial/local tax incentives for hiring local workers in the New Jersey's Urban Enterprise Zone program for the purpose of simplifying and making the paper-work associated with these job credits more user friendly.

Benefits and Expected Results:

Goal would be to increase use of current available programs and possible expansion of such job credits if successful.

Cost:

Divert funds from UEZ current budget to conduct audit. Volunteer Big 6 Firms

Individual/Institutional Responsibility for Making it Happen:

Department of Commerce will need to engage a private firm to conduct an external audit of the program.

Counter Arguments:

Municipality misconception of lost revenue and concern on the part of the Department of Commerce over control of one of its programs.

CATEGORY: FINANCING/TECHNICAL ASSISTANCE (1 of 8)

Recommendation:

Create Venture Capital Funds - develop corporate partnerships between public, private, and non-profit lending institutions to fund medium risk businesses with a high growth potential.

Benefits and Expected Results:

Provide a much needed source of first level financing and equity to businesses that are resource constrained but have a viable concept and high growth potential. Such financing will serve to nurture new and growing businesses throughout New Jersey and create jobs for state residents.

Cost:

The Department of Commerce should reallocate some of its resources for this endeavor. By creating public-private partnerships, the state's investment will be leveraged against private and federal funds.

Individual/Institutional Responsibility for Making it Happen:

Department of Commerce

Counter Arguments:

Venture capital funds tend to be high risk; opposition may question investment of state monies into projects that are considered to be risky.

CATEGORY: FINANCING/TECHNICAL ASSISTANCE (2 of 8)

Recommendation:

Micro-Loan Funds - amend the New Jersey Development Authority's (NJDA) enabling legislation to expand its funding capability to areas outside of the Atlantic City region.

Benefits and Expected Results:

This action will enable the NJDA to offer micro-loans to urban operated businesses throughout the state. These micro-loans will serve to foster small business development in urban communities and create jobs for residents.

Costs:

Reallocation of NJDA's current resources.

Individual/Institutional Responsibility for Making it Happen:

Department of Commerce, NJDA, and the Legislature

Counter Arguments:

The NJDA is funded through casino revenues; opposition may argue that funds from the casino industry of Atlantic City should remain in that region of the state.

CATEGORY: FINANCING/TECHNICAL ASSISTANCE (3 of 8)

Recommendation:

Micro-Loan Funds - encourage public and private lending institutions throughout the state to participate in, guarantee, or buy character-based loans made by Community Development Corporations.

Benefits and Expected Results:

This action will serve to create a revolving source of start-up capital for small businesses up to $50,000 while alleviating private banks' wariness of making such loans in urban communities.

Costs:

Reallocation of public and private lending institutions current resources.

Individual/Institutional Responsibility for Making it Happen:

Department of Commerce and private lending institutions (current federal CRA requirements should also act to make this option more attractive to private banks).

Counter Arguments:

Opposition may argue that micro-loan funds are not cost effective and that small businesses should use traditional resources of self equity to start up.

CATEGORY: FINANCING/TECHNICAL ASSISTANCE (4 of 8)

Recommendation:

Micro-Loan Funds - provide operating funds in the form of matching grants and/or loans to community development corporations and economic development corporations as an incentive to start micro-loan funds. This funding should be linked to CDC/EDC staff training and certification (see recommendation number 7)

Benefits and Expected Results:

CDCs and EDCs notoriously have difficulty raising the capital necessary for operating expenses as philanthropic organizations and government funding tends to be awarded on a project basis rather than organization basis. This sort of financing will enable CDCs and EDCs to maintain their operating budgets while pursuing creative new programs.

Costs:

Reallocation of public resources from the Departments of Banking, Commerce and/or Community Affairs.

Individual/Institutional Responsibility for Making it Happen:

The above-listed departments.

Counter Arguments:

Opposition may argue that there is no collateral to be had from operating budgets. Additionally an organization is only as good as its staff - therefore quality of staff and training at CDCs and EDCs may be questioned. And the success ratio of CDCs generally may be questioned.

CATEGORY: FINANCING/TECHNICAL ASSISTANCE (5 of 8)

Recommendation:

Reinstate and expand Tax Increment Financing (TIF) legislation. To determine which municipalities should be eligible to utilize TIF, the Departments of Commerce and Community Affairs should sponsor an application process similar to the one used for the federal Empowerment Zones to determine which municipalities around the state are in need of such a creative financing tool and have projects that could utilize it.

Benefits and Expected Results:

TIF will provide a new source of capital for large projects which showcase New Jersey's urban areas.

Costs:

Local municipalities and projects

Individual/Institutional Responsibility for Making it Happen:

The Legislature

Counter Arguments:

Opposition may argue that TIF legislation is not a viable financing option for New Jersey as it was at one time permitted in Newark but was never utilized and therefore lapsed.

CATEGORY: REGULATORY AND TAX ISSUES (6 OF 6)

Recommendation:

State programs should integrate consumer driven evaluations and where possible, peer reviews among local organizations.

Benefits and Expected Results:

Greater public accountability for public sector programs and a more efficient review of programs.

Cost:

Primarily volunteer driven.

Individual/Institutional Responsibility for Making it Happen:

All sectors of state government and private entities to conduct such evaluations.

Counter Arguments:

Possible increase in bureaucracy (but this should be avoidable through private pro-bono programs).