

PUBLIC HEARING

BEFORE

ASSEMBLY COMMITTEE ON TAXATION
SUBCOMMITTEE ON BUSINESS TAX STRUCTURE

HELD:

AUGUST 21, 1979

COMMISSION CHAMBERS

CITY HALL

ATLANTIC CITY, NEW JERSEY

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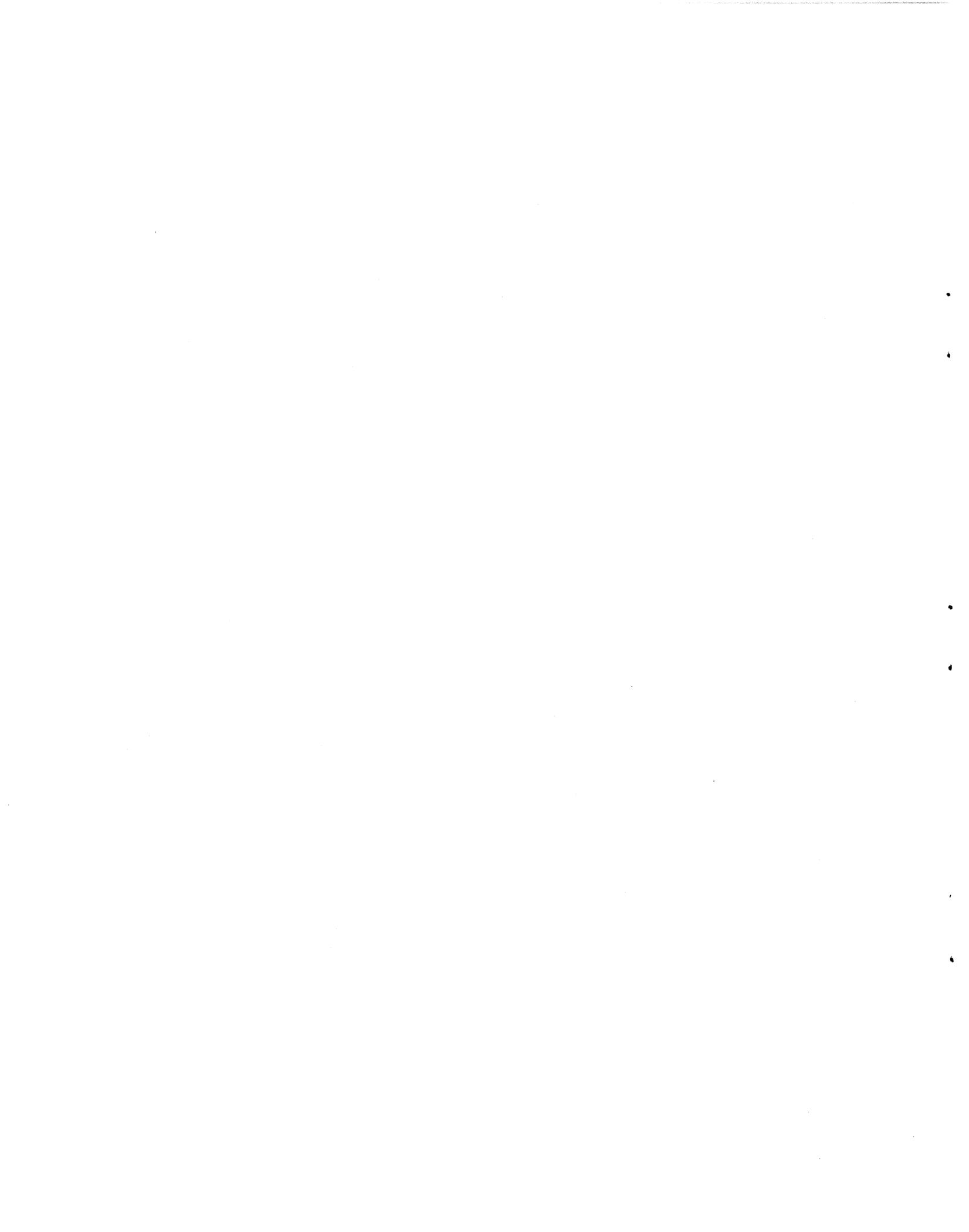
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A S S E M B L Y M A N M I C H A E L J. M A T T H E W S.

Good afternoon. This is the second meeting of the Subcommittee on Business Tax Structure. We have several bills, a great number of bills in the Legislature, this year, covering many different aspects for tax incentives. One of the problems with the bill as far as administrative problems with getting the bills passed and signed into law, is that they aren't tax incentives, but in the majority of the bills, they don't show any way to supplement the State Treasury. Some of the things that have been discussed are investment tax credits, carry back and carry forward. What this is, mainly is that a business comes into the State--most those businesses will lose money the first couple of years because of a start-up cost--and there is no way to offset these against the gains. Also, there have been discussions on giving interest to businesses that overpay their taxes and the State is tardy in refunding their money and since the State will penalize you with interest for making late payments...the converse should be true if they are late in giving you your money back, and should get interest on that. Also, with the Corporation Tax there's a 60 percent prepay and a lot of corporations feel that this is a big chunk and they rather would pay on what they anticipate their taxes to be. These are some of the things that have been brought forward in our first Committee meeting, and throughout the year. Now the problem is that to implement any of these kind of incentives would be less money to the State Treasury to where they would have to raise the money from some means to balance the budget because there is so much the budget needs and to put these in, is certainly going to cost money. One proposal that was brought forth last meeting was that to try and maybe get an economic forecast as to if we instituted such incentives, what kind of business projection would this mean for the State? Could we count on so many percentage of dollars coming into the State to justify the tax incentives? Also, another aspect that was discussed at the last hearing was a new jobs credit for special industries. Industries that may need some help because we don't have the people that we need to do it, and have some incentive to get these people hired and be able to bring them in to serve their apprenticeship and to encourage them to be some kind of a job credit. I think it was 25 percent that was proposed, and there is a Senate bill on that, and that was on the machinery with the tool and dye industry. Tool and dye industry. These are some of the things that have been brought forward. We will have two more hearings after this. One will be in Trenton and one will be in North Jersey and then we will have meetings of the members of this panel plus people in the business community to sit down in a round table discussion to evaluate the things that we have found, and to see if we can come up with a package and try and put together a package that would meet with administrative approval, legislative approval, and hopefully, that by 1980 we could have some sort of a tax reform package if it is deemed feasible. If it is not, it will stay the way it is until we come up with another idea. So with that, I'll open to the public with the first person. To testify, is Bill Cowart, from Atlantic Electric. I'm sorry, this is Assemblyman Gerry Stockman. He's from the Trenton area--Mercer County. He serves with Senate President Joe Merlino and Frannie McManimon, whom I also have the pleasure of serving with on the State Government Committee.

W I L L I A M C O W A R T :

Thank you for the opportunity to appear before this Subcommittee today. Thank you, Assemblyman Matthews and Assemblyman Stockman for allowing me the opportunity to be here. I am here today to talk about a "cap" on the gross receipts and franchise taxes as applied to the electric utilities of the State of New Jersey. Since 1973, the municipalities hosting electric utility properties have experienced windfalls in the gross receipts and franchise tax resulting from the fuel price hikes that had been reflected in higher utility costs and the rates and, of course, the gross receipts. For three specific taxes on all the gross receipts, the public utilities, are levied in New Jersey. The first one is the franchise tax. The franchise tax is assessed at a rate of 5 percent on the gross receipts attributable to the New Jersey based business of gas, electric, water, sewer, telephone and telegraph corporations operating within the State. The second tax is the gross receipts tax. The gross receipts tax is assessed by a rate of 7.5 percent of the State-based gross receipts of New Jersey gas, electric, water, and sewage corporations. And the third is the excise tax, or the little bit that goes to the State. All power, water and sewage corporations pay two additional taxes in the gross receipts revenues, and these are the excise taxes. They are .625 percent for the franchise, and .9375 for the gross receipts. All of those taxes add up to 14.0625 percent of the revenues of the utility companies. The excise taxes are paid to the State and are spent as general revenues. The gross receipts and franchise tax are apportioned by the State to the local municipalities on the basis of the proportions of personal property tax of each individual utility in each locality, to the total personal property tax of each utility corporation in the State as a whole. Now in history, the first gross receipts and franchise tax law was passed in 1884, and was modified into its present form in 1940. The taxes on gross receipts of New Jersey public utilities are a convenient tool to levy wealth taxes on the utilities. Such companies are subject to local property taxes on their real estate. But they pay gross receipts, and franchise taxes in lieu of personal property taxes and for the right to use the public rights of way. By 1960 both utilities and municipalities desired an alternative to the vagueries and inequities of personal property tax assessments. The municipalities found such assessments difficult and expensive. Most utilities found themselves subject to a myriad of seemingly whimsical assessments and local tax rates. Gross receipts taxation eliminated the need for local assessments of the utility personal property. Following the 1940 legislation, the Bell System chose to remain subject to local personal property taxes when the other utilities opted for State apportionment of the gross receipts taxes. Over 96 percent of the gross receipts tax in New Jersey is paid by electric companies. The remainder is paid by privately owned water and sewer utilities. Public service electric and gas, Jersey Central Power and Light, Atlantic Electric and other small electric and gas utilities pay over 75 percent of the franchise tax, while New Jersey Bell pays most of the rest. One of the largest inputs of any power company in the Northeast is imported oil, and we use it to generate electricity. In the past six years the cost of high quality imported oil has risen by 500 percent. And I want to add utilities gross receipts reflected a general consumer price index rise of about 50 percent, in that

time, but they naturally had to include the 500 percent increase in the cost of imported oil. All of these prices increase and eventually show up in utility costs and in the rates, in the gross revenues, and hence, in the gross receipts taxes. Gross receipts tax revenue, therefore, can fluctuate with no relation to the utility profits or even to the utility output. In past years they have skyrocketed while profits and the output levels have stabilized. This is because operating costs of electric utilities had been particularly hard-hit by inflation. In 1970 the New Jersey Department of Taxation apportioned \$140 million in gross receipts and franchise taxes back to the 567 communities. In 1975 it was \$260 million. In 1976 it was \$308 million. In 1977 it was \$353 million. In 1978 it was \$394 million. I have the taxes of each community here in case you want them at a later time. Between 1977 and 1978 the gross receipts and franchise revenues rose by \$40 million in one year, or 11-1/2 percent. And between 1970, just before the oil embargo in 1978, they rose 180 percent while the cost of electricity just barely rose. From all the various taxes in 1978, the State of New Jersey collected \$3.2 billion for its own use. And the 567 local taxing districts collected \$3.8 billion in the same period. Local property taxes collected equalled to \$3.3 billion and leaving approximately half a billion dollars in gross receipts and franchise tax. Therefore, taxes on gross receipts and public utilities amounted to 10 percent of all the taxes collected in State, and generated as much revenue as 12 percent of the non-utility property taxes; as well as almost 13 percent--as much revenue as the State collects from all of its sales, income and other taxes. That's 13 percent of all those taxes. Undeniably, gross receipts and franchise taxes of a half a billion dollars a year are a major portion of local tax collections. As the oil price increases--but 1979 had not yet been accounted for--are reflected in the gross revenues of the utilities, the utility gross receipts will continue to grow at extraordinary rates. My story is in an ad I had in the paper this morning, the Atlantic Press and other areas, and I would like to put it in the record. The ad headline is "Your energy adjustment is going to increase 12-1/2 percent more than it has to." The text of the article is "you probably thought you'd never hear an electric utility make a statement like the one above, but it needs saying." Atlantic Electric would have to increase its energy adjustment to pay for \$75 million or more in fuel costs largely because of the massive increases in the price of oil we burn to generate your electricity. But we will actually have to collect \$85 million instead of \$75 million in your bills because of the windfall gross receipts and franchise taxes that will go to the State of New Jersey and to your local municipality. We think that this tax bonanza is unfair, unearned and unnecessary. Gross receipts and franchise taxes are supposed to pay for the impact of our facilities, our operations, on the local communities. When fuel costs are stable and taxes are related to our customer's actual usage, these taxes are usually fair. But when a foreign oil producer raises the price of oil, these taxes are automatically tacked on to our price increase. There is no additional community impact to pay for it. No additional community services are required but a 12 percent tax bonanza results anyway. It doesn't have to be this way. We believe a "cap" should be put on any increases in the gross receipts and franchise taxes that stem from increases

in our fuel class or our rates. Atlantic Electric has already undertaken projects which will save our customers millions of additional dollars in the fuel costs. But without reasonable approach to taxing of our revenues, a good deal of these savings can be wiped out. We think our customers shouldn't pay a penny more for their electricity than they have to. Legislation to put a "cap" on the gross receipts and franchise tax can make this goal a reality. This "cap" on a gross receipts and franchise tax has been kicking around the State for the last two or three years. A bill was submitted by Richard Van Wagner, Chairman of your Committee, I believe on February 9, 1976, which comes pretty close of what we are looking for, and we support a bill of that kind. It seems unreal to us that we have to continue to add this extra cost when the tax is not needed. If you have any questions, I would be pleased to try to answer them.

MATTHEWS: Yes, on this bill on February 1976 by Assemblyman Van Wagner. Did we re-introduce that for the 77-78 or the 78-79 session?

COWART: I don't know. All I have from the legislative liaison is that it was introduced in February, 1976.

MATTHEWS: Do you know the number on that?

COWART: No I don't.

MATTHEWS: Let me ask you a question, Bill, just for my own....franchise tax. I understand the gross receipts tax but could you explain the franchise tax to me again?

COWART: The franchise tax is for the right to use the highways and byways for our facilities--our underground cables and our pole lines. And it is 7-1/2 percent of the gross revenues that we collect in a ratio of our total cost of plant versus the amount that's on the highways. It's a very complicated thing but to make it real simple, if we would buy a piece of land across the woods and put a transmission line in, we don't pay franchise tax on that part because it's not on public right-of-way. The part that is on the public right-of-way--the roads and the railroads and the highways and so forth--is what we pay on. But it's approximately 7-1/2 percent of the gross dollars taken in by the utility.

MATTHEWS: I thought that 7-1/2 was the gross receipts.

COWART: The gross receipts is 5 percent.

MATTHEWS: Oh, the gross receipts is 5.

COWART: Yes.

MATTHEWS: And the franchise is 7-1/2.

COWART: Excuse me, I have that backwards. You're right. I got it backwards. Five and 7-1/2 percent.

MATTHEWS: So the 7-1/2 percent, that's equated really to the corporate income tax.

COWART: Yes, both of them add up to personal property taxes as it was in the old days. The communities would, at a whim of the tax assessor, pick out the values of the utility property, and it didn't seem fair to everybody, and they would have to fight over it all the time and so they passed these laws in 1940 to make it uniform.

MATTHEWS: The 60 percent prepay...does that have an affect on you?

COWART: The only affect on us is that we had to come up with money sooner than we normally would have and, therefore, the carrying charges we have to earn elsewhere. It's money due to the State and we normally would not have paid it until later.

MATTHEWS: There's no argument for that. That's the same thing as corporations by now with the same argument we're having with coming up with a big chunk of money that you don't have to spend.

COWART: We recognized the problem the State had, and we weren't for it. We naturally wouldn't be for it because it's added cost to our rate payers, but we recognize it needed to be done.

MATTHEWS: Yes, as I recall Atlantic County didn't do too well on that. Atlantic City specifically didn't do too well on that.

A S S E M B L Y M A N G E R A L D R. S T O C K M A N

First, Mr. Cowart. I wonder, as a favor, could I have a copy of that statement that you gave? I don't know whether you're giving out copies of it.

COWART: I haven't made it. I just took it out of other pieces, but I could put it in final form and send you a copy.

STOCKMAN: If you'd send me a copy, I'd appreciate it. Because I think it is pretty succinct and I tried to absorb all you said. You covered a lot of territory and as a relatively new member on the Taxation Committee it was very helpful to me as you spelled out the problems of taxing.

COWART: Just send it to the house?

STOCKMAN: I'll give you a card.

COWART: I have to write it up and send it to you. I haven't written it up yet.

STOCKMAN: Now, the question was...I don't have my card here. I'll get you at the break. I can appreciate as a fundamental proposition whereas your taxes were a set percent say, whereas you were paying them on a certain amount of gross business and then the gross cost of business had to go up because of these tremendous increases caused by the oil counties, that there seems an amount of certain unfairness there in that as you point out there's no added service, there's no added burden to the municipality. The problem is that as I see it the more I'm in this tax area, is that nowhere is it written in stone as to just what taxes should be for any business or any individual for that matter. It's a matter of constant review. I guess it's sort of a supply and demand or need and expenditure. The problem I have is having been in the Assembly only a little less than a year. I see the tremendous pressures on us to fund and to meet obligations of the State, for instance, in the area of education, and other areas that we could tick off too, and I must tell you that I'm sure there's going to be a lot of people in the Assembly who are going to be concerned about the fact that while putting the "cap" on is going to be just another way of restricting the amount of moneys that we're getting and don't we need more money. So I think if it's going to make sense, then people like myself, and I guess I must say to you I'm going to be a particularly tough one, because I'm from a municipality, Hamilton Township, that has a very sensitive interest in the whole subject of gross

receipts tax. And I can think of a lot of people in my territory including the Mayor of the Township of Hamilton that wouldn't be too enthused about me rushing into an embrace of putting "caps" on gross receipts. It's a practical matter and yet if in fairness it's disrupting the industry, or causing other serious problems that perhaps we don't see, then I think it has to be dealt with then. What I'm really leading to is aside from the fact that nobody likes to pay taxes, can you articulate to us or talk with us about where the great mischief is, because in a sense, I might simplistically argue to you, look, your revenues are increasing and you're getting back and you just have to give them back to us. Maybe you'd wish that you didn't have to go through that bookkeeping venture, but what's the real problem? Isn't your industry doing very well? Isn't it profiting pretty well and aren't things in pretty good shape there compared to other industries?

COWART: We hope so. We are trying to meet the needs of our shareholders. We are getting fair rates of return to the Bureau of Public Utilities. As our costs go up, we justify to them why we have to increase our rates and in general they have accepted. What I think the pertinent point here is that a week or so ago we filed for a change in our levelized energy adjustment clause which is how much our fuel costs each year, it's an add-on to our electric bill. This is going to be over \$20 million short this year because of the recent 60-day-ago increases in cost of fuel. In that, it's going to cause a rate increase to our customers but not a rate increase if Atlantic Electric gets a single cent from. Of larger than the largest rate increase than we've ever had in history of the company, \$75 million. We have to ask BPU to give us \$85 million because we have to pay \$10 million back to the gross receipts and franchise kitty to be distributed back to these communities which you so well put have no additional services required or no current needs. We do not object to the concept of as our business grows your sons and daughters get married and build new houses, new people come into our territory and so forth. That the gross receipts on that increase and kilowatt hour sales, should go up proportionate because each community has it's own cost and salaries and it's electric bill for that matter will be going up. But it seems unlikely that we should be for adding an extra \$10 million to an already heavy burden on utility rates going sky high in a very short period of time when the dollars are not needed. I can see your point...

STOCKMAN: You're not, I don't say this critically, I think it's an interesting and helpful exchange for me but I don't think you've met my problem or you haven't convinced me--I can see why you wouldn't be a proponent of that area of the tax. What I have to know is what you can supply me with in the way of hard facts that would justify not having it because when you touch on the phrase of need or usefulness, and so on, these municipalities I'm sure are going to march in here and they could parade in a minute if they thought they were going to lose these revenues with arguments as to why they really need this. Another way of looking at it would seem to me is that alright, you might say, instead of this artificial increase in the tax based on the artificial, not artificial, but real increase in oil costs, let's do it another way. Let's limit that. Let's somehow remove that from the

formula but since we need more revenue to run the State since there's nowhere else to go, let's increase the gross receipts tax from 7-1/2 percent to 9 percent. Come back with the same numbers...that kind of thing. Follow me? From what, I guess, I'm trying to press away at is this question of, is your industry really hurting? Are we really being fundamentally unfair in the sense that the total burden of the taxes are such that people are not investing in it and your stockholders or ownership interests aren't being fairly compensated or your equipment is growing stale and worn out because of...those kinds of things.

COWART: None of those come in this situation. See what we do is just collect this money from our customers, it's a sales tax of 14.1 percent. Of all the dollars that come in at approximately 14 percent go into this kitty and we collect it and we pass it on. It's like the tax on the gas pump. It's on there but nobody know it because they pay for the total gallon. You pay for the total kilowatt hour. What we are saying is it seems unlikely that we should collect more money from a customer to take it through the State and the community and give it back to the customer to lower his local tax bill. Because that's what it does and much more. The windfall that was gained in the oil embargo of 73 and the next two or three years gave every community almost twice as much tax as they got before. All they did, and rightly so, was reduce the tax that each individual paid to meet the needs of the community.

STOCKMAN: When you find me the municipalities that are prepared to do without these tax revenues and I'm prepared to get enthused about passing laws that would reduce the tax on utility...

COWART: I don't propose that they'd do with that. I propose that they'd get what they're getting now and the windfall that they've already gotten and they'd get all the increases that the company supports but not a windfall from something that we or they had no going but an oil magnet in Europe or in the Middle East did. It's an added charge to the customer who has other expenses and we didn't think it was real to do. Out of personal observations, because of what you just said, why don't we just change the base or something, I would be in for that if it stayed the same, if we went into a situation where it wasn't explicitly called a sales tax and that the electric utility rate payor could then take it off of his Federal income tax gross revenue. Because it would be a 13 or 14 percent tax. I think it would give each taxpayer a break, is what I'm after, and I'd like to see it happen to a taxpayer and see the State gets the money that it needs. That's aside from what I'm really here for but it's...

STOCKMAN: ...interesting idea.

COWART: I've talked to two or three people about it and everytime they say something, so you wouldn't mind this 14 percent sales tax so much if you could take it off your tax bill, Federal tax bill and everyone says yes.

STOCKMAN: That's an interesting idea. I don't think it's a law in any other state.

MATTHEWS: Well, the thing is that it's something else that I've talked about before with Mr. Zuzzio of the Taxation Committee. It's not a bad idea, Bill.

STOCKMAN: In fact, Uncle Sam would be getting into the act and picking up a little bit of the tax...

MATTHEWS: Well, there's one thing with that, on almost the same kind of idea, is that in certain towns the sewerage bill is included right into your property tax bill. And now we can deduct your property taxes, the sewerage bill is included. Other places, the sewerage bill is separate and you cannot deduct it from your Federal income tax. So, we're working on legislation now to sort of do that. We've talked about this before. Everything sounds good in the service, but when you start drawing up legislation, you find complexities. I don't know if we could do it but if we could somehow take it off as a sales tax because that's another idea that is always nice to...with proposed...and a package I proposed, the detrimental effect to business was an increased corporate tax. But the idea was that the Federal Government would be subsidizing that corporate tax depending on the percentage, I mean, you'd pay 48 percent corporate tax, that if you increased the corporation tax a half a percent on the State level, the Federal Government would be subsidizing 48 percent of that increase to where you would be paying, the increase would be 52 percent of a half a percent whatever the case may be. And the idea that any time we can slip one in on the Federal Government to let them subsidize our tax structure, I'm all for it. Until enough states would do it and then they are going to change the law...

COWART: I might hasten to add another point that we're not against gross receipt and franchise tax. We think it's a good tax and it produces a half a billion dollars pretty painlessly to the State and it also gives us a great advantage when we are trying to site equipment and generating stations and so forth. Because these people know that they're going to have a lot of their tax burden relieved by the way this tax is distributed. So, it's a tax that is favorable to the utilities as a method.

STOCKMAN: Do you, Bill, or your utility take any position about the fairness of that method of distribution to the municipalities, that is the fewer that has come up a little bit in terms of whether it isn't too much of a boom to those limited number of municipalities that have them as opposed to those that don't or not to do you...

COWART: We should take no position. We should say that we're glad you could pass it over and you do what you want with it. But we do take a position because it helps us in siting our equipment to have some advantage to the communities that would accept us. Many communities want a new plant but they don't want it in their backyard and they say, you put it elsewhere. Other communities seeing the tax advantages won't say that. If we take that advantage away from them, we would have a harder time siting our equipment. On the other hand, I am willing to personally agree that it is unreal in one particular case, in Lower Alloways Township. There are other places where it has been bigger than you would like in many cases...

STOCKMAN: Unless you represent that area...

COWART: ...City of Newark, and the City of Jersey City, have big numbers in there. I don't think that we would be against the tax as a concept, in fact we think that you might find a better way of distributing some of it. One of my people suggested that you just take all nuclear plants at half value and put your remaining half spread evenly over the other...pro rated. That would give them enough in the nuclear area to meet all their needs and still get a line share and still give us the support we need. That's one of my people's opinion.

STOCKMAN: I think they talked about capping and it seems to me that it's to a certain extent consistent with what you're talking about, capping these taxes in terms of what the municipalities get but not capping the charge to you and taking the added revenue and spreading it around. That's something that's been in the hopper, I don't know where it is. Do you have any opinion of that?

COWART: Well, I prefer not to take the added revenue. We really should not have an opinion on that. That's up to State Government and the Legislature. It should in its wisdom determine how it's distributed. We're the collector and the supplier and we distribute it as you direct us. Right now, with the exception of one or two places. It seems to be reasonably equitable. I added up all the taxes of all my communities and how much we paid in 1979. They're pretty reasonable. They helped the community. Communities would not be able to really function properly without these taxes. They are pretty important in their base, I'll get your address from Mike and get the information to you. COW, like a cow, ART, COWART. I'm Senior Vice-President of the Atlantic Electric Company. We serve a million people, 375,000 customers, 50,000 shareholders, 1800 employees, and we all agree to what I just said. 1600 Pacific Avenue, Atlantic City.

MATTHEWS: This is Lou Dalberth.

M R . L O U I S D A L B E R T H :

Mr. Chairman, wasn't here to testify but on testimony that Mr. Cowart just gave...

MATTHEWS: Just for the record, Lou, give your name.

DALBERTH: OK, fine. My name is Louis J. Dalberth, I'm Executive Director of the Southern New Jersey Development Council. I'm representing the southern six counties, Atlantic, Camden, Cape May, Cumberland, Gloucester and Salem Counties. When Assemblyman Stockman questioned Mr. Cowart, on the "cap" on the franchise and gross receipts, in order to make it clear that we understand one another now because being a registered lobbyist since 1971 and having to deal with the legislators, I think that it's a good tool to fight with and you can justify because the customer of the utility is the one that is paying the additional inflationary cost with the OPEC fuel that we're using and that the gross receipts and franchise still remain the same to the municipalities, townships and cities. And then when you put on new connex, or new customers with new revenue, there is no "cap" on that and that's the way I understand it in that the cap would be on the additional inflationary cost. Is that the way we understand it now?

MATTHEWS: The proposal? I think so.

DALBERTH: OK. Because when you asked the question I said back then that you can justify it with your fellow legislators, no, not if they were looking for a "cap" on all branches, but just on the inflationary period of a windfall, I think is, to subject the customers to it, and I'm a customer. You know, without any credit, to pay that additional cost and we're paying it everywhere we turn around. In our gasoline, in our energy, so that I just feel that it's not a bad proposal. I think it can be justified and I just in my own mind as I sit here and as Assemblyman Matthews knows, I'm very interested in incentives and our taxing to encourage new industries to come into for job opportunities

and more importantly to maintain what we already have and it hasn't been easy. I know at one point we were taking away the exemption of machinery and equipment, as you remember and unfortunately we fought and got it back again in 1978, which is a \$90 million benefit to industries to come into the area. But it is one way in which we can help the tax abatement programs which are in certain areas, of course, where there's a casino, no, and we have casinos here, but, I still have to be concerned about our other areas. So...

STOCKMAN: Lou, let me ask you a question because I think you sharpened my thinking on this a little further, too, as I see your point. But this kind of a proposal, one of the things that strikes me is I don't see where this is the kind of a tax move that is likely to bring in more business or which conversely, if we don't do, is going to drive out business. Because to me it seems we're dealing in a peculiar area of public utilities, the next thing to government, I guess in a way, conceptionally, and I see less of a compelling argument towards this proposal than I might on some private industry. Because I come back to this knowing problem for me and I'll be frank to at least share with you my thinking process on it although some people may say it's not the right way to think. We're dealing with a significant sum of taxes, these increased taxes. Let's take an arbitrary figure. Let's say that based on these increasing oil costs then in the year 1980 they're going to amount to \$15 million of added tax on utilities which in turn, through the gross receipts tax are going to be passed back. My problem is that if you say that's kind of arbitrary, that's a tax bonanza, it really wasn't contemplated a while back, it shouldn't be, cut that out, that means that there's going to be \$15 million less revenue for governmental purposes and needs. Either that means that there's going to be a reduction in that much government activity which indeed many people will argue there should be, or else there's going to be a problem and you can't have it both ways. Again, being frank about it, if we didn't have that revenue, and there were other governmental needs, county needs, South Jersey, community needs, etc., we as legislators would then have to say, all right. Well, I guess we're going to have to increase the income tax which nobody is about to want to. A few brave souls that once in a while talk about that, but you know, that's a problem. Or increase the corporate tax in some other way, you know, respond to that need. Again, it seems to me, I'm just sharing these thoughts with you because you can refine my mental processes in this area, but if we're in a state like California, where apparently through the tax structure, they've gotten to a point where they really truly were acquiring significant amount of revenues that just couldn't be justified in terms of governmental need, we see what happened. It doesn't strike me that New Jersey is in that state.

DALBERTH: Let me answer what you've just said. I'm glad that I enlightened you a little bit because it makes me feel better that you understand it better because as I sat back there I still think it's a workable deal of the "cap" because it's something that they're not going to have anyway to miss. If there's a "cap", they won't have that money. So, actually what we're doing is we're protecting the consumer, so it's not passed out to him where he's continually paying. Now, we have to protect him for the simple reason that you say that you'd like to give your incentives to industry

for jobs. Well, you know, what comes first, the cart or the horse? We have to have people to have an... for an industry to want to come in. A labor force has to be here. If we continually make it to where we're going to price these people out of existence for just the utility bill, they're not even going to want to come in here and our greatest growth right now potential is going to be growth in population which in Atlantic County, alone, they talk about doubling it by 1990. And of course, it's going to be curtailed because of the high cost of land and the residential development, the moratorium, so to speak, Executive Order 71 of the Pinelands, all these things play into it which are costly to people so that we've got to have an incentive for the people to want to be here and be able to have homes like we have so that industry does want to come in here. I think it will all fall in place and we've got to start somewhere and because of the OPEC nations, and the tremendous increase in the cost of oil and the dependency of our imports, you know, of which we've been saying for years that we've got to cut it out and get out own natural resources and finally we're beginning to do this. Why are we doing this? Because we've been hurt in the pocket, where it really counts. Finally, everyone has to do the same thing. It's hard for the American people to say well, I'm going to conserve because I know this is what I should do, but not if this guy isn't doing it next door to me. Now, the majority of the people are doing this. It's easier for everybody to do it. It's a little late, but still it's better than not doing it at all. So these are some of the things that can be workable that we must do to help the average person who has to pay the brunt of everything all the time. It's not coming out of the utilities. They're still going to pay their franchise and gross receipts tax. Thank goodness for that; the 5 and 7-1/2 percent. And the new connex coming on which are the new customers to municipalities, cities and townships are going to get first for their new customers. But, for the additional costs that the Arabian Governments are getting from us, I think they feel that it just shouldn't be passed on to the customer. That was the only other thing. I just wanted to clarify.

MATTHEWS: Thank you.

DALBERTH: And that's my feeling. I wish I could add something more, Assemblyman Matthews, to incentives, but I think that the idea that you had in your carry back--carry forward is good, it's a good incentive. I think our exemption of machine and equipment is good, I think our abatement in certain areas are good. Right now I don't agree when you mentioned it that our increase in corporate taxes because we must stay competitive and even though we're 7-1/2 percent, which is less than what our competitors are now, it's still difficult to get new industry to come into the area. We're finally starting to work in the right direction, I think. Thank you very much if you don't have any more questions.

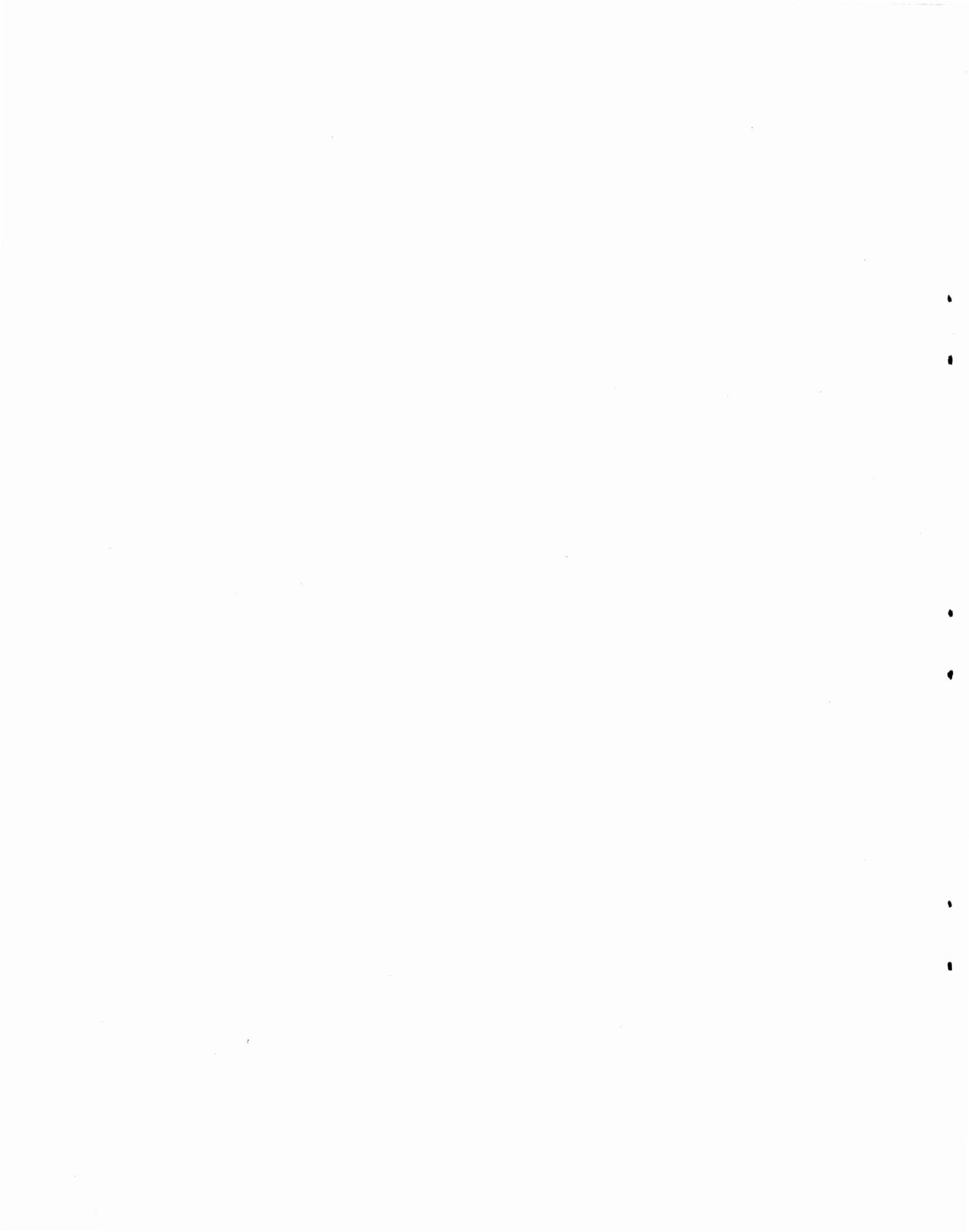
MATTHEWS: Thank you very much, Lou. Does anyone else want to testify? All right, since no one else...I'd just like to add a couple of things. I'm a little disappointed that more people didn't come forward. In this day, where certain people are pushing the issue of referendum to participate more in the government, when they have an opportunity, they're not taking full advantage of it. I know there were some letters sent out in a timely manner, some were sent out late, phone calls

were made and I know on the street I hear complaints about collecting of sales tax, and other problems with the State taxes as far as due dates and things of this nature. I'm disappointed that people have not shown up to try and take advantage of public hearings like this when you try and bring government to the people. We had two people come forward; I think this is very embarrassing for the City of Atlantic City and the County of Atlantic and around the area. I really think they should've taken more of an advantage of this. I know we were up in Morris County last week and had quite a few people come forward and testify but locally I thought we would have more...more people. In fact, I'm very surprised that we only had the people that we did. And Lou came in as an observer and Bill called yesterday and Bill is the only one that called. The local Chamber of Commerces were all involved and had been notified and to bring everyone down here at the expense we did for lack of participation is a very embarrassing situation.

DALBERTH: I think, Mr. Chairman, that while you feel it's a lack of interest or embarrassing, a lot of times when you have a public hearing, as you know, I've been at many and I came here in support that I like what's being done and I really didn't have any ax to grind or complain. Other than to clarify in my mind and hopefully in Assemblyman Stockman's mind of what the "cap" is. Which is another way of helping people. People need to be helped. Evidently, as Bill Cowart pointed out, maybe the people are satisfied with the taxing that they have. They're not here to add anything to it. In my mind, I would think that...I'd hate to be at a public hearing and just have somebody sound off just for the sake of sounding off to no avail. If it's constructive, fine, I'll sit here for hours and listen. I don't think it's any derogatory remarks to you or anyone else that you don't have a large crowd here. It's just the fact that we have incentives to help industry come in; we do have things that we're working on. You're working on legislation right now that can be incentives that can be helpful. I think everybody is satisfied.

MATTHEWS: Well, one of the problems that I find, that Assemblyman Stockman pointed out, and he's new on the Tax Committee, they're in the Assembly, there's only two accountants. And I know that in other fields that I certainly need help in because with the committees I serve on, a lot of new things come forward which I seek the expertise of other people because I certain am not--I don't know everything, by a long shot, about a lot of things that we deal with. To me, this is how I gain my knowledge is to have hearings. This is not...the purpose of the hearings are not to have people complain, but hopefully offer constructive criticism for incentives that could help out the State as a whole, maybe parochially for themselves specifically. But, if they have a problem, so may others have a problem. It's just that I know some of the problems because I am an accountant and I deal with these things everyday with businesses and some taxes I think or the way they collect the taxes and the dates and everything are not very fair. And working on this, but, if I'm one person and I say that and no one else comes forward, then I have no support and, therefore, if I get no support, there's no support for the legislation. Legislation just lays on the table. That was my disappointment because when the report comes out, which will be this public hearing, the report will be made public, and we see two people testified. It's going to look almost like you said--well, the conclusion that will

be drawn, we like our tax structure so we'll let it go and that maybe the conclusion they come with.
That will be noted when we have the round table discussion. Thank you very much.



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