

PUBLIC HEARING
before
SENATE COUNTY AND MUNICIPAL GOVERNMENT COMMITTEE
on
SENATE CONCURRENT RESOLUTION, NO. 89
(Urban Enterprise Zones)

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Held:
May 28, 1982
Senate Chamber
State House
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Frank E. Rodgers (Chairman)
Senator Joseph Bubba
Senator Leonard T. Connors, Jr.

ALSO:

Glenn E. Moore, III, Supervising Research Associate
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Aide, Senate County and Municipal Government Committee

Beni Taylor
Legislative Aide to Senator Herman T. Costello

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New Jersey State Library



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SENATOR FRANK E. RODGERS (Chairman): Good afternoon, everyone. Ladies and gentlemen, distinguished guests, I would like to call this public hearing of the Senate County and Municipal Government Committee to order. The subject of this public hearing is Senate Concurrent Resolution 89, and the Proposal of Urban Enterprise Zones for New Jersey. Today we are concerned with the Constitutional Amendment proposed by SCR-89, to authorize property tax abatements in enterprise zones, and with the question of whether or not urban enterprise zones are a good idea and, if so, should New Jersey have them?

I would like to introduce the members of our Committee: Next to me is Beni Taylor, who is representing Senator Costello of Burlington County; Senator Steve Perskie of Atlantic County is absent; Senator Leonard Connors, Jr., of Ocean and Burlington Counties, is on my far left; this is Senator Joseph Bubba of Essex and Passaic Counties. I am Senator Frank E. Rodgers, the Chairman, representing Hudson County.

This public hearing is held in compliance with Article IX of the New Jersey State Constitution, that a public hearing be held on any concurrent resolution proposing an amendment to the Constitution. As required by that Article, copies of the SCR-89 were placed on the desk of the members of both Houses of the Legislature on May 24, prior to this public hearing. I might note that if the proposed Constitutional Amendment is to be placed before the voters at the next general election, the Legislature must complete action on the Concurrent Resolution by August 2nd. The Constitution requires that at least 3 months elapse between the date of publication and the election.

At the same time the Legislature is considering amending the Constitution to authorize enterprise zones, it is necessary that we consider whether enterprise zones are advisable for New Jersey. When President Reagan, in March of this year, presented his proposal, "The Enterprise Zone Tax Act of 1982," to Congress, he called it "an experimental, free-market-oriented program for dealing with the severe problems of our nation's economically depressed areas." Congressman Jack Kemp, the

most well-known advocate of enterprise zones, is fond of referring to them as "green-lining" urban America. Congressman Robert Garcia, Mr. Kemp's cosponsor from the Democratic side of the Congressional aisle, has said that the proposal is "an innovative approach to the problems of urban unemployment and economic decline, which have made the South Bronx look like Berlin in 1945."

Critics have been no less adamant in their statements. The President's proposal has been criticized as "a trojan horse for trickle-down economics", and as a smokescreen for Reagan's budget cuts which harm the urban areas that enterprise zones are supposed to help. Others have expressed concern that they will merely create "tax subsidy islands", which burden the city's service structure, but have little long-term effect on the problems which plague areas of high unemployment.

At this hearing, we are interested in what the economic problems of New Jersey are, and how enterprise zones would help. There are several matters which we would prefer not to get into today. These are questions concerning where enterprise zones should be located in the State, the particular tax incentives and regulatory relief measures which should be included in the New Jersey enterprise zone program, and what the costs of these tax breaks would be. These are important matters, but they should be addressed separately, when the Committee considers Senate Bill 1173 by Senator Lynch, which proposes the enterprise zone program to implement this Constitutional Amendment.

Before we begin, the Committee Staff, Glenn Moore, has scheduled all of those who indicated in advance that they wish to be heard today. That schedule is available at the front desk here. If anyone else wishes to be heard, see Glenn and he will add your name to the list. If you have a written statement, please give a copy to the stenographer. Give copies for the Committee members to Glenn. We would appreciate you limiting your oral statement to 10 minutes. Any supplementary material you wish to offer, will be included in the record.

Our first speaker will be Senator Edward T. O'Connor, the prime sponsor of SCR-89. I wish to congratulate Senator O'Connor and Senator Lynch for the timely and considered manner in which they have chosen to initiate the legislative debate in New Jersey on the Urban Enterprise Zone concept, which is obviously of great consequence to our citizens and state economy. Senator O'Connor.

S E N A T O R E D W A R D T . O ' C O N N O R , J R . : Mr. Chairman, Senators, ladies and gentlemen: before I begin, I would say that I have prepared a written statement and copies of it have been made available to the stenographer, and, I believe, to the members of your Committee.

I appreciate the opportunity to appear before you today, as the prime sponsor of Senate Concurrent Resolution 89. As you know, that Concurrent Resolution proposes an amendment to the Constitution of the State of New Jersey to authorize the Legislature to enact laws under which municipalities may grant property tax exemptions, and the State Legislature may provide State assistance to private enterprise in urban enterprise zones established by law to conform with Federal statutes.

As I understand the concept of the enterprise zone, it is an area of an economically distressed municipality in which taxation and governmental regulation are reduced in order to encourage private enterprise to locate or expand facilities therein, to contribute to the revitalization of the area. The Concurrent Resolution before you proposes that New Jersey authorize enterprise zones in areas in need of rehabilitation located in municipalities characterized by high unemployment, high incidence of poverty, and high population density.

Other than those general criteria, the proposed Constitutional Amendment does not provide for any specific enterprise zone program. It does not state what types of state or local tax relief, or regulatory relaxation, are to be provided private enterprise in the zones, or which municipalities or areas are to be targeted for the zones. These matters would be left to whatever implementing

legislation the Legislature may adopt. A companion bill to this Concurrent Resolution, Senate Bill 1173, sponsored by my colleague, Senator John Lynch, proposes certain implementing programs, primarily focused on various state and local tax relief measures. I understand the Committee intends to hold another public hearing on various specific proposals to implement the enterprise zone concept in New Jersey.

Basically, urban enterprise zone proposals for New Jersey are based on an attempt to implement in this State various proposals being made at the Federal level. The New Jersey proposals seek to place our State in a competitive position with respect to our sister states for attracting Federal designation for Federal corporation tax breaks to our urban areas. Several states, including Connecticut and Ohio, which are very similar to New Jersey in terms of size and economic and social characteristics, have already enacted urban enterprise zone legislation. These enactments were prompted by the Urban Jobs and Enterprise Zone Act, introduced by Congressman Jack Kemp and Robert Garcia. Until recently, the Kemp/Garcia Bill had been the most publicized and discussed of the various enterprise zone bills proposed at the Federal level. That bill is presently pending before committees in both the House and the Senate.

On March 23rd of this year, President Reagan presented an enterprise zone proposal to Congress. The legislation has been introduced in the House by Representative Barber Conable, and in the Senate by Senator John Chafee. This initiative, known as the Enterprise Zone Tax Act, HR 6009, and S-2298, authorizes the Secretary of HUD to designate up to 25 zones annually, with each to remain operative for up to 20 years. Federal designation would be awarded upon application to the Federal Department of Housing and Urban Development upon joint application of the municipality and the state in which it is located.

To qualify for Federal designation, the municipality must meet Federal UDAG eligibility requirements and the enterprise zone area must meet one or more of the following criteria:

The annual average unemployment rate in the area must be at least 1.5 times the national average.

The area must have a poverty rate of at least 20%.

At least 70% of the households in the area must have incomes below 80% of the median income of the qualified municipality in which the zone is located.

Or, the population of the area must have decreased at least 20% between 1970 and 1980.

It is estimated that, based upon these 4 criteria, about 2,000 localities would be eligible on a nation-wide basis for Federal designation as enterprise zones. The proposed 75 Federal designations would be awarded among these on a competitive basis, based upon need and based upon the degree of state and local tax relief and regulatory regulation, which the state and local governments propose for the enterprise zone.

It is precisely this nation-wide competitive situation with which Senate Concurrent Resolution 89 is concerned. There is no doubt that many of New Jersey's urban areas meet the proposed Federal "Need" criteria. If the Federal government were to survey the nation and to award Federal enterprise zone designations strictly on the basis of the appropriateness of urban areas for Federal assistance, and the likely benefit of that assistance for the urban areas, most of the Federal designations would go to Northeastern urbanized states, like New Jersey. We know, however, that Federal regulation does not typically work that way, and the Reagan Administration's proposal is no exception. It places New Jersey's urban areas in competition with sun-belt states with the mid-west, Indian reservations, as well as our sister states of the northeast, as to which can put together the most conducive packages of incentives to private enterprise.

Senate Concurrent Resolution 89 is premised upon a concern that New Jersey urban municipalities may be at a severe competitive disadvantage, unless the New Jersey State Constitution is amended to permit the Legislature and the New Jersey municipalities greater flexibility in putting together various tax

incentive elements of an urban enterprise zone package. This is particularly true with respect to property tax exemptions, where the New Jersey Constitution requires uniformity of assessment and taxation. Many of our sister states do not possess such constitutional restrictions, and have traditionally been far more permissive in furnishing property tax incentives for various enterprises and property uses which are deemed beneficial.

Tax exemptions in New Jersey have traditionally been afforded based upon constitutional grounds, and since the adoption of the 1947 State Constitution by constitutional amendment. There are currently in the State Constitution two provisions, adopted by amendment, which permit the Legislature to grant tax exemptions which are available for use to attract private enterprise to particular areas. The use of either of these two for enterprise zone purposes would create difficulties for New Jersey in complying with proposed Federal criteria, which we will explain further.

The five-year tax abatement program, authorized under Article VIII, Section 1, Paragraph 6, for rehabilitation efforts, does not authorize a period of tax exemption of sufficient duration or flexibility to be competitive with other states. You will recall that the Federal criteria is talking in terms of a 20-year period.

The "Blighted Areas" provision of Article VIII, Section 3, Paragraph 1, of the Constitution, while more flexible, were designed for urban renewal efforts, particularly the clearance, replanning, development, or redevelopment of blighted areas, which are characterized basically by the condition, age and use of the buildings or structures located therein. The potential use of eminent domain powers in the blighted area is provided for, and the use of an intervening public or private non-profit corporation is contemplated. Tax exemptions may not be given to private corporations directly unless their profits and dividends are limited by law. Here again, it would not really meet the criteria that I have discussed previously.

The Federal enterprise zone proposal is viewed by its proponents as a new departure from the various urban renewal,

redevelopment, action grant programs which have been tried in the nation's cities and found wanting. It is basically a program of concerted and direct Federal, State, and local tax and regulatory relief to private enterprise. The use of the Blighted Areas provision of our Constitution for enterprise zones would, I fear, be viewed at the Federal level as being only more of the same old medicine which the enterprise zone "tonic" is meant to replace.

I believe that the adoption by New Jersey's voters of the Constitutional Amendment, proposed by Senate Concurrent Resolution 89, would place New Jersey in the forefront for designation under any Federal enterprise zone program. It would allow the Legislature to move quickly to implement, at the State and local levels, an enterprise zone program which would be sufficient and flexible enough to meet whatever Federal requirements the President and Congress may ultimately adopt.

I thank you for holding this public hearing on the resolution, and for giving it the careful consideration it deserves.

SENATOR RODGERS: Thank you, Senator O'Connor.

SENATOR BUBBA: Senator, I have just one question. In your concept of the enterprise zone formula that would designate those areas, in the course of your presentation you have repeatedly indicated municipalities. I don't think you would have any objection if the enterprise zone, as it was designated, would not fall directly within municipal boundaries. --in other words, if an enterprise zone could be designated to cross a municipal boundary that would not be an adverse situation, wouldn't it?

SENATOR O'CONNOR: In other words, you are referring to situations wherein the zone would be in more than one municipality?

SENATOR BUBBA: Yes. Or, a zone might be part of one municipality and part of another. Or, a zone would not necessarily take in all of one municipality and part of another; it could be part of one and part of another.

SENATOR O'CONNOR: The resolution, itself, is not specific in that regard. It merely gives the Legislature the opportunity to implement that. At the appropriate time, I would assume that under S-1173 that would be given consideration. As far as I know, there is no such limitation - limiting you to one municipality.

SENATOR RODGERS: It might be necessary to have the mutual consent of both municipalities.

SENATOR BUBBA: I just want to make sure that we understand, during the process, that it is not limited to municipal boundaries. That's all.

SENATOR RODGERS: Thank you, Senator O'Connor. The next speaker will be the Honorable Kenneth Gibson, Mayor of the City of Newark.

MAYOR KENNETH A. GIBSON: Thank you, Mr. Chairman and members of the Committee, for the opportunity to submit my testimony this afternoon. I am representing the New Jersey Conference of Mayors, the New Jersey League of Municipalities, and the City of Newark.

My comments will deal with the proposed Constitutional Amendment in SCR-89, as well as the general concept of urban enterprise zones in relation to the needs of New Jersey's urban areas.

The theory behind enterprise zone legislation is that public programs which provide direct assistance to private enterprise are of great value, and that the government cannot solve certain urban problems by itself. Therefore, the government should eliminate the disincentives to private investment in urban areas. However, the only disincentives addressed by the enterprise zone concept are those relating to taxation. Disincentives such as high insurance premiums, crime, lack of employee parking spaces, poor mass transportation, and the lack of up-to-date training for the available labor pool are not addressed in the enterprise zone legislation.

New Jersey's enterprise zone legislation is contingent upon the passage of a Constitutional Amendment, SCR-89, which would authorize the Legislature to enact laws establishing urban enterprise zones within which municipalities may grant tax abatements. Since New Jersey already has the Fox-Lance law, as it exists in law, is a Constitutional amendment really needed? That is the question. The terms of the tax abatements discussed in the enterprise zone legislation are essentially the same as the Fox-Lance law presently allows. We really need to ask ourselves whether a constitutional change is needed, and if it is, whether that change ought to be sweeping reform of our property tax system, instead of piecemeal change for enterprise zones. I believe that an overhauling of our property tax system will result in greater stability of tax bases which in turn will lead to a healthier business and residential climate. I am not sure that the SCR-89 proposal will significantly contribute to an enhanced business climate.

There is always the very practical question of how the decision about the boundary lines of a zone are to be made. Will business on one side of a street, for instance, have inordinate advantages over those on the other side of the street? Any limits of only one zone within a municipality will be inappropriate if several areas are needy, and several areas qualify under the proposals.

Needless to say, the designation of the geographical boundaries of an enterprise zone could be as politically hot an issue as redistricting. After all, they are both processes which would determine who shall reap certain "goodies". What is a fair way to treat business which stayed and expanded in depressed urban areas without the incentives of urban enterprise zones? Suppose those businesses are not located in the area designated as an enterprise zone? Can we rightfully deny them the tax benefits given to businesses which happen to be inside the zone? What about the tremendous risk that they faced and the returns they have given to depressed municipalities? What do they get for their

efforts? Would we be making a Constitutional change which would hurt the very businesses we should be rewarding? Let us think carefully about precisely who would benefit from any Constitutional amendment for enterprise zones.

My next few comments relate to enterprise zones, generally.

We have to look at the criteria for zone designation to make sure that "need" is the main criteria. Federal and State enterprise zones should not be designated based on their likelihood for success. We must be wary of zones designated because they are most likely to attract new businesses and have the look or appearance of success, thus providing that the enterprise zone concept is a good one -- or, thus proving that the enterprise zone concept is a good one. This would be a self-fulfilling and self-serving way to proceed which has the inherent danger of allowing the State and Federal governments to ignore the problems of the neediest areas. Worse yet, the potential for writing off neediest areas as hopeless is too great. Let us remember that some of the neediest areas may not even benefit from urban enterprise zones as we understand them.

We do not know if enterprise zones are the answer in our current economic situation. Enterprise zones worked in post-war Japan because we ran everything and we controlled the economy at the time. We do not have control over our own American economy today.

In England, there are mixed reports about the effects of enterprise zones, so we really cannot be sure of their effectiveness.

Urban enterprise zones will not solve the problems confronting modern urban economies. They will not defeat the enemies of a strong economy, such as low worker productivity, high energy costs, depressed demand for consumer goods, high borrowing costs, low quality consumer goods, and low price imports.

At this point in time, we have not proven the economic assumptions on which the theory of urban enterprise zones is based. Specifically, we do not know if these tax incentives and the relaxation of government regulations will result in the

stimulation of private capital and/or the reduction of unemployment.

In today's economy, business people and investors can put their capital into low-risk money market tools or tax-free investments. Their effective yields run as high as 18%. Why would we expect them to invest their capital in high risk ventures in an enterprise zone where the return could be nominal, or they could lose their capital altogether?

Who will put up the venture capital for new businesses, especially new small businesses, which are the ones that create the bulk of new jobs in America. Small businesses have an especially difficult plight in trying to raise loan capital in a recessionary economy. Furthermore, it takes an average of 4 to 7 years before small businesses start reporting profits. They would not benefit from tax cuts for quite a while. Rather than stimulating local enterprise, there is a risk that enterprise zone tax incentives may cause unnecessary speculation, displacement, and subsidies to those who are already well-off. Furthermore, the Council of State Planning Agencies found that only a small percentage of businesses make location decisions based on tax incentives. Would enterprise zones, then, actually attract businesses from elsewhere, or give any edge at all to a depressed municipality?

An underlying premise seems to be that industries in the urban enterprise zones will be labor-intensive, thus creating a maximum of new jobs within the zone. How does this premise fare in geographical areas, which are considered less hospitable to labor-intensive industries? We have witnessed the textile industry, among others, moving out of the New York/New Jersey area and into the southeast or overseas where the labor climate is considered more favorable. Enterprise zones will not be enough to bring these industries back to New Jersey.

And who will provide the training for the people who want new jobs? Will industry be expected to do all the training by itself? Will there be any governmental assistance in the form

of CETA or a similar program? Hard-core unemployed people are generally unskilled. It is very costly to train them; and as a result, most businesses simply cannot afford to hire them.

If enterprise zones are supposed to reduce unemployment, it will have to provide jobs for the hard-core unemployed. The only way they can do that is with the help of government sponsored training programs.

Mention is often made of the waiving of certain government regulations for industries within the zones. Each state and each municipality must carefully weigh the costs of waiving regulations before granting blanket waivers. Some regulations, such as pollution and building standards, should not be unilaterally waived. Only careful local review will reveal which ones are expendable. Neither the state nor federal government should force municipalities to abandon useful regulations, no matter how much of a hinderance they are to industry.

Enterprise zones, by themselves, do not constitute a coherent economic development strategy. They must be coupled with other concepts such as foreign trade zones, industrial revenue bonds, and urban revitalization programs.

Lastly, urban enterprise zones are not a substitute for urban aid. Let us not be distracted for the needs of our urban areas, and let us not forget that there is a state and national responsibility to assist in solving urban America's problems. Urban enterprise zones are a laudible concept, but they are only one small attempt to deal with a large complex problem. We should avoid a piecemeal approach; rather, we need a comprehensive, coordinated urban strategy with a serious commitment from the state and federal governments. Urban enterprise zones, by themselves, will not even put a dent in the problem; they must be part of a much bigger, well-rounded urban revitalization program. Only then will they be useful tools in rebuilding our cities. Thank you.

SENATOR RODGERS: Thank you, Mayor. The next speaker will be the Honorable Frank R. Lautenberg, President of the

Automatic Data Processing Corporation and candidate for the Democratic nomination to the United States Senate.

F R A N K R. L A U T E N B E R G: I have a minor correction on the record: I am the Chairman of Automatic Data Processing.

SENATOR RODGERS: I think we referred to you as the President. Is that incorrect?

MR. LAUTENBERG: Yes. I am the Chairman.

Thank you, Chairman Rodgers and members of the Committee for inviting me to speak to you. I am in a company of an impressive group of witnesses, many of whom are experts on urban policy.

Some of our State's prominent mayors are here, and I am pleased to be on the same forum to address the issue before you today, the urban enterprise zone.

As you know, I am a candidate for the U.S. Senate for New Jersey. But I believe I bring to the Committee an interesting perspective. I was born in Patterson, our State's third largest city. I head one of New Jersey's economic success stories, ADP. It happened right here in New Jersey. We started in a basement in Patterson 32 years ago and today we employ 15,000 people, 4,000 right here in the State of New Jersey. I have served on the State's Economic Development Authority and I now sit on the Port Authority of New York and New Jersey.

I believe I can speak to you as someone who understands the ingredients of economic development, particularly the economic development in the cities.

I want to put my cards on the table. I think the President's Urban Zones proposal is a sorry substitute for what our urban economies need. What do our cities need? First, we must understand the problem. You know the urban history as well as I do. Since World War II, manufacturing in the cities has declined. New highways took people out of the suburbs to live, employers followed. Some didn't stop at the suburbs; they kept right on going until they reached the sunbelt. The tax basings of our cities eroded and left behind a legion of willing workers in search of employment opportunity. Left behind were city governments hard-pressed to provide essential human services

for their citizens, and service is essential for the conduct of business.

Here I am talking about transportation facilities, water works, crime, and fire protection. And you know as well as I that decline feeds on itself. Employers claim that they cannot find skilled work forces in the city. But who will pay for vocational and technical training when the tax base is shrinking? Is the situation hopeless? Of course not. The historic rationale for our cities continues to make sense. It makes sense in lots of ways: our cities are hosts to major courts; they are transportation hubs; they are educational, legal, and environmental centers. Business can still be attracted by the cost efficiency of doing business in the center city with access to convenient and good labor pools. Of course, I am not saying we can retrieve the past.

The urban landscape has undergone a major change. But I'm not about to give up on the future. When you get right down to it, that is what the Administration in Washington has done. It has given up on the future of our cities. There are a few basic things our cities need for economic development and employment for our revival. We must rebuild the aging infrastructure of our cities. We must invest; we must make investment capital available to our new business, to small business, and to minority-owned business. We must be able to provide workers and business with security against crime and vandalism.

You all recall that in March a water main burst in downtown Jersey City. It virtually closed down a wide area in the city. That was a symptom of a broader problem. For years, the cities have been forced to live off their capital structure. Our roads, rails, and water works are crumbling, but the urban economy will thrive only if business can move its product or services over modern roads and rails. If workers can get to and from their jobs by affordable mass transit, it works. And yet, look at what this Administration has done. It wants to slice in half federal aid for urban roads. It wants to cut off, completely, operating assistance for mass transit. Conrail is already

abandoning freight lines. While the Federal government spends \$20.00 per capita on water projects out west, New Jersey gets \$4.47. The Administration would rather move water from the Rockies to the plains than move water from uptown to downtown. New Jersey's cities suffer the consequences.

Increased investment in public works is essential, but we must also invest more wisely. It is about time the federal government devised a coordinated national public works policy in supporting capital budgets. We know what our priorities are so we can identify financing sources, so we can prevent public works from becoming pork-barrels.

I want to note the results of a survey of urban small business owners. The National Federation of Independent Businesses hold over 2,000 small urban companies. What did they say was their number one problem? The shortage of available capital at reasonable interest rates. When small business talks, we should listen, because small business provides most of our new jobs, and only they will provide the economic growth required in our cities.

How do we solve the problem? Of course, we have to reject the Reagan budget monetary policies to get interest rates down nation-wide; but a special effort must be made in our cities to provide capital, upfront, for new economic development.

The UDAG program has done that. At the start of this year, New Jersey received almost \$90 million in UDAG funds. It leveraged almost \$500 million in private investment. The Reagan Administration cut UDAG 35%.

Industrial revenue bonds are another means of providing capital. Through IRB's, the cost of funds are several points below the prime rate. In New Jersey, IRB's are provided through the Economic Development Authority, on which I had served. In New Jersey, we target IRB's to urban areas; other states don't. I think it is time we made urban targeting a national priority and incorporate it into policy. It would address some of the complaints registered against IRB's, and it would address a real

need of the urban economy. Instead, the Reagan Administration has proposed reforms that would increase costs to local governments, and in general, drastically reduce the use of IRB's.

We also know that our cities' future depends on reducing crime. Businesses and residents have fled the crime of the cities; many who remain live in deep fear. Business cannot afford insurance. Local law enforcement authorities are stretched thin. What has this Administration done? It threatens to cut back. It has put fewer drug enforcement agents and FBI agents out there fighting the drug traffic. The Coast Guard has reduced anti-smuggling patrols. My friends, you know as well as I, drug traffic feeds much of the crime that plagues us. I have reviewed very quickly the major things our urban economies in New Jersey need. Cities need a modernized infrastructure. Businesses need investment capital. They need to be secure against crime. And, of course, there are other needs. We need effective educational systems. We need cultural activities in the cities. Think of what a lift Trenton would get from a new civic center, or seriously refurbishing Newark Symphony Hall. These are great challenges.

Reviving our urban economy is not easy. It requires all of us in Trenton, in Washington, and in the private sector, to reject the ideas that have failed to refine those that had worked. You know and I know that many have worked and still work. We must search for new ways to solve the problems. That is the challenge. What is this Administration's response? Urban enterprise zones. Friends, this is no response. It has been said elsewhere, and it was said earlier by Mayor Gibson: it is operation bootstrap without the boot. It is supply side economics. It's trickle-down for Trenton and all of the cities. The proposals call on cities to compete for zone designation. They must cut taxes and increase services in the zone. It is a crazy competition of which the winner loses the most. For a city balancing a budget, it is a zero sum game. Lower taxes and more services in the zone mean higher taxes and fewer services elsewhere. The cities cannot bear it.

They should not be forced to bear it. Most Mayors will admit this. They don't receive urban enterprise zones gladly. Some support them, yes. That is because they are the only game in town.

In return for the city sacrifices, the federal government offers an array of tax incentives and credits. But, for whom? If you own a small business, if you are just starting out, a tax credit is of little use. You are lucky if you turn a small profit. You are hardly paying tax. I know, because ADP was once a very small business. It took us a long time to pick up steam.

Tax incentives and credits won't help the small or minority business get on its feet; it will help the capital intensive business. But the potential for economic growth is greatest in labor intensive service industries - small companies. In some, I think urban enterprise zones are a placebo a substitute for the real thing. The proposal ignores the real needs of the cities.

I would like to share one more thought with you. The proposal represents a basic view of the role of government. I think it is a mistaken view. The President believes that government is the problem. If government simply got out of the way, the cities would thrive. As a corporate leader, I would be the first to advocate more reasonable, efficient government regulation, but government has an important role to play. It must set the stage for economic development. That means building the roads, the rails, and the central transportation and communication systems. It must manage the monetary system so that business has the capital it needs to grow. And if the market is not perfect, government must try to correct it. I'm not saying it is easy, but we can't avoid the challenge. We can't pretend that no policy is good policy. It just isn't. Thank you very much.

SENATOR RODGERS: Thank you, Mr. Lautenberg. We will have a five minute break and then we will have the next speaker, the Honorable Gerald McCann.

(Recess)

AFTER RECESS

SENATOR RODGERS: The next speaker is Gerald McCann, Mayor of Jersey City.

M A Y O R G E R A L D M c C A N N: Thank you, Mr. Chairman. Senator Rodgers, Senator Bubba, Senator Connors, ladies and gentlemen: on behalf of the citizens of Jersey City, I am pleased to take this opportunity to comment on the proposed "Urban Enterprise Zones Act" and its companion Resolution which will amend the State Constitution to provide tax abatements necessary to make enterprise zones work.

The proposed legislation must serve a dual purpose. It must qualify New Jersey cities for federal urban enterprise zone designation. It must also create an intensive economic development program which will stand on its own to serve our hardest hit urban areas without the benefit of federal incentives. Although cities throughout New Jersey have neighborhoods which can qualify for Urban Enterprise Zones by any standard, it is not likely that we will get more than one or two designations when the federal program is ultimately implemented by Washington. Nonetheless, New Jersey's Urban Enterprise Zone legislation must put our cities in the position to compete with other cities across the country for designation. As we all know by now, in the Administration's proposal, a maximum of twenty-five zones will be approved in each of the first three years of the program. The competition obviously will be stiff.

The states and cities won't have a firm idea on final federal program regulations for some time. However, the White House proposal, which was released on March 23rd, gives us some indication of what the Administration will expect in the way of state and local incentives. In addition to tax relief, federal designation will be based on regulatory relief, the provision of municipal services through private

sources, and the involvement of neighborhood organizations. While Senate Bill 1173 addresses the one element of an enterprise zone strategy--relief from some state and local taxes--it does not consider the easing of other government burdens which may, in fact, affect economic development more than the local property tax rate.

This is especially significant in the case of start-up businesses where tax liabilities are at a minimum. What is required in this case is an easing of the tangle of government bureaucracy and the availability of start-up capital. No enterprise zone proposal, either state or federal, currently considers the financing needs of small and new business. Any complete urban economic development strategy must include the provision of start-up capital for new business--the prime source of new jobs in the United States.

While I endorse the amendment to the state constitution allowing property tax exemptions in enterprise zones, it is not because I support a freewheeling property tax abatement policy but because the in-lieu of tax payments under consideration is, overall, far less restrictive to cities than the existing formulas found under Fox-Lance.

Although I would argue that tax abatements or exemptions should never be granted on land, but rather on improvements to the land, and that in-lieu of tax payments should never fall below the taxes formerly levied on a property, I support the current proposal because it allows municipalities to negotiate payments above the prescribed minimums to an appropriate level as determined by the individual circumstances. The legislation actually encourages this process of negotiation through the creation of an Urban Enterprise Zone Assistance fund which will provide fiscal aid in upgrading zone services. The Legislature must, of course, see that there will be an adequate appropriation for this fund.

I commend the authors of these bills for their improvement on the old Fox-Lance formula. The City of Jersey City has lost over \$100 million in rateables since 1973 through abandonment, vandalism, demolition and tax appeals. As Mayor, I cannot serve the necessary, the highest in-lieu of tax payment possible while still making a project feasible within an enterprise zone. My support of the tax abatement formula does not extend to the approval procedures, however. I believe the City of Jersey City, and other municipalities, have sufficient capacity to evaluate a request for tax abatement and enter into a valid agreement without State review. The 90-day review period proposed in this bill is redundant and flies in the face of the basic tenet of the federal enterprise zone theme--the removal of unnecessary government burdens to business. As anyone involved in urban economic development will attest, putting together a financial package for an inner-city development is difficult, at best. A three-month delay, for state review, can easily burn an otherwise do-able deal.

The proposed legislation fails to anticipate the forthcoming federal regulations in this regard. The State must take the lead by eliminating government burdens to business, give the municipalities some direction in streamlining the development process in terms of zoning and meeting the State's Uniform Construction Code. To compete for federal enterprise zone designations we must show that New Jersey's legislation meets the spirit of the federal program, as best as we can anticipate it.

I am proud of the fact that Jersey City has already done much to improve its business climate, without having to resort to tax abatements at every turn. We have reorganized our administration to create a rational approach for building in Jersey City. As a result, our Planning Board and Board of Adjustment have both

processed far more applications than ever before. Business appreciates the fact that their building permits, applications for site plan review and variance are no longer lost in the mire of bureaucracy, but are acted upon in an expeditious manner. In a world where time is money, business benefits from good government.

I have also proposed amendments to Jersey City's rent leveling ordinance to allow landlords a reasonable profit, thereby stemming disinvestment in rental housing while still protecting tenants.

The measures we have taken all over the past ten months have enhanced the prospects of economic development in Jersey City, and will prove an asset in any enterprise zone application the City will submit.

I respectfully submit to this committee that the proposed tax abatement be submitted to the people of New Jersey without the ~~impediment~~ of a 90 day review period by EDA. The Senate must also address the elimination of unnecessary government regulation in order to meet forthcoming federal urban enterprise zone criteria. Finally, the State must create a funding mechanism to provide start-up capital for small business in the enterprise zones. If the voters approve it in November, proceeds from the \$85 million Community Development Bond will be well suited to this venture. The proposed legislation with the modifications I have suggested today, will fulfill the dual needs of our urban areas--establishing a self sufficient enterprise zone program within the State while allowing New Jersey's City's to compete effectively at the federal level.

SENATOR RODGERS: Thank you, Mayor McCann. The next speaker will be Arthur Guida from the New Jersey Bell Company, Newark, New Jersey.

ARTHUR GUIDA:

Good Afternoon, I am Arthur Guida, Assistant Manager, Public Affairs Department, New Jersey Bell and I appreciate greatly the opportunity to appear before you today to make this statement concerning the proposed urban enterprise zone legislation. I believe it is most appropriate for New Jersey Bell to be represented here today for as the largest private employer in the state our corporate decisions have far reaching and long lasting effects on the urban areas of New Jersey. Similarly, legislative proposals concerning the economic well-being of our cities can affect my business in significant ways.

As support for this statement let me review with you briefly some of the key findings of an internal study of the 70 largest cities in New Jersey conducted in 1976. It revealed that:

- half of the Company's investment and employees were assigned to locations in these seventy cities,
- 62% of our company locations are found there,

- 50% of our customers,
- 64% of our total business revenues,
- and, 61% of our municipal taxes are payed in these municipalities.

The study also pointed out that New Jersey Bell provides 21,000 jobs in the 70 urban communities - or 68% of our total work force.

Of New Jersey Bell's \$401 million payroll, 79% is paid in these cities.

So we have a deep interest in the well-being of our cities. Perhaps the most revealing finding of our 70 cities study dealt with the startling loss of business and employment in our major cities. Based primarily on these negative statistics, it was decided that a meaningful contribution to economic development could be realized by assisting these urban centers in slowing the out-migration of their economic base. Perhaps the trend could even be reversed. The benefits of such an effort to New Jersey Bell and all of the other businesses are many fold. First, the existing firms are customers. Secondly, the employees who work in these companies are also customers. And lastly, each of these firms helps to shoulder a portion of the tax burden.

Further investigation revealed that in most instances nothing was being done at the local level to retain the existing economic base. All economic development effort was focused on trying to attract new firms to these areas. In many of these cities a great deal of public investment is devoted to the preparation of advertising and public relations in order to achieve this objective.

Exactly how successful these efforts are in terms of a net increase of firms and jobs is open to question. Some effort at responding to the wants and needs of existing firms is clearly warranted. It has been stated that when a local government is able to create an atmosphere within its boundaries that is conducive to the retention and expansion of its existing economic base, it will, in the process, have created an environment attractive to new firms as well. In many urban centers, therefore, business attraction efforts may be putting the cart before the horse.

Over the past 2 years, New Jersey Bell has been spearheading a business retention and expansion program in Trenton, Hoboken and Elizabeth. We have also been presenting the findings of these studies to many audiences throughout New Jersey.

The business retention and expansion programs have four key objectives:

- 1) to establish an early warning system identifying firms with plans to relocate or cease operations,
- 2) to provide the city administration with information on its current economic base,
- 3) to build a bridge between city hall and the business community,
- 4) to more sharply focus limited public resources.

In each city, every manufacturing company was identified and an attempt made to survey them. The mayor's support and involvement early in the process was key to establishing a dialogue with the business community, and ultimately the success of the program. To give you a feel for the extent of this effort, 141 firms in Trenton and 82 in Hoboken were personally contacted and surveyed. In Elizabeth, the effort is still in progress but all 300 firms will be contacted by the Mayor.

Implementation of the survey was undertaken with broad based community involvement, including clergy, service club members,

Chamber of Commerce members, educators, and a host of other volunteers. The survey document was very comprehensive comprising 25 pages and touching on every aspect of doing business in the city.

Let me share with you some of the findings of these surveys before I relate them to the enterprise zone legislation in question.

In Hoboken and Trenton, 86% of all manufacturing firms have their "headquarters" in the city. This means that in almost all cases the individual surveyed is the corporate decision-maker.

Almost half the firms in Hoboken and one quarter of the firms in Trenton are in leased facilities. And, in both cities, of those firms which began their operation elsewhere, 75% stated they moved to their present location because they simply outgrew their original space. It stands to reason that these firms would move again for expansion reasons.

On the positive side, 7% of the firms in Hoboken and 17% in Trenton have plans for new construction in their respective cities, while 18% in Hoboken and 20% in Trenton have expansion plans at their present site.

Also positive was the response to the question, "Do you have plans to move?" Of the 12% in Hoboken responding they did have plans to move, 63% would remain within the city of Hudson County. In Trenton, 11% had plans to move, but 83% of these firms had plans to move within the city or Mercer County. I therefore submit that New Jersey is in fact a good place to do business and that our loss of industrial firms to the Sunbelt and neighboring states is not as severe as one may believe.

By far, small business comprises the lion's share of the firms in these cities. Most businesses are on land less than 1 acre in size, in buildings under 25,000 square feet, employ less than 40 employees and have income or sales of less than \$1 million.

According to a recent MIT study, these type firms are 4 times more likely to expand than contract, but are also the ones most difficult to reach through traditional measures, namely, Chamber of Commerce activities, participation in service clubs or associations or involvement on municipal boards or commissions. Our business retention and expansion studies bore out this fact as many surveys were conducted while the CEO was operating a drill press or some other machinery.

Let me touch upon some key issues which relate directly to enterprise zone legislation. Every economic development professional likes to think that finding and then implementing federal, state and local financial assistance programs is the life blood of success. In the vast majority of cases, the businesses surveyed are not familiar with these programs. What's more revealing is that only 6% in Hoboken and 13% in Trenton ever used or attempted to use one of these programs. To these companies, SBA, UDAG, EDA and Community Development Block Grants and the like of foreign languages. In fact, 78% of the businesses in Hoboken and 75% in Trenton stated they would finance improvements through conventional financing means or cash flow.

In a time of fiscal austerity from the federal government right down to our individual budgets, we must look for new and innovative ways to improve our business climate. This includes improving the attitude of local government and the quality of the local physical environment.

I submit that favorable corporate tax treatment and availability of federal and state financing programs alone will not achieve these goals.

Most enterprise zone legislation to date is, for all intent and purposes, tax and regulation related bills. Today, we are addressing Senate Concurrent Resolution 89 and Senate

bill 1173, and they too are tax related bills. Let me share with you several of the survey findings that are contrary to the intent of these bills. In Hoboken, only 2% of the businesses rated taxes as a key factor impacting their financial performance. In Trenton only 3%. Regulations; local, state and federal, only received a 6% response in Hoboken and a 10% response in Trenton.

What's more, with all the press that New Jersey is anti-business, our surveys found that 69% in Hoboken rated it an excellent or good place to do business, while 35% in Trenton rated it excellent or good. New Jersey fared well also as 59% in Hoboken rated the State excellent or good, while 61% in Trenton rated New Jersey excellent or good.

Stated another way, tax abatements and tax related incentives should be treated as a sweetener in business development not as the primary tool to bring new development to fruition. Furthermore, for larger companies, tax concessions can make a difference in location decisions as in the recent case of Ideal Toy moving from New York City to Newark. But, for the small businesses which are by far the bulk of New Jersey's industrial base, taxes are a minor factor in the decision to remain or grow at their present site. As one Trenton businessman stated, "If I don't have to pay local property taxes than I have to pay state and federal income taxes. Either way its not more money in my pocket or the business." So you see that corporate taxes are not a key consideration to the existing business community.

The key problems that the manufacturing community faces in our cities are 1) failing infrastructure; namely inadequate roads, bridges, sewers, water supply systems, railroads, and the like. In both cities this was the number one problem. 2) Personnel, the inability to find and retain qualified employees is also common to these cities. 3) Access to capital! Although businessmen said they would finance improvements through banks or cash flow, the access and availability of capital by lending institutions many times simply is not there. In many cases these small, sometimes new businesses are very dynamic and are often the kind of firm that banks feel very uncomfortable about. Lastly, public safety and crime, not the violent type, but rather malicious vandalism. These four problem categories were repeated time after time as the issues affecting the profitability of business.

I respectfully submit that SCR-89 and S-1173 do address many of the issues raised by our Business Retention and Expansion Programs but do not go far enough to effectively solve the major problem areas identified in our interviews.

Our experiences in the urban aid municipalities around the state highlight the fact that many communities already provide some form of tax abatement and are anxious to cut

red tape. Admittedly some do it better than others, but all attempt to do it. These programs have not, in and of themselves, been the juggernaut of urban revitalization. I submit that extending tax abatement to 20 years, as proposed in S-1173, in the exact cities which are most in financial distress is suspect.

I might add that the Business Retention and Expansion Programs, detail as never before, the true, not perceived, problems associated with conducting business in New Jersey's urban communities.

The findings emphasize the need for adequately funded programs which improve and increase local municipal services not only within a neatly defined enterprise zone but municipality wide. There is little sense to upgrade a sewer system or roadway within a zone when as soon as the effluent or traffic pass over the enterprise zone border it encounters decaying systems.

I admit that the Enterprise Zone Assistance Fund provision of S-1173 addresses these issues to some extent. But, from our experience in hearing the problems first hand, it is felt that the dollar savings resulting from the provisions of S-1173 dealing with the exemption of the net worth tax, tax credits for employee placement, credits for vocational

training and apprenticeship, retail sales exemption and property tax abatement should be used to supplement the funding for improving and upgrading municipal services.

In addition, enterprise zones, if for no other reason, are proposed to increase employment in distressed areas. In many of these cities the unemployment rate approaches 20%. Unless new business, by that I mean newly created business, can be enticed to locate within the zones, the existing base of employers will not pick up the slack quickly enough to notice a substantial increase in employment. I submit that without an adequately capitalized financing pool to provide streamlined and speedy access to capital, all other tax related incentives are tangential. Stated another way, the need of both large and small business in urban areas is to conduct business with less cost and less complexity. In our experiences in Hoboken, Trenton, and Elizabeth, this simply equates to capital formation for the business itself, for municipal infrastructure and for municipal services. Might I suggest that more emphasis be placed on interest rate subsidies for small projects, say under \$250,000 to provide gap financing, developing secondary markets to assist the private lending institutions to free up their loan portfolios so they can become more active in new endeavors, and to provide assistance in equity financing possibly by providing a partial tax forgiveness to a lending institution which loans funds in a distressed area.

I believe that if we leave the tax and regulatory incentives to the federal government and fill in the void of capital formation with state legislation, a meaningful and responsive program for urban development can be achieved. Might I leave you with the thought that enterprise zones are not a panacea, but certainly worth trying. Before the State commits its very limited resources to this program, it may be more appropriate for us to test the concept on an experimental basis in one of our urban centers receptive to the idea.

Thank you!

SENATOR RODGERS: Thank you, Mr. Guida.

SENATOR BUBBA: Mr. Guida, I would like this Committee to receive a copy of that 70 Cities report.

MR. GUIDA: Yes. We can provide those for you.

SENATOR RODGERS: The next speaker will be the Honorable Arthur J. Holland, Mayor of the City of Trenton.

MAYOR ARTHUR J. HOLLAND: Mr. Chairman and members of the Committee, I am Arthur J. Holland, Mayor of the City of Trenton. I am pleased to appear before you today on behalf of the New Jersey Conference of Mayors and State League of Municipalities to discuss policy and urban enterprise zone legislation which can help to strengthen New Jersey cities.

The enterprise zone concept is the most recent Federal government major policy designed to revitalize distressed areas. It is based upon the premise that the removal of taxes, the targeting of tax incentives, and general regulatory relief in distressed areas will provide a more

conducive free market environment and attract new entrepreneurial investment.

To the extent that such incentives are targeted and actually stimulate investment and employment that would otherwise not occur, the legislation will act as an aid to urban revitalization. Such new investment and risk taking initiated by a multitude of small businesses and individuals should certainly be encouraged and rewarded. Recent research by MIT's Program on Neighborhood and Regional Change has indicated that two thirds of all new jobs in the United States and all net new jobs in the Northeast between 1969-1976 were created by small businesses which employed less than twenty people.

To the extent that the government offers tax credits, however, for new capital investment and added employment that would occur regardless of assistance, the public is faced with unneeded greater budgetary problems and lost revenues.

The enterprise zone concept also advocates as equally important to the tax incentives, a cooperative attitude by the State and municipal government toward new business development. Distressed areas are especially aware of the need for cooperation. In Trenton, for instance, the City's development department is responsible not only for business

assistance but also for zoning, traffic and building inspections. In this way, we can help a business more efficiently.

It was in part Trenton's institutional ability to minimize paperwork and its permit procedure that convinced the investors in and developers of our ICES cogeneration district heating system to build in Trenton and not in a larger City.

However, while we minimize regulations, we cannot ignore our responsibility for the environmental health and safety of local employees and neighboring residents. Zoning, child labor, occupational safety, and toxic waste regulations were originally adopted as responses to the unsafe conditions under which some businesses conducted operations.

I would note, therefore, that enterprise zone legislation, while helpful in its thrust, will not address all the problems of an urban environment.

As I mentioned earlier, it is generally accepted that small businesses produce most of the new jobs in our country. The MIT research also observed that "the job generating firm tends to be young, dynamic (unstable). It is the kind of firm that makes banks feel very uncomfortable". Such risk sensitive institutions as banks cannot be expected to offer the type of longterm capital

assistance that small businesses and our state need to generate new jobs. Not all small entrepreneurs, especially those from disadvantaged backgrounds, have equal access to capital.

It is for those reasons that in addition to considering the important enterprise zone legislation, I urge the legislature to pass legislation that offers such capital assistance. Such help is now provided by the federal Community Development Block Grant & Urban Development Action Grant programs and the New Jersey Economic Development Authority.

New legislation establishing statewide Community Development Funds and Local Development Financing Funds has already been passed by the Senate. This legislation is even more important since municipalities are now faced with cutbacks in the Federal programs.

The direct capital assistance to small businesses is important because without such access to long-term, affordable capital, small businesses often cannot be started or cannot expand. The proposed Enterprise Zone tax credits will be of little help, if a company is operating below its potential capacity and at minimum profitability.

The need for skilled labor and public assisted employment training must also be considered if we are to revitalize urban areas. The Wall Street Journal recently reported on the national shortage of tool and die makers, a market need that the City of Trenton also identified in its 1981 survey of manufacturers conducted with the cooperation of New Jersey Bell and the Make Jersey Work Roundtable.

Enterprise Zone legislation for distressed areas has merit, especially if targeted to small businesses. It will provide an added tool in our array of programs utilized and needed by state and local government. The program will support our municipal efforts to revitalize Trenton's physical and economic environment.

In today's competitive environment, the City of Trenton and other distressed New Jersey urban areas should have the opportunity to participate in the benefits of this new thrust. Trenton and other cities throughout the state possess sufficient institutional capacity and organizational flexibility to make enterprise zones a success.

SENATOR RODGERS: Thank you, Mayor. The next speaker will be Shari Weiner, Social Policy Director of the New Jersey League of Women Voters.

S H A R I W E I N E R: Mr. Chairman, I am Shari Weiner, Social Policy Director of the League of Women Voters of New Jersey.

I would like to take this opportunity to thank the Committee for inviting the League of Women Voters to participate in these hearings on urban enterprise zones.

Substandard housing, inadequate medical facilities, low-rated schools, decaying business districts and a lack of jobs have turned many major urban areas into a breeding ground of despair, fear, anger, and hopelessness.

In seeking a solution to the urban ills of the country, President Reagan has introduced, as his main urban incentive, the concept of urban enterprise zones. Secretary of Housing and Urban Development Samuel Pierce has said the concept exemplifies the Reagan administration's attitude toward urban development, where the emphasis is on deregulation and decontrol but the federal government steps in as a catalyst to help the disadvantaged.

It was in Great Britain that the enterprise zone concept originated. Stuart M. Butler, the American economist who has probably done the most to transport the idea, has described it as a reversal of the conventional approach: "Instead of increasing government support and intervention, enterprise zones will eliminate controls, restrictions and taxes in order to provide an attractive climate for private money and business to induce people to stay and raise families and to move in."

The administration's plan relies most heavily on tax incentives, among them the elimination of the capital gains tax within enterprise zones, a 10% credit against payroll increase and a 50% credit for hiring the disadvantaged. The administration wants to limit the number of eligible cities to 25 a year. Cities would compete for a zone designation by offering their own benefits and tax incentives as several states and cities have already begun to do.

Many states have enacted their own version of enterprise legislation and will be in the best position to take advantage of federal incentives if and when congress approves the measure.

Connecticut and Florida have comprehensive measures in place. Almost 30 other states have enterprise zone proposals pending. Let me briefly describe both the Florida and Connecticut plans.

The Florida program does not suspend or remove taxes in the targeted areas but instead allows employers to claim credits against their state corporate tax liability. By shaping the program in this manner, legislators were able to offer tax relief without affecting local revenues. Credits are also allowed for new jobs created for persons from a blighted area and for business contributions to community development projects. The eligibility levels used relate to unemployment levels, median income and housing conditions. Twenty cities or counties qualify in Florida.

Connecticut's enterprise zone program contains an unemployment training voucher system. The rationale is that instead of putting unemployed, unskilled persons through a training program for non-existent jobs, any unemployed or underemployed CETA or vocational education eligible person can apply for a voucher identifying him or her as eligible for training up to a certain cost. An employer who hires such a person and trains him in a meaningful job at a minimum wage, or higher, for one year can then redeem the voucher. Reimbursement is from a set-aside CETA employment training fund.

In order to compete for designation for federal enterprise zones, New Jersey will have to fulfill the two-fold requirement given states by the administra-

tion's proposal: 1) approval of the zone designation 2) an ongoing commitment to the program. After the state approves the designation, it would have to offer its own incentives-tax, regulatory, and services in addition to those offered at the local level.

According to a HUD staffer, in order to take advantage of the federal incentive being offered a state "is going to have to pass some kind of legislation setting up a package to remove government burdens and promote a free market environment." In addition, states should maintain a visible urban commitment and make available personnel and resources for assistance in solving problems of the cities. This assistance should serve the purpose of encouraging and strengthening the effectiveness of the private sector committed to urban revitalization.

Although the League is pleased to see the administration proposing new legislation to aid our urban centers, we have some concerns which we feel should be addressed.

We believe that entire cities would benefit from locating jobs in neighborhoods within easy reach of unemployed residents. But if enterprise zones are limited to neighborhoods of very high unemployment, excluding downtown centers, they could be counter-productive by draining jobs away from neighborhood and city centers.

Therefore, the League favors enterprise zones as a complement to state and national urban policies that strengthen urban centers.

The administration's plans is based on the concept that decaying neighborhoods can be helped with tax credits. Minority groups do not see it that way.

Small business advocates say that the Enterprise Zone Tax Act does not deal with basic problems such as lack of capital. They say tax credits are meaningless to most ghetto businesses which have no tax against which to write off a credit. The tax incentives may attract prosperous companies to distressed areas, but there is fear the program will damage companies already in place as they are pushed aside by big companies coming into the zone.

Critics of the tax incentive approach also content that drastic reductions in business taxes already adapted will virtually eliminate the corporate income tax. This, as one zone proponent notes, means that offering additional tax credits would provide little or no incentive to invest.

We are also concerned that the enterprise zones might simply redirect existing jobs and capital rather than stimulating new investment.

The League is pleased that the final version of the Enterprise Zone Act of 1982, does not include a sub-minimum wage proposal which would have made it legal to pay workers under 21 years less than the statutory minimum wage of \$3.35 an hour.

The President has emphasized that there will be no let-up in the enforcement of civil rights and anti-discrimination laws. Federal safety, health and environmental rules would remain in effect and workers would get the minimum wage.

We consider this a very important statement of policy that must be adhered to by all levels of government.

In formulating a New Jersey urban enterprise zone plan we would urge you to consider the following points:

1) Enterprise zones should not be a substitute for current community and economic development, housing or employment programs at local, state or national levels.

2) Local governments should be responsible for day to day management and technical assistance. They should put together a management system to handle financing incentives and carry out marketing and neighborhood improvements to attract new merchants.

3) The state should see that local government has the means to provide adequate law enforcement, health, safety and other services and infra-structure, as well as funds to carry out these added responsibilities.

4) Zone legislation should provide incentives which particularly benefit the expansion or creation of small businesses whose owners can demonstrate they have the available technical and management capability training and resources.

5) Applicants for jobs should not be limited to those low-income, unemployed zone residents; persons of similar economic conditions living outside the zone should be considered.

In conclusion, we doubt that an urban relief plan based principally on tax incentives can work without help from CETA, UDAG, and EDA, and other government funded programs.

We are concerned that when administration budget cuts in other urban programs are taken into account, cities could end up losing more money than they gain from enterprise zones. We feel very strongly that the urban enterprise program should be seen as only one of the set of incentives needed to return American cities to a more central and prosperous role in the life of the nation. Thank you.

SENATOR RODGERS: Thank you very much. The next speaker will be the Honorable Joseph P. Merlino, candidate for the Democratic nomination in Congress. He is from the 4th District.

J O S E P H P. M E R L I N O: Thank you, Senator. Thank you for the commercial, too.

I am very happy to be back in this Chamber, among several of my colleagues of so many years, to discuss with you an issue that has always been of burning concern to me. It was within this Chamber that I received one of the many names that I walked away from here with, that of the urban populist. That concern is the economic revitalization of our older urban communities.

Senator O'Connor's Constitutional Amendment, SCR 89, is a logical state response to the new buzzword now coming out of Washington -- Urban Enterprise Zones. It would submit to the people an authorization for sweeping property tax breaks in areas designated as such urban enterprise zones.

The current Administration has portrayed these urban enterprise zones as a centerpiece of our urban policy. This troubles me. I am convinced that the Administration has grossly oversold the economic stimulus its zones would provide. Put plainly, they are not going to transform burnt-out urban wastelands into flourishing islands of economic activity.

Rather, enterprise zones must be seen as potentially being one additional tool for the revitalization of our urban areas. Depending on the attractiveness of the overall tax cut package, I believe the zones can offer a significant fiscal advantage to offset many of the stigmas associated with inner-city location.

For example, Senate Bill 1173, which Senators Lynch and O'Connor and several other Democratic members have introduced, would eliminate the sales tax in New Jersey's urban enterprise zones. I think that 5% margin can be a significant advantage for retail operations in our cities. But the trick is to get new business started. The urban enterprise zone concept fails in getting a new businesses going. Tax breaks are to help a

company that is already in business. A firm struggling to get established needs up-front capital instead, to get started.

That, of course, is what the UDAG program is all about. UDAG was created during the previous Administration. It has provided about \$90 million to spur new business projects in New Jersey's cities, leveraging over \$500 million in private investment. UDAG has been a great success in New Jersey.

Incredibly, the present Administration is closing down that program. It is ignoring the need for up-front funding to get new businesses and small businesses, particularly, started.

The New Jersey Legislature has been far more visionary. In the last session, this Senate passed a far-reaching economic development program, much of it under my sponsorship, which included a state UDAG program.

In the new session, your colleague, one of my successors, Senator Stockman, reintroduced key elements of this package as Senate Bills 700 and 701. This Committee approved the package. The Senate readopted it. It now awaits final action by the Assembly.

This January, the Legislature also enacted, and Governor Byrne signed, a bill authorizing a community development bond act. I am especially proud to have authored that bill and shepered it through to enactment. It goes to the people this fall on the ballot.

That bond issue would capitalize the State UDAG program with \$45 million, which is half of the federal UDAG contribution in 4 years. It can leverage another \$300 million in private investment to our cities. This Committee, the mayors, and other thoughtful persons here, should beat the bushes this year to secure voter approval for that bond issue.

That is why I must urge the Legislature not to rush SCR 89 to a referendum this year. The voters might see it as competing with, not complementing, the vital community development bond act. Voters might be deceived into thinking the Constitutional Amendment does for "free" what the bond issue causes money to do.

They are not alike. The bond issue provides the critical up-front money to bring private capital into the cities.

Without it, there won't be any small or medium-sized businesses appearing in the enterprise zones to take advantage of the new tax breaks.

Aside from the issue of timing, this Committee should consider whether the property tax abatements this Amendment offers can be applied to existing enterprises -- the language does not seem to include it -- as well as new businesses.

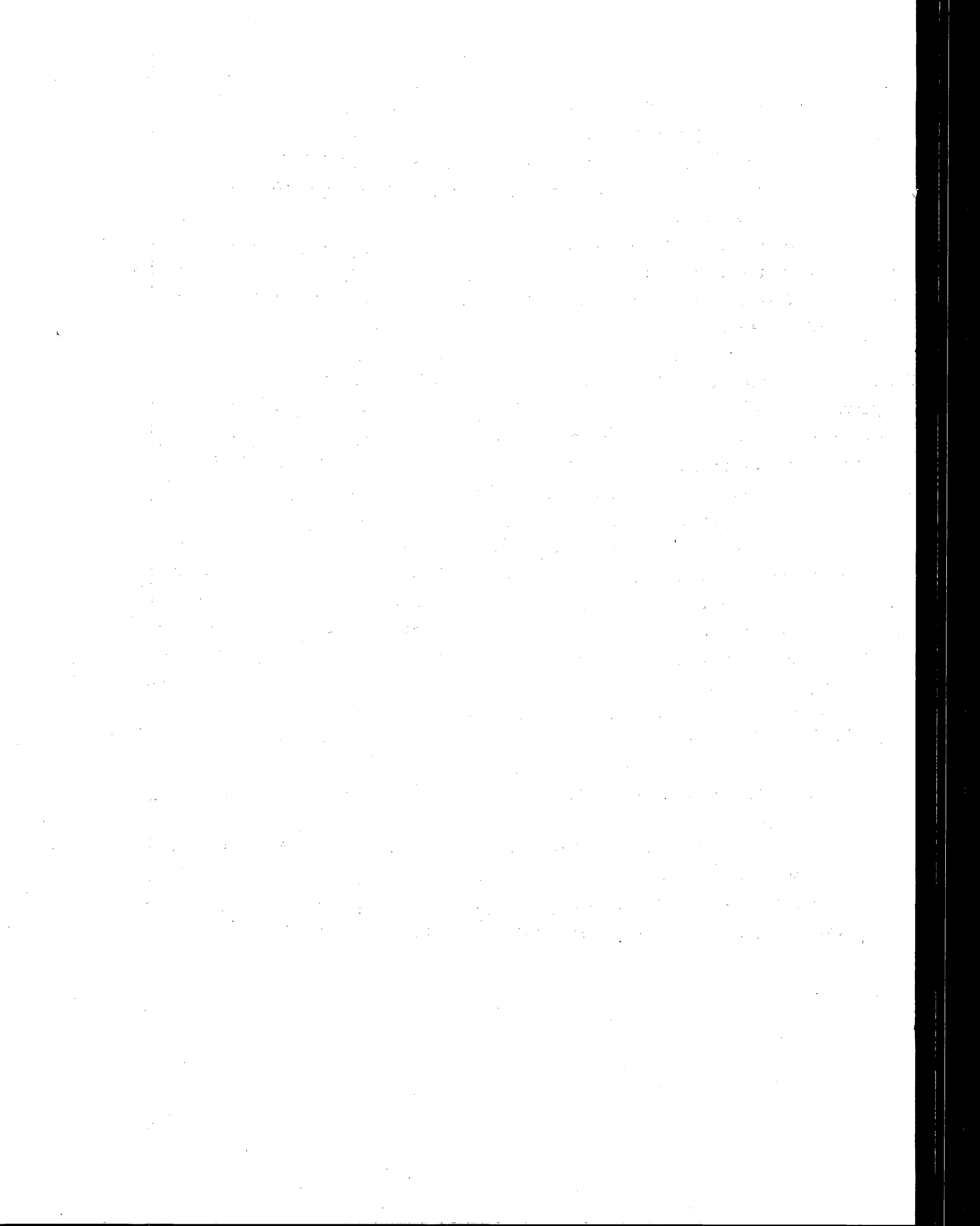
Given the experimental nature of the whole concept, I would recommend that the Amendment that you are now considering be given a time period -- a 10 or 20-year life. The voters can always renew it at the end of the ten or twenty-year period, or at the start of the new century, if they think it is worth continuing. There is no reason for our Constitution to bear the failure of urban policies forever into the future.

The concept of urban enterprise zones will not improve our cities' housing, schools, or public safety. Alone, it will not even improve our cities' economic base or add jobs. But, in combination with a community development program, like the one on the ballot this fall, it can be a major help. I think both of these programs should be looked at very closely by the Legislature to make sure that there is no confusion. Together, both of these programs can go a long way to improving the urban problems of our State. Thank you.

SENATOR RODGERS: Thank you. Are you going to leave us a copy?

SENATOR MERLINO: I left one with the stenographer, and I will get some more. I have another one.

SENATOR RODGERS: The next witness will be Niel DeHann, Director of Community Development, City of Elizabeth.



SENATOR RODGERS: We will now resume and we will begin with Niel DeHann, Director of Community Development, City of Elizabeth.

N I E L DeH A N N: My name is Niel DeHann, and I am the Director of the Department of Community Development for the City of Elizabeth. I thank you for the opportunity of appearing before your Committee this afternoon on behalf of Mayor Thomas G. Dunn to testify on the matter of the proposed urban enterprise zones in New Jersey.

For today's testimony, we would like to establish the following points:

1. The urban enterprise zone concept is a good concept that should be pursued as a method of revitalizing urban areas.

The key objectives of this strategy should be to stimulate increased private investment in order to provide additional jobs and improved housing for citizens, and additional revenues for local municipalities. The concept of the Federal, State, and local governments coordinating governmental actions and targeting this effort on specific geographic areas is an exciting one. This excitement must be tempered with the reality that all the governmental regulations and taxes that impact on a specific company are very complex. Therefore, it will take great effort on the part of New Jersey's Legislature to develop legislation that is relatively simple to implement, and yet provides sufficient incentives to the private sector so as to make a real difference in attracting private investment.

2. Therefore, the City of Elizabeth supports your efforts to adopt an urban enterprise zone program. However, we are concerned about the details of the concept. For the purpose of this statement, we will limit our comments to overall concerns, since we understand that it is not the intent of this public hearing to focus on specific urban enterprise program elements.

First of all, it must be established and agreed that the economic well-being of the State's cities is the legitimate

concern for the entire State. There are many economic and social forces that have tended to favor the outlying suburban and rural areas of New Jersey for the expansion and establishment of manufacturing and other business endeavors. We will leave it to the State's urban research experts, of which we have many in our State's excellent universities, to explain their findings as to the causes for the migration of jobs, ratables, and investments to such counties as Middlesex, Somerset, and Morris.

Our point there is that the cities should not be expected to pay disproportionately for the State's efforts to attract and retain companies in the urban enterprise zones. We are particularly concerned that the property tax exemptions and abatements might become the key factor that ultimately makes a difference in the enterprise zones. Municipalities that will be approved for the enterprise zones cannot afford to give up current tax revenues from existing properties in the enterprise zones. Either the State must help provide the substitute revenue in order for a local municipality to keep its property tax levy in enterprise zones competitive with other areas, or there must be other program elements introduced to make enterprise zones attractive for new business.

It should be a well known fact that a municipality's decreasing tax base is a critical factor in its financial problems. In the short run, an increasing tax rate due to a decreasing tax base, partially caused by tax abatements and exemptions, would only add to a municipality's woes in attracting residential and business investments in other parts of the city.

Furthermore, in formulating the proposed Constitutional amendment embodied in Senate Concurrent Resolution No. 89, your Committee should consider whether or not municipalities need additional authority within proposed enterprise zones. In particular, we think the Constitutional amendment should be broad enough so that the urban enterprise legislation can impact on such processes as the assembling and selling of land in urban enterprise zones by a municipality and granting waivers to State and local

building and zoning codes. These processes determine the city's ability to make sites available for new and expanding businesses, and the time factor involved. The ability to respond quickly is often the determining factor in a city's business dealings with the private sector.

3. The city believes that the urban enterprise zone concept provides an economic promise for New Jersey.

Our positive experience with the New Jersey Economic Development Authority in the development of the New Point Road Industrial Park leads us to believe that New Jersey EDA will be the appropriate lead agency in this program. However, we want to point out that the kind of tax relief currently being proposed in Senate Bill No. 1173 will not, by itself, be sufficient to attract and promote business growth in enterprise zones.

The common request from companies coming to the city and our economic development agent, the Elizabeth Development Company, is the need for capital -- both working capital to operate a business and debt financing for real estate and equipment. Furthermore, companies are looking for this capital at below market rates, particularly if they are to move into geographic areas they view as high risk.

It should be noted that small companies may be most likely to take advantage of the urban enterprise zones. Their decision-makers are generally entrepreneurs who are willing to take a risk, particularly if there are such advantages as low-cost financing involved. Therefore, the State must expand its ability to meet this financial need.

Finally, it should be noted that the enterprise zone concept holds economic promise if the State and local government can approach the zone in its total needs. Therefore, the State must be prepared to expand its current funding through such programs as Neighborhood Preservation and Safe and Clean, both administered by the Department of Community Affairs, in order to enable the municipality to expand police, sanitation, and public works maintenance in the zone. Furthermore, the municipality

should be given incentives and economic aid to enable property owners to improve the housing stock in the zone. Housing assistance will add to the physical attractiveness of the zone and will also meet a basic human need for decent shelter. If the enterprise zone can demonstrate measurable results in creating jobs, new ratables, and better housing in a particular neighborhood called an enterprise zone, we think that the program will make a lasting contribution to the economic well-being of New Jersey.

The city is not prepared to address the issue as to whether the New Jersey Constitution currently gives the State authority to move forward on the urban enterprise zone. However, the city believes that there is value in pursuing the amendment for several reasons.

First of all, it would enable the citizens of New Jersey to endorse the concept. We assume that the New Jersey voters will endorse the State's responsibility for creating and promoting enterprise zones through local municipalities.

Secondly, an amendment would be a sure sign to the Federal government that New Jersey is serious about promoting economic development in urban centers. We believe this amendment could be advantageous for a Jersey City in getting designation as a Federal Urban Enterprise Zone.

Finally, even if the Federal legislation did not go forward, New Jersey should move on its own to develop an economic development program that would have lasting value for the entire State.

Mr. Chairman, the City of Elizabeth again thanks you for this opportunity to express our views. We stand ready to communicate our views on the details of the proposed program.

SENATOR RODGERS: Thank you. Are there any questions?
(no questions) Our next speaker will be Bertram C. Willis, Director of Government Relations, Campbell Soup Company, and the Greater Camden Movement.

B E R T R A M C. W I L L I S: Mr. Chairman, members of the Committee we appreciate the invitation we received from

you to appear today concerning this whole concept. I commend you for meeting on such a day. I want you to know that nobody in my office really believed that you would be meeting late in the afternoon, right before Memorial Day. I will call them after we are through, and assure them that you did, in fact, do that.

SENATOR RODGERS: Very good.

MR. WILLIS: As you indicated, my name is Bertram C. Willis. I am the Director of Governmental Relations for the Campbell Soup Company. Today I am representing not only the views of my firm, but also those of the Greater Camden Movement.

I don't come as a great expert on this particular piece of legislation before you, but rather because we are concerned about the problem we see before us, and believe some significant steps can be made to deal with the situation that we live with.

Now, the Greater Camden Movement involves fifteen major private and institutional employers in the City of Camden who are working in cooperation with the City to revitalize and rebuild the municipality. The group represents approximately half of Camden's private sector jobs. It is deeply interested in and committed to the future of Camden.

Camden faces two very difficult problems: Its high level of unemployment and its decreasing tax base. The intensification of these problems creates a cycle of decline which leads to fewer residents and remaining taxpayers having to support greater needs. Consequently, a major cooperative effort is necessary to reverse this trend. The City's residents, businesses and government must join with the State and Federal government to establish a coordinated plan of attack. The issue you are considering today, State urban enterprise zone legislation, represents such a coordinated effort.

The Greater Camden Movement supports the adoption of an urban enterprise zone program in New Jersey. We also support the City of Camden in its efforts to obtain both State and Federal enterprise zone designation.

This City has great potential:

Camden is located in the center of a major metropolitan area along the northeast corridor.

Camden has an excellent transportation network -- highway, rail, and port.

Camden is working to become southern New Jersey's major service center for government, education, and health. The State is actively supporting this effort through the establishment of a branch of the University of Medicine and Dentistry of New Jersey in Camden.

Camden's port, operated by a state agency, the South Jersey Port Corporation, allows Camden to attract firms active in international trade.

Camden has the potential and the commitment on the part of business and local government. The need now is for the tools. Urban enterprise zones represent one such tool.

Mr. Chairman, you may be interested in the extent of the Greater Camden Movement's discussions and planning to date. With your permission, I will briefly outline several approaches already generated by the group. Creation of an urban enterprise zone could help these and similar approaches succeed.

Legislation has been drafted and submitted to the Governor's office which would create special banking districts in New Jersey. These districts would be similar to the program Delaware has already established. The districts would attract "consumer banks" as branches of out-of-State banks bringing new jobs into New Jersey without adversely affecting our New Jersey financial institutions. One concept being considered is restricting these districts to the State's established urban enterprise zones.

The group is involved in the effort to bring an extended care facility to the City. This center, tying closely to both the Camden hospitals and the medical school, will enhance the City's position as a major medical service center.

Progress is being made towards establishing a day care facility which would serve Camden workers who do not currently have such a center available. This facility should increase the attractiveness of employment in downtown Camden.

Another proposal under consideration is to have the major businesses and institutions in Camden "adopt-a-block," taking on responsibility for sanitation and security services in the neighborhoods adjacent to their facilities. This concept is now being developed and it is thoroughly consistent with the proposed Federal Urban Enterprise legislation which seeks innovative public service delivery systems.

Your Committee certainly deserves commendation for considering a novel approach to our State's problems. We stand ready to work with you to make urban enterprise zones a success in New Jersey. Thank you very much.

SENATOR RODGERS: Thank you very much.

Our next speaker will be the Honorable Millicent Fenwick, Congresswoman, Fifth Congressional District, and candidate for the Republican nomination to the United States Senate.

M I L L I C E N T F E N W I C K: Thank you very much, Mr. Chairman and members of the Committee. I am very happy to be here to testify on behalf of urban enterprise zones. It is wonderful to be back in the New Jersey Legislature.

In the House in Washington, I cosponsored the Kemp-Garcia Bill in May of 1980 -- I think that is when it was introduced. I am very hopeful that such a vehicle as this can really be practical and useful and not just some dream that doesn't work; that it will really be an answer to at least some of the problems of our cities.

It is an experiment. I think every one of us knows it is an experiment, and we don't know what the impact of this kind of legislation will be. We haven't even seen the Federal bill. It has never been tried before. It is going to be an experiment, and we are going to have to look at it in that way. But, however that bill turns out, we do know that what we have been doing, it didn't work.

We have had program after program. We tried building housing. And, I have spent a good deal of time reporting on housing in Newark's Central Ward for the U. S. Commission on Civil Rights. It is a disaster. We have condemned people to live in places where families simply cannot live. High-rise, low-income family housing is something that we have to move away from.

In the same way, the efforts we made for job training were not successful. We poured money into these programs and they simply didn't work out.

So, I think we know we have to be rather skeptical of proceeding along the old ways that haven't worked. We have seen in some of our older cities in this State of ours, a kind of hopelessness of urban blight.

So, here we are moving towards something new -- this urban enterprise concept. It was apparently started in Great Britain in the late '70's, and like many of our cities, their cities too -- London, Leeds, and Sheffield -- have had the same problem with vacant and abandoned old factories in the very center of the cities. They felt they could combine the people who were there without jobs and these resources -- the systems that were already set up, transportation and so on -- and make a normal commercial life through transportation and markets already existing.

The way they chose to give a chance to these economic factors to work was through the urban enterprise zone concept; aid and regulatory programs were put in line with them.

The certification process is extremely important, and the Federal government will require that State and local governments work together to establish these urban enterprise zones. Local governments must apply for designation as a zone by submitting a contract which outlines steps to reduce burdens on employers and employees, such as tax reductions, regulatory reforms, improved public services, and/or commitments from private groups to provide assistance to zone entrepreneurs and residents.

I am sure you have received all that kind of information. Then, designation as a Federal urban enterprise zone would be up to the Secretaries of Housing and Urban Development, Commerce, and Treasury. I don't know if that makes you cringe, as it does me, but what is called sequential jurisdiction is a terrible trap for delay. But, never mind, we all have to live with the system we have devised.

Although the question of whether New Jersey enterprise zones should be part of our State Constitution is best decided by your Committee, and State Legislature and the voters, I do think that New Jersey would be far better off if Urban Enterprise Zone legislation, or some form of it, were enacted. It ought to be in place when the Federal government gets around to it. I don't think that the Federal government will establish an urban enterprise zone in the State without State legislation that would be enabling.

The very fact that we are here today discussing urban enterprise zones encourages me. In Newark, already -- at least in one city -- representatives of the City's businesses, such as Prudential and Mutual Benefit and Life, civic groups, such as the Urban Coalition and the NAACP, religious and governmental groups -- all the ecumenical religious groups in Newark; it is really wonderful -- have come together and done a kind of preliminary plan for the urban enterprise zone and how it can be implemented in Newark. Do you know who knows an awful lot about that? Leonard Coleman, the Commissioner of Energy, is very knowledgeable. He was head, I think, of the Urban Coalition, and he worked very closely with these plans for Newark. He is a very interesting, intelligent, and enthusiastic man.

We can meet the requirements, in other words, of the Federal program with a running start if we have this kind of plan in one of our cities in New Jersey. If we have the kind of legislation that you can pass here, everything will be in place. There are twenty-five cities, I think, planned under the Federal program -- at least that is what has been talked

of. I know the Governor spoke of getting two such zones in New Jersey.

But, I really think we are going to have to get a little more zeal, enthusiasm, and forward planning into our whole State. We cannot sit down for the kind of situation that we see in many of our cities. It simply is intolerable. There is no use in going back and saying we need double CETA instead of single CETA -- you know what I mean. We need much more. We need a whole new grip on and way of approaching the suffering those cities bring to the people who try to live there.

I am awfully pleased that you are working on it here. I don't know how many legislatures in this nation are moving as you are in this direction. But, there is no hope without it. You are the first step. You are the beginning of what could really be a useful and practical program that would relieve our urban zones. Thank you, Senator.

SENATOR RODGERS: Thank you, Millicent. We will now take a short break and when we return, there will be three more speakers.

(Break)

AFTER BREAK

SENATOR RODGERS: The next speaker will be Scott Reznick, representing Congressman James Florio.

S C O T T R E Z N I C K: Good afternoon. Thank you for the opportunity to testify. My name is Scott Reznick, and I am an attorney and political economist. I practice as a public finance and economic development consultant. I have been a Professor of Law at Rutgers in Camden for the last seven years. I have been quite active in developing urban enterprize zone policy down in Washington, and on the State and local level.

Congressman Florio asked me if I could come here today

and talk with you about the promise of urban enterprise zones in New Jersey, and particularly about the usefulness of the economic development and urban revitalization policy tools they presents.

Urban enterprise zones, as a concept, address two contemporary public policy issues. The first is how we may use our Federal, State, and local fiscal -- by that I mean taxing and spending -- systems, and also our regulatory systems, to stimulate economic development, create new jobs, and provide needed governmental revenues.

The second issue is how to harness this economic development to revitalize our distressed urban areas.

Now, the solution to these problems -- well, there seem to be five of them.

The first would be for the State and its local governments to have fiscal systems that would provide them with predictable revenues, adequate to meet their expenditure responsibilities.

Second, we need to create a climate of cooperation by encouraging the development of a stronger political-economic partnership among the State, its local governments and neighborhoods, and the private sector.

Third, we should act to improve public sector productivity by stimulating capital investment in New Jersey plants and equipment, by enhancing employee security, and by eliminating government caused distortions of otherwise efficient private sector practices. These distortions are called "excess burdens." I would like to say that they raise no revenue for the State, but they do cost businessmen a whole lot of money.

A fourth possible solution here would be to tap the essence of New Jersey's economic growth potential and harness its entrepreneurial spirit by fostering the expansion and the creation of small businesses.

Finally, New Jersey's economic development and urban revitalization policies could go far to nurture the seeds of post-industrial economic growth by supporting new product and

new process research and development.

Many of these goals come together, actually, in one place, and that is the creation and expansion of small and new businesses. New businesses and small businesses are the principal net new job providers in the United States. Businesses with under 100 employees provide eighty percent of all the new jobs in the United States.

Small businesses provide the lion's share of research and ~~developmental~~ technological advances. The National Science Foundation has recently done a study that showed that dollar for investment dollar, small businesses produce twenty-four times more major scientific and technological advances than do large corporations.

Small businesses provide fertile ground for improving productivity for movement down the learning curve, and, following the suggestion of Senator Gary Hart and his Enterprise Democracy Act, they also improve productivity by providing for worker ownership, at least under certain circumstances.

The conclusion here is that small businesses are both more efficient and more equitable than are large corporations; and, yet, small businesses face some major problems in the United States. These are the excess burdens that I mentioned earlier.

The first problem is capital formation. Frequently, small businesses are frozen out of the capital markets, or if they do have access to capital, they must pay excessively high rates.

Second, state and local taxes tend to be regressive when dealing with small businesses.

Third, regulatory costs are disproportionately borne by small businesses, and this is particularly true with regard to entry into the marketplace. Entry costs -- those costs borne a small businessman attempting to meet regulatory requirements, are capital costs, because they do not yet have the income with which to pay them.

The cost of patenting and trade secrets is very high

for small businesses. In the 1970's the number of new patents issued in Japan increased by three hundred and seventy-two percent. In the United States, during a comparable period, the number of patents issued decreased by ten percent. Part of the reason for this is that if small businesses are producing the lion's share of technological advances, and, yet, have no money with which to pay the patent lawyers, they cannot patent their products. If they cannot patent them, they have no property rights in them -- they cannot derive the benefit from their labor. There is, therefore, no incentive to produce.

Finally, small businesses need technical and managerial assistance. Urban enterprise zones present a very nice opportunity, particularly with regard to capital formation for small and new businesses.

Now, the enterprise zone concept presents a number of tools for helping small businesses, and particularly for solving some of their capital formation problems.

The tools, as they have emerged from Washington, are as follows:

1. We geographically target and concentrate our activities in small pockets of urban distress.
2. We rely on tax expenditure subsidies for capital investment and to create new jobs.
3. We rely on regulatory relief, and particularly the privatization of public services.

Now, each of these tools has its own capacity to improve private sector behavior, and each also has its own policy strengths and shortcomings.

The advantage of geographic targeting is that it lets us localize program benefits in the areas of the greatest distress. It increases the voters' ability to articulate their demands, and would tend to allow administrators to function more efficiently.

A disadvantage is that concentrating tax expenditure subsidies geographically provides a windfall for the current owners of the land.

One of the specific recommendations to be made here

is that the State of New Jersey, or its local governments, tax the windfall capital gain that results from capitalizing the income tax breaks into the value of the land when it is sold to the first zoned business. This is a Capital Gain Windfall Tax. That is also a wonderful source of revenue for the neighborhood in the zone.

A second possible tool to be used with regard to geographic targeting is neighborhood assessment zones. These are areas in which local residents can increase their property tax rate by some small percentage. The city then collects the money, turns it back to the neighborhood zone organization, and that zone organization can spend it on those public services it desires to. This is currently being done in New York City with a great deal of success.

Now, tax expenditure subsidies generally -- first of all, their capacity to change economic behavior: Tax expenditure subsidies raise and lower the relative price of particular economic behavior. We are dealing here with probabilities. When we are talking about regulation, we are dealing with certainties.

The movement in politics and economics is toward increased reliance on tax expenditure subsidies. ERTA -- the Economic Recovery Tax Act -- is an example of this. The movement has also been toward deeper subsidies in the form of credits against the tax bill rather than deductability, or exclusion, from taxable income.

While tax expenditure subsidies are a very useful tool and can be quite effective in solving the kinds of problems that we will be dealing with in zones, they are not cost free. First, they have revenue effects. Everytime we pass one, it costs the local government and the State some money.

Second, they are difficult to specifically target on particular businesses.

Third, once enacted, they are very difficult to get rid of. One of the things about enterprise zones that is most promising is the notion of sunset provisions -- that is, the

zone incentives will only last for a limited period of time.

I would like to point out that in Senate Bill 1173, that is a ten year period. Under the Federal program, it is a twenty year period, with a four year phase out. The Federal bill would limit it then in New Jersey to ten years.

The fourth problem with tax expenditure subsidies is that the more you rely upon them, the less effective they are, because the more you make particular kinds of behavior cheaper, all you have really done is to lower the effective rate of taxation. You are no longer making it more profitable to enter into the specific desired behavior.

The final problem with them is that they are of limited utility to new businesses. Now, there are three ways to attack this problem: carry forward the credits and use them in the year which profits are made; refundability, where the Treasury sends a check for the amount of credit when there is no taxable income against which to take it; and, the third one would be the sale or leasing of tax credits. This is an idea that has had some political difficulties in Washington. But, because of the geographic limitations involved with enterprise zones it would be possible, I think, to do this most successfully here in New Jersey.

Another tax expenditure subsidy idea is expensing -- allowing for investment in zoned businesses to be deductible in some percentage from the income paid by the investor. So, this is a deduction against the taxes paid by the investor for the amount of investment. Now, new small businesses find most of their capital by going to their grandmothers and aunts and uncles. This is true. Those people have some options in terms of their investments. They can put their money into retirement accounts, tax exempt. They can use all saver certificates, tax exempt. But, if they come to me to give me money to start my small business in an enterprise zone, the income is not tax exempt. Expensing, which is a possible notion that will be included in the Kemp-Garcia Plan, is a way of making investments

in zoned businesses competitive in terms of tax exemption.

It is also possible to make capital investment subsidies, like investment tax credits, to the number of net new jobs created. Rather than just building a new plant and buying new equipment, we can control the depth of the subsidy -- the tax expenditure subsidy -- by linking the percentage of the credit to the number of net new jobs created.

Finally, there is a whole series of job training and retraining tax credits that would be possible, and would be particularly effective when dealing with small businesses. In a small business, everyone knows everyone else, so the training becomes something that is good for everyone. It is not a matter of dealing with an impersonal large corporation.

I would like to draw a very important distinction here, however, between tax expenditure subsidies and the elimination of tax disincentives that are already built into the system. So, on the one hand we are talking about reform of the existing system, and on the other hand we are talking about tax incentives. Candidates for disincentive reform, if you will, are the sales tax in this State and a greater reliance on the user charge; that might be a good idea.

Regulatory relief is something, to the best of my knowledge, which has not been addressed in New Jersey's enterprise zone legislation. Regulations are prohibitions -- prohibitions of particular economic behavior. They are justified as either the prevention of private activity harmful to the public health, safety, or general welfare, or as the promotion of private activity beneficial to the public, health, safety, or general welfare. As a general proposition, we are moving away from standard-setting regulations and toward more flexible, market-oriented solutions to the kinds of economic behavior historically subject to regulation.

If we cannot eliminate a regulation and if we cannot change its goal, then we should at least look at its means of implementation -- and that can mean just speeding up the regulatory process. Allentown, Pennsylvania -- just across the river --

has been incredibly successful at drawing new development into town, largely because of one-stop-shopping techniques that have been relied upon in their township.

Now, regulatory relief is particularly important to small businesses and new businesses who bear a disproportionate burden of regulatory costs. That is a point I made earlier. To a new business starting out, the time it takes to meet regulatory requirements eats up capital. If the availability of capital is the principal problem that small new businesses are facing and if small new businesses are providing new jobs, then the place to focus on is providing capital, and we can do that at low cost through regulatory relief.

Finally, we should be careful in dealing with the provision of public services to recognize that there are two prongs to spending policy when we are looking at enterprise. On the one hand, there is the provision of public goods and services that we all receive. This is the single, largest inducement to change a business location, to move into a particular place that government has control over. Below market interest rate industrial development bonding doesn't come close; tax expenditure subsidies don't come close. So, if we want new businesses to come to New Jersey, the thing we need to focus on is providing them with infrastructure -- roads, sewers, and the like -- providing them with crime control, and then providing them, finally, with an educational system that not only gives them a work force that is educated, but also gives them management capability that is appropriately educated.

Finally, we need to look at the second prong of expenditure policy, and that is expenditure directly on business. The New Jersey EDA is the agency principally responsible for this. We can transfer control of some of these programs to local agencies, the way Pennsylvania does it. We can also recognize that below-market interest rate financing is not an effective tool for attracting businesses into this state, but is a wonderful tool for helping small, new businesses that are already located here,

to nurture them and to help them to grow and expand.

The final thing that we must be very careful about is, below market interest rate industrial development bond financing is predicated, at bottom, on Section 103 of the Internal Revenue Code; that is the one that provides a tax exemption. Section 103 is now up for grabs in Washington. It may no longer be on the books. The one place that we know it will be applicable, however, is in urban enterprise zones.

One last thing, and that is to say that urban enterprise zones present a rare opportunity here. They can serve as both a catalyst for modernizing our system, fiscal and regulatory, and they can also serve as a crucible for testing, for experimenting at limited political and economic cost, the effectiveness of innovative economic development and urban revitalization policies.

Thank you very much for your attention.

SENATOR RODGERS: Thank you.

The next speaker will be the Honorable Melvin Primas, the Mayor of the City of Camden.

M E L V I N R. P R I M A S, JR.: Good afternoon, Mr. Chairman. I appreciate the opportunity to testify today before the Senate County and Municipal Government Committee on the subject of urban enterprise zones.

The City of Camden is very supportive of the urban enterprise zone concept. We in Camden have already begun the planning for an urban enterprise zone in our City. On April 21, 1982, I testified before the United States Senate in favor of Federal legislation to establish enterprise zones, and I come to you today to urge the State of New Jersey to establish enabling legislation to initiate an urban enterprise zone program in our State.

WHY DO I SUPPORT THIS NEW AND INNOVATIVE IDEA FOR OUR URBAN AREAS? THE ANSWER TO THIS QUESTION CAN BE FOUND IN A SHORT DESCRIPTION OF MY CITY. CAMDEN HAS A POPULATION OF 85,000. 41% OF OUR HOUSEHOLDS MEET HUD'S "VERY LOW INCOME" GUIDELINES.

WE HAVE AN OFFICIAL UNEMPLOYMENT RATE OF NEARLY 15%. WE HAVE LOST JOBS AND TAX RATABLES AT AN ALARMING RATE OVER THE LAST 25 YEARS. ALL OF THIS HAS CONTRIBUTED TO MAKING CAMDEN ONE OF THE NATION'S 10 MOST DISTRESSED CITIES.

SOMETHING NEW AND CREATIVE MUST BE DONE TO REVERSE THIS TREND. URBAN ENTERPRISE ZONES WOULD PROVIDE AN ADDITIONAL TOOL TO LOCAL GOVERNMENT TO STIMULATE ECONOMIC GROWTH AND REVITALIZATION. I WANT TO EMPHASIZE AT THIS POINT THAT ENTERPRISE ZONES WOULD BE ONLY ONE TOOL NEEDED TO HELP OUR CITIES. STATE AND FEDERAL GOVERNMENT MUST CONTINUE TO SUPPORT, THROUGH VARIOUS OTHER PROGRAMS, A COMPREHENSIVE APPROACH TO OUR URBAN PROBLEMS.

TO BE SUCCESSFUL, URBAN ENTERPRISE ZONES REQUIRE A PARTNERSHIP OF GOVERNMENT, BUSINESS AND NEIGHBORHOOD RESIDENTS. YOU WILL BE HEARING THE LATTER TODAY FROM A REPRESENTATIVE OF OUR BUSINESS COMMUNITY. WE IN CAMDEN HAVE BEGUN TO FORM THIS PARTNERSHIP IN A VERY MEANINGFUL WAY. OUR BUSINESS COMMUNITY HAS BEEN VERY SUPPORTIVE OF MY ADMINISTRATION'S EFFORTS TO REVITALIZE CAMDEN. WE NOW NEED STATE GOVERNMENT TO JOIN US IN THIS PARTNERSHIP THROUGH THE ENACTMENT OF A STATE URBAN ENTERPRISE ZONE PROGRAM.

THOUGH WE ARE FACED WITH SERIOUS PROBLEMS, CAMDEN IS A CITY WITH HOPE AND A PROMISING FUTURE. WE HAVE AN EXCELLENT TRANSPORTATION NETWORK; WE HAVE AN INTERNATIONAL PORT; WE HAVE A LARGE AND EXPANDING MEDICAL AND HEALTH INDUSTRY; AND

WE STILL HAVE A STRONG BUSINESS COMMUNITY ANCHORED BY CAMPBELL SOUP COMPANY AND RCA. A MEANINGFUL PACKAGE OF INCENTIVES PROVIDED BY FEDERAL, STATE AND LOCAL GOVERNMENT, THROUGH URBAN ENTERPRISE ZONES, CAN MAKE CAMDEN AN ATTRACTIVE PLACE FOR BUSINESS TO LOCATE AND EXPAND.

I REALIZE THAT IN JUNE YOU WILL BE HAVING A SECOND HEARING TO DISCUSS THE DETAILS OF AN URBAN ENTERPRISE ZONE BILL. HOWEVER, I WOULD LIKE TODAY TO MAKE A FEW COMMENTS REGARDING SENATE BILL S.1173 AND SENATE CONCURRENT RESOLUTION 89.

THE FIRST ISSUE IS WHETHER WE NEED A CONSTITUTIONAL AMENDMENT TO ESTABLISH AN URBAN ENTERPRISE PROGRAM IN NEW JERSEY. I OFFER FOR YOUR CONSIDERATION AN APPROACH THAT MIGHT AVOID THIS STEP. WE CURRENTLY HAVE THE FOX-LANCE TAX ABATEMENT PROGRAM WHICH CAN BE USED IN BLIGHTED AREAS. IF WE PASS LEGISLATION THAT MAKES ENTERPRISE ZONES BLIGHTED AREAS BY DEFINITION, THEN WE COULD USE THE EXISTING FOX-LANCE PROGRAM WITHOUT HAVING TO ENACT A CONSTITUTIONAL AMENDMENT. OF COURSE, THIS WOULD NOT ADDRESS THE PROBLEM OF HIGH TAXES ON EXISTING RATABLES IN A ZONE. HOWEVER, I THINK WE MUST WEIGH THE LENGTHY TIME NEEDED FOR A CONSTITUTIONAL AMENDMENT AGAINST A QUICKER LEGISLATIVE ROUTE WHICH MIGHT YIELD A SOMEWHAT LESS COMPREHENSIVE PROGRAM.

REGARDING SENATE BILL 1173, I BELIEVE IT IS A GOOD FIRST DRAFT OF AN ENTERPRISE ZONE CONCEPT. I COMMEND THE AUTHORS FOR THE CREATION OF AN "ENTERPRISE ZONE ASSISTANCE FUND". THE CONCEPT OF STATE GOVERNMENT'S MAKING UP A PORTION OF THE

PROPERTY TAX SHORTFALL DUE TO ABATEMENTS IN A ZONE, IS A STRONG INGREDIENT IN FORMULATING A TRUE PARTNERSHIP BETWEEN STATE AND LOCAL GOVERNMENT TO MAKE SURE ENTERPRISE ZONES SUCCEED IN NEW JERSEY.

I THINK THE ELIGIBILITY CRITERIA, APPLICATION PROCESS AND LENGTH OF TIME OF A ZONE DESIGNATION SHOULD BE REVIEWED TO MAKE THEM AS CONSISTENT AS POSSIBLE WITH THE PROPOSED FEDERAL LEGISLATION. THIS WILL ALLOW FOR A MORE MARKETABLE AND WORKABLE PROGRAM AND WILL MAKE NEW JERSEY CITIES MORE COMPETITIVE AT THE NATIONAL LEVEL TO OBTAIN FEDERAL DESIGNATION.

I ALSO WOULD SUGGEST THAT THE LEGISLATURE LOOK AT A FEW OTHER AREAS THAT MIGHT NEED REVISION TO MAKE URBAN ENTERPRISE ZONES MORE SUCCESSFUL. I BELIEVE THE PROCESS LOCAL GOVERNMENT MUST USE TO DISPOSE OF PUBLIC PROPERTY SHOULD BE REVISED TO BE MORE FLEXIBLE IN WORKING WITH BUSINESS. THOUGHT SHOULD BE GIVEN TO TARGETING THE ASSISTANCE OF THE NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY AND THE PROPOSED \$85 MILLION ECONOMIC DEVELOPMENT BOND ISSUE SCHEDULED FOR VOTER APPROVAL IN NOVEMBER. ALSO, WE SHOULD LOOK AT TWO MAJOR PROBLEMS FACING EXISTING BUSINESSES IN OUR CITIES -- THE LACK OF FINANCING AND THE DIFFICULTY IN OBTAINING INSURANCE. LEGISLATION IN THESE AREAS WOULD BE HELPFUL IN CREATING A TRULY COMPREHENSIVE ENTERPRISE ZONE PACKAGE. I WILL HAVE MORE DETAILED COMMENTS ON THESE VARIOUS SUGGESTIONS AT YOUR SECOND HEARING.

IN SUMMARY, CAMDEN SUPPORTS URBAN ENTERPRISE ZONES AND

urges the Legislature to move quickly to establish them in New Jersey. Camden has begun a strong effort in economic development. This is evidenced by the fact that we created the first SBA-approved section 503 Program in the State. We are ready and we are willing to work cooperatively with the State to create an urban enterprise zone that will bring new jobs and tax ratables to Camden. Thank you very much.

SENATOR RODGERS: Thank you, Mayor.

Our next speaker will be Normam Robertson, candidate for the Republic nomination to Congress, 8th Congressional District.

N O R M A N R O B E R T S O N: Thank you, Mr. Chairman. Let me make one slight correction on the agenda. My last name is Robertson -- R-O-B-E-R-T-S-O-N.

First, I would like to say just one or two things outside my prepared text, because some of the things I have heard today concern me a great deal.

First, I think it should be understood that the Federal Urban Jobs and Enterprise Zone Act is not merely the President's Bill, although he supports it, and it is not merely Jack Kemp's Bill, although he is a primary sponsor. The Bill actually has two primary sponsors in the House of Representatives, Jack Kemp and Congressman Bob Gracia, Democrat from the South Bronx. The concept has a great deal of bi-partisan support in Congress, and I believe in this Legislature and throughout the State. Moreover, the concept, as I understand it, has the support of the National Urban League, the NAACP, the National League of Cities, the National Urban Coalition, and numerous mayor across the country.

Secondly - and this is the part where I am a little concerned - I think it should be clearly understood, really, that the urban enterprise zone is not the answer; it is merely one approach -- one among many. It is not a substitute for an urban policy, because it isn't that comprehensive. But,

it may be a good idea. It may be a good opportunity for the State of New Jersey. We have heard a laundry list of concerns of the inner cities expressed today by various speakers, and I agree with many of them. To the extent that this has happened, I think it has been very constructive for the Committee and for your deliberations. However, to use this concept as an excuse to blast the President's policies, possibly at the expense of doing a disservice to a good idea, such as enterprise zones, I really don't think is a very responsible thing to do.

I respectfully suggest that any inability to see that this is only one approach among many, may be symptomatic of a short-sighted and politically narrow view. So, it is my hope that the Committee will not be sidetracked by any electioneering, including my own, in its deliberations on what is necessary to revitalize our cities, and the urban enterprise zone concept.

I am sure I don't have to spend a great deal of time telling this Committee about the problems of our inner cities. We are all too familiar with them over the years.

I too was born and raised in Paterson. I was educated in Paterson's public schools. And, as I was growing up, I witnessed middle-class and business flight, rising crime, and growing welfare and unemployment rolls.

Paterson's experience is not so different from the experience of many other cities across the country, such as Congressman Garcia's own South Bronx, where since 1970 it has lost twenty percent of its population, but fewer than three percent of its welfare recipients. In those areas of the city where twenty percent or more of the population lives below the poverty level, the overall unemployment rate in 1980 was over twice the national average. For blacks it was closer to three times the national average. And, for minority teenagers in our inner cities, the unemployment rate has often risen above fifty percent.

The lack of progress in the inner cities during the last decade - despite a huge commitment in terms of dollars - suggests that the government's traditional approaches have largely failed to address the basic ills of these areas. For too long now government has simply thrown money at the

problems of the cities in a vain attempt to simply "buy" a solution by subsidizing everything from people's income to housing to business. These subsidies have failed to set the stage for any real growth. The only thing that these subsidies have created is a dependence on government intervention and government money.

The incentives have not been great enough to business to justify an investment in blighted areas. At the same time, the incentives to individuals on welfare have not been sufficient to encourage recipients to leave the welfare rolls and join the payrolls - even if they had the opportunity to do so, which often they do not.

We can no longer afford to play "band-aid politics" by investing merely in the treatment of some of the symptoms of urban decay. The need is for an approach that is designed to contribute to a permanent solution to the problems of our cities. I believe that the Urban Enterprise Zone concept is such an approach.

The Urban Jobs and Enterprise Zone Act

The Urban Enterprise Zone concept as embodied in the federal legislation is designed to create significant long-range incentives for investmentⁱⁿ and development of the zones. These incentives are designed to meet two crucial goals:

1. Create a new sense of economic buoyancy within the zones by dramatically expanding entrepreneurial activity.

The federal legislation does this by:

- (a) eliminating capital gains taxes on investment within the zones;
- (b) excluding half of all income earned by zone enterprises and interest earned on loans to zone enterprises from taxation; and
- (c) extending the loss carryforward from seven to twenty years thus allowing zone enterprises to write initial losses off against long-term gains.

2. Recognizing that the poor often are discouraged from seeking employment by the often small difference between benefits and their earning ability, the federal legislation provides the following incentives to individuals:

- (a) a 5% refundable personal income tax credit for wages earned by zone employees, up to \$1500; and
- (b) a 5% refundable business income tax credit equal to 5% of wages paid to CETA-eligible zone employees. This is meant to partially offset the disincentives of the Social Security payroll tax which discourages employers from hiring the untrained poor.

In addition to these tax incentives, the economic climate of the zones will be aided by the streamlining of federal regulation within the zones.

The entire thrust of the Zone concept is to create an environment that will be conducive to investment and growth. Since the zone concept is designed to be a 20 year program, the growth will be long-term and, hopefully, permanent.

S. 1173 and Sen. Con. Res. 89

The legislation that you are considering today will address a very important element in the Urban Enterprise Zone concept - the need for local cooperation and commitment. All the federal incentives in the world will not create a favorable business climate if state and local government are not prepared to contribute to such a climate. Under the federal legislation, an area which is otherwise qualified by virtue of its economic state and demographics must submit a zone "contract" which outlines the steps that local government will take to reduce the burdens on employers and employees in the zone. The contract or commitment could include tax reduction, regulatory reform, improved local services, and/or

commitments from private groups to provide assistance to zone entrepreneurs and residents.

The Secretary of HUD, in consultation with the Secretaries of Commerce and Treasury, will designate from 10 to 25 zones a year, giving preference to zones with the worst conditions, the best contracts, and the broadest community support.

The legislation that you consider today will allow New Jersey's cities to compete for designation as Urban Enterprise Zones by permitting them constitutionally to consider proposing local tax incentives as part of their zone contracts.

The legislation before this committee will not confer zone status on any area in New Jersey. It will, however, make it possible for New Jersey's cities to consider implementing this bold, new concept. I feel very strongly that we owe it to our cities to put them in a position to consider whether the Urban Enterprise Zone concept is suited to their particular needs.

No Permanent Underclass

I feel that the passage of legislation aiming toward Urban Enterprise Zones is an important step in another very important direction. This direction has to do

with the somewhat less tangible notions of basic fairness and social justice. We have spent a lot of time and energy and money in the last fifteen or twenty years in trying to eliminate as much social injustice as possible. I think that this speaks well of us as a nation, and it is a process which demands a continued commitment. It is time, however, to go one step further in our quest for a just society by recognizing that there can be no true and lasting social justice without economic justice. And as we look at the economy that has been created by 20 years of the spending and taxing policies of our government, we see an economy that guarantees only one thing - that those at the bottom of the economic ladder are going to stay right where they are. Because there just isn't any room for growth.

America cannot afford to suffer the creation of a permanent, urban underclass. It's not safe, it's not consistent with our democratic tradition - and it's just not fair. Government must provide more than subsidies; it must provide for opportunity. The greatest priority of state and federal government today has to be an effort to get America back to work. And the jobs that are provided must be jobs that offer some prospect of being permanent - not jobs that will be here today and gone

tomorrow when the government runs out of money. The poor of this State deserve more than to be kept at a mere subsistence level. They deserve a chance to make it on their own. The revitalization of our cities through the Enterprise Zone concept may just offer that opportunity, or at least part of that opportunity. Accordingly, I strongly urge that the Legislature enable New Jersey's cities to take advantage of this opportunity.

I thank the Committee for its indulgence.

SENATOR RODGERS: Thank you, Mr. Robertson.

We have no further speakers listed. Is there anybody here who wishes to speak on behalf or against this concept? (no response) If not, we will adjourn. A transcript will be made of this hearing, and when it is available, copies will be placed on the desk of each and every legislator for their perusal. We will hold our second hearing in June. Thank you. The hearing is now adjourned.

(Hearing Concluded)

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Congress of the United States
House of Representatives
Washington, D.C. 20515

SUBCOMMITTEES:
ENERGY CONSERVATION AND POWER
TELECOMMUNICATIONS, CONSUMER
PROTECTION AND FINANCE

SELECT COMMITTEE
ON AGING

SUBCOMMITTEE:
HUMAN SERVICES

April 2, 1982

Mr. Glenn E. Moore, III
Staff Assistant
Senate County and Municipal
Government Committee
CN-042 State House
Trenton, New Jersey 08625

Dear Mr. Moore:

Thank you for your recent letter concerning legislation that has been introduced in the Senate to provide for the establishment of urban enterprise zones to attract business investment to economically depressed urban areas.

I was pleased to learn of your committee's work on this legislation and on the related measure that would permit local governments to provide tax abatements to businesses agreeing to locate in a zone. I am a cosponsor of legislation introduced in the House to provide federal tax and regulatory benefits to businesses set up in urban enterprise zones designated by state and local governments according to criteria set out in the legislation. You are probably also aware that the Administration has just submitted its own proposals for establishing urban enterprise zones. You may rest assured that I will bring your committee's work to the attention of my colleagues on the House Banking and Ways and Means Committees, which are considering the federal urban enterprise zone legislation.

Thank you again for writing. I will be interested to learn of the progress of this legislation in the Senate.

Sincerely yours,



MATTHEW J. RINALDO
Member of Congress

MJR:bg

Congress of the United States
House of Representatives
Washington, D.C. 20515

April 14, 1982

Glen E. Moore III, Staff Assistant
State of New Jersey
Senate Committee on/
County and Municipal Government
Trenton, New Jersey 08625

Dear Mr. Moore:

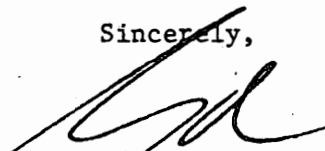
Thank you for contacting my office regarding the introduction of state legislation providing for the establishment of urban enterprise zones. I was pleased to know of your interest in this matter.

You may be interested to know that I am a cosponsor of the Enterprise Urban Zone Tax Act which was introduced by Representatives Jack Kemp and Robert Garcia. The Act would allow state and local governments to identify areas which meet basic eligibility requirements of poverty, unemployment, or economic distress as "enterprise zones." Within these zones, workers and employers would receive a number of strong, new tax incentives. The legislation has been referred to three House Committees for consideration. The Senate Committee on Finance has scheduled hearings on their version of the bill for April 22.

While I am pleased you are moving ahead with public hearings on the state legislation, you should be aware that the federal legislation which was introduced on March 31, will undergo careful evaluation by three House Committees and the Senate Finance Committee. It is fair to assume that the legislation may endure significant changes during this process. I would therefore ask members of the state legislature to make their views known to the Members of the New Jersey Congressional Delegation so that we can have some idea as to what the state would accept or reject in a final bill.

I believe the proposed legislation, while not promising to be a panacea, will help encourage economic growth for some of our poorest urban communities. This is why it is so important that we hear from you about which direction the debate should proceed. Thank you again for taking the time to contact my office. I look forward to hearing from you again.

Sincerely,



Edwin B. Forsythe
Member of Congress

COMMITTEES:
COMMITTEE ON THE JUDICIARY
COMMITTEE ON MERCHANT
MARINE AND FISHERIES
SELECT COMMITTEE ON AGING

Congress of the United States
House of Representatives
Washington, D.C. 20515

WASHINGTON, D.C. 20515
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151 NORTH BROADWAY
P.O. BOX 248
PENNSVILLE, NEW JERSEY 08070
(609) 678-3333

April 26, 1982

The Honorable Frank E. Rodgers
Senate Chambers
State House
Trenton, New Jersey 08625

Dear Frank:

Thank you for taking the time to inform me of the introduction of Senate Concurrent Resolution 89 and Senate Bill 1173. Since my schedule for May is already quite full, it appears unlikely that I will be able to attend the public hearing on these bills, but I am pleased to have this opportunity to comment upon them.

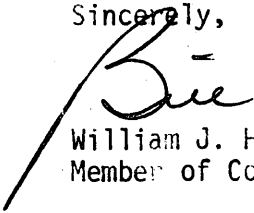
I strongly support the concept of urban enterprise zones and am, in fact, one of the original co-sponsors of H.R. 6009, the Enterprise Zone Tax Act recently introduced in the U.S. House of Representatives. Implementation of this legislation will, I believe, prove instrumental in restoring jobs, opportunity, and economic growth to communities in need of revitalization. Since New Jersey certainly has a number of areas which could greatly benefit from the tax incentives contained in H.R. 6009, it would be most unfortunate if the State were unable to participate in the program.

I am pleased, therefore, to advise you of my support for Senate Concurrent Resolution 89, which would amend New Jersey's constitution to allow a 20 year program of local property tax abatements, and Senate Bill 1173, which would implement that amendment if adopted by the voters of New Jersey.

Again, Frank, thank you for contacting me.

Kind personal regards.

Sincerely,


William J. Hughes
Member of Congress

WJH:kk

cc: Mr. Glenn E. Moore, III

MARGE ROUKEMA
7TH DISTRICT, NEW JERSEY

COMMITTEE:
**BANKING, FINANCE AND
URBAN AFFAIRS**

SUBCOMMITTEES:
HOUSING AND
COMMUNITY DEVELOPMENT
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House of Representatives
Washington, D.C. 20515

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May 21, 1982

Mr. Glenn E. Moore III
Staff Assistant
Senate County and Municipal Government Committee
CN-042
State House
Trenton, New Jersey 08625

Dear Mr. Moore:

Thank you for advising me of the hearing to be held on May 28, at the State House, regarding the proposed "urban enterprise zones" for New Jersey. Unfortunately, due to a prior commitment that day, I will be unable to attend the meeting.

Because of the impact such proposals would have on New Jersey I would appreciate any information that will result from the testimony. I would ask that you forward this information to my District Office in Paramus.

Once again, thank you for inviting me to the meeting. I look forward to seeing the result of the testimony.

Sincerely,

Marge Roukema
Member of Congress

MR:J1

COUNTY OF MERCER

OFFICE OF THE COUNTY EXECUTIVE

ADMINISTRATION BUILDING

TRENTON, NEW JERSEY 08650

BILL MATHESIOUS
COUNTY EXECUTIVE

March 30, 1982

Senator Francis E. Rodgers
Chairman of the Committee on
County and Municipal Government
of the State of New Jersey

CN-042

State House

Trenton, NJ 08625

RE: Senate Concurrent Resolution No. 89

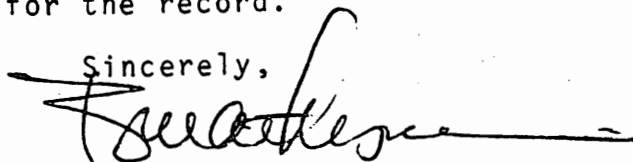
Dear Senator Rodgers:

Thank you for providing a copy of Concurrent Resolution
No. 89, proposed to Article VIII, Section III of the New
Jersey Constitution.

The intent of establishing an inducement package to
stimulate private sector urban economic development activity
is long overdue.

I wholeheartedly support Senate Concurrent Resolution
No. 89 and wish this noted for the record.

Sincerely,



Bill Mathesius
County Executive

BM:sdC

cc: Glenn E. Moore, III

OFFICE OF THE MAYOR
THE CITY OF EAST ORANGE, NEW JERSEY



THOMAS H. COOKE, JR.
MAYOR

May 11, 1982

Mr. Glenn E. Moore, III
Staff Assistant
Committee on County and Municipal Development
CN 042
State House
Trenton, New Jersey 08625

Re: Senator Frank E. Rogers
Senate Bill 1173
Urban Enterprise Zones

This letter is in response to a communication received from your office relative to pending legislation with regard to the establishment of urban enterprise zones in the upcoming State hearings scheduled to commence within the next two weeks.

East Orange, as you may know, has been actively involved in developing its capacity in the area of economic development. We have been following the progress of the establishment of both federal and State urban enterprise zone legislation and in reviewing the latter, I would like to convey the following suggestions to the Committee for their consideration:

1. The philosophic spirit of the current Senate bill leans heavily towards the establishment of the enterprise zone principle to establishing industrial construction. While we recognize the job-intensive nature of this segment of the economy, it is our contention that urban enterprise zones must serve the dual purpose of encouraging urban development in addition to the function of creating primary labor-intensive activities. Given the physical nature of many of our older cities in the State, and the lack of availability of substantial tracts of land suitable to industrial construction, the current legislation would serve to freeze out many prime development opportunities in this State's urban centers. It is for this reason that I encourage your Committee to amend the Legislature's goals so as to include both commercial as well as industrial development during its proceedings.

May 11, 1982

2. The intent of the current legislation is clearly to encourage new construction. As such, the Committee should be made aware that there are unique and dynamic opportunities within potential enterprise zone sites for both new construction and substantial renovation of existing facilities that are now vacant and abandoned, but which can serve as a reservoir for new jobs. It would be extremely difficult to attract new commercial development, not to mention financing, to an enterprise zone if resources are not available to deal with existing antiquated structures that may be contained within those enterprise zones but which have the ability to be salvaged and put back into productive use. Accordingly, I strongly encourage that substantial rehabilitation of existing structures be included in the intent and purpose of urban enterprise zone legislation.
3. Senate Bill 1173 makes specific reference to a requirement to commit applicants for enterprise zone designation to offer a twenty-year tax abatement to participating businesses. Given the heavy reliance of the cities of New Jersey upon the property tax to provide basic services to residents, I certainly have some misgivings about this aspect of the legislation. Of particular concern, however, is the vagueness of the current wording of the Senate Bill relating to the Enterprise Zone Assistance Fund. While communities are expected to grant twenty-year tax abatements, the current wording of the Bill leads one to deduce that the allocation of funds through the Enterprise Zone Assistance Fund would be limited to a ten-year period as per the terms of the enterprise zone designation. Secondly, the legislation speaks to provision by the State through the Fund of up to 50% of the difference between it, in lieu of payments and the full assessed evaluation. The "not to exceed" wording, coupled with the need for an annual State appropriation to replenish the Fund, gives little security to those communities most in need of enterprise zone assistance who, typically, have the highest tax burdens and budget constraints.
4. Finally, once again the State Legislature is being patterned on federal initiatives, placing undue reliance upon streamlining bureaucracy, removing red tape, and taxes. It is our contention that these issues, while of some importance, do not deal with the basic questions inherent in a business deciding to relocate or expand within an urban area. Of particular importance is the lack of any provision in New Jersey legislation relative to venture capital loans to assist small businesses who may not be in a position to reap the substantial benefits being offered under the current legislation.

Mr. Glenn E. Moore, III, Staff Assistant
Committee on County and Municipal Development

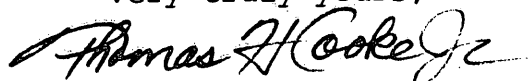
May 11, 1982

The State of Connecticut, for example, has enacted its own urban enterprise zone legislation which provided for a venture capital loan fund specifically targeted to businesses located in its designated urban enterprise zones.

I hope the foregoing comments will be of some help to Senator Rogers and his Committee during their deliberations, and I and my staff are available to provide testimony, as required, to the full Committee.

For your general information, I am forwarding pertinent information to you relative to the City's overall economic development program.

Very truly yours,



THOMAS H. COOKE, JR.
MAYOR

THC:mr

Enclosure

cc: Arthur E. Pizzano, Director
Department of Economic Development



NEW JERSEY STATE
CHAMBER OF COMMERCE
GOVERNMENTAL RELATIONS OFFICE
240 WEST STATE ST. - SUITE 1518
TRENTON, N.J. 08608 • (609) 989-7888

May 28, 1982

Frank E. Rodgers
Chairman
Senate County and Municipal
Government Committee
CN-042
State House
Trenton, New Jersey 08625

Dear Chairman Rodgers:

On behalf of the New Jersey State Chamber of Commerce I would like to take this opportunity to express our views with regard to the proposed urban enterprise zone legislation currently before your committee.

The State Chamber is a non-profit organization which is supported by its dues paying members in the business community. It provides information and acts as a spokesman for its members on a broad range of issues affecting the growth and economic well-being of the entire state.

While the State Chamber endorses the urban enterprise zone concept we would prefer to reserve making extensive comments at this time until the federal program is outlined in more detail.

We endorse New Jersey's efforts to pass the necessary legislation to position our state to benefit from the federal program.

We would be grateful if you would have Glenn Moore of your staff notify us of your next hearing date on this subject.

Sincerely,

William E. Halsey
Legislative Representative

WEH/cml

