ECONOMIC DEVELOPMENT RECOVERY STRATEGY FOR NEW JERSEY

Smart Growth Economic Development Coalition

BioNJ
Building Contractors Association of New Jersey
CoreNet Global - NJ Chapter
Counselors of Real Estate - NJ Chapter
Downtown New Jersey
Economic Development Association of New Jersey
Industrial & Office Real Estate Brokers Association
International Council of Shopping Centers - NJ Chapter
Mechanical and Allied Crafts Council of New Jersey
NAIOP New Jersey Chapter
Newark Real Estate Board
Newark Regional Business Partnership
New Jersey Apartment Association
New Jersey Association of REALTORS
New Jersey Builders Association
New Jersey Business & Industry Association
New Jersey Laborers'-Employers' Cooperation and Education Trust
New Jersey Regional Council of Carpenters
New Jersey Society for Environmental, Economic Development (NJSEED)
New Jersey State Association of Pipe Trades
New Jersey State Chamber of Commerce
New Jersey Technology Council
PlanSmart NJ
Regional Plan Association/New Jersey
Society of Industrial and Office Realtors - New Jersey Chapter

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January 2010

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by Ted Zangari, Esq.
on behalf of the **Smart Growth Economic Development Coalition**

Successful economic development in New Jersey will require fixes to both the demand and supply sides of the equation – an increase in business demand for commercial facilities and consumer demand for housing, and the longer-term need for more supply of developable and redevelopable land in a State that is fast approaching full-buildout. This is no small task but it is achievable. The global business community and the real estate development community both understand that many of the issues confronting New Jersey also afflict most other states to varying degrees. They also understand that not all problems can be solved overnight. What they want and what will distinguish New Jersey from its competitor states is a realistic strategy for tackling these challenges head-on. The Coalition supports the Christie/Guadagno Administration's intention to eliminate waste, fraud and abuse throughout state and local government; restore accountability, predictability, reliability and transparency in government; and, ultimately, slash our debt, address our unfunded liabilities and reduce taxes of all kinds. But the Coalition sees that it is equally important for the Administration to fix both the demand and supply side of New Jersey's economic and quality of life problems.

In the short term, New Jersey has a <u>demand</u> crisis: the alarming migration of businesses and residents to neighboring states and beyond. Stanching this outflow has become more difficult because the severe national recession has made competitor states even more aggressive and creative in their effort to secure new revenue and new ratables by luring businesses away from New Jersey. Retaining and recruiting businesses will require a recalibration of existing state financial incentive programs and the creation of new ones that can attract clusters of related industry sectors as well as mega-employers. Business attraction and recruitment will also require equally powerful incentives beyond financial inducements that satisfy the business community's "need for speed" such as expedited permits and approvals. There must also be a general attitude adjustment in Trenton which recognizes that the taxpayer is the *customer*, and that lost time equals lost money.

Not only should New Jersey create a climate that is friendly to business, but it should also let the world know that it has done so. The state should market itself in a dynamic and competitive manner around the globe and throughout targeted industries. In short, New Jersey needs to do a better job selling itself to the business community and to the public generally as a great place to work and live.

Our state must also urgently focus on its longer-term supply crisis: we are running out of developable and redevelopable land on which to locate new businesses and housing. With much of the Highlands, Pinelands and coastal areas now off-limits to development, New Jersey will have the distinction of becoming the first state in the nation to reach full-build out over the next few decades. The solution to this crisis is redevelopment. Redevelopment must become the rule, not the exception in New Jersey. Our waterfronts, transit hubs, suburban downtowns, inner-city core areas, abandoned factories, underutilized freight rail locations, and portfield, grayfield and brownfield sites must be appreciated as *critical resources*; their importance to economic development is equal to the importance of environmentally sensitive areas to clean drinking water. These areas must be land-assembled, remediated and otherwise made "shovel-ready" through public-private partnerships that overcome the unique challenges and substantial added costs of redevelopment. Without redevelopment, New Jersey will not be in a position to accommodate new growth or restore and protect our natural resources, both of which are vital to New Jersey's future quality of life.

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We recommend that the Christie/Guadagno Administration and the 214th Legislature implement a series of reforms and enact a number of legislative initiatives promptly upon taking office to send a clear message to corporate executives around the globe that New Jersey is ready to do business – that New Jersey has a shared vision of a better future supported by a roadmap to a more resilient post-recession economy; that Byzantine layers of government red tape are being cut; that anachronistic rules and regulations from a century ago are being purged; and that the myriad levels of required project permits and approvals in our state are being streamlined in ways that reflect the needs of the economy as well as the needs of the environment while also improving cost efficiency and regional equity. The message should go out that it matters to the State of New Jersey "what a business needs" not "whom a business knows."

January 2010

SUMMARY OF RECOMMENDED STRATEGY

Creating Demand.

* Call a Time-Out: Freeze Proposed Regulations Impacted by the State Plan until the New State Plan is Adopted.

* Overhaul the State Planning Process; Create a Strategic Action Plan for New Jersey's Future.

* Consolidate and Streamline the Business Retention and Recruitment Process, the Financial Incentives Process, and the Permitting and Approvals Entitlements Process.

* Expand the Use of Licensed Private Sector Professionals.

* Subject Future DEP Regulations to Sound Scientific Scrutiny.

* Actively Market the State's Business Advantages.

* Actively Market the State's Tourism and Other Dominant Industries; Pay Particular Attention to the Casino Industry in Atlantic City.

* Analyze New Jersey's Tax Structure Against Competitor States and Craft a Realistic Plan for Reducing Taxes as the Economy Improves; Start Now by Symbolically Eliminating the Punitive "Headquarters Tax".

* Recalibrate our State's Existing Business Attraction and Retention Incentive Programs -- Update the Business Employment Incentive Program ("BEIP"); Update the Business Relocation and Retention Grant ("BRRAG") Program; Close the Gap: Create a Deal Closing Fund.

* Continue to Refine the Urban Transit Hub Tax Credit ("UTHTC") and Economic Redevelopment Growth Grant ("ERGG") Programs.

* Purge Anachronistic Rules and Regulations from a Century Ago.

Creating Supply.

* Prepare for the Expansion of the Panama Canal: Immediately Formulate Definite and Realistic Plans for *Eliminating* the Bayonne Bridge as an Obstacle to the Ports of Newark and Elizabeth by 2014.

* Lift the Weight Restriction on Freight Cars.

Creating Supply. (continued)

* Assemble Land in Designated Growth Areas, Particularly Brownfield Sites, Remediate Them, and Sell the "Shovel-Ready" Sites to Developers at Cost with Strings Attached or at Auction with Fewer or No Strings Attached.

* Auction-off Redevelopment Rights on State-Owned Land.

* End the Practice of Last-Minute Re-Zonings; Abolish the "Time of Decision" Rule.

* Revise the Municipal Land Use Laws to Recognize Vertical Development and Encourage Density in Smart Growth Areas.

* Take a Leadership Role in the Redevelopment of Fort Monmouth.

* Create Niche Industry Clusters; Encourage More Scientific Collaboration with Nearby Research Hospitals and Universities.

* Increase New Jersey's Share of NIH Dollars.

* Create Additional International Free Trade Zones.

* Create Garden State Growth Zones.

RECOMMENDED STRATEGY

Creating Demand.

* **Call a Time-Out: Freeze Proposed Regulations Impacted by the State Plan until the New State Plan is Adopted.** We applaud Governor Christie's adoption of a 90-day moratorium on all proposed state regulations as his first Executive Order, thereby allowing the Lieutenant Governor's "red tape review group" ample time to evaluate what makes sense. We recommend that this moratorium be extended beyond the 90-day period with respect to any and all proposed state regulations that impact or would be impacted by the new State Plan suggested immediately below. The moratorium should continue in effect until the new State Plan is in place and the newly-appointed State Planner has had ample time to consider whether the proposed regulations are consistent with the growth goals of the new State Plan.

* **Overhaul the State Planning Process; Create a Strategic Action Plan for New Jersey's Future.** The mindset change that will bring accountability, predictability, reliability and transparency to state government must start at the top, with the State Development and Redevelopment Plan (State Plan). The concept of a State Plan has drifted far away from its original intent. The existing State Plan is a paper tiger. It is an unreadable, complex, and confusing document that is used indifferently by State agencies. It is not directing state investments. It primarily focuses on open space and, therefore, confers no meaningful benefit to our "smart growth" areas. And not a single word in the document addresses New Jersey's economy – what the State needs to strengthen its economic base, protect its assets or expand its growth capacity. The result? New Jersey has no intelligent housing policy and no effective urban redevelopment program, economic development is haphazard and unfocused, and State investment policy remains politically driven.

The State Planning Commission is no more useful than the State Plan itself. The State Planning Commission is comprised of part-time members. Its meetings are attended, when quorums are even possible, not by Cabinet-level officials but mostly by delegated agency heads who possess no real ties to policies. Deadlines don't mean anything. Conflict avoidance is the usual mode of operation. And the Commission's staff is inappropriately lodged in the Department of Community Affairs (DCA). Staffers have no real sense of the magnitude of their job; they focus on minutia; and they have no ability to address state agency indifference or contrary policies.

For these and other reasons, the State Plan has become irrelevant, especially since the Department of Environmental Protection (DEP) established its own growth boundaries and reinforced them by its own regulations. As an example, DEP recently overhauled its wastewater planning rules, drawing up maps that unilaterally move many important corporate landowners out of the State Plan's growth areas and out of sewer service districts, thereby stopping any envisioned growth plans in their tracks.

Statewide planning is needed more than ever. A meaningful, comprehensive master plan can be the means by which the Christie/Guadagno Administration and the 214th Legislature articulate key strategies for growth and conservation while reducing costs, eliminating haphazard or politically driven decision-making, and improving our quality of life.

What we need: A clear and understandable statewide development plan that targets growth in centers located *throughout* New Jersey, not just in the older urban areas. To support the new State Plan, there must be effective coordination of state policies to achieve the growth targets, including DEP regulatory change and DOT investment policy. There must also be a mechanism in place to ensure that future state regulatory decisions conform to these policy objectives and that future legislation is flagged when it is at odds with these policy objectives.

How we get it: The State must fundamentally change the structure and direction of the state planning process. The Smart Growth Economic Development Coalition is presently drafting legislation to do just that. The current commission would be disbanded; the new State Planning Commission structure would include a new chair and new members who are citizen-oriented. A new Cabinet-level, full-time position of "***State Planner***" would be created. The newly re-constituted State Planning Commission would be given a short time period to re-work the State Plan as a clear and understandable document with teeth that emphasizes smart economic growth alongside environmental and regional equity goals and that achieves consensus on growth goals for New Jersey. The State Planner would propose mutually supporting strategies and performance standards to the State Planning Commission that in turn would coordinate state regulatory and investment policies to achieve these goals and would advise the Governor and Legislature when proposed legislation either fosters or hampers the achievement of these goals. The State Planning Commission would also be given the powers necessary to overcome bureaucratic indifference, and to propose ways to untangle policies anywhere in state government that impede or conflict with the new State Plan.

Under an integrated state planning process, individual State agencies would pursue their respective missions in ways that would not impede the respective missions of other State agencies. Put another way, an integrated state planning process would optimize results on a number of goals. As examples, the DEP would pursue clean water without imposing 300-foot stream buffers in smart growth areas and the DOT would create a functioning transportation system without opposing congestion in smart growth areas so that these areas can be redeveloped and revitalized.

To ensure that the State continues to work toward a shared vision of the future, we also recommend that the position of ***"Smart Growth Ombudsman"*** be established in an ***"Office of Strategic Planning"*** (currently the Office of Smart Growth). The Smart Growth Ombudsman's primary role would be to ensure that all rules and regulations are consistent with the new State Plan.

Once this blueprint for New Jersey's future is in place and the first State Planner and Smart Growth Ombudsman have been appointed, policy decisions will no longer be made without weighing their future impact, and regulations will be managed toward defined outcomes.

*** Consolidate and Streamline the Business Retention and Recruitment Process, the Financial Incentives Process, and the Permitting and Approvals Entitlements Process.** There are three prongs to successful economic development: the "business development" functions of retaining and recruiting businesses, the "banking" functions of lending money, issuing bonds and granting financial incentives, and the "entitlement" functions of obtaining land use, environmental, transportation, zoning and other permits and approvals necessary for the construction and operation of the business facility itself. Although the past creation of the Office of Economic Growth (OEG) and merger of the Commerce Commission into the Economic Development Authority (EDA) were positive steps toward centralizing economic development functions and consolidating duplicative agencies and programs, much more remains to be done to eradicate the lengthy and complicated process of securing financial incentives and permission for development or redevelopment.

> **What we need:** We need three state government offices to work with *Advantage New Jersey* (discussed below) toward the common purpose of successfully recruiting new businesses to New Jersey and retaining and growing existing businesses in New Jersey. Specifically, we need:
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> * a one-stop *"business ombudsman"* office within the Governor's Office that sources and pursues business leads and then efficiently coordinates, on behalf of the business prospect, the timely negotiation and procurement of:
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> * all necessary financial incentives from state, county and local government through a centralized *" banking"* unit as well as
>
> * all required permits and approvals from all applicable state, county and local agencies and departments through a centralized *"entitlements"* unit.
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> This streamlined approach to economic development, building on EDA's expertise and success, working closely with *Advantage New Jersey* (discussed later in this paper) and coordinated through a "one-stop" problem-solving office within the Governor's Office, would achieve multiple objectives. Through a single government portal, the State of New Jersey would be able to rapidly identify, evaluate and pursue business opportunities. In turn, the potential business customer would be able to navigate the entire incentives and entitlements process in a single forum coordinated by a single official who would be held accountable for all aspects of the transaction, from the first point of contact through ribbon-cutting and grand opening. This structure would also help to prevent another *Encap* debacle in which no government agency keeps track of the aggregate price tag of financial incentives and other entitlements being awarded to a business or project.
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> **How we get it:** We recommend that the Office of Economic Growth be replaced by the **"*Office of Business Ombudsman*"** led by a **"*Business Ombudsman*."** Like the State Planner, the Business Ombudsman would be a Cabinet-level, full-time position and would be similarly vested with broad powers to overcome bureaucratic indifference and to propose ways to untangle policies anywhere in government that impede or conflict

with timely decision-making. Leveraging the marketing and prospecting potential of *Advantage New Jersey*, the Office of Business Ombudsman would be responsible for identifying and pursuing business prospects. Once it has recruited a business interested in relocating to or expanding in New Jersey, the Office of Business Ombudsman would then coordinate the timely negotiation of financial incentives and the expedited procurement of necessary permits and approvals for the business as well as for the real estate developer who may be constructing the project in which the business will relocate or expand. These efforts would include participation by county and local economic development officials and extend coordination right down to the municipal building inspector.

With respect to the timely negotiation of a financial incentives package, we suggest that all state financial incentive programs be consolidated in the existing central "banking" arm of the State – the EDA – beginning with the transfer of all loan programs of the New Jersey Redevelopment Authority (NJRA) and the Housing and Mortgage Finance Agency (HMFA). Other financial incentive programs that should be transferred to EDA include the Environmental Infrastructure Trust program currently at DEP and the Urban Enterprise Zone program currently at DCA. These incentive programs are best administered by a single financing agency that works on a one-on-one basis with the Office of Business Ombudsman to craft customized financial incentive packages for each applicant. This consolidated financial incentives negotiation and award process should be further centralized to include close coordination with the economic development arms of the host county and host municipality, and any incentives given by those levels of government should be taken into account by the State in determining the appropriate *aggregate* amount of public incentives awarded to each applicant.

With respect to the expedited procurement of entitlements, we suggest that all DCA, DEP, DOT and other permits and approvals necessary for the construction of a business facility be pursued through a centralized *"*entitlements*"* unit within the Office of Strategic Planning suggested above. This unit would oversee all projects that the State has deemed worthy of a financial investment or that are located in designated growth areas. In addition, this unit would closely coordinate the land use zoning and planning processes of the host county and host municipality, would work across agencies and all levels of government (including the Federal government) to procure any *operational* permits and approvals needed to ultimately open and operate a business on the site (such as certificates of occupancy, health certificates and air pollution control permits), and would interface with public utility companies and other service providers as necessary to ensure that adequate power and other infrastructure and logistical needs are addressed.

*   **Expand the Use of Licensed Private Sector Professionals.** We can create an even more efficient and leaner government if many more routine functions of government were delegated to the private sector through self-certification.

> **How we get it:** Expand the concept of the recently enacted Site Remediation Reform Act to allow private sector professionals who will be licensed and audited by the State of New Jersey to perform many routine functions of state government, such as the granting of sewer connection permits by the DEP and the granting of highway access permits by the NJDOT. Similarly, in the spirit of reducing the size of *local* government, counties and municipalities should be encouraged if not required to follow the self-certification model, particularly in the case of building code enforcement and the issuance of building permits and certificates of occupancy.

> **Reality check:** A pharmaceutical company typically opens a new manufacturing plant only when it receives FDA approval of a new drug. The clock on patent protection for the newly approved drug begins to tick away. Will the company take a chance on a state with multiple layers of government and a dizzying array of conflicting regulations that can delay the plant's opening by years, or will it choose a state with a one-stop office for timely procurement of all necessary incentives and entitlements and an ombudsman who will cut across agencies and levels of government to expedite permits and approvals within weeks or months?
> **The "patent clock" or its equivalent ticks for *every* business; *time is money*.**

* **Subject Future DEP Regulations to Sound Scientific Scrutiny.** Bureaucracies, when left to themselves, will almost always gravitate toward science that supports their goals. Too often at the DEP, that science has been "junk science" which has led to bad public policy. Indeed, New Jersey's regulated community (businesses as well as developers) has long complained that DEP's use of extremely conservative assumptions and selective reliance on science of its own choosing has resulted in unreasonably stringent standards and restrictions on land use.

> **What we need:** To complement the State Planner's efforts to manage regulations toward defined outcomes, a process should be established for the systematic review of regulations proposed by the DEP in order to ensure their scientific sufficiency, soundness and consistency.
> **How we get it:** The best way to achieve consensus on these issues and to avoid this inevitable bureaucratic tyranny is to democratize the decision making process by establishing a science review board. The best model for such a board is at the U.S. Environmental Protection Agency, where the work of its Science Advisory Board is well respected. The Smart Growth Economic Development Coalition's "stimulus package" of legislation includes a bill creating such a science review board; the bill has been introduced in the State Legislature as S-349 (Sweeney/Oroho). The composition of the science review board in the proposed legislation is intended to be as broad based as possible, so as to avoid even the appearance that it is in any way biased toward industry or the regulated community. We urge prompt enactment of this bill.

* **Actively Market the State's Business Advantages.** New Jersey needs to get on the radar of corporate real estate professionals and site location experts as a business friendly location for research and development, corporate headquarters, manufacturing, data center, and warehouse and distribution facilities. Until recently, the State has taken a "no-poach" approach to the recruitment of out-of-state companies, and in-state businesses have rarely received "how are we doing?" phone calls from State officials intent on retaining our existing companies. When key industry conferences and trade shows take place around the globe, New Jersey economic development officials often are not present or are represented by only one or two individuals tasked with networking amidst a sea of tens of thousands of convention attendees—potential customers for New Jersey. By contrast, our competitor states routinely sponsor impressive exhibition booths, send teams of economic development officials, host cocktail receptions and hold private dinner meetings to pursue business leads – and then follow-up with advertising on our highways and airwaves and with e-mails and phone calls.

What we need: It is time for New Jersey to implement a pro-active business recruitment and retention strategy that starts at the top, with the Governor personally calling on corporate executives. Former Governor Jeb Bush of Florida reportedly made four "economic development" phone calls per day: two to existing companies, two to out-of-state companies. Closer to New Jersey, Pennsylvania Governor Rendell is famous for his personal marketing calls to and recruitment meetings with business executives. We endorse a daily routine that includes this sort personal outreach by the Governor to the business community.

Beyond the Governor's direct marketing efforts, the State should: (1) host a New Jersey pavilion at key industry conferences and trade shows around the country and around the world, including CoreNet (corporate real estate executives/site selectors) and Bio (global biotechnology showcase), (2) embark on a powerful ad campaign that highlights our *unique* geographical, logistical and quality of life advantages, and that underscores the "premium" value of doing business here, (3) establish reciprocal international trade affiliations with our state's key trading countries around the globe, and (4) coordinate and enhance county and local economic development efforts under the State's umbrella activities (and in the process, set an example for shared services).

How we get it: With respect to a business recruitment "call list" for the Governor's regular use, look to our state's real estate brokerage community – they are on the front line of economic development. They have real-time knowledge of the real estate space requirements of businesses and can provide a steady stream of confidential leads if asked to do so. In addition, the State must track the lease expiration dates of businesses renting commercial space in New Jersey and calendar those dates for business *retention* phone calls by the Governor (or staff, in the case of smaller businesses) at least 18 months before lease expiration; similarly, the State should begin to track the lease expiration dates of businesses renting commercial space in *neighboring states* and calendar those dates for business *recruitment* phone calls by the Governor (or staff, in the case of smaller businesses) at least 18 months before lease expiration.

With respect to stepped-up participation at industry conferences and trade shows, powerful ad campaigns, reciprocal international trade affiliations, and coordinated and enhanced county and local economic development efforts, these strategic activities require a significant expenditure of money that the State does not have. But that is no reason to sit idly by and allow our competitor states to out-maneuver us. Since it would be inappropriate for public officials to raise the necessary funds, the *private sector* should solicit contributions from businesses, organizations and individuals interested in the promotion of New Jersey's business climate, economic development, and job creation. On the other hand, a private sector economic development initiative without *public sector* participation – in particular, official State of New Jersey involvement – would lack credibility and clout. Accordingly, we recommend the establishment of a public-private partnership along the lines of the recently created NJ/Italy Trade Council (Executive Order 147) but with leadership from the Lieutenant Governor and Business Ombudsman. Specifically, the Smart Growth Economic Development Coalition, comprised of more than 20 statewide trade associations representing business, industry and labor, proposes to launch "***Advantage New Jersey***" – a non-profit, non-partisan, tax exempt, 501(c)(3) corporation managed by a statewide board of directors with the Lieutenant Governor serving as Chair of the Board. Through its fundraising efforts and member participation, *Advantage New Jersey* would enable strategic economic development outreach at the state level, create a badly needed surge of national and international awareness of New Jersey as a business friendly state, create promotional materials to competitively market the state, and generate economic development leads.

*** Actively Market the State's Tourism and Other Dominant Industries; Pay Particular Attention to the Casino Industry in Atlantic City.** The State in recent years has failed to actively market tourism and dominant niche industries such as agriculture and seafood. Even the hugely successful "Jersey Fresh" ad campaign has been curtailed because of budgetary constraints. Beyond the obvious direct benefits to these industries of powerful marketing and advertising campaigns, indirect economic development benefits are inherent in positive "quality of life" messages about the Garden State that are heard or read by corporate executives considering a business relocation or expansion.

What we need: A realignment of tourism and niche industry marketing and promotional activities within State government, stepped-up participation at industry conferences and trade shows, powerful ad campaigns, reciprocal international trade affiliations, coordinated and enhanced county and local tourism, and niche industry promotional efforts.

How we get it: Transfer all marketing and promotional activities from the Secretary of State's Office (in the case of tourism) and other state agencies (such as the Department of Agriculture) to the EDA with a directive to formulate a unifying State theme that underscores the many reasons for working and living in New Jersey. Move cultural, heritage and historic-related tourism activities to Rutgers University and the various advisory boards and commissions charged with these tasks. Coordinate and leverage these twin sets of activities through imaginative and exciting initiatives at the regional level. Pay for and execute many of these activities through a public-private partnership –

we suggest calling it "***Discover New Jersey***" – to compliment the work of *Advantage New Jersey*. This non-profit, non-partisan, tax exempt, 501(c)(3) corporation would be managed by a statewide board of directors with the Lieutenant Governor serving as Chair of the Board.

The casino industry in Atlantic City has grown to be one of the largest industries in New Jersey and an economic engine for the State, attracting more than 35 million visitors per year, employing more than 38,000 residents, generating almost $1 billion annually in taxes and purchasing more than $2.2 billion annually in goods and services from businesses in every New Jersey county, which in turn generates another 20,000 New Jersey jobs. It's no secret, however, that Atlantic City has experienced significant challenges over the past three years due to the recession and new regional competition. And while the recession eventually will subside, regional competition will increase with the expansion of gaming in Pennsylvania, New York and other nearby states. But this is no reason to give up on Atlantic City. To the contrary, what has been lost in the stream of negative reports is that Atlantic City is still by far the second-largest gaming market in the United States, second only to Nevada, and that there has been approximately $7 billion of capital investment made in Atlantic City since 2003 which has transformed the city from a day-trip market to an emerging destination resort.

What we need: Private investment capital remains Atlantic City's best long-term weapon; it is vital that we continue to attract it. New Jersey's public gaming policy has encouraged more than $17 billion in investment — $7 billion over the last six years alone — which includes upscale hotel rooms, celebrity chef restaurants, luxurious spas, meeting and convention space, entertainment and shopping venues, and a host of other non-gaming amenities that competing jurisdictions cannot afford to offer under their gaming model.

How we get it: It is critical that we maintain a stable gaming policy and, as noted elsewhere in this paper with respect to economic development in general, we must create a regulatory environment that encourages capital investment so that once the economy rebounds, we can fully leverage this advantage.

What we also need: We also need continued public investment in Atlantic City's regional transportation infrastructure. Improving access to Atlantic City will increase visits and tourism, and encourage further investment. The critical mass advantages Atlantic City enjoys over its regional competitors are significant. Patron convenience is now the primary challenge. Accordingly, we must make access to Atlantic City as convenient as possible.

How we get it: Funds should be dedicated to the expansion of the Atlantic City airport, which would help pave the way for more passengers from untapped locations, and to the upgrade of our rail system, which would make Atlantic City more accessible from numerous points on the East Coast.

What we also need: Like so many of our State's precious industries, the Jersey Shore tourism industry in general and the Atlantic City casino industry in particular rely mostly on word-of-mouth and free press for publicity. That is an unacceptable marketing strategy for an area of the State that generates over $1 billion annually in taxes from tourism and casino-related business activity. We need to effectively market Atlantic City and the surrounding shore communities on a scale commensurate with their importance to our State's economy.

How we get it: Through the *Discover New Jersey* initiative outlined above, we urge the implementation of a sustained, systematic marketing plan for Atlantic City akin to the very successful *"What Happens in Vegas, Stays in Vegas"* ad campaign. This investment will help Atlantic City highlight the vast differences between its diverse and abundant entertainment complexes (with the bonus of sand, sun and surf) and the one-dimensional gaming establishments of our regional competitors.

* **Analyze New Jersey's Tax Structure Against Competitor States and Craft a Realistic Plan for Reducing Taxes as the Economy Improves; Start Now by Symbolically Eliminating the Punitive "Headquarters Tax".** New Jersey has the highest per capita taxes in the nation – more than two percentage points above the national average. Lower corporate business and personal income taxes are essential to business recruitment and retention. However, given the massive budget deficits confronting the State for the foreseeable future, we recognize the impracticality of lower taxes at present. As noted at the very beginning of this paper, business executives understand that not all problems can be solved overnight and that most states are struggling with budget deficits and mounting debt. These executives also take the long view in formulating corporate expansion and relocation decisions; they care more about what the landscape will look like 10, 20 and 30 years after a facility opens its doors than they do regarding the local government's fiscal or other crisis of the moment. In short, what the business community needs to know now is that the State of New Jersey has effected a disciplined, realistic multi-year or even decade-long plan for slashing its debt load, funding its long-term liabilities and lowering corporate business and personal income taxes.

This message of change should be accompanied by the immediate elimination of one odd and punitive tax scheme in New Jersey that has long sent a strongly negative signal to multi-state businesses. Unlike most states, New Jersey determines the State's share of the national taxable income of a multi-state business by using a formula that considers the value of the company's New Jersey property (owned or leased facilities), the New Jersey portion of the company's payroll, and the New Jersey sales receipts of the company. This works against the public interest by punishing companies that invest and create jobs in New Jersey with higher taxes than the taxes levied on companies that invest elsewhere and simply sell their goods and services here. In other words, the more of a physical presence a company maintains in New Jersey, the greater its tax burden in this state.

What we need: Most states lessen the negative tax impact of a company's in-state presence by disregarding or discounting the property and payroll factors and increasing the impact of the sales factor. New Jersey joined this effort in 1995 when legislation was enacted to double-weight the sales factor—in effect diminishing the property and payroll factors. Lessening the impact of the property and payroll factors is not enough; these factors should be completely negated as has been done in competitor states around the country.

How we get it: Eliminate the property and payroll factors entirely. Single Sales Factor (SSF) reform would level the playing field for New Jersey companies by basing a firm's New Jersey taxable income *solely* on its New Jersey sales relative to its national sales. No longer would a company headquartered in New Jersey be competitively disadvantaged because of its decision to locate in our State. SSF reform would provide an incentive to businesses to retain and expand operations in New Jersey. Other states have done this either for particular industries (manufacturers, for example) or for all businesses. We recommend, at a bare minimum, applying SSF to all businesses employing more than 250 full-time employees in New Jersey; however, we strongly urge the new administration to make every effort to find a corresponding budget savings that would allow a reduction of the job threshold so that SSF can be applied to all businesses – especially small businesses, which are the backbone of our State's economy and have the most potential for rapid growth in a recovering marketplace.

[Additional comment: We wish to note that at the first available budgetary opportunity to provide further tax relief to businesses, the State should eliminate the double-taxation of Subchapter S corporations. This tax treatment, like the headquarters tax, puts New Jersey at a significant disadvantage in its efforts to attract and retain those businesses that have elected to be treated as an S-corp.]

*** Recalibrate our State's Existing Business Attraction and Retention Incentive Programs.** Our State's two main financial incentive programs for attracting and retaining businesses are mostly on par with the financial inducements offered by our competitor states. However, the marketplace is always evolving and improvements to these programs have been required from time to time. We believe that it is an appropriate time for additional changes which will keep these programs relevant to the current needs of the business community and protect New Jersey's competitive position in the marketplace. We also recommend the creation of a deal "closing fund" as described at the end of this section.

-- Update the Business Employment Incentive Program ("BEIP"). The BEIP program remains the State's most important tool in *attracting* new businesses and expanding existing businesses. However, amendments to the program over the last several years have imposed arbitrary caps and other restrictions on grant value and eligibility that fail to remain current with business practices in the market; these amendments have reduced the program's effectiveness. In addition, many businesses that moved in the 1990s to Jersey City and Hoboken from Manhattan, to Princeton from Bucks County, and to Camden from Philadelphia as a result of receiving BEIP grants will be at risk of being lured back to their former out-of-state locations when their BEIP grants run out in a few years because the BRRAG incentive (discussed below) used by New Jersey to *retain* businesses will be financially inadequate to compete with the BEIP-equivalent financial offers that will be made by our neighboring states.

What we need:

- Remove the $50,000 cap on the aggregate average grant per employee under the BEIP, and extend eligibility to all employees added at an approved BEIP location.

- Eliminate the 20% cap on the permitted increase in a grant that may result from increased job creation (i.e., above the "new employment commitment"), and replace this limitation with an annual forecasting process under which a grantee would be required to project its employment levels and grant levels; this requirement would have the additional benefit of facilitating more predictability in budgeting and appropriations.

- In locations deemed to be competitively "at risk" by EDA -- such as sites in Jersey City, Hoboken, Princeton and Camden, given the ease with which businesses can relocate across the Hudson and Delaware rivers -- permit an extension of a company's BEIP grant term for an additional five years in consideration for an extended commitment by the business to remain in New Jersey, on the condition that the business renews its lease within 24 months of the expiration of the original grant term, and such lease extension is at least 1.5 times the additional term of the grant.

- Restore eligibility of "cooperative associations" in order to make financial, stock or commodities exchanges eligible for BEIP grants. Without this change, New Jersey stands no chance of luring Wall Street exchanges, most of which are organized as business cooperatives.

-- Update the Business Relocation and Retention Grant ("BRRAG") Program. The BRRAG program is the State's main tool for business *retention*, but it is unable to have a meaningful impact on relocation decisions for many projects in its current form due to its limited value and eligibility restrictions. While the reduction in the required employment from 250 to 50 jobs was a step in the right direction, we propose the following additional changes to strengthen the program's effectiveness.

What we need:

- Eliminate the requirement that projects must actually physically relocate; instead, require companies to either demonstrate they are "at risk" of leaving the State, or commit to a significant capital investment at the site (i.e., at least in the amount of the applicable BRRAG tax credit value, as described below).

- Increase and phase the amount of the tax credits from a one-time credit under current law of $1,500 per job ($2,250 per jobs in urban projects of at least 2,000 employees) to progressively higher levels of credit for larger projects. Specifically, allow projects with greater numbers of employees to earn the $1,500-per-retained-job tax credit for an additional number of years, with the understanding that the business' five-year commitment to remain in the State would run from the date the business receives its last tax credit. Under this scenario, the one-year tax credit would be retained for projects involving the retention of up to 250 jobs, but there would be a two-year tax credit for projects retaining up to 400 jobs, a three-year tax credit for projects retaining up to 600 jobs, a four-year tax credit for projects retaining up to 800 jobs, a five-year tax credit for projects retaining up to 1,000 jobs, and a six-year tax credit for projects retaining more than 1,000 jobs.

- Provide for an increase of the tax credit increment from $1,500 per job to $2,250 per job for projects with a capital investment of at least two-times the total value of the tax credit for which the project would be eligible, in consideration for extending the commitment duration an additional two years beyond the five-year commitment duration provided above.

- Make the recapture and other penalties consistent with the State's other incentive programs by: (i) modifying the employment retention percentage to 80% (rather than 95% for first two years and 90% for remaining years), (ii) building in a two-year period in which to restore employment levels to minimum levels before penalties kick-in, and (iii) providing for a proportionate recapture in default situations other than a relocation out of State.

- Expand marketability of tax credits by allowing businesses to transfer the credits to its affiliates.

- Allow employees of Professional Employer Organizations, contract workers and employees that are residents of other States but not subject to New Jersey withholding taxes, to be counted for purposes of this program. These changes would be consistent with the definitions under the BEIP program.

- Increase the program cap of $20,000,000, or in the alternative, confirm that in the context of the proposed new multi-year tax credits, the full amount of an award of tax credits will be reserved against the annual cap in the year in which it was approved, in order to avoid a pro rata reduction in the credit that year.

-- Close the Gap: Create a Deal Closing Fund. Our BEIP and BRRAG programs are formulaic: enter the number of jobs promised by the applicant, the average salary of those jobs, the duration of the jobs commitment and a few other factors, and the dollar amount of the grant is determined. If a competitor state offers a more generous financial incentive package to a business, New Jersey's economic development officials have little or no room to negotiate. They might be able to creatively stitch together a few more dollars from various ancillary programs, but the extra money isn't always adequate and the process often takes too long to be successful. To enable New Jersey to be more agile and competitive in pursuing large-scale, high-priority, time-sensitive projects, the State should establish a "closing fund" patterned after similar mechanisms currently available to the governors of Pennsylvania, North Carolina, Florida and Texas, and being considered in other states. Such a program would establish a discretionary fund to enable the State to make grants in amounts calculated to "close the gap" in winning competitively contested projects. Set forth below are key aspects of this proposed fund:

- The Closing Fund would be administered by the EDA's banking division (see above) but would require the personal approval of the Governor. Approval may include performance conditions in order to obtain the funds.

- The Closing Fund would be based on a number of factors, including the number and quality of job growth/retention, the amount of capital investment, the location of the project in targeted areas under the new State Plan, the economic conditions of the region where the project is located, the strategic importance of the project to the region, and the financial strength and past operations of the applicant business.

- Eligible projects would be limited to those in designated industries.

- The Closing Fund would be reserved exclusively for projects for which it could be documented that there is intensive competition such that the grant would be a material factor in the business' decision to proceed with the project in New Jersey.

- The Closing Fund also would be limited to projects generating significant economic activity within the State through the creation of full-time jobs, and through a significant capital investment in the project. More specifically, a "net benefits test" (as required for the Urban Transit Hub Tax Credit and Economic Redevelopment Growth Grant programs) would limit the amount of a Closing Fund grant to an amount that, when taken into account with all other incentives provided, would generate a measurable net fiscal gain for the State and host municipality.

- Moreover, as an additional control, and consistent with the standards recently adopted by EDA for other programs, Closing Fund grants would be capped at a maximum of $1 for every $5 of private capital investment in the project.

- The total amount of commitments of grant awards would not exceed an aggregate annual limit of $50,000,000 for any fiscal year.

- The Closing Fund could be capitalized using a small percentage of the new tax revenue generated from each redevelopment project that utilizes the Economic Redevelopment Growth Grant program (under the law, at least 25% of all new tax revenue generated by the redevelopment project must be retained by the taxing authorities).

* **Continue to Refine the Urban Transit Hub Tax Credit ("UTHTC") and Economic Redevelopment Growth Grant ("ERGG") Programs.** The UTHTC and ERGG programs were enacted in 2008 and 2009, respectively, to stimulate economic investment and job growth in targeted areas. While recent legislation made several positive amendments to UTHTC in an effort to expand its applicability and marketability, further clarifications of that program are needed such as:

- Allowing businesses to carry-forward unused tax credits. The UTHTC program currently allows a business to sell all or part of its unused tax credits in a given year. However, buyers of tax credits typically pay no more than 80 cents for each dollar of tax credits. As a result, a business that does not have significant Corporate Business Tax liability – which is often the case when a business is new to the state – would be forced to leave 20 cents or more of every dollar on the table, making the UTHTC program much less attractive. Worse yet, tax credit sales may constitute taxable events for some businesses.

- Allowing the State to purchase tax credits. As noted above, tax credits trade at a significant discount relative to their face value. The State – ideally, the EDA banking division – ought to be empowered to purchase unused tax credits alongside the private sector; "profits" from such purchases (i.e., savings to the State Treasury) could help fund new EDA economic development initiatives such as the ERGG Debt Service Reserve Fund and the Closing Fund recommended in this paper.

With respect to the six-month old ERGG program, several serious flaws have emerged that must be addressed for this incentive to be successfully utilized by the redevelopment community, such as:

- Lack of a Secure Revenue Stream – The ERGG program awards grants to the redeveloper of a percentage of future new tax revenue generated by a redevelopment project; these grants may be pledged by the redeveloper to its lenders, but a pledge without a secure revenue stream to make the ERGG payments is of limited value. The Coalition recommends that the ERGG law be amended to specifically allow non-State authorities (e.g., county and local improvement authorities and local redevelopment authorities) to accept a pledge of ERGG revenues and to be able to issue revenue bonds based on those pledges. This may not eliminate the lending market's concerns completely, but at least it would allow the public sector to test the private capital markets and find out what is really required to make the ERGG program attractive.

- Need for Credit Enhancement – Some form of credit enhancement is needed to make the ERGG program workable, especially in the absence of a hard guarantee of the ERGG revenue stream. One idea we suggest is the creation of an "ERGG Debt Service Reserve Fund" that could become the guarantor of ERGG payment streams. This concept is similar to the guarantee utilized with respect to the DEP's Environmental Infrastructure Trust and is simply another form of insurance. The ERGG Debt Service Reserve Fund, like the Closing Fund recommended above, could be capitalized using a small percentage of the new tax revenue generated from each redevelopment project that utilizes ERGG.

- Eliminate the Bankruptcy Risk for Lenders – Under current law, a bankruptcy filing involving a developer has the potential to halt the stream of ERGG payments to creditors, thereby further increasing the reluctance of underwriters to lend to redevelopers who propose to service debt with ERGG payments. We recommend that the law be amended to provide that in the event of a redeveloper bankruptcy, the ERGG tax revenue would automatically bypass the redeveloper and be paid directly to its creditors.

- Broaden the Definition of "Redevelopment Project" – The ERGG law seems to define "redevelopment project" and "project area" such that only single, contiguous, commonly owned projects are eligible for ERGG. This does not reflect the reality of many downtown redevelopment areas in which multiple property owners redevelop their respective parcels. We suggest that the program be amended to allow the municipality to define the boundaries of the "project" more broadly, thereby allowing multiple redevelopers to qualify *collectively* for the ERGG program and also allowing financeable components of a project to receive ERGG grants and subsidize components of the project that produce little or no revenue.

The Smart Growth Economic Development is working on legislation to correct these and other flaws in the UTHTC and ERGG programs.

* **Purge Anachronistic Rules and Regulations from a Century Ago.** Dozens of arcane, restrictive laws that no longer further their original public policy goals still sit on the books in New Jersey -- even as states all around us have had the good judgment to eradicate their versions of such laws. Examples include the State's long-standing ban on allowing retailers to accept coupons for milk. When this law was adopted many decades ago, legislators feared "milk wars." Another example is an old statute aimed at preventing "gas wars" that prohibits rebates or other consumer promotions in connection with the sale of motor fuels even if the promotion is being underwritten by non-motor-fuel retailers such as supermarkets. As a consequence of the over-broad application of these restrictive statutes, supermarkets and gas stations across our borders are enticing our residents and enjoying their business with promotions for milk and gasoline that are prohibited in New Jersey for no purpose other than slavish adherence to the strict letter of an ancient statute. The lack of consumer choice in New Jersey on these mundane matters may be a minor issue, but it conveys a disturbing "red tape" message to the rest of the country. We urge the Lieutenant Governor's "red tape review group" to consider the abolition of such laws.

Creating Supply.

Before discussing our ideas for "creating" fresh supplies of land on which to grow our State's future economy, we wish to first point out an urgent situation in another area of our State's supply chain – our shipping channels – that will have dire irreversible consequences for our Ports if left ignored in the next several months…

* **Prepare for the Expansion of the Panama Canal: Immediately Formulate Definite and Realistic Plans for *Eliminating* the Bayonne Bridge as an Obstacle to the Ports of Newark and Elizabeth by 2014.** More than half of all Asian imports are now coming to the East Coast. There is also a growing stream of imports coming from the other direction, through the Suez Canal. When the Panama Canal expansion project ("Panamax") is completed in 2014, those ports along the Atlantic Ocean that have properly planned to accommodate the larger cargo ships stand to benefit immensely. The global shipping community is already making plans for which ports they will call when Panamax opens a few years from now. At the moment, the Ports of Newark and Elizabeth do not stand a chance of receiving increased shipping traffic because the Bayonne Bridge, which spans the main channel into the New York-New Jersey container terminals, is too low for many ships to pass through. The Port Authority of New York and New Jersey has recently commissioned a study to examine alternatives. However, we already know that the existing bridge cannot easily be retrofitted or raised and that a replacement bridge or tunnel would be cost-prohibitive at the moment and, in any event, could not be completed before 2014. So irrespective of the what the PANYNJ study will recommend in terms of a *replacement* means of crossing the Kill Van Kull into Staten Island, we urge the Christie/Guadagno Administration and the 214th Legislature to promptly deliver a clear and direct message to the global shipping community that the Bayonne Bridge obstacles will be completely eliminated by opening day of Panamax. In that regard, we urge the PANYNJ to consider removing only the decking of the Bayonne Bridge and leaving in tact its impressive arch (the fourth longest steel arch in the world) as a new "gateway" to our port district. We also urge the PANYNJ to seriously consider utilizing a fast-ferry service for shuttling cars, trucks and commuters in lieu of constructing a new bridge or a tunnel. Again, the business community understands that not all problems of government can be solved overnight; what they want to know in this instance is that the ports of northern New Jersey have a realistic strategy for confronting the obstacles presented by the Bayonne Bridge and that their larger cargo ships will be able to call our ports when Panamax opens. If we squander this opportunity, there is no second chance; once shipping businesses build expensive infrastructure around other ports on the East Coast, there will be little or no chance of recruiting them here.

* **Lift the Weight Restriction on Freight Cars.** The current weight restriction on freight cars on the Northeast Corridor freight rail lines (263,000 lbs. per freight car) is below the federal standard of 286,000 lbs. per freight car. We need to make the Northeast Corridor freight car weight limit consistent with the federal standard to help New Jersey better compete for port and logistics-related businesses as well as manufacturing facilities that locate along freight rail spurs.

As noted at the beginning of this paper, the State of New Jersey is well on its way to becoming the first state in the nation to reach full-build out. Already, our state lacks suitable large-tract sites for development. For example, fewer than a dozen 30+ acre sites exist in our critical Portfields areas, and most of those sites are heavily contaminated. And while there is reasonable disagreement about the State Supreme Court's decision in *Gallenthin Realty v. Borough of Paulsboro* regarding the use of eminent domain, there can be no doubt that land assemblage without the exercise of condemnation or the threat thereof will be even more time intensive and costly. Candidly, if a business prospect were to appear on the doorstep of the State House tomorrow and propose to construct a one million square foot building in our state employing 1,000 our residents, on the condition that it could break ground within one year, our economic development and real estate professionals would be hard-pressed to identify more than a few environmentally clean, shovel-ready sites. This "supply crisis" is the single most important long-term economic threat to our State, aside from the State's massive unfunded pension liability.

*** Assemble Land in Designated Growth Areas, Particularly Brownfield Sites, Remediate Them, and Sell the "Shovel-Ready" Sites to Developers at Cost with Strings Attached or at Auction with Fewer or No Strings Attached.** We recommended earlier in this paper that the lending functions of the New Jersey Redevelopment Authority (NJRA) be transferred to the banking division of a newly re-organized EDA. We now suggest that the NJRA be re-tooled as a "land bank" -- a land assemblage and land remediation agency that acquires abandoned, foreclosed or underutilized properties in growth areas identified by the new State Plan, remediates and rezones these assembled parcels, as necessary, and then sells the packaged land to developers at cost on the condition that construction milestone dates and a business opening date are honored, or at auction with fewer or no strings attached. We suggest that this initiative be funded in significant part with a modest investment of state pension funds, and that priority attention be paid to those sites that can be made large enough to accommodate the "mega" employers and "industry clusters" described elsewhere in this paper.

*** Auction-off Redevelopment Rights on State-Owned Land.** The State of New Jersey and its various independent authorities own thousands of acres of land – including transit-friendly real estate adjacent to some of the most intensive infrastructure in the northeast. Much of this land is poorly utilized, underutilized, vacant or contaminated. At some locations, motor vehicle stations and salt depots are situated on precious frontage along busy highways that are worthy of a higher and better use such as retail stores. Some of the State's highway rest stops contain significant amounts of surplus land that is conducive to smart growth mixed-use development. In the case of sites located around transit hubs, there exists huge potential for the private sector to help solve the looming problem of a parking shortage for commuter rail passengers; NJ Transit is introducing double-decker rail cars and the ARC tunnel into Manhattan is under construction but without more parking spaces at rail stations, ridership cannot increase. There is a seven-year waiting list for parking spaces at the West Windsor train station alone.

We recommend that the State empanel a commission of disinterested real estate professionals to consider the idea of auctioning-off ground leases and air rights to these properties. Millions of dollars in new State revenue could be raised, while a new supply of redevelopment sites can be created to absorb the land demands of future growth. In that regard, we also recommend legislation being crafted by the Smart Growth Economic Development Coalition that will clarify State jurisdiction over State-owned lands even when leasehold or ownership interests thereto are conveyed to private sector redevelopers. This clarification will cause bidders at auction to pay the highest value for these sites because of the assurance that they can be used for their best use.

Our State's municipal land use laws also need to be revised to eliminate a notorious rule that condones a lack of predictability and transparency in local government action and to make these statutes more relevant to the "vertical" development we advocate in this paper…

* **End the Practice of Last-Minute Re-Zonings; Abolish the "Time of Decision" Rule.** To the horror of many businesses that operate in other states, municipalities in New Jersey are legally permitted to re-zone a property *literally* up until the time of decision by the local land use board on a development application. Since municipalities require extraordinarily detailed plans before they declare an application ready for consideration, a business or developer may spend hundreds of thousands of dollars to file an application for a permitted use, only to see its property rezoned. As a result, a business cannot rely on the local zoning ordinances in place at the time it applies for a site plan, subdivision or other land use approval.

> **What we need:** The MLUL requires proper master planning, rather than reactionary zoning. Accordingly, we should amend the MLUL to follow-through on that standard: once an application is filed with a planning board, the municipality should be barred from changing zoning, site plan and subdivision regulations applicable to the property which is the subject of the application. In other words, change the "time of decision" rule to a "time of application" rule – freeze all local land use ordinances in place with respect to a land use application as at the time the application is filed by the property owner.
>
> **How we get it:** The Smart Growth Economic Development Coalition's "stimulus package" of legislation includes a "Time of Application" bill that has been introduced in the State Legislature as S-82 (Rice)/A-437 (Green/McHose/Vandervalk). We urge its enactment.

* **Revise the Municipal Land Use Laws to Recognize Vertical Development and Encourage Density in Smart Growth Areas.** With the shortage of available land area for development, we have only one way to go in New Jersey and that is UP. This is particularly true for residential, office and mixed uses in smart growth areas. Yet, the Municipal Land Use Law (MLUL) does not recognize *vertical* subdivisions, making these "units in the sky" difficult to finance and problematic for title insurability and marketability. Likewise, the MLUL does not allow a General Development Plan (GDP) to be utilized for projects that contain *vertically* just as much square footage as is contained in the 100-acre+ horizontal projects that are currently eligible for a GDP.

> **What we need:** We should amend the MLUL to legitimize air rights by making vertical subdivisions lawful, and we should further amend the MLUL to make vertical development exceeding 150,000 square feet of nonresidential floor area or 100 residential

dwelling units eligible for a GDP if the project is located in a growth area specified in the new State Plan.

How we get it: The Smart Growth Economic Development Coalition's "stimulus package" of legislation includes a "Vertical GDP" bill that has been introduced in the State Legislature as S-483 (Lesniak). We urge its enactment. The Smart Growth Economic Development Coalition is currently working on "air rights" legislation amending the MLUL.

The land shortage in our State also means that development must become more compact, more dense. This is particularly true for residential developments in smart growth areas. Yet, most municipalities in New Jersey *limit* residential densities through zoning restrictions such as dwelling units per acre, floor area ratio, height and setback maximums, etc. out of fear that their schools and roads would be overwhelmed by a significant influx of new residents. Such zoning limitations may make sense in rural and semi-rural towns, but the State must re-examine this municipal practice as it pertains to smart growth areas – where underutilized infrastructure exists, where sidewalk connectivity to mass-transit is a way of life, where empty-nesters and others without school-age children wish to reside, and where excess classroom space often abounds.

What we need: We should amend the MLUL to include a minimum-density component for residential developments located in growth areas specified in the new State Plan.

How we get it: The Smart Growth Economic Development Coalition is currently working on "minimum-density" legislation amending the MLUL.

Our Coalition also recommends initiatives that will encourage "clusters" of synergistic business and academic interests in tandem with our new State Plan…

*** Take a Leadership Role in the Redevelopment of Fort Monmouth.** Fort Monmouth presents perhaps the single most promising location for a technology cluster on the eastern seaboard. Hundreds if not thousands of tech-related jobs will be at risk when this base is closed. While due deference must be paid to the several municipalities and the county in which this base is located, it is essential that a site of this magnitude be coordinated by a state agency that takes a broader view toward transportation, environmental, labor and other regional concerns. The Meadowlands Commission, Pinelands Commission and most recently the Highlands Council remind us that regional planning has been used by the State when larger policy issues are at stake. This approach will also reduce or eliminate the kinds of turf battles that have bogged down the base closure process elsewhere such as at the George Air Force Base in California, which has seen the filing of more than 100 lawsuits between various local and county agencies, or at the Myrtle Beach Air Force Base in South Carolina where a long-running feud between the county and local governments has stymied re-use efforts.

* **Create Niche Industry Clusters; Encourage More Scientific Collaboration with Nearby Research Hospitals and Universities.** New Jersey continues to be a state in transition from traditional industries to high-tech sectors. The pain of that transition shows up in the state's jobless figures, making a tough recession even tougher. The announcement of "one-off" business relocations and expansions are always welcome news for our state, but what New Jersey truly needs, in addition to more "mega" employers as discussed elsewhere herein, are "clusters" of related businesses – particularly high-tech companies and renewable energy ventures.

What we need: New Jersey needs to develop a world-wide reputation for excellence in a particular area of science and technology.

How we get it: Some in state government believe that stem cell research is the answer. However, more than $4 billion has already been committed by other states to stem cell research, which is a narrow area of research that comprises merely one aspect of the more general discipline of regenerative medicine. In addition, many researchers contend that there are many practical limitations to utilizing embryonic, placental, umbilical cord, blood or other cells because these cells are not yet fully committed to a specific function or tissue type. We recommend that the State break away from the herd mentality of states pursuing stem cell research and instead expand New Jersey's biomedical research initiative to include a *broader focus* on understanding the differential aging of various cell types in the body. Although New Jersey is home to about 80 percent of the world's pharmaceutical industry and a growing biotechnology industry, as some of our pharmaceutical giants have moved their scientists and established new research centers elsewhere, the State is in grave danger of losing its leadership reputation in biomedical research. Also, there is still a tremendous growth opportunity in the biotechnology industry that will be missed if important changes are not made. Therefore, in addition to *expanding* New Jersey's biomedical research initiative beyond stem cells, we suggest that the State *diversify* its research initiative to include public and private research centers, hospitals and young companies throughout New Jersey's growth centers, in alignment with the new State Plan -- with the goal of making the State of New Jersey, rather than a single facility, the center of excellence in biomedicine.

To complement the recommended initiative in human cell research, New Jersey should also identify an equally promising emerging technology area outside of biomedicine and harness the same sorts of incentives and grants to achieve world-class recognition in that area as well. In that regard, we suggest a promising tech sector that is a natural fit for the State's research and development community: nanotechnology, particularly in the area of energy storage and conversion. Another possible initiative, in which Cook College at Rutgers University could play a key role, is bioenergy – specifically the development of biorefineries that can lower the cost of producing renewable fuels such as ethanol and generate other bio products such as lubricants made from soybeans and clothing made from polymers derived from corn.

We should look to our universities to identify the next "big ideas" and the emerging industries our State should be pursuing. And we should provide incentives to spur university research and development of these emerging ideas in collaboration with these early stage high-tech industries and companies.

Ideal locations for these sorts of clusters exist along Route 1 from Robert Wood Johnson Medical School and Rutgers University to Princeton University ("Silicon Valley East"), on the massive former Bell Labs complex in Holmdel, around Picatinny Arsenal, along the FAA corridor outside of Atlantic City, and on Fort Monmouth.

* **Increase New Jersey's Share of NIH Dollars.** A world-class biomedical research initiative cannot rely on State appropriations and private sector investment alone. It will require financial assistance from the federal government. However, grants to New Jersey from the National Institutes of Health (NIH), the major source of federal dollars for biomedical research, has been the lowest of all the states in the northeastern United States over the last ten years. In 2004, NIH funds to New Jersey equaled $274 million versus approximately $2.3 billion to Massachusetts, $2.0 billion to New York, $1.4 billion to Pennsylvania, and $445 million to Connecticut.

What we need: More federal dollars for biomedical research.

How we get it: We should spur competition among our public and private research centers, hospitals and young biotech companies through peer-review to evaluate scientific research projects and by funding laboratories solely in relation to their success in competing for federal grants.

* **Create Additional International Free Trade Zones.** Of all the modes of transportation for the shipment of manufactured goods, none is growing any faster than maritime freight. From 2000 to 2007, the number of maritime container units crossing into the United States rose by 94 percent - compared to 27 percent growth in rail shipments and 8 percent growth in truck freight. One reason for this rapid growth in ocean-going freight traffic is the expanded use of Free Trade Zones at the nation's seaports. By taking advantage of duty-free shipping and other tax benefits, companies are able to expedite the flow of goods and increase their own cash flow. The major advantage of an international free trade zone is that it is treated as though it were located outside the United States for customs purposes. As a result, a company can import goods or components into a free trade zone and defer (or avoid, in the case of foreign shipments) the payment of duties until the finished products are shipped out. In the meantime, the State and host municipality enjoy the benefits of the jobs and revenue flowing from the warehousing, assembly, manufacture, packaging, testing, grading, cleaning, mixing and processing of the goods and products involved. We recommend that the State establish one or more foreign trade zones similar to the International Trade Center in Mount Olive. The Ports of Camden, Newark and Elizabeth are ideal candidates for new or expanded foreign trade zones.

* **Create Garden State Growth Zones.** Over the last few decades there have been several programs enacted to revitalize depressed urban areas in New Jersey. Most of these programs failed because the incentives did not outweigh the risk issues inherent in redeveloping a site or locating a business there. It is time to think outside the box and create powerful tools that will attract businesses and development in our depressed urban neighborhoods. The State has been subsidizing nearly all of the municipal services for many of these communities. Elaborating on Governor Christie's "Garden State Growth Zones" proposal, we suggest a program that would eliminate all taxation in cities that meet specific criteria for unemployment, police activity, education and other pertinent data and that are targeted for growth in the new State Plan. Development incentives in these eligible cities would be targeted toward the areas with the greatest potential for development. Individuals and businesses that locate in a Growth Zone would receive a 10-year state income tax credit, be reimbursed for all sales tax transactions within the zone, pay no local or county property taxes or school board taxes, and pay no business taxes or development fees. In return for these tax exemptions, developers and businesses would agree to civic commitments related to local and minority hiring and procurement; residents would likewise make length-of-stay commitments. This is a radical attempt to attract residents and businesses together in highly depressed areas to create the necessary critical mass for the establishment of viable and sustainable neighborhoods.

About the Smart Growth Economic Development Coalition

The Smart Growth Economic Development Coalition was initially founded by a core group of statewide real estate trade associations (ICSC, NAIOP, NJAA and NJBA) in early 2007 to address twin crises: an alarming migration of businesses and residents to neighboring states and beyond, and a longer-term shortage of developable land on which to locate future growth.

The Coalition has since grown to more than two dozen statewide trade associations including the two main business advocacy organizations in New Jersey, three esteemed land use planning organizations, the two leading science and technology advocacy groups, and several labor and building trade groups.

In September 2007 – one month before the Dow Jones Industrial Average hit its all-time high – the Smart Growth Economic Development Coalition convened its first official meeting. The gathering attracted nearly 40 of the State's leading real estate, business and economic development professionals for a seven-hour retreat aimed at identifying legislative solutions to the twin crises. In early 2008, the Coalition crafted a "stimulus package" of one dozen draft bills and began to seek sponsors for the bills in the State Legislature. During the 2008-2009 legislative session, nearly half of those suggested bills have been enacted into law.

The Coalition is currently formulating a "version 2.0" package of legislation for the 2010-2011 legislative session which will include the legislative recommendations in this paper.