
Task Force Meeting

of

ASSEMBLY TASK FORCE ON BUSINESS RETENTION, EXPANSION, AND EXPORT OPPORTUNITIES

“Testimony on the regulatory climate in the State as it relates to permit processing and other regulatory approvals; and, the status of small business financing through lending institutions as well as NJ Economic Development Authority programs”

LOCATION: Committee Room 14
State House Annex
Trenton, New Jersey

DATE: December 7, 2000
1:00 p.m.

MEMBERS OF TASK FORCE PRESENT:

Assemblyman Joseph Azzolina, Chairman
Assemblyman Steve Corodemus
Assemblyman E. Scott Garrett
Thomas Britten
Thomas Bryant, Ph.D.
Michael Katz
Richard Klein, Ph.D.
Diahann W. Lassus
Richard P. Miller
John A. Pell



ALSO PRESENT:

Deborah K. Smarth
Assembly Majority

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ASSEMBLYMAN JOSEPH AZZOLINA (Chairman): Good morning, or afternoon now. This Task Force is on Business Retention, Expansion, and Export Opportunities.

We have individuals from the various industries throughout the state here, and we have four legislators on the Task Force. I'm the Chairman. We have Mr. Garrett here today, Assemblyman Garrett. Assemblymen Corodemus and Caraballo, those two are not here yet. I saw them downstairs. I want to introduce Tom Britten, who missed the last meeting, and Professor Tom Bryant. Professor. Okay.

The Task Force will take testimony today on the environmental regulatory climate in the State of New Jersey that relates to permit processing and other regulatory approvals. The Task Force will also examine the status of small-business financing through lending institutions, as well as State-sponsored loan programs and venture capital financing offered through the New Jersey Department of Economic Development.

I'd first like to call on Commissioner Shinn, head of the -- Commissioner of Environmental Protection and a former Assemblyman and former conference leader and a former and a former. (laughter) Welcome.

COMMISSIONER ROBERT C. SHINN JR.: Thank you, Mr. Chairman. It's my pleasure to be here and sort of give you an update on what we've been working on at the Department for almost seven years.

Some of the notes that you've made on your memo to me I wanted to respond to directly, particularly as it relates to the Malcolm Baldrige National Quality Award, which we received about a week ago. I can tell you, I didn't really enter that process to receive an award. I entered the process to

try to apply the principles to an environmental organization, and we did that a couple of years ago. This year we did make an application, and we were given a bronze award. We were in a group of industries, including Lucent Technologies, Phillips Lighting, Blue Cross Blue Shield of New Jersey, Robert Wood Johnson University Hospital, Merrill Lynch, IBM, AT&T Credit, Public Service Electric and Gas.

You can see with that group, we were in good company. But I think it's all about trying to deliver a results-based management system, and we've worked on that with our performance partnership agreement with EPA to basically move from a -- what we call a bean-counting system that measures numbers of permits, numbers of activities, fines, and so on, to judge environmental quality, to actual environmental results-based management.

That's pretty easy to say and pretty hard to do, but I think we've really made a dramatic difference in how the Department operates, and I think we're making a dramatic difference in environmental quality at the same time. We've based that on a philosophy that if the economy is not good, our environmental improvements suffer. Whether you're looking at our site remediation program or brownfields or air quality improvements that corporations are investing in control technology, whether it's discharge related or stack technology, when the economy is bad, that doesn't happen. We certainly recognized that early on and have really tried to merge the economy and the environment together.

I know one of the areas that you had concerns about was permitting -- focus on what the results are relative to the permitting program. We report twice annually on a statute that's called the Environmental

Management Accountability Act, and also known as the Doria legislation. We have 13 permitting programs. We issue approximately 47,000 permits. We've established general time frame goals for the review and approval of applications or other activities under their different categories within each permitting program. Again, we report under the Doria bill.

The Department closely monitors permit issuance times, prepares a biannual report, which provides information on the number of permit applications received and the number of permits processed by the Department. In these reports, the total average review times are reported, as well as a published average review time. In 1992, when we first started to quantify and track the number of permit applications received and processed, less than 50 percent of the permits issued by the Department were within or below the published time frames.

Comparatively, over the past two years, 85 percent of the 48,000 permits issued by the Department were within or below their published time frame goals. So we're far from where we need to be, but we've made significant progress under some difficult circumstances. Storm water general permits are routinely issued in 15 days, instead of the published review time of 90 days.

In the Industrial Site Recovery Act Program, responsible parties are no longer required to obtain permit approval for the Department prior to implementing a cleanup. If your goal is a no-further-action letter, there has to be interaction with the Department, but if you're just cleaning up a site that has no groundwater contamination, you can do that without a permit.

We carefully monitor the permit issuance process and strive to continually improve both the quality and quantity of the permits we issue and

make sure that in the old system, where permits were a bean count of how well you were doing in the agency -- more permits were routinely issued than, quite frankly, were required in some areas-- So in this process, we've looked at our permitting system and what has an environmental benefit, what no longer really requires a permit. So we've streamlined the permit system in that process as well.

In April of 2000, the Department began using the Internet for E-government applications. In fact, we received another recognition from some E-government group that ranked the top 15 states in the country, and we were number six with our E-government program. And that includes, you can apply for a permit electronically, you can receive it electronically, and you can pay for it electronically. That system -- I'll give you a rundown on what we have up on that system now -- that it's going to significantly impact our permitting system across the board. We plan to be fully on-line somewhere around April and May of next year with our entire program. Currently, industry can submit applications and emissions statements as well, which is a big improvement to the Department electronically. As work on our fully integrated Environmental Information Management System, or NJEIMS, continues, the Department is improving its ability to serve its clients. NJEIMS and GIS progress has been significant. The Department has undertaken several information technology initiatives that were aimed at improving how we protect the environment, at the same time reducing the regulatory burden for business.

In addition to integrating all our internal databases so that we can now assess facilities from a multimedia perspective and advance pollution

prevention mechanisms, we're working with an industry work group to maximize the use of electronic document processing. Together we developed a number of E-government projects that reduce the burden of environmental reporting and expedite permit issuance. As of today, small and large businesses alike can apply for and receive immediate approval for eight different categories of our general permits over the Internet. This Internet application is the first of its kind in the nation, which was recognized again in September of this year by Civic-Com (phonetic spelling) as one of the nation's top 50 E-government initiatives. No other state has developed an on-line environmental permit approval system, and each month we are approving more and more permits over the Internet. Again, we intend to expand the application of this system, and by the end of the first half of next year, we'll be fully on-line with our -- what we call New Jersey Environmental Management System, or NJEIMS, which will ultimately eliminate literally tons of paperwork in the D e p a r t m e n t .

Businesses can also submit air, preconstruction permits, operating permits, and emission statements electronically. They can review any of these air permits on-line. We now receive 80 percent of our air permit applications electronically, and 90 percent of these applications are deemed administratively complete upon receipt. This greatly reduces the return rate of our permits and expedites the approval and reduces the incomplete permit process, which has been a problem in the past.

Additionally this year, 90 percent to 95 percent of the emissions statements submitted by industry came in electronically, and this is important air quality data -- once received at DEP is immediately available to all DEP

staff thanks to our integration of our computer systems and can be used to improve our environmental decision making.

We also built an application that allows businesses to submit their quarterly air access emission reports over the Internet by downloading a standardized spreadsheet. This project was a priority selected by the industry work group, and submitting these large data-intensive reports on paper was unwieldy. The electronic reporting process was designed to save industry time and money. Over 30,000 facilities are required to submit community right-to-know surveys each year, and today, these facilities can assess their last year's submission over the Internet, make appropriate changes, and submit the new survey electronically. This greatly reduces the time it takes for a facility to comply with the right-to-know reporting requirements, and anyone in the general public can access this information, as allowed for by statute, using the Internet. They can look at the information for a particular facility in their community or for the community as a whole.

Effective this week in New Jersey, you can now register, renew, or modify underground storage tank registrations on-line. We've worked closely with industry to exploit the benefits of technology, and the Internet in particular, and we are certain that as we continue our industry training efforts and gain experience providing services over the Internet, we'll be able to streamline our business process further and expedite turnaround time for many of our less-complicated permits and approvals.

We are also working to make more information available to the public to strengthen environmental decision making. This is especially true in the area of geographic information systems. We released a new Internet

application for brownfields about a week ago. This application allows local planners and developers to work together to ensure we're meeting the brownfields redevelopment initiatives that the Governor and the Legislature set for us. Builders can now identify potential sites for development by viewing brownfields sites, local infrastructure, census data, per capita income data, and a whole list of characterizations of the brownfields.

Early next year we will be releasing the '95 to '97 land use, land cover data for the entire State of New Jersey. We are now providing this data to mayors as land use and land cover digitizing takes place on the GIS map. And basically, these GIS coverages can be used by local mayors and council members, developers, environmental groups, to make informed local land-use decisions. It implements one of our goals, which is open and effective government. Various municipalities are upgrading their master plans and zoning ordinances, and this is an ideal tool to look at impacts of runoff and storm water management that's some focus by a few municipalities. But as you increase land cover, you decrease recharge of groundwater and you increase runoff, which carries with it pollutants that impact surface water quality. So we want to design our future storm drains to abate that to the maximum extent possible, so we can accommodate development in an environmentally sound fashion.

Lastly, this spring we will be releasing a new interactive mapping application that will provide environmental information to businesses and residents alike in an easy-to-use, Web-based application. This project is called i-Map New Jersey, which will allow users to access GIS and facilities and environmental quality information simultaneously. It will provide users with

the ability to ask questions, such as what facilities are in my area from a brownfields or a contaminated situation? It will be able to access watershed programs and look at things like impacts and various water bodies, our environmental monitoring program, our biological monitoring program, to just see what water quality conditions are. Of course, we map all that in graphics so that we can gauge our progress in improving environmental quality.

And as you know, we're embarking on a statewide watershed management program. Currently, we're in our -- we awarded our nineteenth contact in the Hudson River area a few days ago, working with the Bergen County Health Department and a whole group of stakeholders. So this computer system will integrate with that very well.

Business has been a big representative in that process, and we encourage small business and large business alike to take part in the stakeholder group that includes dischargers, water treatment plants, various stakeholders from just plain residents that are interested in their local water to governmental entities, municipalities, and counties. So we're trying to build some consensus about where we can get the best benefits at the least cost. This project will provide our residents and businesses with information that is virtually impossible to obtain, because prior to this, it existed on different databases in the Department, and there was no consolidated computer system, let alone any public access or business access to those programs.

Programs that are currently on board with our New Jersey Environmental Management System are wastewater permit, our NJPDES permits, treatment works approval are on that system, air permitting, air emissions statements, air enforcement, hazardous waste enforcement, water

enforcement, right-to-know, and underground storage tank registrations. Programs which will use NJEIMS within the next two or three months: land-use permitting, land-use enforcement, and laboratory certification. And programs which will use the system starting in the first quarter of 2001 are site remediation, and programs which will use NJEIMS starting the second quarter of 2001 are water supply, which includes safe drinking water allocation; well permits; exams and licensing; water and water operators; well drillers; and underground storage tank contractors.

We've had an aggressive agenda. This has been a five-and-a-half year exercise. From our standpoint, we've taken advantage of a lot of expertise from industry, and we've had American Management Systems and A. C. Kearny (phonetic spelling), as a contractor, helping us with this effort. I just might add that we are getting royalties on the system. We've sold it to other states. Louisiana and Mississippi are two that are in my mind, but we're also talking to a whole group of other states that are reinventing this wheel from ground zero. They're buying our system and using different parts of it, but it is a revenue producer for us. We basically split the royalties with the consultant, because we worked as partners on the system.

I think it's certainly a cost-effective investment. I think we've spent about \$23 million over that time frame, and we see the end of the project, which I think will make permitting a lot simpler and a lot more productive. The computer actually prints out the permit. So, if you have a permit in the northern part of the state or the southern part of the state, you'll get the same permit language, because the computer actually prints out the rule or the legislation and/or both in certain permits. You can add to a permit any

consent orders or any other specific information. It's really a computer-generated permit system that you can access electronically, respond to electronically, and pay for electronically.

So I think we're making a lot of progress, and we're certainly getting a lot of cooperation from the business community, both from a site cleanup perspective, brownfields perspective, and investor perspective in New Jersey. Our brownfield program and site remediation programs, basically, has been setting new records every year. It's making a difference overall in the state in environmental quality. So we think all the effort that the Legislature initiated in brownfields, including the payback systems, and particularly in the liability area, it was well-invested time. It certainly made a program virtually light up. Instead of being a liability in New Jersey, we have -- those sites have become assets.

There's lots of area in the state that are urban areas, historically, whether you're talking about Perth Amboy or New Brunswick or Elizabeth or up along the Hudson River in Hudson County. Brownfields and the site remediation and environmental improvements, like the Hudson River Walkway, have made a big difference in urban areas, and I think will well into the future. So I appreciate all the cooperation that we've had from the Legislature and the business community in this effort.

We'll just talk a minute about the Silver Track and Gold Track initiatives, which we started to implement, which are programs that are sort of leadership programs. We work with some flexibilities with EPA, and basically, the businesses that have used pollution prevention techniques and ISO 14,000, and all the other management systems -- we're trying to corral them into a

program where businesses commit to stay in compliance with our environmental rules. We have provided some flexibility in exchange for some commitments on improved environmental quality. We're having good success with those programs as well. Although they're in their infancy in the Gold Track Program, we're still in negotiation with EPA on some record changes, Resource Conservation and Recovery Act, but we think they'll be concluded shortly as well.

So I think it's been a good story in New Jersey. We've got a lot more to do. There's no question about that. But I think we're well on our way.

Thank you.

ASSEMBLYMAN AZZOLINA: Commissioner, I'm impressed at how far you've gone with the Internet and all the electronic uses and so forth. I think it's going to be a big help in the future.

Anybody want to say anything?

ASSEMBLYMAN CORODEMUS: One thing, if I may, Mr. Chairman. The Commissioner spoke about one of the nuts-and-bolts changes in the DEP, which we're all pleased to hear about. But I have to tell you, as Chairman of the Environment Committee, I get a chance to speak to a lot of the people in the industry. I think what everybody enjoys even more is what they perceive to be a whole change in attitude at DEP -- that they're business friendly, and they're willing to meet the regulated committee more than halfway. And that fact, I think, carries even more towards good working relationships between the private sector and the public sector. It's very reassuring that we're on the right path in that fashion as well.

COMMISSIONER SHINN: Yeah. And I think that's a real result to-- I think the credit for that is just the philosophy that if -- the Department was working on what we lovingly refer to as a bean count, an activity count-- So, if you had more permits you were issuing every year, you got a higher bean count with EPA, which meant the environment must be getting better somehow. The same with fines and penalties, and so it was driven by that accounting process, which really didn't measure the environment. So it was really difficult for me, when I came to the Department, without some way to measure your environmental progress. So we've shifted from an accounting system to a results-based system. So we monitor different aspects of the environment, have indicators so we plot our progress on different environmental indicators, whether it's air, water, or cleanups.

So the training that we do with staff is intraspaced negotiation training, and we try to reach agreement on how we're going to improve the environment, and how we're going to work together to do that. And that's the simple philosophy that I think really makes a change. I think the Department has seen that it can do more in a cooperative effort than it can in an arbitrary effort or a court-related effort.

ASSEMBLYMAN CORODEMUS: We haven't done that in the Legislature yet. We're still counting bills that we pass. (laughter)

COMMISSIONER SHINN: Lucky you're not in Florida. (laughter)

ASSEMBLYMAN AZZOLINA: Anybody else, because the Commissioner has to leave?

Yes.

DR. KLEIN: I would echo what Assemblyman Corodemus said about the better attitude in the Department. A lot of credit is due to the management and the way the people responded to that. I would say, though, that, as you well know, there are some permits that we would like to see issued sometimes. The number of permits is an important issue to them.

These systems for processing what I assume to be sort of more standard types of situations, I think, is great. It frees up a lot of people's time in the Department. There are a lot of still, I would assume, nonstandard issues of facility-wide permits, issue permit, and other site specific type of things that require a lot more detailed interaction. Hopefully, the time that's freed up in the Department will be available to expedite those things getting done still with the same spirit of cooperation and constructive interaction that we think is going on. So sometimes the number of permits is important, because some industries -- new people coming into the state and people operating in the state -- can't function unless they have the permits or can't function successfully.

ASSEMBLYMAN AZZOLINA: Okay. Do you want to say something?

MR. KATZ: Oh, thank you. I, too, want to compliment your Department and its staff. I, in my interactions with them, have always found them capable and quite concerned and very responsive, which I believe we owe that to you.

There are issues that I'm concerned with on communities that are in what we call environmentally sensitive areas, and in that regard, the educative programs that you might have for the community leaders, as well as the engineers who are developing properties throughout the state. There is a

tremendous mysticism on how storm waters are handled or to be handled. There is no recognition of even your Department's -- and which is not an indictment of your Department; it exists in the field -- there's no recognition of the Department's philosophy that they should almost exhaust all opportunities to ameliorate storm water runoff before they even plan detention basins and retention basins. There is very little response in the total engineering community to the effect of West Nile Virus, and the fact that there are failures within detention basins and retention basins all over the state. They basically are not working.

So what I sense is that the program works within your management sphere, but it is not working in the terms of what a community should know, what our population in New Jersey should know, what our builders should know, and how the people who are on the planning board can respond to the applications. I think that if there were a -- let's call it a training program of sorts, or a recognition of these provisions within your codes, then there's going to be a lot less confusion and a lot less battering of planning boards by the engineers and the builders as a group.

COMMISSIONER SHINN: Well, groundwater recharge is something we're really focused on. I think that's been -- to get it accomplished in our environmental regulation system has taken a little while to get done, but we're now using secondary treated water on golf courses in several situations. Linden is one that sticks in my mind, where we use 2.5 million gallons a day of potable water for steam makeup water in their generating system. They now use secondary treated water. So, in essence, we found 2.5 million gallons of groundwater a day and reduced the discharge of that secondary treated water

to the stream, which is an improvement in water quality. So, by using secondary treated water for a lot of those intensive operations, golf courses-- Steam makeup water in that sort of area was not permitted in our regulations previously, but certainly is now.

A lot of municipal storm water ordinances-- We just awarded an award to Stafford Township in Ocean County for innovative handling of storm water and maximizing recharge. As you know, we've got a big floatable program in storm water and the first step of CSOs along the Hudson River and some areas in the Delaware River, Camden and Gloucester. So we are looking at better technologies. We are endorsing a program of maximizing storm water recharge as one of the solutions to our groundwater issues and stream quality issues. So I think we're going to hear a lot more about that in our 20 watershed areas that we'll have in place by the end of the year -- are ultimately going to focus on that from a technology standpoint and a total maximum daily load standpoint.

Sediments are one of the things that we have a major problem with, not only in water quality, but in soil erosion. We've got several early-funded projects in the watershed program that have just been erosion programs that haven't been solved. So we've been working with soil conservation districts around the state to solve some of those leftover problems, if you will, and to design something that isn't going to have a reoccurring problem. So again we have a lot of work to do.

MR. KATZ: Well, I don't mean to overburden you, and I don't say that facetiously. It's an extraordinary effort, and your details of it actually impressed me, too. But the thrust of what I'm trying to indicate is that when

business is confused, when builders are confused, and when the towns are confused, then the action doesn't progress towards what I would call peaceful resolutions or even thoughtful resolutions. It may be naive on my part, because I really don't know all the intricacies of your program, but what I definitely have seen is that our mayors and our township planners are not truly versed in the intricacies of storm water management per se. They are the ones who are handling the building permits. The people in business then are confronted with the dilemma of how long the delays will be as they meander through almost an indefinite process. And not indefinite at your end, indefinite because of the lack of true experience or education on what the provisions are.

So the thrust of what I was asking is, would it help business and would it help New Jersey if our engineers and our town planners were better educated in the programs of your Department?

COMMISSIONER SHINN: Yeah. I think one of the big problems we have is, as you change rules and regulations and statutes change, the lap time between when the change occurs and getting that information to 566 municipalities and their engineers and planners -- that's a big problem for us. And, yeah, it would. There's no question there's a lot of-- I think the key to the solution in this whole problem is public education. If the public understood that we've got 8 million people in the state on 5 million acres-- It's the most densely populated state in the nation and maybe the world. Each person is a point of pollution. We're used to pointing somewhere to identify the polluters, but every person has an impact. And if you multiply that by 8 million, you've got a pretty -- what I call nonpoint impact, things that aren't

readily identified. Because people like to look at the pipe from the sewage treatment or the pipe from industry and say, "Aha, there's the pollution." But what we're finding out that we've improved with a huge investment in is sewage treatment plants by this state and the Environmental Infrastructure Trust -- that we've dramatically improved water quality. But the next step is from nonpoint sources. And we're working on several, like pump outs for marine toilets. We've had a dramatic growth in those over the past six years. We've got 131 in place and 33 more on the drawing boards. And we've got 4 EPA-approved no-discharge zones and 2 more on the horizon, basically, from the Hudson River to the Barnegat Bay.

So that's a margin of improvement for water quality. The cleanups on land for runoff limitation, the storm sewer netting programs for floatables are a major improvement, and all those little niches in watershed groups. And when you get into the proper application of fertilizers and pesticides again, you're right back to educating the public on don't double the load of fertilizer to get your grass greener. It really doesn't pay any dividends, but it certainly increases nutrient runoff to the water system the next rainfall. That's an impact.

We've also got impacts that we haven't come to grips with, with things like nutrient impacts from transportive -- from air deposition from power plants, oxides and nitrogen, mercury. Major air deposition impacts on water bodies as well, not only on the water body, but on the land, and then the next rainfall it washes into the water body by storm inlets or just over the surface.

We have a major air focus and a major litigative effort in this state, as you're also aware of, from the Midwest and South because of those power plants emissions that are grandfathered. And I think we're seeing some early signs of success -- the settlement with a couple of Virginia plants that we were involved with, and I think we'll see more settlements out of the Midwest. I think the reductions that were arrived at by the ozone transport assessment group are becoming reality and that will increment. We see nutrients somewhere around the 33 percent or 39 percent impact on water bodies by air deposition. So it's something that hasn't been on our screen from a water-quality aspect before, but that's another area where we need reductions not only in New Jersey, but in the Midwest and Southeast and South to reduce those transported impacts.

So there's a lot of pieces to this that we're working on, but I think we're working on the right pieces. I think we'll see Phase II of the acid rain program -- recently went into effect. It will be an improvement, with things like acid rain, from that effort -- oxides and nitrogen by 2003, or the next major reductions come in for power plants to the 85 percent reduction levels. We're about 65 percent now, so we'll see another several hundred thousand ton reduction in that area. All that means better air quality, and ultimately, better water quality with aspects like sulphur and mercury and some of the contaminants, and that doesn't even take into account the air toxics like hydrochloric acid that's generated from combustion of fossil fuels.

So there are a whole host of things that are actually multimedia. It's not just water, and it's not just air. It's looking at the impacts of both, and we've done that. We've got an ongoing monitoring system that looks at air

deposition impacts on water bodies, and we've got a scientist in Rutgers that's one of the -- probably half a dozen nationally that really specialize on air deposition from air-transported contaminants. So we've got our finger in that technical effort, as well, and we're, I think, making good progress on that, at least at this point in time.

And of course, there's a Supreme Court decision on this, so we're anxious that that stays in place. It looks like it will, and that will mean better air quality and better water quality for New Jersey. And what it also means is that we can endure more economic development if we get reductions outside the state and still meet the Federal Air Quality Standards.

ASSEMBLYMAN AZZOLINA: Tom--

Commissioner, do you have time for one more question? I know you have to leave.

COMMISSIONER SHINN: Sure.

ASSEMBLYMAN AZZOLINA: Tom Bryant-- This is Tom Bryant from Rutgers University.

DR. BRYANT: Your opening comments talked about the transition to the Web of much of your information, and your last remarks talked about many small sources of pollution and the requirement to do those. The two combined, to me, suggest that we may have a situation that your Department is facing, as are others, that reflect the social issue called digital divide; that the smallest and least technologically aware citizens and businesses will be the last ones to have the equipment and the knowledge to get involved in the business community. That also means things like small trucking firms, dry-cleaners, restaurants, auto shops, other kinds of things which could be

significant accumulative sources of many of those small sources of pollution problems.

COMMISSIONER SHINN: You're right.

DR. BRYANT: My question is, while you've got a double system in the business community, how does DEP deal with that?

COMMISSIONER SHINN: Well, let's just take the metal finishing industry, and that's one of the small businesses usually in a high-impact type industry. And that was one of the first industry-specified programs focused on getting industries and regulators to work in partnerships to meet the goals of cleaner, cheaper, smarter environmental protection. The voluntary program encourages metal finishing businesses to meet environmental targets by providing incentives, creating assistant tools, and removing regulatory and policy barriers to accomplish the goals. So we're taking groups of small businesses that are relatively high impact and bringing them together and trying to reach consensus on pollution prevention techniques and techniques that minimize environmental impact.

So you're right, there's different groups of entities that potentially have larger impacts, and when you get into looking at stream monitoring and biological monitoring, you find that agriculture is in that mix as well. We have a program that we're working with Art Brown's shop on, on investing in improvements in best management practices, particularly where we found impacts that have the potential of being related to agriculture. So we're in our second wave of funding with agriculture to make sure that they end up not being part of the problem and are a part of the solution.

So we have small business groups called Green Start that is working with small business on pollution prevention techniques in a permanent assistance type effort, and that's met with very good success. So it's not something we've lost sight of. Part of our Solar Track Program we expect to be applicable to small business, which is sort of pollution prevention and energy efficiency driven. And we think that small businesses will take advantage of that.

So again, we have a lot of work ahead of us, but I think we've identified the areas where we need a good collaborative effort to make progress. We also have some mentoring efforts going on between some larger businesses and some smaller businesses. We plan to work that angle as well. Just to name one, PSE&G has been very active in that role from an energy conservation aspect. In our new deregulation program with energy, some of the societal benefit charges look like they're going to be used specifically for energy efficiency for at least a \$10 million part of that program. Seventy-five percent of those dollars will be used for energy efficiency type programs and twenty-five percent for renewables -- wind, air, solar -- all the different kinds of generating systems that are renewable.

So I think we're sort of heading in the right direction. Maybe we haven't gotten there fast enough. I know that's generally my feeling, but I think there's an atmosphere of cooperation and identifying what the target is. It's not basically who's blaming who. It's how we together get everybody on board to improve water quality. And based on our population density, I don't think we have any choice but to do that and do it in the most cost-effective way we can. I think it's a good point in time to go there. We, again, have 19

of these watershed groups in place. And with initial funding in place, we have one more to go. And I think out of that broad spectrum of people, we'll be developing some consensus on ways to proceed. In the second year of that program, we'll be establishing total maximum daily loads for streams where those contaminants are coming from and where the reductions need to be had and try to build some consensus in that effort.

We'll look forward to any comments you have along the way. We try to bring the best consensus from a relatively disparate group together, but I think even the disparity is getting less as we go down this course.

ASSEMBLYMAN AZZOLINA: Mr. Commissioner, thank you very much for being here -- I certainly appreciate it -- and giving such a detailed report. I didn't realize, when you were in the Assembly, you knew so much about the environment. Obviously, you've learned.

COMMISSIONER SHINN: Thanks, Joe.

ASSEMBLYMAN AZZOLINA: Great job. Great job. Thank you very much. And I must say, it is a much friendlier Department than it used to be years ago.

COMMISSIONER SHINN: Oh, yeah.

ASSEMBLYMAN AZZOLINA: It's very important. It's very important.

COMMISSIONER SHINN: We didn't give them very much of a chance to say anything, but-- (laughter)

ASSEMBLYMAN AZZOLINA: Well, thank you.

COMMISSIONER SHINN: Thank you.

ASSEMBLYMAN AZZOLINA: I'd like to call on Caren Franzini, Executive Director of New Jersey Economic Development Authority.

Half the room left, Caren. (laughter)

C A R E N S. F R A N Z I N I: They're not interested. It's good stuff. (laughter)

ASSEMBLYMAN AZZOLINA: That's okay. It's all going to be recorded.

MS. FRANZINI: Do we get a commission from the tape if we sell it? (laughter)

Well, Assemblymen, thank you for having me here this morning, and for the Committee (*sic*).

Very good to see you, John.

The Committee has done some great work over the years, and we've been at various meetings and you've given us some good ideas. So, hopefully, what I can do today is tell you a little bit about what we've done and our role. The letter you sent to me specifically asked about our role with banks and how we're helping small and midsized businesses.

ASSEMBLYMAN AZZOLINA: Besides building schools?

MS. FRANZINI: I'm not talking about schools today. (laughter)

The work at EDA -- is a wonderful organization, for those of you who don't know about us. We've been around 26 years. We've helped finance over 7000 businesses and not-for-profits, providing over \$14 billion of assistance. So we've been busy. I feel like it's in my blood. Assemblyman Azzolina knows that I grew up in a family-owned business myself. My father

and my mother and aunt and uncle had a retail store in Atlantic City, and we lived on top of it.

ASSEMBLYMAN AZZOLINA: That's what I did. (laughter)

MS. FRANZINI: So, in understanding business, it was -- there were 12 members of our family, between the two families and my grandparents, and the business was a thirteenth member of the family. So it's in our blood. My father's philosophy, as a salesman, and it's really been our philosophy at EDA in working with the business community, is find out what your customer wants and give it to them. And that's really the heart of sales. And that's what we've been trying to do with the small and mid-sized business community over the years, is find out what they want, talk to them, and give it to them.

And what I'm going to talk to you about today is really three areas. One is what we've done in terms of technical assistance, which I know is the key to the Committee and how we do reach out and provide that. Two is talk about some of our different ways of funding programs to do that. And third is some of the specialty areas. What we try to do is provide gaps in the marketplace. The banking community is really there to help finance businesses in the state. Our role is to fill the gaps where they, by themselves, do not want to venture.

First, in terms of technical assistance, we offer it in four areas. We're going to hand out a package to all the members so you can have information about it. The first is a program we started around eight years ago called the Entrepreneurial Training Institute. It's a wonderful course given twice a year in eight locations across New Jersey. And what the program is, is

an eight-week course taught by bankers, economic development people, accountants, lawyers, on what is needed to develop a business plan. At the end of the eight weeks, the entrepreneur has a completed development business plan. What I will tell you is that of the people that participate, around one-third drop out after the second class, another third drop out somewhere by the sixth class, where you have to do the financials, and around a third graduate. And that's good news and bad news, but we really view it more as good news -- is because we're saving people money. Not everyone is out to be an entrepreneur. I'm not an entrepreneur, although my family was. It takes a lot of risk to do that, and the course really helps people to understand what it is to go into business.

The second program-- In fact, I just came from a press announcement. Ken Walker, the Assistant Commissioner of Banking, was there as well. Is what we found with our ETI program -- it's great to have the assistance up front, but then you need a bank there to help us take out the money. So we just announced a new partnership called our Seed Program. And what the Seed Program did is commit five banks in New Jersey -- and we're looking for more -- to-- The banks now participate in ETI, where they have people of their banks actually help teach the course, but we wanted more of a commitment for funding, so, once we had the one-third graduate, that there's then funding available. So these five banks -- there's three large ones and two smaller ones -- have committed to have their resources to help fund the ETI program, because it costs money, and then also to provide funding at the end of the day.

We also have one of our organizations that we manage, a separate sister agency, the New Jersey Development Authority, for small, women/minority owned businesses. They actually have a loan pool that's specifically for small business lending. So you provide the training up front. You give the funding.

The third piece, which took us a long time to work on, and we're going to announce it in January, is mentoring. What this small entrepreneur needs the most is mentoring, once they've opened their business. They don't know who to go. There are organizations in place already in New Jersey, but what we wanted to tie it to is our funding, that we really track our entrepreneurs. So we'll be contracting with organizations currently in New Jersey to provide that service for us, and that was another recommendation that really came out of this committee of how do we help mentor businesses.

The fourth area, and just another form of technical assistance, is-- Another community that really needs different kinds of technical assistance is in the contracting community, small contractors. So we actually contract with a group called the Regional Alliance. They offer courses similar to our ETI program for contractors, for women and minority owned contractors, to give them the opportunity to run a construction business. It is a different type of teaching, then, to run other businesses. So we contract out with them to do that. And actually, what's interesting, in just the year so far they've helped over 100 contractors, 25 of which worked on projects that the EDA financed. What we do is we invite representatives from the regional lines to come to all our construction meetings. We tell the businesses what they need to do, and

we've actually been able to have some of these small contractors work on bigger programs. So that is the various forms of technical assistance that we provide.

What are the forms of lending that we provide to these businesses? I really will bring them up -- branch them out to two different areas. One is with bank financing, and John Pell's here from Worldwater, that we actually provided financing to Worldwater to help them grow and expand. They didn't need us anymore, because they're doing so well in Mercer County. That's the type of small business that we have assisted, and we do it through two basic mechanisms. We either lend money directly, or we take our direct money and participate in a bank loan. So the bank lends \$100,000, we buy participation for \$25,000. So the bank is really taking the lead, but they meet a gap in the financing.

And what we've done is developed a two-page participation agreement. It's standard, so every bank in New Jersey knows how to use it. What we can also do is provide a guarantee. We guarantee similar to an SBA guarantee program. We guarantee part of the bank's exposure. So our goal is to have a business deal with the bank, as they should, because they need to grow. They need working capital. But our goal is for the banks, where they're unsure to lend money, to provide that credit support they need to make the financing happen.

Since 1998, we've had 24 banks participate in the special program we have, called the Statewide Loan Pool Program, that assisted 68 projects -- businesses in New Jersey, providing over \$41 million in financing. What's interesting, of the 68 projects, 40 projects had financings of under a half million dollars. So we're really hitting the smaller end of the marketplace.

That's one whole program, and we call them lots of different names. We have programs specifically for high tech or urban, but they're in different categories, but basically, they're lending programs. Another big part of our business is our bond program. Bonds traditionally have been looked at as very time consuming, taking forever. No one knows how to use them. But what we've been doing is working with the banks over the years to have the banks provide the same alternative to a bond financing as a loan. So we call it a bond, but we treat it as a loan, but the benefit to manufacturing companies in New Jersey is, the Federal government has said the bond financing for manufacturing companies is exempt from the payment of Federal and, in New Jersey, State income tax. So, if a bank makes that -- buys the bond and makes the loan to the company, they do not have to pay income tax on the interest earned -- on the interest they charge the business -- on the interest earned.

What does that do? Well, that means that they don't have to pay taxes on it. They're willing to accept a lower interest rate. So manufacturers can get a rate that's 200 basis points below a going rate. So instead of being prime, it's 2 under prime, which really helps the manufacturing companies in New Jersey borrow more. What we need to have done on a Federal level, not on the State level, is that the limit on those bonds are \$10 million. If you're talking about manufacturing in New Jersey, you can buy one piece of equipment for \$10 million. That number has not changed since Jimmy Carter was President in 1986. So, on a Federal level, we need the Federal government to address that cap, because it's killing the small businesses in New Jersey.

Also of interest to note that, of the bond financing that we've done just this year, we've done 63 bonds -- 38 were directly purchased by banks.

This is unbelievable. Banks were not in the business of buying bonds four years ago. So they have completely turned around, which makes it a lot cheaper. Rather than going to a big underwriting firm, a Merrill Lynch or a Smith Barney, who probably wouldn't buy these small bonds anyway and charge a lot of money, the banks are now buying the bonds, which makes it much cheaper for the small business to borrow cost-effectively.

We then have been concentrating on, based on legislative initiatives and Governor Whitman's initiative, on three specialty areas that I just want to mention as well. The three are high tech, urban development, and women minority businesses.

High tech -- we've initiated four programs over the past couple of years. One is that we have lending programs to seed companies, start-up companies. And the lending limit was \$250,000. It's now to \$500,000. These are for real start-up businesses. And what we did is another one of my father's philosophies that I took from him, is find out what your competition is doing and steal their good ideas. And in our case, our competition are other economic developments authorities. And in Pennsylvania, they have something called the Ben Franklin Partnership that's been around for 15 years providing funding to high tech. So we went across the river, got their brochures, got all their loan applications, found someone who borrowed money from them, talked to them, and figured out what they did right, what they didn't like, and we stole their program.

ASSEMBLYMAN AZZOLINA: Borrowed.

MS. FRANZINI: Borrowed their program. And one of the key components was, we know how to do traditional lending. We don't know the

first thing about people that have -- losing money. So what we have is an advisory committee of high-tech companies. They're CFOs or the presidents that actually meet and review the business plan of the entrepreneur. We also pay, for ourselves, a consultant to meet with the company, because these are very high-risk loans. So we pay a consultant to meet with the company and really determine the marketability of the product. So that's a new loan program that we have. We also are in partnership with about five banks, providing high-tech loans to businesses. So those are our two lending programs.

The Legislature passed a very creative bill called the Tax Certificate Transfer Program. And actually, this is the case where other states are now calling New Jersey to steal this program. New Jersey was the first in the nation to develop it. What it does is allow small high-tech companies and biotech that have less than 225 employees sell their losses to profit-making companies in New Jersey. It's been a wonderful program. The program initially was \$50 million. It's \$40 million a year. So we have more demand than supply, and so we take all the applications in at one time, evaluate them all, and then, based on a formula in the law, allocate the money. So can you image if you're losing money, you're a high-tech company, you have these losses, and you don't know what to do with them? You can't? You can get cash for them. It's a wonderful program.

The third program -- and I really want to give this Committee specific compliments for -- is we met for a long time trying to figure out how to provide an equity fund to companies in New Jersey. We tried various ways to get money through various sources then and couldn't come up with

anything. Well, Governor Whitman did include, in her package for high-tech businesses this past year, \$10 million for an equity fund for high-tech companies. Our board just approved, at our meeting this month, a \$10 million investment in the New Jersey Technology Fund, which is a fund that's dedicated to investing in high-tech companies in New Jersey. So our \$10 million is going to be leveraged with \$30-plus million of private money, all for investments in New Jersey. And that fund is going -- actually, we're going to talk about our first investment tomorrow, and hopefully, make a first investment in early January.

And the final thing in high tech is also a part of the package -- the Governor's high-tech initiative -- was \$4 million for a commercialization center. What's that? Well, in North Brunswick we have something called our technology center, in North Brunswick, which was the former J&J site that they left. We bought it many years ago. We have several businesses that are located there now. But again, in speaking to our customers, what we've found out is that the incubators in New Jersey -- a lot of them that are in the bioscience field -- have no place to go once they graduate, because there's no wet lab space available. And so we're, with the money from the Legislature and the Governor, we're building a commercialization center to house small units of 800 square feet and above for the smaller high-tech businesses to come and locate here in our state.

The second specialty area is in urban development. Many of our financing programs focus solely on urban development. In fact, Commissioner Shinn talked about, as well, moneys under the Hazardous Discharge Site Remediation Fund. We work hand-in-hand with DEP on providing funding

to small businesses to clean up their contaminated site. As a small-business owner, you know you can't go to a bank and say, "I need \$100,000 to remove my underground storage tanks." They're not going to give it to you. So this loan program is a great program between us and DEP. They determine all the environmental issues, and we just provide the financial issues and provide the funding.

ASSEMBLYMAN AZZOLINA: For free?

MS. FRANZINI: Is it free? No. You have to pay it back, but it's a low-interest rate over 10 years.

ASSEMBLYMAN AZZOLINA: Long time, okay.

MS. FRANZINI: So it's a good deal. Municipalities can get grants to do studies to determine what is needed.

The second program we have -- something called the Fund for Community Economic Development, where what we do is lend money to not-for-profits to do economic development projects in urban areas. A lot of not-for-profits, historically, would focus on housing, not as much on economic development, so we provide money to encourage them to do economic development.

And the third area is just something new. We're starting to try to figure out other partners to bring into our fold, and we just signed an agreement with the International Franchise Association. Here you have this major association with major franchises -- they want to have an emphasis on coming to urban areas. So we had to sign a memorandum of understanding with them to say, "You want to come in to urban areas in New Jersey? We can

hook you up with our financing programs and get entrepreneurs in New Jersey to start businesses right in our urban centers.”

And finally, with women and minority owned businesses, this again is a key focus of ours. Over the past five years, we’ve provided over \$5 million in financing to 68 projects. This is not enough. We need to figure out how to do more. Programs such as we announced today, the Seed Program, will help us get there -- the mentoring program we’re going to announce in January. We visited over 40 banks this year alone and made presentations to them about our lending programs. We’re out doing at least two or three speeches, our staff, a week -- out into the community to spread the good word.

So our, really, main focus is to talk about the wonderful programs the State does have. We also hook up with the Department of Labor, the Department of Commerce, and really what we try to do is pull on everyone else to make a one-stop shopping with businesses. And the Commerce Commission really takes that lead, and we’re the financing piece of it.

So I tried to cover a lot in a short period of time. We have packages for everyone that goes into more detail about the programs. We really look forward to your suggestions on how we can do even better.

Thank you.

ASSEMBLYMAN AZZOLINA: We have time for a couple of questions.

Yes.

You’re next.

MR. MILLER: Caren, thank you. It was very, very interesting. My question really pertains more to the urban development, the last couple things that you mentioned.

Being a health-care provider in Camden inner city in which, you know, we talk a lot about urban development, you mentioned about housing. Now we're involved with not-for-profits with housing development, but the next step in those communities, obviously, is the economic development of small business to revitalize the city. And we're all, obviously, in that community-- We're in the Liberty Park section of Camden, where money from RENEW plays a major role in that community's growth and future. So I would entertain maybe having you -- maybe come down to Camden to talk about how we can revitalize not only -- or get the business community interested in doing something in the local communities.

There's a lot of conversation, obviously, about waterfront development in Camden. We need to get into the city and do some development in those areas. I'd be very happy-- We have business leaders that sit on my board that grew up in Camden and would be very interested in learning more about how we can develop the business aspects of that community.

MS. FRANZINI: I'd welcome that, because the more people know about what we have available-- We've had the Pathmark--

MR. MILLER: Right.

MS. FRANZINI: --that expansion of Pathmark. We've funded that totally. We're working on another supermarket in the northern Camden section for years with a not-for-profit. But I agree 100 percent, you need to do

both. You need to do the waterfront, but do neighborhood commercial development.

MR. MILLER: Right. Because the hospitals now, in the city, are the economic anchors.

MS. FRANZINI: They are the economic anchors.

MR. MILLER: They're the anchors, and we need to grow around those economic anchors.

MS. FRANZINI: And you have people that work there and come there every day.

MR. MILLER: Right.

MS. FRANZINI: You have shops they'll visit.

MR. MILLER: Great. Thank you.

MS. FRANZINI: Thank you.

ASSEMBLYMAN AZZOLINA: Thank you.

Bob.

DR. KLEIN: Caren, I-- First of all, I think your programs are terrific and very creative. And congratulations on sort of leading the way in the country for some of these things. I'm wondering if you have a scorecard of any sort that marks the success rate that you've had with the loans that you've made in terms of business or tax revenues, or whatever, and also the amount of loans that are performing versus nonperforming, whether those kind of indications are kept to sort of judge how effective a lot of these initiatives are?

MS. FRANZINI: Yes. We definitely track several things. One is, in the terms of job creation, our key is really to focus on job creation -- also,

the amount of private capital that we're attracting. We have a program that I didn't even mention that came through the Legislature and the Governor -- the Business Employment Incentive Program, which we give incentives to companies that look to expand in New Jersey. The amount of private investment compared to the State's investment is a hundredfold. So we definitely track-- We're really looking at what is the private investment that we're attracting to the State funds, how we're leveraging our dollars to attract more dollars into the state.

In terms of our -- how we're doing in terms of our direct lending programs and our default rate, that, obviously, is a major concern of ours. It's an interesting dynamic, because what you want to do is make loans that are risky because you're trying to encourage the banks to do it, but not too risky that you're going to have 100 percent default. Our overall loss rate versus a default rate-- A loss rate in our financing is in the average of 5 percent. A bank's average -- and Ken would prove me wrong -- is more than 2.5 percent. We monitor that closely. We are where we should -- that we need to be higher than a bank's, but if I ever got above the 5 percent and got into the 10 percent, I'd worry.

We also impose upon ourselves so that we don't have to-- We're not regulated by the Banking Department. But what we've done is taken the regulatory environment of a bank and imposed it on ourselves. We classify all our loans, and we set aside reserves against each of the classifications to ensure, in terms of our asset quality and our asset management, that our auditors actually said that we're too conservative, which I'd rather be, just because we are making second-tier loans.

ASSEMBLYMAN AZZOLINA: John.

MR. PELL: Caren, I've retired from Worldwater, but I'm still active there as an advisor, and that tax loss program that you managed saved us, without any question. We've also had grants from the New Jersey Technology group--

MS. FRANZINI: Commission.

MR. PELL: --that's enabled us to improve our technology further. So, anyway, the tax loss thing is terrific.

ASSEMBLYMAN AZZOLINA: Anyone else?

DR. BRYANT: A short one?

ASSEMBLYMAN AZZOLINA: Professor.

DR. BRYANT: One of our Ph.D. students, Patrick Sapparetto (phonetic spelling), has been looking at a lot of banking arrangements, particularly between small and medium-sized banks and smaller companies. And one of the things that he's finding is that small-business loan applications are increasingly being treated by, more or less, automated scoring systems. As you were talking about your effect on lending rates from banks, I was wondering if you were addressing specifically that kind of credit scoring mechanism that the banks are using, and if so, how you're doing that? Are you trying to move a couple of points in the scoring system, or are you trying to change the factors that lead to this course?

MS. FRANZINI: No. What happens is, they fail on the scoring system. Our goal is to say, okay, they've failed. Now they call EDA and say, they failed by this much, can you fill this gap? That's how we talk to the loan

officers. You put them through the credit scoring, now call us up and see if we can make you a score higher.

DR. BRYANT: Okay.

MR. KATZ: One of my interests has always been, and is, the participation of the banks for small and midsized business in New Jersey, let's say, without your program. The dilemma that small business has faced is that most all of the original native New Jersey banks that had large size in structure, who were always pleased to help New Jersey business, even, basically, with Small Business Administration loans, are not here anymore. What we basically have is what I call -- because even under the State charter, they're designated foreign corporations, resident businesses -- not truly being that willing, even though their ads entice us, to really part with a lot of money for smaller and midsized businesses. And their argument has been the cost of servicing and qualifying loans.

And the second part of their argument is that at the conglomerate size that they've attained, that they must spend their time looking at the very large loans -- 25 million. They all compete for the Johnsons and Johnsons and the larger corporations who have phenomenal banking institutes within their own matrixes, and basically, don't even need those banks. And then what happens is, the rush for the large business has left a void for the New Jersey small and midsized companies.

I recognize a program can do so much, several banks that are involved, but what I would like to seek is your advice on what a Committee (*sic*) like this can possibly do to recreate a climate that at one time did exist in New Jersey for small and midsized companies and the banking institutes that

serve New Jersey. In some of the former days of what we saw was, as small companies, is a phenomenal State leadership, not that it doesn't exist now, but a motivation of the leadership to, let's say, work with the banks, bring them into programs, bring them to tables like this to discuss what is it that, perhaps, the State has been in. And some of the programs that you are doing are directed that way -- can do to improve the climate.

The other thing that exists is, the world has changed, both on the competitive side of things, but definitely in the banking world also, so that small and mid-sized companies have not been trained to utilize the banking system as it's evolved just in a few short years. So that, though small business is very good at acquiring goods and shopping for their services, they haven't crossed that bridge that teaches them or has shown them maybe from just battering the same old walls -- or the same old ideas from the old days, that you can go to the bank as your friend, and they would recognize the utility of your business and your effort and maybe be your friend from ever. But there are banks that do a phenomenal job in mortgages that wouldn't touch a business loan, and other banks that maybe are a little bit more interested in the small and mid-sized sector.

I happen to have been fortunate and have served on one of Rubin's committees when he was there that approached some of these issues. His approach at that time was to make banking more competitive and as competitive as they possibly could be. But until business understands that there are, perhaps, banks that would serve them in one capacity and, perhaps, they put their investment funds in another, put their banking on a daily basis in another base, and they look to another bank for their loans and maybe even

another bank for their mortgages, we're going to be in a quagmire, because our businesses don't understand how to use the banking system now.

So to come back to the focus is, what can a Committee like this do to improve the banking environment for small and mid-sized companies? What do you see as the challenges that a Committee like this can do to at least make small and mid-sized business aware of your phenomenal programs? These are the most innovative programs that I've seen in the State in over 10 years. They're actually exciting. That's an aspect of your leadership as well.

If you listen to some of the talk shows in this state, and if there's ever a question that comes up about business' attitudes about doing business in New Jersey, it's been negative. But what gives business its lift and its excitement is the fact that they may not use the programs that are available, but the fact that our leadership is looking to provide these programs gives them the idea that if they make that effort to get to that level in their business where, perhaps, one of these programs can be available, then what we have is small and mid-sized business striving. Small and mid-sized business right now is very close just to treading water.

ASSEMBLYMAN AZZOLINA: Caren, that's a long question. A short answer, a short answer.

MS. FRANZINI: I'll let Assistant Commissioner Walker talk about--

ASSEMBLYMAN AZZOLINA: Good idea. Good idea. He doesn't have to repeat it, right?

MS. FRANZINI: I think the banking community-- I think that many of them are very favorable. I actually think it's a good time-- There's an entrepreneurial spirit in the banking community where a lot of small banks are starting up. We had a First Bank of Washington -- it's a very small bank -- that's involved in these programs, as part of our announcement today. And we had First Union there, too. So we have both sized banks. It's always the people and getting their commitment to do it. I think having some of the banks hear this Committee, and also hearing the State's interest in having them getting more involved, may open up doorways for them to get more involved rather than traditional banking areas, like the programs we run, as well as the Department of Banking. I think they need to know that they're wanted and liked and needed, and anything more we can do with that, and find ways they can help businesses, which actually help their business, too, by lending money. They're doing a good job.

ASSEMBLYMAN AZZOLINA: Caren, you've given us a lot of meat here today. Since we have bankers here, we'll let the bankers ask the other questions.

MS. FRANZINI: Will let them answer that question, and you're doing a good job, though.

ASSEMBLYMAN AZZOLINA: Thank you very much, Caren.

MS. FRANZINI: Thank you very much.

ASSEMBLYMAN AZZOLINA: Ken Walker, Assistant Commissioner in the New Jersey Department of Banking and Insurance. What are we going to talk about, banking or insurance, today? Banking, I hope.

ASST. COMMISSIONER KENNETH L. WALKER:
Banking.

ASSEMBLYMAN AZZOLINA: Good. Insurance we don't want to talk about. That's another committee.

ASSISTANT COMMISSIONER WALKER: Yeah, right. I have no knowledge in that area.

ASSEMBLYMAN AZZOLINA: Thank you, Caren. Give our regards to your father, too.

MS. FRANZINI: I will. Thanks.

ASSEMBLYMAN AZZOLINA: Go ahead. I'm sorry.

ASSISTANT COMMISSIONER WALKER: Thank you, Mr. Chairman. It's a pleasure to be here today. The letter of invitation indicated what Mr. Katz was discussing -- the need for lenders to be more involved in making loans to small businesses. I have to tell you, I am a strong proponent of the independent, small community banks. I spent my previous career with the FDIC, as Regional Director, in Dallas, so I dealt with a lot of community banks.

ASSEMBLYMAN AZZOLINA: The problem is, we don't have many left. They're either too small and to lend money-- (laughter)

ASSISTANT COMMISSIONER WALKER: Well, I have to tell you that during the awful times of the '80s and '90s, it was the small community banks that still turned a profit and did fairly well. The FDIC lost about \$10 billion in just the last two years of the '80s, and that was due to the large banks. Again, my point is, I feel that the community banks still provide

that service to the community that a lot of people argue that the larger institutions don't.

ASSEMBLYMAN AZZOLINA: I think you're right.

ASSISTANT COMMISSIONER WALKER: You're well aware of all the mergers that have taken place, and many times the businesspeople don't even know their banker by name, but we still have--

If I could, Mr. Chairman, I would like to pass out an article that was in the Burlington County *Courier-Post* last week. It was relating to one of our newly chartered institutions. And incidentally, there have been about 30 newly chartered institutions in the State in the last four years. These institutions are doing a relatively good job in reaching out to small businesses.

The fact of the matter is, small businesses are the bread and butter of community banks. I have worked up some statistics that indicate the total assets and total commercial loans of what we consider small community banks, and that would be banks under a billion. There's currently 49 of them. They are about, roughly, 53 percent loaned up -- total loans in relation to total assets. But of that total, approximately 47 percent are commercial loans. And again, these loans are community banks' bread and butter. They make a lot of money off of them. But having said that, I also have to point out that, as you well know, banks are in the business to make a profit. They have their shareholders to answer to, and they have us, the regulators, to answer to. They don't want to make bad loans. That's why I am so impressed with the job that Caren is doing, and the Department is very involved in the Economic Development Authority.

In fact, I was at her program this morning. I wasn't aware that she would be here today, but I was so impressed with what she and her group have done as far as bringing bankers into this program to participate in. These types of loans, generally, banks would not make, because they know their shareholders and the regulators will question them. They are more than normal risks in these loans. But with the EDA willing to take a part of the risk, they're loans that make sense. We sit on the loan committee over there, and her people analyze these applications very well, and they're still -- they're above the normal risk, but they're the type of risk that community banks are willing to take.

Again, I strongly support community banks, and I think that all of them are willing to make commercial loans to small businesses if they're good loans. They're hesitant to do it if there's too much risk there. Of the banks we have, of these 49 under 1 billion, they probably represent less than 200 million, individually, in total assets. So they're relatively small banks.

I hear what you're saying, Mr. Katz, but we still have banks in New Jersey that indeed know their customers. They do provide a good service to their customers. Even with the small banks, I have to say that there's -- if I could even mention the names -- several larger institutions that provide this same type of closeness to the community. Summit is one of them, one of our larger ones, which very soon won't be one of ours. Commerce Bank is another, and most of their charters are national charters, but still they have that closeness to their communities, and they are customer-oriented. They really strive to provide service.

So again, I have spent many, many years dealing with a lot of community banks, and I have found New Jersey community banks are similar to the ones I've seen in Texas, Oklahoma, Colorado, Nebraska, Iowa. They are proponents of the small businesses.

ASSEMBLYMAN AZZOLINA: Commerce Bank is the only bank based in New Jersey that's left. There was Summit and Commerce of the larger banks. I think Commerce fits between the giant banks and the community banks, and they have a service also. Then, the other day, I was somewhere with First Union. They happen to have a bank in our parking lot, or next to our parking lot. And I said to them, boy, you guys got so big, you don't even talk to people anymore for small loans, or meaning, not myself, but others in between. She says to me, "Well, we learned. We're now organizing by regions. I'm in charge of this region, and we're going to get down back to the local service." I mean, Commerce already does it. They found out they got so big-- You know, you don't even know who to talk to anymore. You don't even know who's who. You don't know the community. They have stability. You're just going to be another big bank out there nobody wants to deal with.

ASSISTANT COMMISSIONER WALKER: Absolutely.

ASSEMBLYMAN AZZOLINA: Yep.

Any questions for the banker?

MR. BRITTEN: I just have one, Mr. Walker. I was curious to hear if you're seeing if the smaller community banks are, in fact, showing any greater percentage of losses than that 2.5 percent rate, or something? Or are they holding in that range?

ASSISTANT COMMISSIONER WALKER: Actually, we haven't seen the smaller banks really spiking up on losses. I know in certain parts of the country it's very evident. We're also seeing in certain parts of the country a spike up of commercial development loans, which is, you know, was one of the things that caused the fiasco in the '80s. But as far as our community banks, we supervise them very thoroughly -- we're in even the good banks every 18 months -- and we do a lot of off-site surveillance on them. So we have a pretty good handle on it, and we haven't seen anything that alarms us at this time.

I also might mention, the Commissioner took the initiative in the early part of this year to create a new regulation to provide an expedited processing for branch applications and various other applications just to help the banks quickly get a branch up -- and as you know, that's how they draw in deposits. That expedited process simply means that if a bank is rated good, they're not a new bank, there's no known problems, they can apply to the Department for a branch or an ATM, or anything like that, and within 30 days it's automatically approved if the Commissioner hasn't already approved it. And normally, what she does is go ahead and do the approval. But that's just one of the things we're trying to do to help banks grow.

ASSEMBLYMAN AZZOLINA: These new community banks -- are they all state banks, or some are national?

ASSISTANT COMMISSIONER WALKER: The majority of them are states. As I said, there have been about 30 in the last four years that are all State chartered. Some are still in the process. There have been a few national. Typically, the larger institutions are nationally chartered. It goes

back years. It used to be primarily because the large institutions saw something more sophisticated in saying they're national, and also as far as the interstate branching laws. There was some benefits they had there. Well, that's all changed with parity that the states now have, so it still seems to be the same way. The large institutions are national.

ASSEMBLYMAN AZZOLINA: Diahann.

MS. LASSUS: Have we seen any kind of an increase in the numbers for--

ASSEMBLYMAN AZZOLINA: Is the light on? (referring to PA microphone) Push your button.

MS. LASSUS: It's on -- for the numbers of charters of new community banks in the last year or two?

ASSISTANT COMMISSIONER WALKER: All of these 30, roughly 30, have been community banks, de novo banks, stand-alone banks, which to me-- I've been out of the country for several years doing some work in Eastern Europe, advising some of the central banks. But it was a surprise to me, when I got caught up coming back to the states, that with all of the merger activity that had taken place and the numbers of banks shrinking from about 14,000 at one time, and now we're down to about 9000. But now we see in certain parts of the country a lot of applications for de novo charters, and New Jersey is one of the states. It's kind of tapered off in the later part of this year, but it's an unusually high number.

ASSEMBLYMAN AZZOLINA: John.

MR. PELL: As of about three years ago, I attended a meeting of the Community Bankers. The CEOs get together once a month. I don't know

whether they still do that or not, but I wonder if they try and help themselves by sharing loans. In other words, a given community bank sees an opportunity, analyzes it, but it's going to be too big a bite to take, and then offering that on a syndication-participation basis to other community banks. Does that go on?

ASSISTANT COMMISSIONER WALKER: Absolutely. And as you can see in that article, this very new bank, Cornerstone Bank, in Moorestown, they were talking about very small loans because of the capital that the institution has.

MR. PELL: Right.

ASSISTANT COMMISSIONER WALKER: They're limited to 15 percent of the capital in any loan. But that's a typical practice. Generally, it's the community bank participating in an overline to a corresponding bank, which is generally a large bank. As I said, we view anything under a billion dollars to be a small bank.

MR. PELL: Right.

ASSISTANT COMMISSIONER WALKER: With a capital, roughly, of 100 million, their loan limit would be about 15 million. So, if you get up to what you were talking about, 25 million, they have to use overlines to do that. It's very workable.

ASSEMBLYMAN AZZOLINA: Any other questions?

Go ahead. Not a long question, a short question.

MR. KATZ: Sure.

Are there incentives that your Department can give -- I'm going to use a Katz word -- since a deal that in a way can lead our banks to

considering a higher percentage of small and midsized business loans as part of their total portfolio?

ASSISTANT COMMISSIONER WALKER: Well, again, the law is there. It limits them to 15 percent of capital on any loan, but we can certainly accept the fact that they can use overlines, as you're suggesting. But other than to change the law, which isn't likely to occur, because it's all based on the amount of risk and diversification, not having all of your eggs in one basket-- That's why, of course, there is the rationale for the loan limit.

What we would like to do is encourage more banks to get involved in Caren's program. I mentioned to her, and her staff, several times, if there's anything that the Department can do in talking about her program-- We meet with the trade associations frequently, and I think it's wonderful. These banks that were represented there this morning just applauded them for doing this.

ASSEMBLYMAN AZZOLINA: What is the SBA? Are they 5 percent, also, like Caren, or less?

ASSISTANT COMMISSIONER WALKER: Normally, the SBA loans are 90 percent insured, and the bank only has to pick up 10 percent of that.

ASSEMBLYMAN AZZOLINA: What loss ratio do they try to use, same as 5 percent?

ASSISTANT COMMISSIONER WALKER: Oh, the loss ratio. I really don't have a number on that. There are still banks out there that really promote the SBA loans. I think it's a good program, but there are a lot of institutions with what's occurred in the last few years -- are additional required

paperwork. It makes it, from an administrative standpoint, very costly for banks to handle those loans, but many of them are still willing to do it.

ASSEMBLYMAN AZZOLINA: Because there are a few banks that are very good at it.

ASSISTANT COMMISSIONER WALKER: Yes. Yes, indeed.

MR. KATZ: But I think that's the point, sir. They're reluctant to do it.

ASSISTANT COMMISSIONER WALKER: Some are. You're exactly right.

MR. KATZ: What we're trying to figure out is how to encourage them.

ASSISTANT COMMISSIONER WALKER: Well, as I said, one of the things -- they're reluctant because if one of those loans, if I may, if it bellys-up, then they've got some loss there and even potentially greater than their 10 percent if they haven't crossed at the *T*'s and dotted the *I*'s in the paperwork. We've seen that happen. But if a bank is really diligent about promoting those loans, they can do them adequately and protect themselves.

MR. KATZ: I'm concerned with--

MR. PELL: Don't most banks today follow the 12 and 2 rule? They book a loan in the morning at 12 percent, and they're on the golf links at 2. (laughter)

ASSISTANT COMMISSIONER WALKER: Perhaps.

MR. KATZ: Could I bring up one more point of actual major concern to me? I'm part of the District Export Council, and through that I see many companies that are small and midsized companies that are doing

international trade. They are still evaluated when they go to a bank, basically, as an asset balance sheet. That is, the bank will do a loan based on their asset value, hopefully, and good positive net worth. However, we look at New Jersey as being an important exporting state, and we've been encouraging exporters for, as far as this state history is concerned, for almost 20 years that I'm aware of. But I don't think that we have, either at the State level or within our bank community, an attitude to help the small and mid-sized exporting company. That was the reason that I brought up the SBA. In truth, the lack of participation of banks in this, for the reasons that you bring up, they make the same claim -- that it's labor intensive and narrows profit margins. Nobody does much in that industry without a carrot or a whip or an enticement, which is what I'm angling for.

I don't know the programs, as you would, through your experience, or even others within the Committee, but if there were ideas that would put forth a carrot, or an incentive, then with the play being that what we're looking to do is focus some attention at our small and mid-sized exporters, or at least their loanability, married with some programs-- I know about Caren's programs now, of course, and there's a finite limit, and even a geography, too, and perhaps an inertia, and the fact that you'd rather maybe work with one of the smaller banks. But what will they do if we don't have all of the potential programs that we, with our intellect, can drive to the party? Caren's program is one. We have some banks that may do some things with the Small Business Administration, and now we have a collected effort at, perhaps, enticing more.

Overseas sales absolutely do not cook unless each company has a bank that trusts them and that they can go to, because the receivable periods are so competitively under pressure as not to make it even a thought anymore.

ASSISTANT COMMISSIONER WALKER: You raise an extremely important point. I would just say that, traditionally, the small community banks have shied away from that type of business. They've done it for several reasons. One is their position is they don't have the expertise to do that. And secondly, they don't have the overseas offices that the large Citicorps, for example, have. So they've stayed away from it, but my position has always been that a small export or import business ought to be able to rely on their local bank to help them work through a corresponding bank, a larger institution that has the expertise to do that.

Quite frankly, I wouldn't expect our small community banks in New Jersey to be involved in that. It's just something that-- It's too risky for them.

MR. MILLER: Joe, if I can, just briefly?

ASSEMBLYMAN AZZOLINA: Yes.

MR. MILLER: By the way, Ken, Caren's programs are very exciting. And one suggestion I may make is, a lot of the chambers of commerces around -- and Dick and I sit on the South Jersey Chamber -- who have Web sites that may concert with some of the programs and maybe tying in, if there's a Web site availability here, locally -- be able to tie that information into the chamber's local Web sites in the communities that they serve, so that that knowledge can get out to people that these programs are

available. And I think that would be a nice fit, for example, for the South Jersey Chamber.

I've made a note of this to maybe contact Caren's office, obviously, and work on that connection so the small businesses -- and 80 percent of the businesses in the chamber are small businesses -- can avail themselves of those opportunities. I was excited to hear about that. I don't think a lot of that information is out there right now. So that may be an avenue for us to get information out.

ASSISTANT COMMISSIONER WALKER: That's something I'm not aware of, what Caren's plans are for that, but you're right. That information is so important.

ASSEMBLYMAN AZZOLINA: Well, you saw what DEP did with their information system.

Anybody else have questions? (no response)

Okay, we'll bring up Rob, Regional Vice President, Commerce Bank. I think we have the right order here. That's why we switched it. This way, you can take all the heat from all the questions. (laughter)

Okay. Go ahead, Rob.

ROBERT B. WORLEY: Good afternoon. Thank you. As I listened today, we are going to become -- the Commerce Bank -- the largest state-based bank here in New Jersey very shortly.

ASSEMBLYMAN AZZOLINA: I thought you are? Oh, they didn't merge yet.

MR. WORLEY: As soon as-- They haven't merged yet. That will happen in March of 2001. And we are also the largest SBA lender in the state.

Questions have come up around the table today, how can these programs be improved, and I've got some thoughts. I didn't come with a prepared statement--

ASSEMBLYMAN AZZOLINA: You're better off.

MR. WORLEY: --but I'm happy to be here.

Some of the things that are important to look at would be in the SBA programs. The limits on the programs have not changed in any number of years, perhaps, since I've been in banking. A threshold of \$750,000 is their limit on the amount that they'd be willing to guarantee. And recently, they reduced that 90 percent guarantee to 70 percent as the more typical. So the bank's exposure is up to 30 percent on start-up companies or small businesses. I don't know where that starts, but that may be a direction the Committee (*sic*) could look at, because a small-business loan anymore is not necessarily a \$25,000 or a \$50,000 loan. It could be 1 million, 2 million, 3 million, and that 750 loses its appeal after a certain time, and there are small to midsized businesses that need a little more enhancement than \$750,000. That was my one thought.

The other is that if there are a way to have businesses, before they get into trouble, know of these programs where they can go to obtain a mentor, to raise some additional capital-- We see an awful lot of loan requests that come through where the company has sustained some losses, taking their company to a negative net worth, which precludes them from being considered for these SBA programs or the EDA programs. And of course, with negative net worth and losing money, they're not bankable. So I'm not sure how you would do that either, but that may be a direction that you could look to,

steering businesses towards the Rutgers Small Business Group or to the group that Caren mentioned in her presentation here today -- sooner rather than later.

And then if there are any other questions, I'd be happy to address those.

ASSEMBLYMAN AZZOLINA: Panel?

MR. KATZ: I never intended that the banks do anything with a company that has a negative net worth.

MR. WORLEY: I understand that.

DR. BRYANT: The obvious solution to me is, if the company's got a negative net worth, but the principles still wish to proceed, is that they need to -- equity injection. And that raises then the question that's posed by next week's activity in New York of the Angel Society -- how well connected is our lending-banking environment to our private investors in the state? Do you have access to pools of private investors who would then be able to address the equity side of the balance sheet so that the company would again become bankable?

MR. WORLEY: I would answer that question not as it pertains to small business. For technology, the venture funds are well advertised, and we know who they are and what types of things they're interested in. And there's a venture group within the State of New Jersey that meets regularly. But as far for small business, no, I would not know who to go to for private investment.

MR. PELL: There's a New Jersey entrepreneurial networking thing. I used to attend meetings somewhere off Route 1. They meet once a

month, and they invite companies to come in and tell their story. And sometimes that results in a lead on investment capital. There are also all kinds of venture capital funds. There's a Pennsylvania venture capital partners' group -- 30 partners -- each of which put in a million dollars of capital. So you have \$30 million there. They have a monthly meeting. You can make a presentation, and then they vote as to whether, collectively, they'll put money in or not.

ASSEMBLYMAN AZZOLINA: Anybody else?

MR. KATZ: Well, Mr. Worley really brings up some good ideas. It's got me thinking that what we really need is a mentoring program, and this has been one of the best favorites. I'm familiar with activities in other states, especially California, that's grown its small entrepreneurial base to some major billion dollar companies. And they did it with a consortium of bankers who could be guides and people who were familiar with the public markets and how to take companies through even bridge loan and private investor kinds of stages. What had occurred to me is that in New Jersey, our small and midsized business entrepreneurs, and even the established companies, are woefully ignorant of the financial paths to growth. And we don't have a mechanism in New Jersey to truly lead them that way, or we can say business school and, you know--

ASSEMBLYMAN AZZOLINA: What size loans are you talking about?

MR. KATZ: I am noticing that small business could be anywhere from about 50,000 to about a million -- 750 because of the SBA loans. They seem to go through some stages. But there's a point--

ASSEMBLYMAN AZZOLINA: What's the limit on SBA loans?

MR. WORLEY: Seven hundred and fifty thousand, guaranteed up to 70 percent of the loan amount, under most of the programs.

MR. KATZ: So I am suggesting a couple of things. One is, from a banker's point of view -- and you see these kinds of companies -- what is it that they need in order to be bankable? That could be something that we could focus on as a group. The second is that your bank is doing SBA loans. What is it that we as a forum could do to, perhaps, encourage others to look at that as well?

Let's say for the moment that the focus is small and mid-sized companies who may either need the support of an SBA loan to make it enticing, or a Caren program that is extraordinarily enticing, and I look at it as both may have limits. You're going to do -- I don't know the number -- so many SBA loans a year. It could be fixed in stone, but we're not asking.

And Caren has, at this point, a limitation, because your question is extraordinarily good -- how much does a company need? And all we have to do is pay 500,000 or 750, and how far does \$30 million go? How many 40 or 50, 60 companies are going to be served by that fund, at least at it's sized now?

And then we come to the third thought, is that would a small and mid-sized company be more appealing to a bank if they were better prepared in their presentation in the sense that do we look at mechanisms that can bring these people, with both the profile and the projections, the financial plan at a stage where it becomes efficient for a bank to make these kinds of judgments?

DR. BRYANT: But we have services like that widely available across the state through the SBC network. We've got 11 small-business development centers in the state. Every single one of them offers that pre-bank presentation packaging service.

MR. KATZ: Is there a cost to it?

DR. BRYANT: A small one. It's a consultant service, an hourly rate.

MR. KATZ: All right. Then the point that I'm going to make is that most of the companies that I am seeing in a consultancy fashion are not aware of these things. I have to admit, I wasn't even aware that we had this many in the state.

MR. WORLEY: I think new businesses look for those types of things, whereas I think you're saying someone who is already in business may just think, "I know how to do this. I've been in business," and maybe they're not as well prepared, and they don't go to some of these facilities.

MR. KATZ: Yeah. We don't have, at the small and midsized level, company discussion groups that tune up people for business. Right now my impression is, is with the intensity of the foreign competition that exists and the sense that there probably is almost no countries that don't have pretty well-advanced manufacturing infrastructure, my contention is, is that American business, especially small and midsized business, can't even afford one mistake anymore. The margins are dwindling for American companies. Therefore, they have to be pretty wise on how to use their money. I believe that is what we need, because most of them are not graduate -- haven't been even to an advanced business program.

We look at who are the companies that contain most of the employees of New Jersey, and it's said that 25,000 companies have five employees or less as an average. Maybe it's 100. I forget the exact cutoff value, but they're definitely small companies. These are the people who are not going to have the experience, so there may be -- there's not a maybe -- there has to be an intense effort at having forums that will allow people to come in and get educated. I like the idea of using the chambers of commerce -- highly adapted in Europe. They are the business centers in Europe. People go there before they go anywhere else. But our businesses haven't tuned into maybe the educative role that we could do with our chambers of commerce. Maybe it's through there -- I'm just thinking -- but we would need mentors at all of those.

MR. PELL: The New Jersey District Export Council was very active under George Becker (phonetic spelling), who was formerly Department of Commerce, and a lot of that was directed at export situations, helping smaller companies finance. I imagine those meetings continue.

MR. KATZ: Well, I'm in the DEC, and it's a talented group. They do run a few seminars a year. As a part of my role here, and as I begin to hear these kinds of things, these are perhaps the right groups to house some of these thoughts and some of these programs. But given that the DEC is, in a way, a limited program of about 40 people, and limited because its budget is small, it comes from just the few programs that it runs-- It isn't enough that one organization -- that it doesn't have the platform to make its skill completely available. What is really required is that platform. It could be -- maybe it could come from the State or a State committee.

ASSEMBLYMAN AZZOLINA: Well, the chamber -- Steve and I had toured Europe a few years ago -- head of the State legislators group from this nation -- and we found that the chamber of commerce there is entirely different to the chamber of commerce here. They are the focal point of development.

Yes.

MS. LASSUS: I was going to say, I think the point that we're kind of talking around is, there are a lot of programs out there to educate the small-business owner on all the things that they need to do to get financing, whether it's venture capital, Angel financing, banking, and that the small community banks are stepping up to do a lot of loans. We deal with a brand new community bank who offered us a deal we couldn't refuse.

The reality, though, is there is not a clearinghouse of information or a driver behind all of these resources. So whether it's the SBA or the State or the EDA, as an individual you have to have enough knowledge to know where to start to look for those resources. From my perspective as a small-business owner, that would be an incredible resource if there is something out there that we could add to, or if there is someone, a nonprofit organization even, who's willing to step up and help build that kind of information database. It could be priceless to the business community.

ASSEMBLYMAN AZZOLINA: Or EDA could do it just like DEP did, or the Department of Banking could do it.

MS. SMARTH (Assembly Majority): We have legislation that we can now put into law with the Commerce Commission. This is before the Commerce Commission became a commission.

MS. LASSUS: Right.

MS. SMARTH: It was like a clearinghouse -- they were supposed to do, like a clearinghouse of all specific programs that are oriented toward small businesses. Now, we never did follow up as to what did they do with the law. I don't know how do you get the people out in the field to know about this clearinghouse information.

ASSEMBLYMAN AZZOLINA: Let's follow up. Let's follow up on that, okay.

DR. KLEIN: For exporting, didn't we also have something like that for the exports, for stimulating exports and mentoring and assistance and things of that sort? In our last previous Task Force, I think we addressed that in some piece of legislation which--

MS. SMARTH: The exporting financing study and the Export Network Act that you were involved with.

MR. PELL: One of the approaches we made on that -- I mentioned having attended a meeting of the Community Bankers Group and CEOs -- and as I recall, there were about a dozen of us present. There was totally, absolutely no interest in anything I was talking about. My impression was that they're out there looking for home equity loans.

ASSEMBLYMAN AZZOLINA: John's spent a lot of time on that project and got nowhere.

MS. SMARTH: Well, we got close to it, but the 2 million was pulled from us.

ASSEMBLYMAN AZZOLINA: Well, close, but then--
Excuse me one minute, you're next.

Just what do you think-- Do you think we, the states, ought to start pushing the Federal government up that 750 max to a million dollars or something, and when was it last brought up to 750? Ancient-- Probably before you were born, I know. (laughter)

MR. WORLEY: It's been a long time.

ASSEMBLYMAN AZZOLINA: I know, but we can encourage the Federal government.

MR. WORLEY: The focus of the SBA has recently been on expanding its programs, and there are great programs. They didn't use out a line of credit. You had to borrow a term loan. Now you can borrow lines. The approval process is quite easy. Certainly, all of the large institutions, whether they're State based or based elsewhere in the country, are doing SBA loans under a preferred program, where they do the approval. The paperwork up front is, and should be--

ASSEMBLYMAN AZZOLINA: Modernized?

MR. WORLEY: No. No. I think it's absolutely see-through. The client does not know these are additional forms. I mean, they're kind of put in front of you because they spit out from a machine. What you're alluding to, though, is the follow-up and making sure the *I*'s and *T*'s are dotted. Because if you don't book it properly and you don't monitor and don't report it properly, you can lose that guarantee, and that's a lot of back road stuff.

But getting back to the programs, in addition to the lines of credit that now allow a business to borrow over a cycle, up and down, they also have the export programs, which will fund up to 90 percent of a project that's going to go overseas, and you don't have to generate the receivable before you can

borrow against it. It's for materials, labors, over that long cycle before the project is shipped and the money actually comes in. And that is up to a 90 percent guarantee. Again, at the same 750 threshold, you put a couple of decent size contracts with that in the small business, and again, then you're in the same position as I mentioned before. It seems like a low limit to me.

MR. MILLER: Just a -- Mr. Chairman -- briefly-- I just want to compliment Commerce Bank. I'm a resident of--

MR. WORLEY: Thank you.

MR. MILLER: --Burlington County, and I think Commerce is that middle kind of bank that has kind of bridged the gap between the small business and larger business, and also, investing in the local communities in southern New Jersey. And they've done -- in Burlington, his team have done a good job of that, so my compliments.

MR. WORLEY: Thank you.

ASSEMBLYMAN AZZOLINA: Oh, you're up in Monmouth County now, and beyond.

MR. MILLER: Now, Monmouth County. Right.

MR. WORLEY: We're up to 102 branches. When I started eight years ago, we were at 21. So there's a real commitment to New Jersey.

ASSEMBLYMAN AZZOLINA: In Monmouth County and Ocean County, every time we turn around there's a new branch going up. (laughter)

MR. WORLEY: We're doing two or three a weekend, trying to get the 30 done this year. And that focus is because we do it county by county. So Burlington County is about a billion dollar region, and at this point that I

manage, but it's still a community bank for Burlington County, and that model won't be deviated from.

Thank you.

MR. MILLER: You're welcome.

ASSEMBLYMAN AZZOLINA: Any other questions?

MR. PELL: Why don't you raise additional capital and go totally statewide and become the premier--

MR. WORLEY: We're in North Jersey. We're in Central Jersey. And if you see the branch network program for next year, we should have another 30 or so in the state.

MR. PELL: Terrific. Very good.

MR. WORLEY: Thank you.

ASSEMBLYMAN AZZOLINA: All right. Well, thank you very much. It's been a very informative session, and we finished just a few minutes after 3:00. Thank you.

(MEETING CONCLUDED)