

Virginia S. Bauer
Chief Executive Officer/Secretary
NJ Commerce, Economic Growth & Tourism Commission
Assembly Budget Committee Testimony
Thursday, April 14, 2005

Good afternoon, Chairman Greenwald and members of the Committee. It is a pleasure to appear before you today.

Ten months ago, I answered a call to lead an agency that had come under fire. For many weeks last spring, New Jersey Commerce was in the headlines for all the wrong reasons. To be candid, I did not know exactly what to expect. But I knew that New Jersey could not afford to have an economic development agency that was anything less than the best. I was committed to instilling a culture of excellence, one that will make us a true voice for business and give more attention to our \$30 billion tourism industry.

I can say without hesitation that New Jersey Commerce is a far different place than it was last July. We knew that an agency charged with attracting, retaining and promoting business had to act like one.

The State Auditor uncovered several weaknesses in Commerce's operations.

- The Commission lacked tight controls on travel.
- Some staff that were essentially full-time employees were being paid as independent contractors.
- The agency's purchasing procedures needed an overhaul, for they had not prevented abuse.

Since I arrived July 15, we have worked hard to immediately fix those problems. I would like to specify how we have addressed each finding of the Auditor's report.

The Auditor found broad problems with internal controls and governance, with a need for better management over fiscal operations. In response:

- We have established the post of Chief Financial Officer, who reports directly to me. This person has broad responsibility for oversight of the Commission's fiscal operations, including budgeting, procurements, accounting and internal controls. Our CFO is Mary Beth Davies, who is a 25-year veteran of the Department of Treasury. We also have a new Controller.
- The Commerce Board of Directors meets monthly and in person.
- We have established an audit committee of our Board of Directors, which looks every six months at our fiscal operations with the assistance of a certified public accounting firm. The firm reports to the audit committee, not to the Commission staff.

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The Auditor found purchases should be pre-approved and supported by proper documentation. In response:

- All budget and accounting activities have been centralized under the CFO. All purchases and expenditures must be pre-approved, with adequate documentation required for all purchases.
- The Board of Directors votes on any expenditure above \$27,600. Board members receive a list of all Commission expenditures.

The Auditor found inadequate controls over petty cash accounts. In response:

- We have no more petty cash funds. They have been closed.

The Auditor called for better controls and procedures for consistent revenue collection and reporting. In response:

- New procedures ensure the timely deposit of every check. Mail logs are maintained and checks are restrictively endorsed. Reconciliations are done to verify proper collection, depositing and accounting entry of revenue.

The Auditor found non-compliance with the state travel policy. In response:

- The state travel policy is being strictly enforced, including the elimination of large advances. With the additional restrictions due to budget constraints, there has been very little overnight travel since last summer. **Spending on travel, including overnight travel, for FY 2005 is down 75 percent from the FY 2004 figure.**

The Auditor found improper classification of some employees, and said that all employees should be properly classified with proper 1099s. Now:

- All employees have been properly classified. The Commission has ceased the practice of improperly classifying some permanent hire as independent contractors.
- We have streamlined our organizational chart and released it to the staff, so that the chain of command and classifications are very clear. The reorganization has made Commerce a more effective, efficient agency. Job responsibilities are well defined.
- Hiring procedures, both for contractors and permanent staff, are strictly spelled out and followed. We have a new Human Resources Liaison who attends regular training sessions and also serves as our Ethics Officer.
- All Commission staff have received mandatory ethics training. All employees have received copies of the Whistleblower Act.

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As we moved to get our fiscal house in order, we moved quickly to re-establish our presence in the business community. In doing so, we regained our sense of mission as the agency designed to be the voice for business and the force for job creation for the state of New Jersey. At the same time, we serve as the face of state government in the business community, particularly at the local level. I made it my mission to put Commerce back on the map; I have made **140 public appearances since July 15.**

I would like to review each of our key areas to highlight what our employees do and the results they have produced.

Business & Economic Development

Our success with business attraction and retention starts with the numbers: Since July 2004, Commerce has been involved in retaining **12,196 jobs and attracted, attracting 6,793 jobs, or promoting business expansions of 6,966 jobs. That's a total of 25,955 jobs. The total for all of FY 2004 – the year prior to my arrival – was 9,381 jobs. And we've done this with roughly the same workforce.**

The Office of Business and Economic Development is responsible for business attraction, expansion and retention. We deliver business assistance services and let employers know about our economic development incentives through our teams of account executives; these staff members specialize by industry sector and by geographic area. The account executives offer businesses that are here and those thinking of coming here access to state-sponsored programs designed to increase profitability, manage costs and enhance productivity in order to compete in the competitive global marketplace.

When I arrived, I moved quickly to re-establish Commerce's presence on the business scene. I immediately sent people back into the field, re-establishing our presence in critical sectors like biotechnology, pharmaceuticals, chemicals, information technology, financial services, telecommunications, hospitality and tourism and logistics. Our staff members are familiar with industry leaders, know their issues, and work to identify potential problems while resolving those that crop up. They are always on the hunt for new opportunities to bring in jobs or protect those jobs that are here.

Our Business Advocate's Office focuses on helping businesses resolve regulatory problems, employ smart growth strategies and, increasingly, pursue our premier business retention programs.

I should note that this budget includes Governor Cody's plan to end the state's subsidy for **Prosperity New Jersey**. This vehicle to encourage public-private partnerships for economic development was conceived with the intent of phasing out government funds

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over time, and that time has come. Our budget crisis is simply too great for the public subsidy to continue.

We have had many success stories. I am incredibly proud of our work along with Treasurer McCormac, Commissioner Campbell and this legislature to repeal the air toxics surcharge. And just last week, I was pleased that you, Mr. Chairman, could join us for the opening of GEICO claims office in Marlton. As New Jersey's auto insurance reforms took hold, Commerce helped secure a BEIP grant that eased GEICO's decision to open a claims facility here, with the potential for 300 jobs.

BEIP

The Business Employment Incentive Program continues to be one of the most successful incentives in the state's business attraction tool-kit. BEIP is designed to encourage job creation by providing grants based upon a percentage of the income tax withheld from new permanent jobs created. Reforms made in 2003 have offered greater access to certain targeted businesses, especially biotech and high-tech firms. Since July, Commerce staff has been directly involved in 60 of the 79 BEIP grants approved by the EDA. I must acknowledge the excellent partnership I share with Caren Franzini, who is here with me today. Caren has been a tremendous support and our departments work together daily.

BRRAG

A major function of the Office of Business and Economic Development entails administering the BRRAG Program. As many of you are aware, last June, this legislature improved another business tool designed to increase retention and expansion efforts. The Business Retention and Relocation Assistance Grant Program or BRRAG as we call it, provides enhanced incentives to allow for business relocation and retention efforts.

While there are four specific incentives, Commerce's focus is on the two major pieces that are designed to work in tandem. For companies meeting the criteria, BRRAG offers a tax credit of up to \$1,500 per job retained. Eligible companies relocating within the state can get a sales and use tax exemption to pay for relocation costs, a move designed to directly compete with programs other states offer to woo away our jobs.

We implemented the BRRAG program very quickly – just last week our board voted for final adoption of the rules for implementation.

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BRRAG Success Stories-Pharmaceutical Companies

BRRAG has been especially valuable in assisting companies in one of New Jersey's most important sectors, pharmaceuticals. Specifically, Commerce has provided Pfizer and Novartis with financial incentives helped keep these companies in New Jersey in the face of intense competition. Pfizer received a sales and use tax exemption worth up to \$25 million in taxes on machinery, furniture and building materials for expansion projects in Morris Plains and Parsippany.

Novartis Pharmaceuticals Corporation, which has 4,300 New Jersey employees, will use the BRRAG sales and use tax exemption to invest \$47.6 million for the relocation and renovation of four buildings on the Company's East Hanover campus. The average salary of all positions to be retained is estimated to be \$103,000.

Verizon

The most significant and widely publicized business move is Verizon's decision to put its operating center in the former AT&T property in Basking Ridge. This was truly a team effort – I must commend the leadership of Acting Governor Codey, Treasurer McCormac and Caren Franzini. New Jersey was able to attract the nation's largest telecommunications carrier, edging out Virginia, New York and other nearby states. The combination of BEIP, BRRAG and other state incentives allowed New Jersey to attract Verizon's new east coast operations headquarters located at the 135-acre campus that was sitting idle. Best of all, we are confident that Verizon's decision will convince other telecommunications companies to consider New Jersey.

The Verizon project will retain approximately 1,800 jobs, and will lead to the creation of an additional 1,755 jobs within two years of initial occupancy. This features an initial investment of approximately \$242 million in building improvements and equipment. Thus, the economic benefits extend far beyond the employees of Verizon.

Marketing & Tourism

The Commerce Commission's Office of Marketing and Communications is responsible for handling all marketing, advertising and public relations. In addition to researching and evaluating current market conditions, staff reviews and implements strategies for increasing awareness of the benefits of working, living and most importantly visiting New Jersey. To this end, Marketing works directly with the Office of Travel & Tourism.

Tourism is one of the most vital contributors to our State's economy. As our second largest industry, tourism accounts for \$30 billion in economic activity. It supports over 415,000 jobs, generates over \$12.3 billion in wages and, most significantly in the budget times that we are in, brings in more than \$2 billion in tax revenues to the State each

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year. The numbers indicate the obvious -- tourism is one of New Jersey's greatest assets. As a State, we have an obligation to support the industry and foster its growth.

I have personally made a strong commitment to tourism. In October, I filed a reorganization plan that added Tourism to our name. The plan is more than just a name change. The change reflects ongoing efforts to highlight the importance of tourism and to improve our interactions with industry stakeholders. Most importantly, it's designed to meet the challenges of a competitive economy. The approved Reorganization Plan, revised the mission statement of the Commission to maintain and increase New Jersey' standing as a premier national and international travel destination.

We have hit the ground running and we have not slowed down. In August, we ran a marketing campaign targeting last-minute vacation planners. In February, we ran a similar campaign to boost early bookings from outer market areas such as New York, Pennsylvania and Delaware. And next month, during the prime booking period, our spring campaign will be running in targeted areas. We have also completely revamped the Cooperative Marketing program, and by the end of this year we will have provided \$1.85 million in sponsorships to leverage private sector dollars at the local level. Most of our grants are very small -- in the \$10,000 to \$20,000 range -- but they make a huge difference to the groups involved. As we have within our own agency, we are requiring more information and greater accountability on the part of grant recipients.

Most of all, we have established a working group with representatives from all state departments and agencies to look for ways to make it easier for the tourism industry to succeed. I have worked directly with DOT Commissioner Jack Lettiere to improve the gateways into our state. To provide better service to travelers, the Office of Travel and Tourism established a new training program for State Welcome Center staff. Forty travel counselors representing sixteen State Welcome Centers underwent customer service training.

And we continue to prepare for the future. Our shoulder season campaigns are broad reaching, utilizing media such as radio, Internet and consumer print publications in addition to television commercials.

We have improved relationships with strategic partners and stakeholders. For the first time in many years, we have consulted with travel industry leaders to get their input in developing new marketing initiatives. We have established a regular and positive working relationship with the six Regional Tourism Councils. I have visited each Region and have incorporated the local concerns in planning our initiatives. To empower the Regions and provide opportunities for growth in their areas, the Office of Travel and Tourism has developed a new funding program whereby each Region can receive additional funding from our Cooperative Marketing Program. Since the 1970's, each

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Region received an annual appropriation of \$50,000 with very little oversight. We have taken a proactive approach to bring more fiscal prudence to the Council's annual funding. Beginning in fiscal year 2006, the amount per region will be reduced to \$30,000 with each region being able to match those funds with an additional \$200,000 if they meet certain criteria. The regions must produce a five-year business plan and an annual marketing plan. This change is designed to make our tax dollars go further and to encourage professionalism and accountability in all marketing efforts. And to ensure that these funds are being used appropriately, our CFO's office will be conducting quarterly audits.

I have met frequently and worked personally with several members of this Legislature from all parts of the State, to discuss ways to improve the travel and tourism industry through the legislative process. We have formed an effective partnership with Curtis Bashaw, the head of the Casino Reinvestment Development Authority (CRDA) to address the needs of the tourism industry. CRDA and Commerce are sharing resources to create a new statewide tourism brand.

International Trade

In addition to working to make New Jersey a tourist destination, Commerce also works to make New Jersey a destination for the foreign investment dollar. These efforts are coordinated by our Office of International Trade & Protocol, where new leadership has made an incredible difference.

This office serves as the State's lead international trade and investment agency, providing a one-stop assistance program for New Jersey businesses interested in expanding their business to the international marketplace. Staff in international trade promote New Jersey products and services by identifying regional world markets and industry sectors for their export potential. The Office's chief responsibilities are: promoting New Jersey's exports; attracting new foreign direct investment; and building and maintaining relationships with the foreign diplomatic, governmental and business communities; all with the goal of economic development.

Foreign trade is more important to our economy than ever. We are in a global economy, and New Jersey needs to promote itself to compete. We have much to offer: We are at the epicenter of the nation's largest business corridor, but to tap the potential of our location we must let the rest of the world know what we have to offer, and we must help our home-grown businesses find markets across the globe for their products. We made great strides in 2004: As the nation's 12th largest exporting state, over \$19.2 billion of New Jersey products were exported to overseas markets last year. This is a 14 percent increase from the previous year. In terms of foreign direct investment, New Jersey ranks 7th among all U.S. states and is home to over 1,400 foreign-based firms.

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Nearly 600,000 New Jersey jobs depend on foreign trade. The U.S. Department of Commerce calculates that for every \$1 billion in exports, 12,000 new jobs are generated and salaries tied to international trade are approximately 16.5 percent higher than the average wage. In addition, for every job tied to foreign trade, almost \$4,000 in state revenues is generated. Clearly, in an era when every tax dollar counts, this office more than pays for itself given its impact on state revenues.

Let me explain how this office helps our economy:

First, we aggressively promote New Jersey's exports. We support businesses that are planning to expand overseas sales, by offering FREE comprehensive export consulting services. We help businesses find trading partners. We intervene at the federal level or overseas when agreements are not honored. We help identify sources of export finance. In addition to this individual advocacy, we sponsor events that teach companies how to do business overseas.

The proof of our value is in our results: Our office generated **more than 1,800 export leads** during FY 2005. We conducted approximately **1,350 meetings** to bring export leads for the sale of New Jersey products to fruition. Our efforts led to the direct creation of **204 new jobs** in the state. We are helping manufacturers in struggling sectors find new markets for their products, which will help **protect existing jobs**.

Second, we work to attract foreign direct investment. Our office generated approximately 425 qualified leads for potential new investment in the state from foreign firms during FY 2005. The Office directly secured 16 new foreign direct investment projects valued over \$54 million, contributing 265 new jobs to the state. The Office is working closely with 21 qualified foreign firms to attract to the state. The current portfolio of these specific foreign direct investment projects is valued at \$88.5 million, forecasted to contribute an additional 524 new jobs in the state.

Finally, we build and maintain relationships with foreign governments and businesses. We have an intense schedule of seminars to teach companies how to target specific overseas markets. Our conference in December on doing business in Brazil and Mexico generated 80 one-on-one "matchmaking" meetings, and New Jersey companies are gaining overseas contracts from that one-day conference. I am also proud of the work done by the New Jersey Israel Commission. In 2005, partnering with the U.S.-Israel Bi-national Industrial Research & Development Foundation (BIRD), the Israel Commission secured a \$1 million grant to EMCORE Corporation of Somerset for the design of next-generation wireless communications networks. Thus, we are supporting a key sector of our economy in an area of the state where it has a major presence.

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UEZ

The UEZ Program was created in 1983 to revitalize the State's most distressed urban areas through the creation of private sector jobs and public and private investment in targeted areas. Currently, there are 32 Urban Enterprise Zones operating in 37 municipalities. The UEZ Program offers a variety of incentives to business to create and retain jobs and increase private investment. Qualified retail businesses have the ability to charge a reduced sales tax rate on certain purchases. Also, UEZ businesses are granted a sales tax exemption on the purchase of certain materials. UEZ manufacturers are eligible for a full energy and utility service tax exemption if they meet certain employment requirements. Currently, more than 7,800 businesses participate in the UEZ Program and since 1983, nearly 25,000 businesses have enjoyed UEZ benefits. In the last 20 years, UEZ businesses have created more than 100,000 new jobs and led to more than \$18.4 billion in new private investments.

The sales tax revenue generated by UEZ businesses is dedicated for use within the zone for certain economic development projects. Since inception, UEZ towns have completed 1,675 economic development projects totaling more than \$544 million. The most critical issue facing the UEZ Program is the proposal to alter the sales tax exemption to UEZ businesses. Currently, UEZ businesses receive a 100% sales tax exemption. As part of the Governor's budget proposal, UEZ businesses would be required to pay the full sales tax and remit a credit or apply for a rebate to receive 3 percent back.

Brownfields

Commerce plays a critical role in the redevelopment of Brownfield sites across the State. In 1998, the Brownfield and Contaminated Site Remediation Act was signed into law allowing qualified developers that enter into a redevelopment agreement to recover up to 75% of the cleanup costs associated with the remediation of the site. Since 1998, 64 redevelopment agreements have been executed representing nearly \$300 million in remediation dollars eligible for reimbursement.

Business Services

The Office of Business Services' mission is to assist small, women and minority-owned businesses grow and prosper in New Jersey. The office's primary responsibility is registering and certifying qualified small, women and minority owned businesses in order to compete for state contracts under the State Set-Aside Program, which requires 25% of public contracts be awarded to small businesses. The Set Aside Act ensures that small businesses are not left behind when competing for state contracts. In addition, the office serves as a clearinghouse for small businesses, providing a range of

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services including, technical assistance, state procurement and business start-up expertise.

Since taking office, we have eliminated half the application backlog by developing a streamlined application process that now results in an expedited turnaround time for SBE applications. We have strengthened partnerships with critical stakeholders.

Client Services

Our Offices of Client Services is responsible for providing unparalleled customer service by providing the business community with accurate and appropriate information concerning the State's business policies and financial incentive programs. The focus here is on guiding the business through state government, not giving the caller a list of phone numbers and leaving the person to navigate state government alone. Our newly designed call center is up and running and will allow for faster response time to business inquiries as well as tracking software to monitor business trends and specific areas of concern.

I thank you for your time today and look forward to answering your questions.