

**Testimony of Gary Rose, Chief of Office of Economic Growth
Senate Budget Committee
April 11, 2007**

Mr. Chairman. Distinguished members of the Senate Budget Committee.

Good afternoon.

I am pleased to have this opportunity to appear before you today.

With me today are Caren Franzini, the Chief Executive Officer of the New Jersey Economic Development Authority, Angie McGuire, the Deputy Chief of the Office of Economic Growth, and Kevin Drennan, Senior Director of Strategic Initiatives.

As you know, Secretary Bauer has been named to the Port Authority Board and will be stepping down from her position as Secretary of Commerce. I am fortunate to have had the opportunity to work with Secretary Bauer and I am confident that she will be an outstanding Director. In addition, her leadership and commitment to the Fort Monmouth Economic Revitalization Planning Authority is of continuing benefit to New Jersey.

I am here today in my capacity as Chairman of the Board of the Commerce, Economic Growth and Tourism Commission. My testimony will address the Administration's vision for the future of this Commission and how it is proposed to be structured and operate going forward. When Governor Corzine took office in January of 2006, he was well aware that New Jersey's prosperity faced, and continues to face, significant challenges. But he also recognized that New Jersey enjoys strategic advantages which can be leveraged to the benefit of the state's economy and our citizens.

Our state has a highly educated and technologically skilled workforce.

We are located within four hours of 60 million consumers.

More than 20 percent of the Fortune 500 companies are headquartered in or near the state.

We are the medicine chest to the world and a powerhouse of medical research.

Seventeen (17) of the world's twenty largest pharmaceutical companies are here, including Bayer, our most recent addition and Sanofi-Aventis, which opened its world headquarters in Bridgewater just last month.

The quality of life in New Jersey is enhanced as well by our strategic assets. We have Atlantic City, historic revolutionary war battlefields, a beautiful sea shore, and some of the best skiing in the mid-Atlantic.

But the fundamentals of our state's economy have been weakening over time. In today's increasingly competitive and globalized economy, New Jersey has to work particularly hard to retain its well paying, value added jobs. If we are to maximize the economic opportunities for our businesses and our citizens, it is essential that we continue to create jobs that can support families and sustain a healthy quality of life.

To those ends, this Administration has embraced a number of pro-growth and pro-business initiatives, the first of which was to establish the Office of Economic Growth to lead the development and implementation of the Governor's Economic Growth Strategy.

Now, to further meet the needs of the State's economy and the challenges of a competitive and globalized economy, the Governor will submit a reorganization plan to the Legislature that will improve the effectiveness of the Commerce Commission and increase its efficiency as it serves the needs of the business community, while tightening its focus on the mission of growing the state's economy and bringing jobs to New Jersey.

This re-organization will support implementation of the Governor's Economic Growth Strategy, by focusing specifically on business and economic development. The Office of Economic Growth will develop and guide the implementation of statewide strategy and policy, while the Commerce Commission will focus on marketing the state and implementing strategies to retain and attract business.

The reorganization calls for the Commerce, Economic Growth and Tourism Commission to be renamed the Commerce Commission and remain in, but not of the Department of Treasury.

Two specific functions that currently reside in Commerce, Tourism and the Israel Commission will transfer to the Department of State. This change will both align those functions with the promotion of New Jersey's culture and arts as well as tighten the focus of the Commerce commission on business retention and promotion. The principal proposed changes are:

- All positions and responsibilities currently under the Division of Tourism will move to the Department of State.
- The Israel Commission will be placed in the Department of State.
- The position of Secretary of Commerce will be eliminated, with the authority of the Secretary assigned to the Board of the Commerce Commission.
- An Executive Director of Commerce position will be created, and will be appointed by the Board.
- The Board of the Commerce Commission will be chaired by the Chief of the Office of Economic Growth.
- All programs other than Tourism and the Israel Commission will be retained and administered by the Commerce Commission.

By centralizing functions related to tourism, which are a major part of the state's economy, under the direction of the Department of State, the advocacy of the arts and

culture in the State will be coordinated with efforts to increase travel and visitors to the state's many attractions.

Likewise, we believe that the activities of the Israel Commission are more in keeping with a cultural and diplomatic mission, and therefore better aligned under the responsibilities of the Department of State.

We are aware that such changes are seldom as effortless and straightforward in practice as they are on paper, particularly for the employees of the department. We are committed to working together to implement this proposed reorganization.

WHERE WE FIND OURSELVES

In order to place today's discussion of New Jersey's economic strategy in context, it is relevant to appreciate our competitive realities. As we developed the strategic plan I will discuss shortly, we examined the strategies, programs and resources employed by many of our sister states –as well as countries around the globe – in order to best position and mobilize our resources to compete for the attraction and retention of business activity. What we found should not surprise any of us. Every state we studied understands the benefits that flow from business development and all have deployed resources and programs to attract new investment.

One of their targets, not surprisingly, is the New Jersey business community.

My point is simply to underscore that the challenge of attracting good business opportunities, and the jobs they create, is highly competitive and evolving. Our sister states frankly appreciated this and upgraded their activities well before Governor Corzine took office. Moreover, with the vast majority of those states enjoying budget surpluses, they have greater abilities to increase their resource allocations to these critical activities. I describe this competitive environment solely to put our efforts in context and to underscore the urgency to push ahead.

THE BUDGET

Last year, the Governor and the Treasurer, working directly with this Committee and the entire Legislature, created a budget that made many tough choices; including raising the sales tax and extending it to a number of previously excluded activities.

They reached out to all the departments, and after careful study, made many painful cuts in state spending.

At the same time, the Administration reduced business taxes by restoring full deductibility for net operating losses, eliminating the alternative minimum assessment, and reducing the tax rate for S corporations.

In parallel with the efforts to produce a responsible and balanced budget, the Governor made it clear that the state is committed to cultivating a sustainable and predictable business climate to stimulate the creation of well paying jobs and business investment in the state.

Even though a 4% surcharge was imposed on the corporate business tax, aggregate taxes that businesses pay were lowered, and by the end of the 2007 calendar year, NJ businesses will benefit from a \$373 million net reduction in business taxes.

In recognition of the critical need to stimulate growth in our private sector, the FY08 budget is the first budget in six years with no new taxes proposed, and no tax increases.

On balance, we are telling the business community, through our action, that we will make the tough choices necessary to attract businesses to come to New Jersey, to make significant investments in our state, and to create jobs. We are also telling businesses that are already here that they will have a stable environment in which to prosper.

And that message seems to be taking hold. Recently a report funded by the Kaufmann Foundation ranked New Jersey 2nd in the entire nation for its innovation, entrepreneurialism and ability to succeed in the New Economy, according to a number of measures designed by the Information Technology & Innovation Foundation.

And New Jersey ranked 6th for the best states for Small Businesses in 2007. SurePayroll, a Chicago-based payroll provider identified the states in which small businesses have the best potential to do well in 2007, by looking at job growth rates and rising salaries.

Too often we hear that New Jersey is ranked at the bottom in a tax survey or a survey on business friendliness. To those we say, give us some time, we've implemented some major changes, and we are working hard to change reality and perception.

THE OFFICE OF ECONOMIC GROWTH

The Office of Economic Growth has two main functions: strategy and coordination, and in September, the Office unveiled the Governor's Economic Growth Strategy.

The strategy is organized around six core priorities to ensure that state government:

1. supports economic growth and marketing of the state;
2. develops a world-class workforce;
3. supports smart, sustainable growth and infrastructure investments;
4. supports and encourages innovation;
5. encourages entrepreneurship and growth of small, minority-owned and women-owned businesses; and

6. enhances global competitiveness of New Jersey's businesses and expands access to International trade opportunities.

OEG staff has worked hard this year, along with 21 departments, commissions and authorities, as well as you, to implement the Governor's Strategy and we've had a few significant achievements:

- We secured commitments from dozens of companies -- including Bayer, Unilever, Citigroup and Campbell Soup Company -- to expand in New Jersey, resulting in nearly 11,500 new jobs.
- We established a new business state website (www.nj.gov/business) and a centralized business hotline (866-534-7789) to facilitate "one-stop" service delivery. On average, visits to the website have gone up 40% over last year, and calls to the hotline have gone up 154%.
- We implemented Governor Corzine's Executive Order #34, establishing the Division of Small, Women and Minority Business Development to address the findings in the Disparity Studies and ensure the natural link between these important business sectors and the economic vitality of the State.

- We created a network of liaisons with state agencies, authorities, commissions, colleges, and universities to open up the state's contract and procurement process and have just recently introduced a website to allow small-, minority-, and women-owned businesses to search for opportunities among all these state entities in one place on the Internet.
- We established the Action Council on the Economy, or ACE, composed of senior staff-level representatives from all the state's departments, commissions, and authorities that interact with the private sector. ACE allows us to reach out across the traditional silos of government, to ensure that NJ state government is responsive to the needs of the business community and is made more easily navigable. We understand that no sustainable economic development can happen without constant interaction of the state's policy makers in areas like the environment, education, workforce development, and so many other policy areas.
- We launched the Edison Innovation Fund to support growth of high tech businesses, with an initial commitment of \$150 million from the EDA and the aspiration of leveraging and additional \$350 million in funds from private sources.
- We also created the Urban Fund to stimulate investment in urban communities with an initial investment of \$185 million. The Urban Fund is designed to assist small businesses with microloans, to invest with and in midsize businesses, and to invest in real estate investment trusts in urban areas. By leveraging private sector funds, and marketing to socially responsible investors, we hope to grow the pot of money to \$500 million this year.
- We're committed to creating partnerships to promote business and commerce between New Jersey-based companies and foreign businesses.

I note that the Senate budget committee was most considerate in moving the date of this hearing up in order to accommodate the Governor's travel mission to Israel. This trip, and all of our international trips, are first about generating opportunities for New Jersey businesses.

These actions are part of our constant search for investors and markets and partners for New Jersey companies, to help grow and expand their operations, which grows jobs here.

Economies experiencing very high growth are opportunities of interest to us. The Governor's 2006 trip to China, Singapore, and Japan—the first led by a New Jersey governor in 8 years—underscores our desire to connect to these economies.

In Asian business culture, as in many other business cultures, the diplomat's higher status brings greater access to business and government leaders and when it serves the interests

of New Jersey businesses, we will make sure the world knows that we will support and protect the activities of our businesses.

The Governor is more than willing to act as our Marketer-in-Chief, and for a state like New Jersey, with its important ports and proximity to millions of consumers, he plays an essential role for increasing the state's economic prosperity.

While we have been elevating our profile around the world, we have been spending as much time as possible reaching out to the business community across New Jersey.

We have participated in forums throughout the state, sponsored by industry sectors, the large business associations, and local chambers of commerce.

We have made it a point to work with and be available to labor organizations and municipal associations. And we have visited New Jersey businesses, large and small, throughout all your districts, everywhere in the state.

This outreach allows us to have a finger on the pulse of what's happening across the state and sharpens our focus on the action items in the economic growth strategy that are presenting real challenges as well as real opportunities.

What we hear again and again across the state is that our businesses believe in the economic potential of New Jersey, that they need a stable and predictable business environment in order to commit meaningful resources, and that the State should be their partner.

OEG has worked to develop a number of such partnerships. One of these collaborations is through the Governor's Economic Growth Council, comprised of the business, education, and labor leaders of New Jersey. The Council, created by Executive Order # 30 includes 44 members who have committed to providing advice to the Governor on the policies and strategies for growing New Jersey's economy.

NEXT YEAR'S GOALS

In the next year, we are looking forward to working with the Legislature to create the best possible business climate in the state in order to grow more jobs.

We have begun a comprehensive review of our business incentive programs, in order to ensure the best use of the State's resources to enable job retention and growth of new jobs.

As we stated in the Economic Growth Strategy, small businesses are a high priority, and yet most of our incentive programs target larger companies.

We are happy to note the introduction of Assembly Bill No. 1696, which would extend the eligibility for the granting of tax credits under the Business Retention and Relocation Assistance Act to businesses relocating 50 or more employees within New Jersey. Currently, only businesses relocating at least 250 employees were eligible.

I applaud Assemblymen Fisher, Manzo, Burzichelli, and Van Drew for leading the sponsorship.

However, we need to review all of our incentive programs and make sure they are structured to target the activities we need to stimulate. A complete review of the incentives offered by the state is underway.

We are taking a fresh and in-depth look at all of our incentives, how they are administered, and how our return on investment can be measured. We feel that it is essential that our incentive programs encourage investment in the infrastructure of the State as well as improve the attractiveness of areas targeted for revitalization and growth.

After careful study and with input from the business community, we hope to come to the legislature with recommendations for changes or perhaps new incentive proposals, with the overriding goal that our incentive programs must create lasting positive changes for our workforce, our economy, and our urban areas.

The State's urban economic development strategy is a work in progress. The past year has allowed us to work directly with a spectrum of concerned individuals who are striving to bring economic growth to the state's distressed cities: legislators, mayors, business owners, and community development leaders.

Supporting the revitalization of our cities is going to be a major effort going forward, and by this fall, working with our partners, we will have a framework of recommendations and priorities designed to stimulate investment in our urban communities with the goal of increasing private sector, well paying jobs.

ECONOMIC GROWTH STRATEGY 2.0

The first version of the Governor's Economic Growth strategy has enabled us to engage the administration in a focused effort to retain and grow jobs in the state.

But we know that we did not get everything right, that the world continues to change and, as mentioned previously, that the states and countries with which we compete with for job growth keep improving as well.

So we have already begun to use the input we are receiving from businesses, from the legislature and from our analysis to create what we internally refer to as version 2.0 of the strategy.

Specific areas of focus for our next iteration will, as I mentioned earlier, include a focused effort to create a strategy for Urban Economic Revitalization. We will work with the mayors and stakeholders to ensure the state's tools to support urban revitalization is the right set of tools, and that our efforts are focused in a collaborative way to support the cities' efforts.

We also expect to create more detailed plans to support our strategies for growing and strengthening our port related businesses in the North and South of the State.

Our strategic geographic position and our advantageous position with multiple ports and broad based infrastructure can provide a continued advantage.

And importantly, we will continue to develop strategies and metrics to ensure that we are focused on small businesses, high-growth industries, and proudly marketing the state.

To be successful, our economic strategies need to be dynamic, adapting to changing realities. So, you should expect a series of strategic revisions as we move forward. New Jersey is an amazing state in which to live and work and it's up to us to jointly develop and promote that vision.

Finally, I'd like to say how much I have enjoyed my first year – working with the Governor, the Legislature, the Cabinet, and the business community. It has been tremendously rewarding, educational, and not at all relaxing. Most importantly, I've developed an increased sense of pride in my home state.

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