MEMORANDUM

TO : THE NEW JERSEY CONGRESSIONAL DELEGATION

FROM: GOVERNOR THOMAS H. KEAN

SUBJ: FEDERAL LEGISLATIVE PRIORITIES FOR NEW JERSEY

The attached report is an attempt to identify our highest priority Federal legislative concerns. Earlier this year the Governor's Office shared with you a report covering almost 40 legislative issues which had an impact on the State of New Jersey and about which we had some significant concern.

I have attempted to further prioritize our concerns in an effort to be more selective and to attempt to be even more effective in the way in which we seek your assistance and utilize our resources in Washington, D. C., primarily and especially our New Jersey Congressional Delegation.

Attached is a summary of approximately 25 legislative issues which confront us and on which we seek your guidance and your assistance. In each instance, we have provided you with a brief statement of the problem, its status as we understand it to be, and essential information about the impact on New Jersey and the potential options before us.

A separate document has been developed on budget and appropriation issues of concern.

I hope this document will be a useful one to serve as a basis for discussion and to provide you with basic information. We stand ready to provide you with much more detailed analysis on any of these matters that you need. This document does not cover all of the issues on which I know you are already working. There are a number of other issues that do confront us that are not listed here. I realize that there are a number of important pieces of national legislation for which you have responsibility within your Committees, especially given the leadership roles which so many of you have within the Committee structure, that may not be mentioned herein, and I know that you are already playing a role in virtually every one of the items attached. This report is simply an attempt to present a summary to you of some of our priority concerns.
ECONOMIC DEVELOPMENT AND COMMERCE

INDUSTRIAL DEVELOPMENT BONDS (IDB)
PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT
PORT DEVELOPMENT AND MAINTENANCE

ENTITLEMENTS

ENVIRONMENT AND ENERGY

CLEAN AIR ACT
WASTEWATER TREATMENT CONSTRUCTION GRANTS
SUPERFUND
OCS REVENUE SHARING
OTHER ISSUES OF CONCERN (Resource Recovery, Toxic Substances, Safe Drinking Water, Clean Water Act)
THREE MILE ISLAND

HOUSING AND COMMUNITY DEVELOPMENT

HOUSING AND COMMUNITY DEVELOPMENT ACT
MORTGAGE REVENUE BONDS
URBAN ENTERPRISE ZONES

LABOR AND TRAINING

EMPLOYMENT AND TRAINING

SPECIAL ISSUES: BLOCK GRANTS

FUNDING CUTS IN EXISTING BLOCK GRANTS
NEW BLOCK GRANTS
EXPANDED BLOCK GRANTS
SPECIAL PROJECTS AND APPROPRIATIONS

PINELANDS AIRLINE SERVICE TO NEW JERSEY
LIBERTY, STATE PARK MILITARY AIR COMMAND/NEWARK DESIGNATION

SPECIAL ISSUES: NEW FEDERALISM

TELECOMMUNICATIONS

TRANSPORTATION

SURFACE TRANSPORTATION ACT (MASS TRANSPORTATION AND HIGHWAYS)
BUS DEREGULATION
AVIATION AND AIRPORT DEVELOPMENT
TABLE OF CONTENTS

A. ECONOMIC DEVELOPMENT AND COMMERCE
B. ENTITLEMENTS
C. ENVIRONMENT AND ENERGY
D. HOUSING AND COMMUNITY DEVELOPMENT
E. LABOR AND TRAINING
F. SPECIAL ISSUES: BLOCK GRANTS
G. SPECIAL PROJECTS AND APPROPRIATIONS
H. SPECIAL ISSUES: NEW FEDERALISM
I. TELECOMMUNICATIONS
J. TRANSPORTATION
INDUSTRIAL DEVELOPMENT BONDS (IDBs)

Issue/Status: Our first concern is the set of restrictions proposed in the President's tax proposal on tax-exempt bonds. The President's proposal tries to limit to $200 million the loss to the Federal Treasury in FY1983, in contrast to the $1 billion loss if these recommendations are not implemented. The major provisions are: 1) firms must choose between IDB financing or the Accelerated Cost Recovery System (ACRS); 2) a $20 million capital expenditure limitation on firms rather than a facility; and, 3) in 1986, state participation is required in the issuance of the bond. The Senate Finance Committee began hearings on the President's proposals on March 15. (Senator Bradley is a member). The House Ways and Means Committee will begin hearings on March 29. (Congressman Guarini is a member). We urge the delegation to support the continued availability of tax-exempt financing, but with appropriate targeting to eliminate abuses and reduce the cost to the Treasury.

Our second concern is IRS Ruling 81-216, which prohibits states from issuing aggregated multiple lots of $1 million tax-exempt industrial and agricultural development bonds. The Third Continuing Resolution, which expires on March 30, 1982, was amended to prohibit the Treasury Department from enforcing IRS Ruling 81-216. Senator D'Amato, the author of the amendment, intends to re-offer the amendment in the Fourth Continuing Resolution.

New Jersey Impact: The New Jersey Economic Development Authority (NJEDA) estimates that the Administration restrictions on the IDB program will significantly reduce IDB volume and curtail a valuable business development tool for small and medium sized businesses. The NJEDA anticipates firms will opt for the ACRS versus IDB financing because it applies so widely to a company's activities and it provides a larger write-off. In addition, the $20 million capital expenditure limitation will substantially reduce IDB use by growing and expanding small and medium sized businesses who are unable to receive or afford conventional financing. The NJEDA finds the State participation provision particularly onerous because 1) we operate a responsible IDB program; 2) we might have to raise taxes to provide cash guarantees; and, 3) the tax abatement option defeats the purpose of IDB use, that is, to provide tax ratables for the State.

In response to the Treasury's claim of a $1 billion loss in Federal revenues, the NJEDA argues that IDB financing generates some $5 billion nationwide in revenues to Federal, state, and local governments through property tax ratables, income taxes, and other revenues. In 1981, NJEDA issued $700 million in tax-exempt bonds, and estimates that this generated $1.5 billion in investment, creating 10,000 construction, and 15,000 permanent, jobs.

With regard to IRS Ruling 81-216, the NJEDA was preparing to implement an umbrella bond program in New Jersey. However, this ruling has prohibited further exploration of this program.
PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT

Issue/Status: The Public Works and Economic Development Act, which authorizes the Economic Development Administration (EDA) will expire on September 30, 1982. The President has recommended the elimination of EDA in FY1983. Senator Mitchell is expected to draft a bill proposing a simple extension of the Act at the FY1982 level of $198.5 million. We hope the delegation will support a reauthorization of this program which has greatly benefited New Jersey's economy.

Congressman Oberstar, Chairman of the House Subcommittee on Economic Development, is expected to release a draft bill by the end of March, which will recommend a restructuring of the EDA away from business development loan programs and towards economic adjustment assistance programs which assist businesses or areas impacted by plant shutdowns, natural disasters, or economic dislocations involving structural changes in the local economy. Congressman Hollenbeck is a member of this Subcommittee. In addition, the House Public Works and Transportation Committee, chaired by Congressman Howard, has jurisdiction over this bill; also, Congressman Roe -- who had jurisdiction over EDA in the last Congress -- can be expected to have an active role.

New Jersey Impact: New Jersey has traditionally fared well in receiving EDA assistance. In FY1981, we received a total of $14.3 million in grants and loans. Some of the prominent recipients of EDA assistance include the Raritan River Steel Mill, the New York, Susquehanna, Western Railroad, and assistance to the Mahwah area as a result of the shutdown of the Ford Motor plant.

PORT DEVELOPMENT AND MAINTENANCE

Issue/Status: The Administration has introduced a bill that would require non-federal entities to impose user fees to recover 100 percent of the cost of dredging navigational projects. Current law requires 100 percent financing by the federal government for dredging channels. Opponents of the Administration proposal have organized behind two major alternatives for maintenance of existing channels and new construction: cost-sharing and a national uniform user fee. Proponents of cost-sharing have embraced the Abdor-Moynihan bill, S.1692 which provides a 25 local-75 federal cost sharing arrangement; proponents of the uniform user fee have mobilized behind the Matsui bill, H.R. 4862.

Although the Administration bill shifts the cost burden from the federal government to others it does not address the Army Corps of Engineer procedures which cause enormous delays in the construction of navigational projects. A typical improvement project takes approximately 20 years with the pre-construction permit procedures consuming 14 years.

The House Subcommittee on Water Resources, chaired by Congressman Roe, is conducting hearings on water transportation user fees until March 24. Shortly thereafter, he will produce a port development bill. Both the Port Authority of New York-New Jersey and the Delaware River Port Authority have presented their views to Congressman Roe and have testified before his Subcommittee. Throughout the hearings, Congressman
ISSUE/STATUS:

A major component of the President's five-part budget savings plan consists of $12 billion in reductions in entitlement benefits. We are concerned about the cumulative impact of these proposals on the poor, especially in combination with restrictions enacted last year. Many of the proposals have a heavy impact individually; when they are compounded with other proposals, the total effect is a tremendous setback to both working and non-working poor families, making it virtually impossible for them to break out of the welfare cycle.

Cumulative Impact of Cuts

The proposed changes in entitlements and other programs, in combination with severe reductions in the 1981 Reconciliation Act, make it more and more difficult to work, and in fact create incentives to give up jobs and rely entirely on welfare. For example, last year the deductions that working welfare mothers could take for day care cost were sharply reduced. On top of that, New Jersey faces a two-year loss of 36 percent in Title XX, a large portion of which funds day care centers. Finally, the Work Incentive, or WIN, program is proposed for elimination; this has paid for job training, job search, day care, transportation, and other support services which help people to obtain and hold jobs. At the same time that all of this support is taken away, welfare mothers will be required to work off their benefits in community work experience programs.

This is only one example of the cumulative impact of cuts in the human services and income security programs. To simply list some of the others -- food stamps, low income energy assistance, assisted housing, Medicaid, the WIC food program -- is to gain some appreciation of the repeated hammer blows the poor will suffer if these cuts are enacted.

In a recent study, Tom Joe of the Center for the Study of Welfare Policy -- and a former Nixon aide on welfare -- summarized the cumulative impact of these proposals, and the disincentives to work. Highlights of his study are as follows:

- AFDC families who cannot work (generally mothers with children under six) face a drop in disposable income in New Jersey from $500 monthly to $466; they are at only 85 percent of the poverty level now, and will drop to 79 percent.

- New Jersey is one of 24 states in which the AFDC mother who does work will be worse off than the AFDC mother who does not work. The working mother will have $451 monthly in disposable income, while the non-working mother will have $466, or $15 more.

- For most working AFDC mothers, each additional dollar they earn after four months on the job will result in a net income gain of only one cent, the rest being taken away in reduced AFDC and food stamp benefits and increased social security and payroll taxes.

- New Jersey is one of 20 states in which working families who lose all AFDC benefits will also lose their eligibility for Medicaid coverage.
Roe has explored the possibility of diverting a portion of the $9.2 billion collected in custom fees annually to establish a trust fund to pay for maintenance costs. The State hopes to work with Congressman Roe in drafting his port development bill. The House full Committee on Public Works and Transportation, chaired by Congressman Howard, will consider this bill.

New Jersey Impact: Both the Port Authority of New York-New Jersey and the South Jersey ports (including the Delaware River Port Authority and the South Jersey Port Corporation) prefer the federal government continue to finance 100 percent of the cost of dredging navigational projects. However, if this position does not prevail, the South Jersey ports (and a coalition of small ports called Port System Advocates) strongly support a national uniform user fee and the Port Authority of New York-New Jersey (and a coalition of large ports called the National Coalition for Port Progress) support cost-sharing.

The South Jersey ports contend that any user fee system other than a uniform one would imperil smaller ports with high dredging costs, such as the South Jersey ports, and place them at a competitive disadvantage with larger ports with minor dredging costs. Conversely, the Port Authority of New York-New Jersey maintains that should projects be placed on a cost-sharing basis, the method of raising revenues (user fees) should be decided by each individual port rather than be national assessment and that New York-New Jersey revenues would finance New York-New Jersey port projects. Below is a chart of the impact of various user fees levied on tonnage on our ports:

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<th>Annual Maintenance costs</th>
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<th>25 local Uniform Fees</th>
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<td>South Jersey ports</td>
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We hope the Delegation will promote legislation to ensure a fair and equitable financing mechanism to meet the diverse needs of our ports. In addition, we hope the legislation will include streamlining of the 14 year pre-construction permit procedures to 2 years.
Tom Joe concludes his study by observing that, because of these work disincentives, the proposals will not achieve the savings predicted by the Administration. Each time a mother leaves a job or fails to accept a job because of these disincentives, there is a substantial increase in federal costs.

Squeeze on State Welfare Administration

We are facing a severe administrative problem in running the welfare program. The Administration is proposing that the states be required to establish community work experience programs for all welfare recipients. We estimate in New Jersey that 60,000 women with children above age six would have to work off their benefits. The State would be responsible for developing these job slots through cities, counties, charitable organizations, etc. Not only would we receive no additional administrative funds to take on this huge task, but our administrative monies would actually be cut. In another proposal, the Administration wants to create a combined welfare administration grant for AFDC, food stamps, and Medicaid, fund it at five percent less than we receive currently, and cap it at that level for five years. New Jersey would lose $3.6 million in the first year.

Finally, and putting even more pressure on the State, the Administration is proposing a scheme to penalize states for error rates above levels which virtually everyone recognizes are impossible to achieve. We would have to achieve an error rate of three percent in AFDC, food stamps, and Medicaid by October 1, 1982, and this target would be reduced one percent a year, to a zero error rate beginning October 1, 1985. We could lose as much as $3.9 million in administrative monies next year from this unrealistic sanction.

NEW JERSEY IMPACT:

In each of these programs, a number of individual Administration proposals will affect New Jersey recipients in different ways. The following paragraphs summarize the biggest cuts:

- Medicaid: Savings would be achieved through reductions in reimbursement to states and restrictions in utilization and services covered. New Jersey would lose more than $50 million from its current federal reimbursement of $500 million. The largest cut would reduce the matching rate for optional services, resulting in cutbacks in coverage for prescription drugs, prosthetics, eyeglasses, mental health for the elderly, and other services. Co-payments would be required, of $1 per visit to physicians, clinics, and hospital out-patient departments, and $1 per day in the hospital. (The State supports this proposal as a reasonable cost-cutting initiative.) States would be allowed to require adult children of individuals receiving long-term care to contribute part of the cost of that care.
Three bullet points from the text:

- **Aid to Families with Dependent Children (AFDC):** A large number of changes would save $1.15 billion nationally by further restricting eligibility and benefits and requiring all those able to work to do so. New Jersey's projected federal reimbursement would be cut from $250 million to $210 million. States would have to establish community work experience programs; about 60,000 women with children above age six in New Jersey would have to work off their benefits. The State would have to develop job slots through cities, counties, charitable organizations, etc., but would receive no additional administrative funding to do so. Another large cut -- $10.3 million -- would count federal and state energy assistance payments as income in determining eligibility. At the same time, the Work Incentive Program (WIN) is proposed for elimination; New Jersey received $9 million to fund training and support services to enable welfare recipients to find and hold jobs.

- **Food Stamps:** Proposed cuts total $2.3 billion, on top of $2.4 billion in FY1982. New Jersey recipients would lose $60 million in benefits, $50 million of it from two proposals to limit benefits for households with some income. Recipients would no longer be able to disregard 18 percent of their earned income when benefits are calculated; this disregard has been used as an incentive to work. Secondly, for each dollar of income (from other assistance programs, pensions, or earnings), food stamps would be reduced by 35 cents rather than 30 cents as at present. This affects 98 percent, or 224,000 households, in New Jersey.

- **Guaranteed Student Loans (GSL):** New Jersey is concerned about the impact on its public and private colleges and universities of a range of cuts in the major financial aid loan and grant programs. The GSL loan volume in the State could be cut from $300 million to $200 million, by increasing the "origination fee" from five to ten percent, eliminating graduate students entirely, eliminating interest subsidies two years after the student leaves school, establishing a "needs analysis" for all students regardless of income, and other restrictions. An estimated 40,000 of the 140,000 students currently receiving loans would be eliminated, including 20,000 graduate students. The GSL program is the only major higher education assistance program for middle income families.

- **Child Nutrition:** Elimination of, or reductions in, the various cash and commodities programs in child nutrition will result in a New Jersey loss of $9.1 million, from $61.5 million to $52.4 million. Proposed for elimination are the Summer Feeding, Special Milk, and Nutrition Education and Training programs. (The largest cut is the Summer Feeding program, in which the State receives $7.9 million to serve 80,000 children during the summer.) The present breakfast and child care feeding programs are proposed for consolidation into a single categorical grant at 80 percent of current funding. Finally, the reimbursement schedule for the main school lunch program is maintained at the FY1982 level.
New Jersey Impact: The issues of concern to New Jersey have been detailed above, however, to reiterate:

- **Acid Rain** - The Northeast has experienced a severe loss of aquatic life in lakes and streams, damage to crops, corrosion of water supply pipes, and damage to man-made structures due to acid rain. Conservative estimates of the loss in the Northeast alone are $250 to $500 million per year.

- **Toxics** - Although New Jersey has made some progress on its own initiative to regulate toxic pollutants, without a responsible federal policy there is the opportunity for regional economic inequities.

- **Mobile Sources** - New Jersey Department of Environmental Protection estimates that the relaxation of vehicular emissions standards as foreseen by H.R 5252 will mean a CO increase of 8.7% and a one-year delay in meeting the standards; and a NOx increase of nearly 2%, which will not only affect air quality, but will increase the incidence of acid rain.

While the prospects for H.R. 5252 meeting New Jersey’s concerns in full Committee are not good, we hope to have a better opportunity for amendments on the House floor. We would hope that the New Jersey delegation will be united in supporting a strong Clean Air Act that enables us to maintain air quality in the State.

**WASTEWATER TREATMENT CONSTRUCTION GRANTS**

**Issue/Status:** Although the authorizing legislation for this program was signed by the President in December of 1981, no supplemental appropriation has been made. The legislation provides $2.4 billion for wastewater treatment facility construction grants for FY1982, FY1983, FY1984 and FY1985. Funding was not included in the HUD/Independent Agencies FY1982 Appropriation bill for this program, pending "reforms" that would reduce the Federal outlay. The House Appropriations Committee will be considering on March 23 an urgent supplemental appropriations bill that includes funding for this program. It should move to the House floor shortly thereafter. The Senate schedule is currently unclear.

**New Jersey Impact:** We must have this appropriation in order to begin construction of critically needed treatment facilities that have long been delayed. Of the $2.4 billion, New Jersey will receive $85 million in FY1982, and expects to receive $100 million in FY1983. We currently have $11 million remaining in FY1981 money. Each day that construction is delayed raises the cost through inflation and contributes to the gradual deterioration of our water quality.