

RLF PLAN OVERVIEW

In an effort to maximize resources to revitalize the regional economy the South Jersey Economic Development District SJEDD conducts an ongoing review of the tools in its tool box. This effort is particularly relevant in relation to the current dynamic national economic environment. The following analysis will look at this existing RLF framework, past performance, current market conditions and economic policy directives. The goal of this effort will be for the RLF to be consistent with and supportive of the broader CED's goals and objectives. Finally the established performance metrics will be explored to determine their relevance in today's economic venue.

Foundational Source Documents:

- Existing RLF Plan
- Comprehensive Economic Development Strategy
- Existing Loan Portfolio
- Semi-Annual RLF Reports
- i6 Challenge Grant Application
- Jobs Accelerator Grant Application

Revolving Loan Fund (RLF):

Historical Perspective:

The original RLF plan was developed over twenty (20) years ago. The premise of the plan was to supplement commercial lending resources in the late 1980s. During that time, the economy was dominated by agriculture, tourism and manufacturing. The casino industry in particular was the prime generator of private investment and new jobs, while the glass industry was under increasing pressure from foreign competitors. The SJEDD focused on diversification strategies to assure that the regional economy was not solely dependent on one or two industries.

To achieve this goal the SJEDD prioritized infrastructure improvements in the form of industrial parks development throughout the region. These parks provided turnkey sites in areas requiring economic assistance that were located at or in close proximity to major transportation linkages that enhanced the probability of success. Turnkey sites accelerated the

development process allowing the private sector to focus their attention on business rather than the time and expense of permitting and building public infrastructure. The RLF supported that strategy by providing fixed asset financing for businesses locating in these industrial parks i.e. Dale Pak a corrugated box manufacturer (Vineland Industrial Park), Henderson Aquatic, a manufacturer of wet suits, and Silver Cloud Mfg (Millville Industrial Park).

When the economy emerged from the recession of the early 1990s new opportunities were presented. Casino development, gaming revenues and employment were all on the rise. With employment increasing and the tourism market growing new related development in the region was moving forward. However, some industries and towns did not share equally in the growth. The agriculture industry experienced increasing competition from other states with longer growing seasons. In addition the expansion of regional retail centers and the construction of new retail "Power Centers" captured the growth of household income at the expense of older downtown shopping areas. To maintain economic prosperity in the agriculture industry and downtown shopping districts the RLF was used as a tool to assist in restoring the competitive edge of these sectors. Once again the RLF was used in combination with other resources to revitalize small businesses.

Today the RLF is being applied toward tourism and technology small businesses as set forth in the CEDS document. Tourism has experienced difficult days in recent years. Restrained consumer spending and competition from other states have been a drag on the gaming industry which has experienced over thirty (30) conservative months of declining revenues driving layoff and overall reductions in the workforce. Gaming employment has fallen from over 54,000 in 2006 to 36,000 in 2011. These consumer trends are not isolated to just gaming, but affect the overall growth of the tourism market. Tourism outside of gaming has remained fairly stable but officials have worked hard to remain competitive with other destinations.

Technology has also been a focal point of the SJEDD Board and is reflected in the CEDs strategies. While there are a number of larger businesses considering the region for expanded operations, entrepreneurs will play a major role in the evolution of an innovation based economy in the region.

As can be seen by this historical analysis the original RLF plan provided enough flexibility to adjust to economic and market forces over time. Although there is flexibility to address economic shifts the new CEDs

approach require more substantive changes in the RLF plan to be an effective tool to enhance the prospects for a more deeply rooted innovation economy.

CEDS

Approximately five years ago new market dynamics emerged which were expected to have profound effects on the regional economy going forward. Those dynamics include a proliferation of new gaming venues along the eastern seaboard, continuously escalating energy costs, an aging population and a dramatic increase expected in air traffic in the National Air Space. The CEDS cluster strategy places major emphasis on innovation that will emerge from smaller businesses creating solutions to current hurdles i.e. sensor and actuator technologies. It is expected that technologies following a defined commercialization continuum will lead to new jobs and private investment. This process requires far different financial lending practices than exist in the current RLF plan. Both the "i6 Challenge Grant" and the Jobs Accelerator Challenge Grant contemplate applying RLF resources in areas more accurately described as venture capital, working capital and fixed asset lending. This will all allow small businesses to facilitate the completion of the commercialization continuum. One such lending policy was memorialized in Resolution 19.11 passed by the SJEDD in May of 2011 and imbedded in the RLF practices going forward.

Credit Review Procedures and Practice:

The SJEDD Executive Director is a skilled credit analyst with noteworthy educational credentials and practical experience. Over the more than twenty (20) years that the RLF has been in existence only one loan for approximately \$7,500 was written off. To assure quality and strong internal control practices the credit review and analysis is submitted to a Loan Advisory Board (LAB) to provide an independent view of the credit worthiness of loan applications. Upon approval by the LAB the loan is presented to the SJEDD Executive Committee for final consideration. This process provides an appropriate level of checks and balances in the system to assure prudent lending decisions. Considering the technology transformation process now underway and the need to support the

commercialization continuum, the SJEDD should consider a technology oriented small business representative on the LAB.

Eligible Areas:

Over the life of the RLF communities have been added to the original list of eligible communities. The current list is presented in the plan and would remain intact until such time as new municipalities seek inclusion and meet EDA qualification standards under the Title IX program.

Women and Minority Small Businesses:

The SJEDD has and will continue to encourage these firms to submit and will give due consideration in the offering of RLF resources to these firms.

Performance Metrics:

The RLF going forward must add to its existing list of metrics to measure performance. Today the RLF measures performance by two criteria number of jobs created and private investment leveraged. The plan will now incorporate other metrics that demonstrate its effectiveness in meeting the goals of the CEDS.

Such metrics to be considered:

- Number of jobs filled by:
 - Associate Degree Level
 - Bachelor Degree Level
 - Graduate Degree Level
 - Long Term Unemployed
- New Product innovations
 - Within the Regional Innovation Clusters as specified in the CEDS
- Research Collaborations
 - Colleges and Universities
 - Foundations
 - Technology Consortia
- Scalability of product line and international competitiveness

Fair Credit/Equal Opportunity Practice

The SJEDD will continue to achieve the highest levels of performance in meeting Fair Credit and Equal Opportunities standards in the operation of the RLF.

Conclusions and Recommendations

The SJEDD has operated an effective and efficient Revolving Loan Fund since its inception. The program has spurred over 500 new jobs and \$14.1 million in private investments under the existing plan. This plan was designed to provide maximum flexibility to respond to varying economic conditions in the region. However, current conditions and new policy direction within the CEDS to create a sustainable regional economy has challenged the flexible framework of the existing RLF Plan. National and/or international markets captured by any of the regional innovation clusters will provide sufficient growth to stimulate job creation and private investment. To achieve an accelerated growth trajectory, southern New Jersey must compete on a global basis with new and innovative products and services. In order for the RLF to maintain its effectiveness, new creative lending solutions must be employed to support innovation and the commercialization continuum that will sustain the region and provide a higher standard of living.