

The Press

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Our View: UEZ funding mistake

Not an ideal world

In an ideal world, when the state makes a mistake, economically distressed municipalities wouldn't have to pay for it.

But New Jersey is pretty far from the ideal world. Light years, some would say.

And so officials in Urban Enterprise Zones throughout the state got a letter last week saying a total of \$40 million had been deducted from their accounts — money they had counted on and had planned to use for economic development projects, some of which were already in the works.

Here's what the state says happened: In 2006, when it raised the sales tax from 6 to 7 cents, New Jersey miscalculated the amount that should go to the state's 37 Urban Enterprise Zones — zones in poorer communities that are permitted to charge half the state sales tax in order to encourage business. The state gives UEZs back much of that sales-tax revenue for economic development, business loans and related expenses.

According to the state, a year ago an auditor found that the state erroneously gave the UEZs half of the sales-tax hike. But the first official notice towns got was last week, when the total amount that had been overpaid was deducted from their accounts. In Vineland's case, it was more than \$5 million.

State officials aren't saying why it took so long to notify the towns or why it was requested in a lump sum — nor have they produced the audit. But the move comes at the same time as the state is desperately trying to close billions of dollars of budget gaps. And the \$40 million went to plug a big one in the current year's budget.

It's difficult to criticize the state's decision to recoup the money, if it was overpaid. New Jersey is in dire financial straits. But the way the state went about this was ham-handed and unfair.

The state made the mistake, and the state at least should have informed the towns a year ago and set up a repayment schedule that would have played less havoc with projects in the works.

Stretching those repayments over the next year would still have helped the state close its budget gaps. After all, it's not just this year's budget that's a problem — next year's budget is even worse.

State Treasurer David Rousseau is supposed to start addressing the Legislature today about next year's budget problems and how the administration plans to reduce that proposed budget some \$2 billion in light of plummeting revenues.

So in light of those grim realities, we certainly understand why the state would want its \$40 million back. It just seems there were better ways to go about it.

Loan

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out to the pair but had "been unsuccessful in setting up a payment schedule."

He said a lien placed against the owners of Davis-Holland would affect their ability to get loans in the future.

Two weeks ago, City Council authorized legal action against Clemencia Hernandez for about \$6,000 plus legal expenses for her failure to pay back a UEZ loan.

The Holland-Davis and Hernandez loans are the exception to a well-working program, Tees said, and nearly all of the UEZ loans have been repaid or are being paid on a timely basis.

The program has been highly successful, and the \$16,000

in unpaid loans means the program has a default rate of about one-tenth of 1 percent.

"The vast majority of our businesses that participate in the Pleasantville UEZ low-interest loan program pay their loans back on time," Tees said. "This is the first time we have had to take legal action."

Since the program began in 1997, the UEZ has written 81 loans totaling \$11.6 million, he said. Of the 81 loans, 42 have been paid in full and 34 are being paid back in a timely manner.

The funds that have been approved for five other loans haven't been dispersed yet, he said.

The interest rates vary between 3 and 5 percent, Tees said.

"I don't doubt that there are

people who are having difficulties because of the state of the economy," he acknowledged. "We have been willing to discuss on a case-by-case basis the ability to extend payments or to consider other ways to ease the financial burden while the loan is paid in a timely manner."

Tees said he would discuss payment options with individual debtors under conditions that include, but are not limited to: proof of a company's economic hardship, proof that the company is reducing costs, proof that the company is trying to secure other funding, and proof that the company is current with the other lenders.

"We want them to remain in business," he said. "We want them to be successful."