The CHRONICLE

A SOUTHERN NEW JERSEY DEVELOPMENT COUNCIL PUBLICATION WINTER 2014

Your Money in South Jersey

SOUTHERN NEW JERSEY DEVELOPMENT COUNCIL

INSIDE

BUSINESS AND FINANCE EDITION

The CHRONICLE

TABLE OF CONTENTS

SOUTHERN NEW JERSEY DEVELOPMENT COUNCIL

The Chronicle is Published by The Southern New Jersey Development Council

Editor: Marlene Z. Asselta

Creative and Design:
Glenn Davila/Performance Marketing

Printing: Bellia Printing

Advertising and Editorial Contact:
Southern New Jersey Development Council
900 Route 168, Suite D-4
Turnersville, NJ 08012

***Phone:* 856-228-7500**
***Fax:* 856-228-7511**
***Email:* snjdc@snjdc.org**

Welcome to the inaugural issue of *The Chronicle.*

The Southern New Jersey Development Council's internal newsletter is now a quarterly magazine designed to educate and inform our readers on current issues affecting the business and government communities of Southern New Jersey.

In this first issue, you will learn about financial trends in the coming year along with tools and tips for your business. We'll continue to keep you informed of Council meetings and events and will further advance our mission to bring the public and private sectors together to promote responsible economic development in our region.

Each edition will be distributed, and also offered electronically, throughout southern New Jersey and the greater Philadelphia region. Interesting and informative articles will make The Chronicle a valuable and essential source of information for our business community. The Chronicle's readership of 5,000 includes top business executives, key policy decision makers and active contributing members of the community is the ideal target market for advertisers.

I hope you enjoy reading this publication and we welcome your comments. To learn more about the Southern New Jersey Development Council, please call us at 856-228-7500 or visit our web site at www.snjdc.org.

Sincerely,

Marlene Z. Asselta
President
Southern New Jersey Development Council

Economic Pulse Check

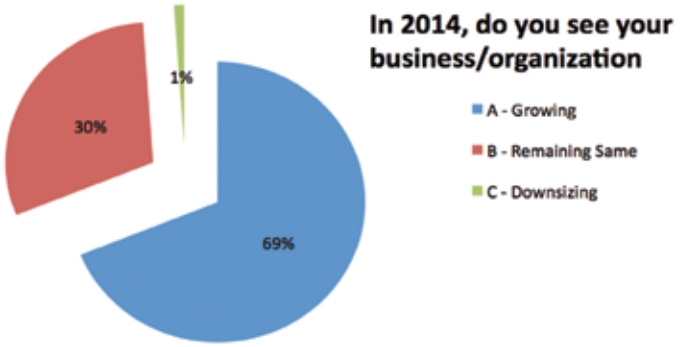
We've heard the economic forecasts and read the articles that all point to 2013 and 2014 being a rough couple of years. Despite this we've heard stories of organizations achieving great success in the current economic slump. For example, Southern New Jersey Development Council (SNJDC) member, Hill International, Inc. achieved a new benchmark when the company announced total backlog of $1.027 billion at the end of 2013.

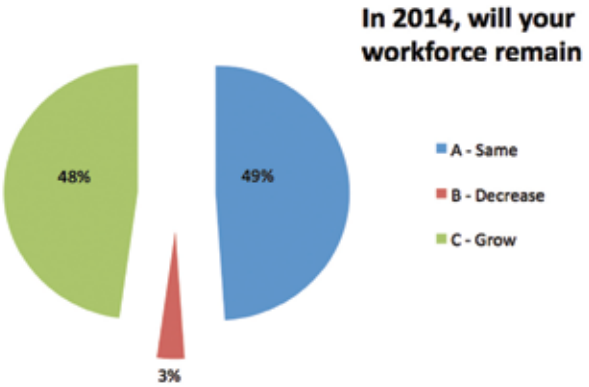
At the SNJDC, we wondered if other industries are experiencing this growth so we polled our members to get a pulse as to how they are doing.

We found that 69% of SNJDC members polled are experiencing growth, while 30% expect no change. Only 1% stated that they are shrinking.

When asked how the economy is affecting their company's workforce, 48% replied that they would grow their work force, while 49% responded they would not make any changes. Only 3% replied that the company is decreasing their workforce.

From the results of this survey the members of the SNJDC seem to be weathering this economy and building opportunities in southern New Jersey.





Economist Optimistic for 2014

David R. Kotok, Chairman & Chief Investment Officer, Cumberland Advisors

We have spent five years dealing with near-zero short-term interest rates since the Federal Reserve System responded to an extraordinary financial crisis in 2008 (though the crisis actually started earlier) by lowering the short-term rate to zero. The Fed has maintained that zero boundary into 2014 and is expected to continue to do so for at least another two to three years.

The initial impact of very low short-term interest rates was to give relief to borrowers. Other interest rates also fell. Bond and mortgage interest rates, capital leases, and other financing structures that are based on intermediate- and longer-term interest rates were dragged down by the force of a continuing policy of near zero short-term rates.

In such a regime, borrowers benefit first. Because their interest costs are drastically reduced, those who are creditworthy can refinance debt at much lower rates. This happened at all levels of the economy.

Over time the refinancing and restructuring benefits that resulted from the low interest rates ran their course. When households have refinanced mortgages down to rates of 3% and 4%, it is not likely that those rates will get refinanced again at even lower levels. When state and local government entities call bonds and reissue them at lower interest rates, the same principle applies. The benefits to the borrowers dissipate and eventually disappear over time. Then only new borrowers have any advantage from low interest rates, and they must now contend with tighter policies regarding approval of their creditworthiness.

The flip side of this asymmetric equation across time has to do with lenders and savers. They built portfolio structures, organized their savings, purchased bank certificates of deposits, and otherwise allocated their assets based upon an assumption that a certain level of interest rates would persist for a prolonged period of time. When the Fed yanked away their interest income by establishing its zero-bound policy, it undermined fundamental assumptions attached to interest rate stability. The effect of the Fed's policy was something that economists call "financial repression."

Savers are punished by reductions in their savings income. Lenders who expected to derive an income flow do not get it. Insurance companies and other intermediaries that were positioning themselves based upon that long-term flow of stable, secure interest income find it dissipating and disappearing. In time, savers and lenders find themselves in a similar boat as borrowers. All have to contend with a very different and much lower level of interest rates.

Will higher interest rates come quickly? If they do, will it slow the economic recovery? Are higher rates a forgone conclusion? Will a rising rate of inflation and a more robust economy not be required before interest rates can rise? What does history say about events like this? What will the Fed do if there are abrupt changes in the economic outlook? Investors, businesses, and households ponder these and a hundred other questions as we enter 2014.

> ***"As 2014 opens, both the savers and borrowers find themselves facing a new situation. They now confront the possibility that interest rates may rise ... They have already paid the price for low interest rates, and now they do not know what to do about projected higher rates."***

What makes this dilemma even more difficult for decision-makers is that we do not have recent historical parallels to the situation we find ourselves in today. There have been other eras of very low interest rates, but there were different conditions in play than there are now. During World War II, when the Fed maintained exceptionally low rates as the US financed the war, we found ourselves in a period of four years of very low interest rates. The Fed ignored inflation during that time. It ignored the plight of savers and their desire for income. The Fed was a patriotic body committed to the successful defense of the United States.

Other major impacts on the US economy during the war included major dislocations created by global conflict, restructuring of the US labor force to support the war effort, and high tax rates designed to generate revenue to pay for the war.

After World War II, the adjustment of the interest-rate regime shocked the economy. But in the wake of that shock, a very long period of rapid growth ensued. There was a massive boom of pent-up consumer demand; housing recovered; the manufacturing sector grew; and new businesses were developed, many of them based on new technologies. This resurgence coalesced into a glorious period of growth in the 1950s and most of the 1960s.

Can such a multi-decadal expansion occur again in the US? Can we emerge from the current period of financial crisis and severe recession, an underutilized labor force, depleted capital investment, and very low interest rates, and transform that bleak regime back into one that is optimistic and positive for America?

In this writer's opinion, the answer is yes. We have a very large, rapidly developing energy sector in the US. The extraction, processing, and distribution of oil and natural gas are growing by leaps and bounds. We estimate that somewhere between one-fourth and one-third of the country's incremental growth for the next several decades

(continued on page 16)

The Tax Ins and Outs of Employee Fringe Benefits

Audrey J. Sherrick, CPA, Partner, Friedman LLP

Many taxpayers associate the term "fringe benefits" with minor forms of compensation, such as employee achievement awards or holiday gifts. But they also include more substantial benefits, such as health insurance and dependent care assistance. Taken together, fringe benefits can be a significant component of compensation and a tool for attracting, motivating and retaining talented employees.

But the tax treatment of fringe benefits is complex and often misunderstood. To avoid unpleasant tax surprises, it's important for employers and employees alike to familiarize themselves with the rules.

Exceptions that prove the rule

- The IRS defines "fringe benefit" as "a form of pay for the performance of services." This broad definition encompasses many forms of compensation that are subject to a wide variety of rules, restrictions and limits.
- Despite this complexity, you can avoid tax mistakes so long as you remember one important rule: A fringe benefit is considered taxable compensation to an employee — subject to income and payroll taxes — unless the tax code or regulations say otherwise.
- Fortunately for employers and employees, a number of fringe benefits are fully or partially excluded from an employee's income, yet still deductible by the employer as a business expense. (For a list of common benefits treated this way, see the sidebar "Tax-free fringe benefits.")

> ***"For other fringe benefits that are typically tax-free to employees, there is generally equivalent treatment for 2% shareholders, partners and LLC members. That is, fringe benefits are deductible by the employer and tax-free to the owner-employee."***

Rules for owner-employees

C corporation stockholders who are also employees generally are entitled to the same tax-free fringe benefits as other employees. But owner-employees of pass-through entities — such as S corporations, partnerships and limited liability companies (LLCs) — are treated differently. Special rules apply to S corporation shareholders who own more than 2% of the company's stock (or "2% shareholders"), partners, and members of LLCs taxed as partnerships. Usually, these owners are subject to tax on the following fringe benefits:

- **Accident and health benefits**
- **Group term life insurance**
- **Contributions to Health Savings Accounts and cafeteria plans**
- **Employee achievement awards**
- **Meals and lodging furnished for the employer's convenience**
- **Qualified transportation benefits**
- **Adoption assistance**
- **Moving expense reimbursements**

What about sole proprietors?

For the most part, they aren't treated as employees for fringe benefit purposes, although they may be entitled to tax deductions for many expenses.

Watch out for family attribution rules

- When determining whether an S corporation owner is a 2% shareholder, it's important to consider the family attribution rules. Under those rules, an individual is treated as the owner of stock held by his or her spouse, children, grandchildren and parents.
- Suppose that a few years ago Adam owned 100% of the stock of an S corporation. In connection with his succession and estate plans, he transferred 99% of the stock to his daughter, Anna, and made her president of the company. Adam continues to work in the business and is covered by the company's health insurance plan, which pays his $1,000 per month premium.
- Under the family attribution rules, Adam is deemed to own 100% of the company's stock (his 1% plus Anna's 99%) for purposes of the 2% rule. As a result, $12,000 in annual health insurance premiums is included in his taxable income (although he may be entitled to a self-employed health insurance deduction for income tax purposes).

Tax-free fringe benefits

Following are examples of tax-free fringe benefits: *(subject to the special rules for pass-through owners)*

- **Accident and health benefits**
- **Pension and profit-sharing plans**
- **Group term life insurance** *(up to $50,000)*
- **Dependent care assistance**
- **Educational assistance** *(up to $5,250 per year)*
- **Contributions to Health Savings Accounts**
- **Contributions to cafeteria plans**
- **Retirement planning services**
- **Employee discounts on the employer's products or services**
- **Non-cash employee achievement awards** *(up to $1,600 under a qualified plan, $400 otherwise)*
- **Meals and lodging furnished on the business premises for the employer's convenience**
- **Qualified transportation fringe benefits**
- **On-premises athletic facilities**
- **Adoption assistance**
- **Moving expense reimbursements**
- **Working condition fringe benefits**
  Items that employees could deduct as business expenses if they paid them — such as business use of a company car or company-provided cell phone, or education expenses to improve their job skills
- **De minimis (minimal) fringe benefits**

Contact your tax advisor for more information on these tax-free benefits.

Get help

The tax treatment of fringe benefits is complicated. In addition to the rules discussed here, these benefits are subject to other rules and restrictions that vary depending on the specific benefit.

For example, some benefits (such as health insurance) are taxable to pass-through owners for income tax purposes but not for payroll tax purposes. And some benefits must be provided on a nondiscriminatory basis — that is, without favoring highly compensated employees. Also, tax regulations provide detailed guidance on the valuation of certain benefits for tax purposes. So, if you have any doubt about how to treat fringe benefits for tax purposes, consult your tax advisor.

For more information contact: Audrey J. Sherrick, CPA at (609) 927-2222 asherrick@friedmanllp.com

Government Affairs Committee Holds First Meeting

The Government Affairs Committee held its first meeting of the year at Cumberland County College. Co-Chairs Kathy Farinaccio of Comcast and Tony Bianchini of Henry & Germann Public Affairs welcomed special guest, newly-elected Assemblyman Sam Fiocchi (R), who represents the 1st Legislative District including Cape May County and portions of Cumberland and Salem counties.

Solve Your Business Problems: County Colleges Offer Free Instruction in Basic Skills Communications

Christopher Biddle, President, Biddle Communications & Public Relations

When you get right down to it, some of the worst problems businesses confront are due to poor communications in their own operations.

Fortunately, South Jersey businesses can get customized help from their county colleges through the state's Basic Skills Workforce Training Program.

Now in its seventh year, the program is free to businesses. More than 60,600 employees with over 4,130 companies received training in verbal and written communications skills, PC skills (Word, Excel, PowerPoint, Outlook), English as a second language, Spanish in the workplace, and math and measurement.

The NJ Community College Consortium, which coordinates the program, recently received a commitment of about $1 million from the state to continue its funding of the program.

Two examples of southern New Jersey businesses that have benefited from the training are Freedom Mortgage in Moorestown-Mount Laurel and Holt Logistics in Gloucester City.

Burlington County College instructors have trained 188 Freedom Mortgage employees, from loan processors to executives, in a variety of communications skills. This was a clear necessity for one of the nation's fastest growing private companies.

Camden County College has trained over 250 employees at Holt Logistics, a cargo transfer company on the Delaware River. Classes in English as a second language and Spanish in the workplace have helped reduce the time it takes to upload and offload cargo.

To reserve training for your employees, contact the NJ Community College Consortium at 609-393-9000 or info@njworkforce.org.

Workers at Holt Logistics in Gloucester City get training in workplace Spanish.

SNJDC Education & Technology Committee at the Courtyard by Marriott in Glassboro

The Education & Technology Committee held their first meeting of the year at the new Courtyard by Marriott in Glassboro. The Southern New Jersey Development Council (SNJDC) extends a special thanks to Dave Drubin, Director of Sales at Courtyard, for hosting and giving all who attended a tour of the property. As we discovered, the ballroom and meeting space are perfect for seminars, conferences or meetings.

Hosted by co-chairs Dr. Thomas Isekenegbe, President of Cumberland County College and Joe Silva of Silva Financial Services, the group welcomed guest speaker, Dr. Ken Blank, Rowan University Vice President of Health Sciences.

Dr. Blank gave an outstanding overview of Rowan's new approach to build research curriculum in partnership with industry and business to be ahead of the curve of emerging fields and attract more business/industry to South Jersey. Rowan's goal is to increase research expenditures from $20M to $100M in next 10 years.

Dr. Blank also gave an update on the South Jersey Tech Park, which currently has a 150,000 sq. ft. building, fully occupied, sitting on 180 acres and then held a terrific, detailed Q & A discussion.

SNJDC members interested in exploring a partnership with Rowan for a research program, please contact the SNJDC so we may connect you with the appropriate staff at Rowan and the South Jersey Tech Park.

Board of Trustees

Chairman
Thomas X. Geisel

Vice Chairman
Edward Hutchinson
Hutchinson Mechanical Services

Secretary
Lisa Morina
Kennedy Health System

Treasurer
John Maier
SJ Port Corporation

Counsel
Brett Wiltsey
Dilworth Paxson LLP

Susan Coan
Atlantic City Electric

Lynda Pagliughi
Avalon, Borough of

Brian Tannenhaus
BD Engineering

Jim Blanda
Camden County Improvement Authority

Jeff Swartz
Camden County Workforce Invest. Board

Leslie Gimeno
Cape May County Ec. Dev. & Capital Plan.

Fred DeAndrea
Comcast

Bob Weil
Conner Strong & Buckelew

Steve Shriver
Consulting Engineer Services

Lloyd Levenson
Cooper Levenson Attorneys at Law

James Watson
Cumberland County

James Wallace
Deborah Heart & Lung Center

Jay Kruse
Dewberry

Toni Parkinson
Gloucester County C of C

Charles Caramanna
GREYHAWK North America, L.L.C.

Tom Spearing
Hill International, Inc.

Eileen Della Volle
KS Engineers, P.C.

Tom Viviano
Lippincott Jacobs Consulting Engineers

Frank Jones
Mints Insurance Agency

Charles Romanoli
New Road Construction, Inc.

Diane Ubinger
NJEDA

Dave McKeon
Ocean County Department of Planning

Nick Cinalli
O'Donnell & Naccarato

Tony DeJohn
Parsons Brinckerhoff

Glenn Davila
Performance Marketing

Michael Coyle
PSE&G

Charles Ingram
Richard Stockton College of New Jersey

Dr. Joe Cardona
Rowan University

Jim Smith
Salem County Improvement Authority

Joseph Silva
Silva Financial Services

Stephen Poniatowicz
SJ Energy Solutions

Joseph Scheufele
SJ Energy Solutions

Jeffrey DuBois
SJ Gas

Jay Jones
SJ Port Corp.

Marlene Asselta
SNJDC

Rich Amodei
STV Incorporated

Robert Curley, III
TD Bank

Chris Perks
The Rand Institute at Rutgers

Pam Boyd
Thomas/Boyd Communications

Michael Zumpino
Triad Associates

Jennifer Young
Verizon

Steven Batzer
WBD Investment Group

Wanda Saez
Wells Fargo

Earl Siegman
Chairman Emeritus

Alternative Funding Structures for Build-to-Suit Public and Private Development

Peter W. Leibundgut, Partner, The Regional Capital Group

Real estate development has rebounded dramatically since the financial crisis of 2008. However, "traditional" bank and public financing has become more restrictive in many respects. Regulatory scrutiny, mandates and stricter adherence to credit concerns have made obtaining capital more difficult and time consuming. Developers today are risking more capital in a volatile capitalization-rate environment with the potential to lose profits in the event the cost of funds rises. That's why the need for an alternative to conventional bank and bond financing has emerged. Becoming familiar with these alternatives is critical in seeking and structuring capital for build-to-suit private and public projects.

One option is a joint-venture structure which provides 100 percent of the capital required to execute a build-to-suit project. Almost all asset classes (including infrastructure) qualify. Many projects that historically have been financed with traditional debt and equity or bonds (e.g. university housing and buildings, hospitals and medical facilities) are now being financed with private capital. This funding is also an alternative to traditional bond financing and public private partnership structures (e.g. municipal buildings and parking garages). All of the project capital is committed at closing thus avoiding the financing delays. Funding is typically within 45 days of completed application and approval. Quite simply, the leases can be structured to accommodate the financial and operational goals of each project and tenant.

This platform provides development-fee income and profit, reduces risk and enables developers and sponsors to conserve capital and protect their balance sheets. Its simplicity and expediency warrant inclusion as another arrow in every development quiver.

Regional Capital Group is a real estate opportunity fund manager, adviser, and real estate investment firm. It has deployed over ten billion dollars in capital in its over 25 year history.

For more information contact: Peter W. Leibundgut at (856) 983-4800 X 208 peterl@regionalcapital.com.

Economist Optimistic...

(continued from page 5)

will come from the broad US energy revolution. In the US we are producing more oil than ever before. We have monstrous natural gas supplies under development. The energy sector growth engine is revving up in many areas of the US.

In our technology sector a continuing evolution is also generating productivity gains. Even the growth of social networking is important to our economy. These are very difficult contributions to measure, but we apply and reapply these technologies in our lives daily as each one of us adds a new app, uses a new device, or otherwise makes a behavioral change to become more productive, efficient, and responsive.

We never stop to calculate our personal productivity. We "just do it." But consider the productivity gains when, with one tap of a button on an iPhone, it is possible to request a car service at a given location. The device has replaced phoning the cab company, making arrangements to be picked up, giving instructions, and determining a location. Instead, the device knows the correct location, signals the cab company, orders the cab, provides an arrival time, and sets up the entire system, including an electronic payment to a personal account. Multiply that productivity gain millions of times in our daily life. That is the era of 2014 and beyond.

In the US, the build-out of the energy sector is a worldwide force that benefits America. The continual re-creation and build-out of the technology sector is a worldwide force. Both of these forces are truly American phenomena. They make our country stronger and richer, and they improve our quality of life. We are just getting going. Thus the outlook for 2014 and future years has this writer feeling pretty optimistic.

David R Kotok is Chairman & Chief Investment Officer for Cumberland Advisors, an independent, fee-for-service money management firm founded in 1973 that manages approximately $2.2 billion in assets.

The perfect place for high-tech companies with big dreams.

The Samuel H. Jones Innovation Center at the South Jersey Technology Park at Rowan University

Why just lease any space, when you can lease a 21st century solution that includes a full range of state-of-the-art facilities and support? The South Jersey Technology Park is expanding and is the perfect address for ambitious technology companies.

Opportunities include:

- Site development options: ground-lease, building-lease, etc.
- LEED® certified construction
- Midway between New York City & Washington, D.C.
- 30 minutes from Philadelphia
- Access to large, talented workforce

The South Jersey Technology Park is seeking Development Partner Interest:

- Submit a letter of interest to sjtp@rowan.edu
- Include: statement of interest, brief intro to your company, and reference to a similar project you completed

Rowan University

- Collaborative opportunities with Rowan faculty
- R&D Labs in the Innovation Center – Biotechnology, Nanotechnology, Virtual Reality, Sustainable Design
- Research competencies in the following areas:
  - Sustainability & Community
  - Infrastructure & Materials
  - Health Sciences & Biotechnology
  - Computation & Information
- Bright, eager engineering, science & business students
- Access to the University community and lifestyle

South Jersey Technology Park
at Rowan University

More details are available at www.sjtechpark.org

Innovation, Invention, Opportunity

O'DONNELL & NACCARATO
STRUCTURAL ENGINEERS

CAPABILITY by the Numbers

3 **OFFICES** in Philadelphia, PA, Bethlehem, PA, and Mountainside, NJ serving the entire Mid-Atlantic

60 **MILLION SQUARE FEET** of Building Information Modeling structures designed since 2006

20 **YEARS' EXPERIENCE** or more in the A/E/C industry held by each senior leader

225 **FULL-TIME EMPLOYEES**, each an invested owner sharing ESOP stock in the firm

5 **BILLION DOLLAR** average of yearly construction cost for design projects of all types and sizes

PROUDLY SERVING SOUTH JERSEY

Rowan University College of Graduate & Continuing Education

215.925.3788 | O-N.COM |