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Banking on your money

Fast-growing Commerce counts on political ties

With help from taxpayers and government deregulation, Commerce Bancorp has expanded into one of the nation's fastest-growing suppliers of financial services - and New Jersey's most impressive political benefactor since the Pennsylvania Railroad controlled politicians and public policy a century ago.

Few of the thousands of new customers flocking to Commerce's big red C realize that this \$17.7 billion-a-year financial powerhouse is run by a corporate syndicate whose members wield an astonishing breadth of influence over New Jersey's elected officials, the public policy they make, and the taxpayer dollars they spend.

No other bank, bond underwriter, or insurance broker operating in New Jersey has doled out more campaign cash, received more no-bid government contracts, or employed more of the state's politically connected figures in the last five years.

At least five county political bosses, a former acting governor, two former state Senate presidents, and dozens of state and local public officials have received both personal income and campaign contributions from Commerce Bancorp.

Critics of the bank's practices say Commerce has shrewdly exploited regulations that allow banks to peddle insurance and buy and sell securities for any client - including government - and has taken advantage of fragmented oversight of financial institutions and public officials in New Jersey.

CEO Vernon W. Hill II and his associates insist they are breaking no laws, that their courtship of politicians is inevitable in the natural course of community-oriented business. They boast that Commerce's remarkable growth is the result of innovative banking practices, attention to customer service, and investment in local communities.

In an interview with The Record, Hill defended the bank's political activities as vital to community involvement.

"We care about public issues. We are a giant employer in this state," he said. "We feel it is our obligation to be involved in the political process" in towns where Commerce has branches.

But three weeks ago, amid questions about Commerce business practices raised by investors and reporters, the bank curbed that political involvement. On April 29, Hill told investors that Commerce would suspend political donations in New Jersey until legislators decide whether to stiffen regulations on contributions from government contractors like the bank.

The announcement came as federal regulators scrutinize the bank, and as watchdog groups and

banking rivals claim that Commerce's success is due at least in part to its generosity toward well-placed politicians and an impressive array of interlocking relationships with government insiders.

Their concerns are supported by the results of an eight-month investigation by The Record, which found that the corporation's aggressive business practices and pursuit of political connections give its leaders extraordinary influence over billions of dollars in public money.

Consider:

*-Commerce's employee political action committee, Compac NJ, distributed almost \$1.65 million to New Jersey candidates for state and local office over the last five years, much of it pumped into political funds in counties and towns where Commerce then reaped millions of dollars in banking, bond, and insurance business. Some donations appeared to skirt federal securities rules intended to block influence over municipal finances. (See "Playing on the edges," Page A-17.)

*-Commerce is unusually enmeshed in local finances. At the end of 2002, it held \$1.8 billion in New Jersey taxpayer money. That sum is almost 20 percent of the \$9.5 billion in government deposits held by private banks; the \$9.5 billion is separate from the state's \$11 billion cash management fund, which is held in a Morgan Stanley Dean Witter trust. Commerce is involved in government insurance contracts in nearly every municipality. And it has become the dominant player in buying and selling government debt, last year underwriting one-third of all bonds issued in the state. The remaining bond business was split among 44 other banks and investment houses.

*-In New Jersey counties and municipalities where party bosses and local political leaders have financial ties to the bank, Commerce obtains a sizable portion of government banking, underwriting, and financial advisory work without formal competitive bidding.

Last year, two-thirds of all long-term bonds underwritten primarily by Commerce were not put out for bid, compared with less than half of those handled by its nearest competitor, Wachovia Securities. Commerce was the primary underwriter in 64 negotiated bond deals (out of 94 deals), a total more than four times the 15 no-bid deals

underwritten by Wachovia (out of 33 deals). The Commerce no-bid deals were worth \$1.5 billion; Wachovia's were worth \$392 million.

New Jersey is fertile soil for suppliers of bonds, bank accounts, insurance, financial advice, and other government services. Every time one of the 21 counties, 566 municipalities, 614 school districts, or dozens of quasi-governmental authorities such as the Bergen County Utilities Authority opens a bank account, borrows money for streets or schools, or seeks insurance for its workers, it must find a provider and draw up a contract.

In a competitive banking market such as New Jersey's, many financial experts say formal bidding can help lower costs. New Jersey jurisdictions, however, show little consistency in how they award contracts. Some local officials who opt for "no-bid" or negotiated contracts argue that taxpayers are better served when trusted local professionals arrange the deals. Others say certain deals are "professional services" and thus are exempt from bidding under New Jersey public contract law.

It is amid this unevenness that Commerce thrives, its interlocking political and financial relationships giving the bank an overwhelming edge in negotiating government work.

Hill says Commerce is just doing what its many governmental customers want.

"It's not our choice whether the municipalities go competitive or non-competitive," he says. "It's theirs."

Whoever makes the call, taxpayers typically end up paying higher fees in no-bid deals, especially when the contracts go to suppliers that make political contributions, says Robert B. Lamb, a professor at New York University's Stern School of Business.

"The cost is added into the pricing," says Lamb, author of such finance industry standards as "Municipal Bonds" and "Handbook of Municipal Securities and Public Finance."

"Your money buys you a seat at the table for a negotiated deal. Whoever has the politicians either gets the deals that would have gone to other firms at a cheaper price, gets deals more often, or they establish relationships for future deals."

The uneven playing field rankles rival bankers from Cape May to Bergen County. They voice respect for Hill's banking innovations but are uneasy with some of his more bruising methods, such as offering a \$5,000 bonus to any manager responsible for shutting down a competing branch. Their concerns were such that none would be identified by name, fearing Hill would turn his political and financial might against them.

"In polite society," says one banker in South Jersey, "we compete with our fellow bankers, and if we lose, we accept the share of the market that we are left with. Not 'Genghis Khan' Hill. He has to have it all."

"There is no sense of fair play in the way Vernon plays the game," echoes a North Jersey banker. "He's way out of the box. Vernon thinks he can do whatever he wants. They may not say it in the open, but most bankers think Vernon and Commerce are protected."

Hill dismissed such comments as "whining." He also challenged recent media emphasis on Commerce's political connections and its share of government-related business, arguing that such business is but a small fraction of the bank's entire portfolio.

"You should be writing about this as a New Jersey success story," he declared.

But to some veteran political observers, Commerce Bancorp's swelling influence is worthy of public attention.

"This is remarkable even for New Jersey," says Larry Sabato, the nationally known director of the Center for Politics at the University of Virginia. "It is about as much raw power that can exist under the rule of law in 2003."

Sabato, author of "Dirty Little Secrets: The Resurgence of Corruption in American Politics," says such a concentration of power should concern New Jersey's citizens.

"It's important that people have faith that their government is representing them and not just the elite," he says. "When private money and government power gets concentrated in the hands of a few, we end up with government of, by, and for the powerful."

That was the situation almost 100 years ago when muckraking journalist Lincoln Steffens reported that businessmen and their lawyers had turned New Jersey into "a great commercial concern."

His McClure's magazine exposé, "New Jersey: A Traitor State," singled out the Pennsylvania Railroad Corp. for using financial and political might to make lapdogs of legislators and local politicians who helped protect its rail monopoly.

Perhaps not since those robber baron days has one corporation managed to employ more political chiefs, state and local public officials, and politically connected lawyers for private business in New Jersey than Commerce Bancorp.

To hear Hill tell it, Commerce's business ambitions are not much different than the railroad's.

"We want 100 percent of every deposit - in every town, every county, every school district," he says.

-Building a political banking machine

Commerce's stunning growth - two-thirds of its 225 branches in New Jersey, New York, Pennsylvania, and Delaware did not exist six years ago - is a tribute to Vernon W. Hill II.

In 1973, the 27-year-old business graduate of The Wharton School at the University of Pennsylvania opened a single office along a Burlington County highway and made himself a banker.

Today, Hill says he doesn't consider himself a banker. He's a retailer, he says, the same as Wal-Mart and Burger King. And like Sam Walton and Burger King, Hill - who co-owns at least 42 Burger King franchises - builds look-alike bank branches at a breathless pace. In 1996, Commerce had no branches in the northern counties of Bergen, Passaic, Morris, Essex, Union, Monmouth, Middlesex, Somerset, Hunterdon, and Mercer. Today, it has 78, with more on drawing boards.

Commerce bills itself as "America's Most Convenient Bank." It is open seven days a week and offers such services as door-greeters and coin-counting machines.

In the last five years, Commerce has grown by more than 500 percent.

Commerce had fewer than 800 employees a decade ago. Now it employs more than 6,800 people in four states. In 2002 alone, Commerce's total assets grew from \$12.3 billion to \$17.7 billion, making it the 44th largest banking institution in the nation.

"This is the most successful, different bank model in America," Hill says. "We're retailers who happen to sell bank products."

Commerce's success has made Hill's company a Wall Street darling. Over 10 years, Commerce stock rose more than 1,200 percent, more than such corporate behemoths as General Electric and Microsoft, although the share price has leveled off recently amid investor concerns about bank expenses, large insider loans, and questionable political donations.

Only a few months ago, it seemed Commerce could do no wrong. In November, its stock was trading \$8 higher than the current share price, and bank executives were often found shoulder to shoulder with the state's prominent political figures.

At the New Jersey State League of Municipalities' annual meeting in Atlantic City in November, Commerce executives threw a lavish dinner party at Caesars Hotel Casino. The guests included Governor McGreevey and Assembly Speaker Albio Sires. After dinner, Hill joined 3,500 state and local government officials and their families at an invitation-only Beach Boys concert put on by the bank.

Although it is common practice for bankers to court politicians, few banks have amassed the kind of politically connected team that now serves Commerce in its executive suites and on assorted boards of directors.

Hill, 57, has forged political contacts with the same speed and verve he uses to build bank branches.

Many of the men gathered around him are a reflection of Hill himself: part Republican, part Democrat, and all business.

Hill is a registered Republican. But in the late 1980s, chafing at the influence of North Jersey power brokers in Trenton, he became one of Democrat Jim Florio's biggest fund-raisers when the South Jersey congressman sought the governorship.

"Geography is more important than philosophy," Hill explained 14 years ago in *New Jersey Success* magazine.

Now, some of Florio's closest backers are Hill allies, helping him expand Commerce's financial and political empire in many directions. Some of the key relationships, now grown tangled and overlapping, can be traced back to the corridors of Commerce's gleaming six-story headquarters in Cherry Hill.

During the Florio years, one of the building's tenants was Keystone National Insurance, owned by George E. Norcross III, then chairman of the Camden County Democratic Committee, one of the state's biggest sources of cash for Democrats. Another building tenant was the law firm Parker, McCay & Criscuolo, whose managing director is Norcross' brother Philip, one of the state's top government bond lawyers.

A turning point for Hill's ambitions came in 1996, after lawmakers and the U.S. Supreme Court allowed banks to sell insurance. On Nov. 15 of that year, Commerce bought both Keystone National Insurance and Buckelew & Associates, a Toms River insurance agency owned by Joseph E. Buckelew, then chairman of the Ocean County Republican Committee.

Barely two years later, Commerce was transformed. The addition of two huge subsidiaries, Commerce Insurance Services and Commerce Capital Markets, made it much more than an average bank.

Today, George Norcross, 47, and Buckelew, 74, sit on Commerce Bancorp's main 13-member board of directors and are two of the company's largest stockholders. Norcross is also chief executive officer of Commerce Insurance Services, and a top adviser to McGreevey and other prominent state Democrats. Buckelew, a major Republican fundraiser, is president of the bank's Shore division.

Philip Norcross, meanwhile, is Commerce Bancorp's campaign finance lawyer, and Robert C. Beck, his partner at Parker, McCay, is secretary of Commerce's board of directors.

Last year, Parker, McCay counseled dozens of towns, school districts, and government authorities in bond deals worth \$340 million, a portion of which had Commerce as underwriter or financial adviser.

The 1996 purchase of George Norcross' and Buckelew's insurance companies - and the installation of the two political heavyweights in Hill's executive suites - gave Commerce an immediate one-two political punch. Overall spending by Compac NJ exploded, to almost \$654,000 last year from \$72,000 in 1996.

Compac NJ's donations, however, are only a fraction of the campaign dollars connected to Commerce. Since 1997, bank executives, board members, lobbyists, and consultants on Commerce's payroll have conservatively helped raise an additional \$10 million for New Jersey politicians through dozens of political funds.

An example is First Jersey PAC, headed by George Norcross. In one recent 18-month period, First Jersey PAC gave \$408,500 to county parties and candidates and \$489,400 to candidates running for the Assembly and state Senate.

A review by The Record of political donations by other banks operating in New Jersey shows that none has come close to Commerce.

In 2002, for example, Compac NJ gave more than \$250,000 to politicians and funds in New Jersey. By comparison, employee PACs for competitors such as First Union/Wachovia and the Trust Company of New Jersey each gave about \$25,000.

All but \$20,000 of Compac NJ's 2002 donations were at the county and municipal levels, vital to the rapidly expanding Commerce because that's where it obtains zoning variances to build new branches and the bulk of its billions in government deposits, insurance, and bonds.

Indeed, Commerce's expansion has run on a parallel track to the bank's political donations. Since 1997, Commerce's total assets have grown from \$2.9 billion to \$17.7 billion by the end of 2002. Its overall government deposits have risen from less than \$500 million to more than \$2.5 billion.

More than \$1.8 billion of those government deposits belong to New Jersey taxpayers.

-Public business, private business

The foundation of Commerce's power is capital - both the monetary and political varieties - and the ability to grant access to it.

Simply put, Commerce and its leaders have what others crave. Politicians want campaign dollars, lawyers need billable hours, and developers seek financing and subsidies for the sewers and highway ramps that will help their projects sell.

Commerce's extraordinary reach allows its executives and board members to bring politicians, lawyers, and developers together for mutual benefit.

For watchdog groups, however, the interlocking political and financial relationships between policymakers and Commerce executives and board members, including private business deals, raise a vital question: Can officeholders with ties to both the bank and the public be counted on to make decisions on behalf of the people they represent, rather than to benefit those who supply them with campaign cash and personal income?

A sampling of the kinds of Commerce connections that are raising concern among rivals, regulators, and public advocates:

The business deal:

Assembly Majority Leader Joseph J. Roberts Jr., D-Camden, is a Commerce shareholder. He also is a business partner with two Commerce board members, George Norcross and William A. Schwartz Jr.

In March 2002, Commerce provided a \$32.5 million line of credit to an investment group controlled by Roberts, Schwartz, George Norcross, and Philip Norcross, the bank's campaign finance lawyer. That enabled the partners to buy U.S. Vision, the nation's sixth-largest retailer of eyeglasses and contact lenses, where Schwartz is CEO.

The Securities and Exchange Commission is reviewing, among other things, whether Commerce shareholders should have been told about the insider loan and potential conflicts between the bank and the investment group, according to federal sources familiar with the review.

Arthur Makadon, a lawyer who represents Commerce Bancorp and George Norcross, says there was nothing improper about the credit or how the bank disclosed it.

At the time of the U.S. Vision transaction, he says, national banks were exempt from securities law that required publicly traded companies to tell shareholders about insider loans. Congress has since banned such insider loans - except for national banks.

Furthermore, Makadon says, his clients have not been informed of any review or inquiry. An SEC spokesman says agency policy is to neither confirm nor deny the existence of any inquiry.

In March, critics attacked Roberts for using his authority over the legislative agenda to push a bill that could have benefited U.S. Vision. The bill would have allowed optometrists to perform laser eye surgery. Roberts vowed to sell his 17 percent stake in U.S. Vision if the company ever got into laser surgery, but the bill was withdrawn before a vote.

The public appointments:

New Jersey has 8 million residents. So what are the odds that three of its most prominent public bodies would each be headed by a Commerce board member last year?

*-Commerce board member Harvey A. Holzberg was appointed by McGreevey as chairman of the University of Medicine and Dentistry of New Jersey, which oversees the state's medical education and has ties to more than 200 hospitals and health-care institutions.

*-Commerce board member Jerold L. Zaro was appointed by McGreevey as chairman of the New Jersey Highway Authority, the \$200 million agency that oversees the Garden State Parkway.

*-Commerce board member Joseph E. Buckelew was chairman of the New Jersey Sports and Exposition Authority, the agency overseeing the \$1.3 billion redevelopment of the Meadowlands sports complex. He was appointed by McGreevey's predecessor, acting Gov. Donald T. DiFrancesco.

Buckelew, a Republican fund-raiser, and Zaro, a Democratic fund-raiser, served seven years together on the Highway Authority board until DiFrancesco tapped Buckelew for the Meadowlands post. They also are partners in several commercial real estate development ventures around the state.

DiFrancesco, whose political funds received \$20,600 from Compac NJ while he served as Senate president, joined Buckelew, Zaro, and Holzberg at Commerce less than three months after he left the governor's office.

The pitch to developers:

James R. Napolitano wears three hats.

He is an attorney with DeCotiis, Fitzpatrick, Cole & Wisler, a Teaneck firm that handles business for dozens of local governments and state agencies.

He is vice chairman of the Hackensack Economic Development Commission, whose nine appointed members assist the city's Planning Board with zoning and redevelopment issues.

And he is president of the Commerce Bank/North division, based in Ramsey.

A year ago, Napolitano apparently became confused about just which hat he was wearing. In May 2002, writing on Commerce Bank letterhead, complete with the red C, he invited some of the state's most prominent developers to attend a meeting with Hackensack city officials. The letter began "Re: Redevelopment Opportunities - Hackensack."

"In particular, the City would like to know what you envision Hackensack's current residential market to be and the type of rezoning and redevelopment assistance that you believe would be necessary," Napolitano wrote.

The stationery identified him as the bank's regional president. Nothing in the letter indicated his role with the Hackensack Economic Development Commission.

Contacted this month, Napolitano said he didn't recall the letter or see a reason to question his multiple interests. "I sit on lots of boards and I do it to help out the community," Napolitano said.

The 'pay-to-play' bond deals:

"Pay to play" is how much of New Jersey's government business gets done. In pay to play's most basic form, entities that depend on government work give campaign contributions to people who might help them get those contracts.

Widespread acceptance of the practice has become "ethically corrosive and economically costly," says Harry Pozycki, executive director of Common Cause New Jersey.

"It's legalized bribery," says Pozycki, a former chairman of the Middlesex County Democratic Committee. "The pay-to-play system has infected our government in New Jersey. The players have become so addicted to it."

Commerce is only one of many players, but its leaders are among the masters.

Consider bond deals struck in three counties - Gloucester, Mercer, and Ocean - in the space of eight months last year.

In his successful 2001 campaign for state Senate, Democrat Stephen Sweeney - already director of the Gloucester County Board of Freeholders - raised \$1.8 million, a state record for a legislative race. His opponent, incumbent Raymond Zane, raised just under \$711,000.

The man behind much of Sweeney's money was his boyhood friend, George Norcross.

In February 2002, barely four months after Sweeney's victory, Gloucester County and the Gloucester County Utilities Authority each completed no-bid agreements with Commerce Capital Markets to refinance bond debts of \$11 million and \$4.7 million, respectively.

On the county bond issue, Commerce shared a \$68,000 underwriting fee with Salomon Smith Barney. It made approximately \$30,000 on the utilities authority's bond.

The same month, Compac NJ contributed \$9,250 to the Gloucester County Executive Committee.

Furthermore, each bond deal was legally blessed by a law firm with close allegiances to Commerce. Parker, McCay & Criscuolo - whose lead bond lawyer, Philip Norcross, is Commerce's campaign finance lawyer - made \$26,500 on the county deal. Blank Rome LLP, Commerce's corporate counsel, made \$40,000 on the utilities authority deal.

Both law firms contributed heavily to political funds benefiting county Democrats and Sweeney. From 1998 through 2002, Parker, McCay gave \$52,500 to the Gloucester County Democratic Committee, and Blank Rome gave \$41,500. Parker, McCay gave \$9,800 to Sweeney's 2001 campaign, and Blank Rome contributed \$7,500.

Sweeney did not return a reporter's call seeking comment.

Zane, the man Sweeney defeated, was not shy when drawing conclusions about his opponent's backers. In an interview after his loss, Zane said, "This business of raising a million dollars for a \$49,000 legislative seat is nonsense. This was a major investment by people who look to gain personally."

Commerce also was active in Mercer County.

From February 2000 to April 2002, Compac NJ donated \$9,650 to the campaign fund of Hamilton Township Mayor Glen Gilmore.

In late 2001, Gilmore, a Democrat, and the all-Democratic council repealed an ordinance that prohibited giving no-bid contracts to firms that contribute more than \$2,500 to local politicians and political parties, saying the ordinance was unconstitutional.

On March 4, 2002, the township completed just such a no-bid deal, refinancing \$7.4 million in debt with Commerce Capital, which was paid a fee of almost \$40,000.

The mayor defends the ordinance change. Noting that most law firms, engineers, and other vendors are big political contributors in Hamilton Township and Mercer County, he says that without the change, "I would suspect there would be many professional organizations that would not have been permitted to do business with the township."

The third example occurred in October 2002, when Ocean County's all-Republican Board of Freeholders refinanced \$55.5 million in long-term debt. The no-bid deal earned Commerce Capital, which handled almost half the bonding, a good share of the \$150,000 in underwriting fees.

Less than a week later, Compac NJ mailed two checks totaling \$10,500 to the Ocean County Republican Finance Committee, whose chairman is George Gilmore, head of the Toms River law firm that represented Commerce in the bond deal. He is not related to Hamilton Township's Glen Gilmore.

"I would emphatically deny there's a connection between campaign contributions and government work in Ocean County," George Gilmore says. "They [Commerce] have been very successful because of their friendly service."

With Gilmore, that friendly service extends to a personal level as well: "If I need any insurance, I'm going to call Joe Buckelew. There's a comfort level there."

Assemblyman David Russo, R-Ridgewood, says Commerce's activities around the state appear even to surpass traditional pay to play.

"This is not exactly pay to play," says Russo, who a decade ago advocated tighter regulation of companies entrusted with public funds. "Why would you have to pay? It's like they've made everybody a partner. They're all stakeholders."

The door to the governor's office:

In Trenton, access is everything.

Two Commerce insiders have enjoyed access of the most prized variety. State House employees say they've seen George Norcross and John A. Lynch enter McGreevey's office through a restricted private entrance. In the past year, Norcross and Lynch also have attended private political strategy meetings at Drumthwacket, the governor's official residence.

The three men knew each other well before McGreevey became governor.

Lynch, a former mayor of New Brunswick and former state Senate president, is McGreevey's longtime political mentor, the force who helped guide McGreevey into the governor's office. Lynch has served on the regional Commerce/Central board since at least 2001.

A sizable chunk of the \$68.2 million campaign war chest that helped McGreevey gain office was raised by George Norcross, who also delivered key South Jersey votes. He became a Commerce executive in 1997, and joined Commerce Bancorp's main board of directors in March 2002.

"Every insider conversation in Trenton starts with those two names," says political scientist David Rebovich, director of The Rider Institute for New Jersey Politics. "Lynch and Norcross helped make Jim McGreevey a viable statewide candidate."

Trenton insiders consider Norcross and Lynch the Democratic bosses of South and Central New Jersey, respectively, and it's no secret they can get the governor's ear. Even after the 2001 election, Lynch and Norcross continued to advise McGreevey, even on whom he should appoint to key posts, prompting the governor's office to make several public denials of their influence. Both men were known to have attended key meetings on

such sensitive matters as replacing Sen. Robert G. Torricelli and state police Superintendent Joseph Santiago.

"This is the worst-kept secret in New Jersey politics, which has led folks to wonder whether the governor is really calling the shots," Rebovich says.

Norcross, who attended the interview at The Record with Hill, declined to characterize the nature of his association with McGreevey. Lynch did not return a reporter's phone call. Micah Rasmussen, the governor's spokesman, also declined to describe the two men's relationship with McGreevey.

Norcross, Lynch, and Commerce CEO Hill are among 36 business leaders appointed by McGreevey to Prosperity New Jersey, a state-funded group that brings together public and private sectors to discuss how government can assist business.

Trustees include the governor, his top Cabinet officers, and such business heavyweights as the presidents of Johnson & Johnson, Continental Airlines, Pfizer Inc., and Merck & Co. Commerce is the only company with more than one representative.

Campaign cash in North Jersey:

Bergen County Democrats spent more than \$4 million last year to win control of county government. It was the most expensive county executive's race in New Jersey history.

The biggest portion of that money can be traced directly to the Central and South Jersey fund-raising machines controlled by Commerce Bank insiders Norcross and Lynch.

The money enabled Dennis McNerney, a municipal finance banker, to overwhelm state Sen. Henry P. McNamara, a retired car dealer, in the race for county executive.

McNamara has a theory why so much outside money flowed to his opponent: McNamara had fiercely opposed proposals to build a \$355 million sports arena in Newark and redevelop the Meadowlands - plans pushed by virtually every power broker in the state, including Democrats Norcross and Lynch and Republicans Buckelew and DiFrancesco.

McNerney opposed the Newark arena in private but enthusiastically embraced Meadowlands redevelopment, which could pave the way to build a new arena.

Both projects would offer Commerce and other financial services providers opportunities to make millions of dollars in fees from developers, contractors, engineers, and, of course, government.

"The public has to start becoming aware of what is happening when any party will spend \$4 million for a \$100,000 job," McNamara says. "They didn't make that kind of investment without looking for a return."

The man who ran McNerney's campaign dismisses the notion that campaign contributors were making business investments.

"People contributed to the Bergen County Democrats and Dennis McNerney because they shared his vision for the county," says Bill Maer, now a consultant to the county Democrats. "They thought he would bring young, refreshing leadership to county government."

From Main Street to Wall Street, taxpayers and investors are losing patience with the insider privileges enjoyed by the politicians they elect and the companies in which they invest.

"The public is OK with winning and losing as long as everyone is playing by the rules and the rules aren't being manipulated," says Frank Narvan, a consultant to the non-profit Ethics Resource Center in Washington, D.C.

"The role of government is to serve the public interest. What the public wants to know is, are the public officials making decisions in my best interest?"

In one poll this year, 77 percent of New Jerseyans believed there was political corruption in the state. Respondents also believed that about half the state's politicians were corrupt.

A second survey, dealing with corporate governance, found that almost 75 percent of respondents felt they could not trust corporate CEOs.

Facing ever-tougher questioning about company practices, Hill tried to reassure investors gathered last month at the Waldorf-Astoria hotel in New York.

"As no one has ever tried to build a major bank this way before, don't be surprised if we make a few errors, a few falls, a few stumbles along the way," Hill said.

He acknowledged that "the climate is changing" for political giving by government contractors.

"What meets the law may not be the current accepted practice," Hill said.

The governor and legislators have promised strict new laws for campaign financing, government contracts, and ethics, but critics complain there are few signs that anyone is willing to expend the political capital necessary to make real reforms.

As it stands, the officeholders Commerce woos can legally hold multiple public positions, limit their disclosure of potential conflicts of interest, and hand out contracts without competition.

And the critics say the lawmakers who might toughen standards have little reason to challenge a system that benefits insiders both politically and financially.

Some business and political leaders "believe if it's legal and the rules don't prohibit it, it must be OK," Narvan says, adding that he considers such conduct "the lowest level of behavior individuals should be following."

Former state Sen. William Schluter, who once headed the Legislature's Joint Committee on Ethical Standards and now teaches reform politics at Rutgers University, says he is appalled that New Jersey lawmakers and the public are permitting Commerce to wield such influence.

"I am outraged that government is being taken away from people and the public be damned," Schluter says. "This is power. It is raw power and it is the determining factor in government decisions."

Staff Writer Shannon Harrington contributed to this article. Clint Riley's e-mail address is riley@northjersey.com

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Lobbyists adept at playing the game

One of Commerce Bancorp's best assets may be the team of past and current political wheeler-dealers it employs to lobby on its behalf.

The bank's lobbying firm of choice is Princeton Public Affairs Group of Trenton, whose co-founder, Dale J. Florio, sits on the Commerce/Central board of directors and is chairman of the Somerset County Republican Committee.

As Commerce lobbyists, Florio and his partners have urged lawmakers and state bureaucrats to consider numerous proposals that could benefit Commerce, including legislation requiring the state to deposit millions of dollars in New Jersey banks.

As Somerset County Republican chairman, Florio helps select political candidates for local offices and finances their campaigns. That gives the lobbyist, and Commerce board member, inside knowledge when public officials seek bond underwriters, banking services, or insurance policies - all services that Commerce provides.

Princeton Public Affairs Group earned \$6.1 million in 2002. Commerce paid the company \$234,444.69 to lobby Trenton lawmakers and bureaucrats, a total 91 percent higher than what it paid in 2001.

For perspective, the Commerce payment was only slightly less than what Princeton Public Affairs Group earned from each of two big clients with contentious issues in the state: tobacco giant Philip Morris and the New Jersey Coalition for Auto Insurance Competition.

Commerce executives say the lobbying dollars help forward the bank's interests in New Jersey, its home state. Yet in comparison, FleetBoston Financial Corp. - Commerce's biggest banking competitor in New Jersey - reported no expenditures for political lobbying in New Jersey last year and spent \$135,000 on lobbying in its home state, Massachusetts.

Apart from registered lobbyists, however, companies are not required to publicly disclose the activities of others they employ to contact public officials, who is paying them, or how much they were paid.

One of the newest members of Princeton Public Affairs Group is former Assembly Speaker Jack Collins, R-Salem, who signed on in January 2002, just days after retiring from 16 years in the Legislature.

Collins is designated a "senior counsel" at the firm, and his interaction with government officials is not regulated. His duties include providing consulting services to Commerce, which contributed frequently to political funds Collins controlled and/or benefited.

Princeton Public Affairs Group's roster also includes former state Senate President John F. Russo Sr., a Democratic fund-raiser from Ocean County who lobbies for Commerce; Bradley Brewster, a former executive director of the Assembly Republicans and a friend of former acting Gov. Donald T. DiFrancesco; and William Pascrell III, Passaic County counsel and son of Rep. Bill Pascrell Jr., D-Paterson.

In addition, Jamie Fox, Governor McGreevey's chief of staff, was managing partner of the lobbying firm's Washington arm, Winning Strategies, until joining the McGreevey administration as transportation commissioner early last year.

- Clint Riley

(SIDEBAR, PAGE a13)

At a glance

Commerce Bancorp

Founded: 1973

Headquarters: Cherry Hill

Stock symbol: CBH

President and CEO: Vernon W. Hill II

Employees: 6,875

Branches: 225

Total assets: \$17.7 billion

Total liabilities: \$16.6 billion

Total deposits: \$14.7 billion

Subsidiaries: Commerce Bank, National Association; Commerce Bank/Shore; Commerce Bank/North; Commerce Bank/Delaware; Commerce Bank/Pennsylvania; Commerce Bank/Harrisburg; Commerce Bank Leasing LLC; Commerce Capital Investments Inc.; Commerce Capital Markets Inc.; Commerce Insurance Services

(GRAPHIC TEXT, PAGE a14)

The players

In the complicated game of state money, a look at how the banker, the politician, and the businessman are connected:

The Executives

Vernon W. Hill II

Commerce connection - President and CEO; stock worth estimated \$139 million

Business ties / Commerce interests – Founder, Site Development Inc. (commercial real estate); partner in fast-food franchises

Democratic and Republican political involvement - Fund-raiser, both major parties

Public positions - Trustee, Prosperity New Jersey

George E. Norcross III

Commerce connection - CEO, Commerce Insurance Services; member of board; \$40 million est. stock

Business ties / Commerce interests – U.S. Vision board member; vice chairman, Cooper Health System; partner with Roberts and Schwartz

Democratic political involvement - Adviser to Governor McGreevey; former chairman, Camden County Democrats

Public positions - Trustee, Prosperity New Jersey

Joseph E. Buckelew

Commerce connection - President, Shore division; member of board; \$26 million est. stock

Business ties / Commerce interests – Real estate developer, with Zaro

Republican political involvement - Former chairman, Ocean County Republican Finance Committee; Republican fund-raiser

Public positions - Commissioner and former chairman, N.J. Sports and Exposition Authority; former chairman, N.J. Highway Authority

James R. Napolitano

Commerce connection - President, North division

Business ties / Commerce interests – Co-founded Independence Bank with Hill

Republican political involvement - Republican fund-raiser

Public positions - Vice chairman, Hackensack Economic Development Commission

John "Jack" Tarditi Jr.

Commerce connection - Vice chairman, Commerce Insurance Services

Democratic political involvement - Democratic fund-raiser

Public positions - Haddonfield commissioner, former mayor; chairman, Camden County Municipal Joint Insurance Fund

The Board Members

Donald T. DiFrancesco

Commerce connection - Commerce Bancorp director; (wife, Diane, is account executive with Commerce Insurance Services); \$329,000 est. stock

Business ties / Commerce interests – Partner, DiFrancesco, Bateman, Coley, Yospin, Kunzman, Davis & Lehrer - legal services to Commerce

Republican political involvement - Oversaw Republican Leadership PACs

Public positions - Former acting governor, former state Senate president

Robert C. Beck

Commerce connection - Commerce Bancorp director, board secretary; \$15 million est. stock

Business ties / Commerce interests – Partner, Parker, McCay & Criscuolo - legal services to Commerce, advice to local governments on bond deals

William A. Schwartz Jr.

Commerce connection - Commerce Bancorp director; \$3 million est. stock

Business ties / Commerce interests – President, U.S. Vision; business partner with Norcross and Roberts

John A. Lynch

Commerce connection - Central division director

Democratic political involvement - Democratic fund-raiser; adviser to McGreevey; co-chairman, New Directions PAC

Public positions - Trustee, Prosperity New Jersey; former state Senate president; former mayor, New Brunswick

Dale J. Florio

Commerce connection - Central division director

Business ties / Commerce interests – Co-founder, Princeton Public Affairs, Commerce's lobbyist

Republican political involvement - Chairman, Somerset County Republican Committee; Republican fund-raiser

Harvey A. Holzberg

Commerce connection - Central division director

Public positions - Outgoing chairman, University of Medicine and Dentistry of New Jersey; president, Robert Wood Johnson University Hospital

John P. Ferguson

Commerce connection - North division director

Public positions - Member, Hackensack Economic Development Commission; president, CEO of Hackensack University Medical Center; UMDNJ board member

Jerold L. Zaro

Commerce connection - Shore division director

Business ties / Commerce interests – Real estate developer, with Buckelew; partner, Ansell, Zaro, Grimm & Aaron, which represents Commerce

Democratic political involvement - Democratic fund-raiser

Public positions - Chairman, N.J. Highway Authority

James J. Mancini

Commerce connection - Shore division director

Ocean County freeholder; mayor, Long Beach

The Associates

Joseph J. Roberts Jr.

Commerce connection - Stockholder

Business ties / Commerce interests – Principal partner, U.S. Vision; business partners with Norcross and Schwartz

Democratic political involvement - Former chairman, Democratic State Committee; oversees PACs

Public positions - Assembly majority leader

Wayne Bryant

Business ties / Commerce interests – Partner, Zeller & Bryant, which represents Commerce in bond deals

Democratic political involvement - State senator (Democrat, Camden County); co-chairman, Senate Appropriations Committee

Jack Collins

Commerce connection - Consultant

Business ties / Commerce interests – Senior counsel, Princeton Public Affairs Group

Republican political involvement - Republican fund-raiser

Public positions - Former Assembly speaker

John F. Russo Sr.

Commerce connection - Lobbyist

Business ties / Commerce interests – Princeton Public Affairs Group

Democratic political involvement - Runs Friends of John Russo PAC

Public positions - Former state Senate president, Democrat

Philip Norcross

Commerce connection - Campaign finance lawyer

Business ties / Commerce interests – Managing partner, Parker, McCay & Criscuolo; U.S. Vision board member

Democratic political involvement - Democratic fund-raiser

Public positions - Legal counsel to numerous municipal governments

Jeffrey T. Michaels

Commerce connection - Consultant

Public positions - Board member, N.J. Casino Reinvestment Development Authority; former chief of staff to acting Gov. DiFrancesco

Melvin "Randy" Primas

Commerce connection - Former managing director, Commerce Capital Markets

Public positions - State-appointed overseer of Camden; former mayor, Camden; former commissioner, Department of Community Affairs

John Currie

Commerce connection - Former community outreach coordinator

Democratic political involvement - Chairman, Passaic County Democrats; deputy vice chairman, Democratic State Committee

Public positions - Member, Passaic County Board of Elections

(TABLE, PAGE a15)

Money in the banks

Among the top five banks holding taxpayer dollars outside the \$11 billion State of New Jersey Cash Management Fund, Commerce Bancorp holds a disproportionate share for its size. Commerce also provides much more political capital in New Jersey than its much larger rivals.

FleetBoston Commerce First Union/ PNC Financial Valley National

Financial Corp. Bancorp Wachovia Corp. Services Group Bancorp

Financially (figures in billions, as of Dec. 31, 2002)

Total assets \$186.1 \$17.7 \$325.4 \$62.2 \$9.0

Total deposits \$130.7 \$14.7 \$199.4 \$46.2 \$6.7

Total govt deposits \$13.2 \$2.5 \$8.7 \$2.0 \$0.5

N.J. govt deposits \$1.9 \$1.8 \$1.0 \$0.9 \$0.5

% N.J. govt deposits of overall deposits 1.5% 12.4% 0.5% 2.0% 7.1%

Bank's share of all N.J. govt deposits 20.6% 19.1% 10.0% 9.5% 5.0%

Politically (2002 PAC expenditures)

New Jersey \$78 \$653,364 \$25,897 \$250 \$0

Federal campaigns \$102,197 \$61,367 \$296,701 \$288,612 \$0

Total \$102,275 \$714,731 \$322,598 \$288,862 \$0

Sources: Federal Deposit Insurance Corp.; N.J. Department of Banking and Insurance;
Federal Election Commission; N.J. Election Law Enforcement Commission;
Pennsylvania Department of State

(TABLE, PAGE a16)

Top 10 bond underwriters

In 2002, New Jersey, its municipalities, and its authorities issued \$7.45 billion in long-term government debt through negotiation, rather than competitive bidding. A look at the leading financial services companies and their long-term bond deals:

Total bond value Share of Total

Underwriter Rank (in millions) no-bid bonds issues

Salomon Smith Barney* 1 \$2,026.4 27.2% 10

Commerce Capital Markets* 2 \$1,466.2 19.7% 64

UBS PaineWebber Inc. 3 \$950.0 12.8% 14

Merrill Lynch & Co. 4 \$577.0 7.8% 10

Lehman Brothers 5 \$412.9 5.6% 4

Wachovia Securities Inc. 6 \$392.0 5.3% 15

Morgan Stanley 7 \$355.4 4.8% 5

Goldman, Sachs & Co. 8 \$338.0 4.5% 4

Windsor Financial Group 9 \$181.9 2.4% 12

Bear, Stearns & Co. 10 \$134.3 1.8% 2

* Commerce Capital Markets and Salomon Smith Barney (recently renamed Citigroup Global Markets Inc.) co-managed New Jersey's \$1.8 billion no-bid tobacco settlement bond last year. They split the fees for putting the deal together, but industry rankings

gave Salomon full underwriting credit for the deal. If the rankings had reflected the actual shared management, Commerce would be the state's top underwriter of no-bid, long-term government debt.

Source: Thompson Financial Securities Data

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1 - COLOR PHOTO - Vernon W. Hill II (center, red tie) built Commerce Bancorp with the help of New Jersey business and political leaders such as former acting Gov. Donald T. DiFrancesco (to Hill's left), George E. Norcross III (to Hill's right), and Joseph E. Buckelew (behind Norcross, red tie), all among the bank's 13-member board of directors.

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2 - ASSOCIATED PRESS PHOTO - Commerce executive George E. Norcross III, center right, at the State House Annex with two well-connected members of Princeton Public Affairs Group, William Pascrell III, left, and John F. Russo Sr., right.

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3 - PHOTO - CHRIS PEDOTA / STAFF PHOTOGRAPHER - Going for the juggler: Jay Koo entertaining at the March opening of a Commerce branch at Warren and State streets in Trenton, two blocks from the steps of the State House.

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4 - PHOTO - BETH BALBIERZ / STAFF PHOTOGRAPHER - Former Assembly Speaker Jack Collins, left, and former acting Gov. Donald T. DiFrancesco entering Boardwalk Hall for Commerce's invitation-only Beach Boys concert during last November's New Jersey State League of Municipalities convention in Atlantic City. The prominent pair entered through a side door as hundreds of invited municipal officials were turned away at the front door because of space limitations.

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19 - PHOTOS

5 - Vernon W. Hill II

6 - George E. Norcross III

7 - Joseph E. Buckelew

8 - James R. Napolitano

- 9 - Donald T. DiFrancesco
- 10 - Robert C. Beck
- 11 - William A. Schwartz Jr.
- 12 - John A. Lynch
- 13 - Dale J. Florio
- 14 - Harvey A. Holzberg
- 15 - John P. Ferguson
- 16 - Jerold L. Zaro
- 17 - Joseph J. Roberts Jr.
- 18 - Wayne Bryant
- 19 - Jack Collins
- 20 - Philip Norcross
- 21 - Jeffrey T. Michaels
- 22 - Melvin "Randy" Primas
- 23 - John Currie

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GRAPHIC - The players.

Recent: YES Librarian: DF
Date-Sent: 05/21/2003 Resale: Yes
Type: MAJOR STORY Type: SERIES
Series: BANKING ON YOUR MONEY Keywords: NEW JERSEY
Keywords: BANK Keywords: BUSINESS
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Organization: COMMERCE BANCORP Sidebar: 1 - Lobbyists adept at playing the
game - Page a13. 2 - At a glance - Page a13.

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'Genghis Khan' of N.J. banking

Empire builder started young

Vernon W. Hill II, CEO and founder of Commerce Bancorp, rewards those loyal to him and tries to crush those who oppose him.

He offers \$5,000 bonuses to Commerce bank managers who close down competing branches. He hires the politically connected and awards handsome stock options to top associates.

He brashly declares he wants "100 percent of every government deposit, corporate deposit, and consumer deposit."

No wonder some rattled rivals liken him to Genghis Khan.

Hill, not bashful about his tactics, sometimes adopts the nickname himself.

Hill started empire-building early. At age 20, he was a bank vice president while attending The Wharton School at the University of Pennsylvania. William G. Rohrer, founder of First Peoples Bank in Camden County, saw promise in the fledgling financier and placed him in charge of his bank's mortgage department.

But Hill had learned from his real-estate developer father that he would get richer as his own boss. Within two years, Hill had started a commercial site development company in South Jersey. His first client, in 1969, was McDonald's founder Ray Kroc, who was on the prowl for new locations in New Jersey.

Many businesses have copied Kroc's cookie-cutter retail model, but Hill was the first to apply the concept to banking, building a multibillion-dollar corporation and a personal fortune estimated at \$250 million.

In 1973, Hill, then 27, persuaded a group of skeptical South Jersey businessmen to invest \$1.5 million in his first Commerce Bank branch in Burlington County. Two years later, he joined a dozen young Bergen County businessmen who were investing in the start-up Independence Bank of New Jersey in Allendale. Only Hill had banking experience.

"Vernon was a dominant presence on the board, and I think a lot of people looked to Vernon for guidance," says William L. Griffin Jr., Independence Bank's first president. "Vernon had goals, and he was not shy about telling you what he wanted to do."

But not even Griffin could predict how Hill would go about achieving his goals. His business model has turned banking tradition on its ear: Commerce strives to increase its liabilities, in the form of deposits, rather than to grow its assets, in the form of loans that are paid back with interest. And while other banks have closed branches, Hill continues to build new ones.

In January 1997, Commerce bought out Independence shareholders and replaced the marquees with big red C's. The acquisition, coming less than four months after Commerce Bancorp began trading on the New York Stock Exchange, marked the start of Hill's aggressive expansion beyond South Jersey.

Today, he controls a vast business empire that includes the financial conglomerate, real estate, and fast-food franchises. An accomplished golfer, Hill also is principal owner of the exclusive Galloway National Golf Club near Atlantic City.

He commands his domain from the corporate headquarters in Cherry Hill or from the 45,000-square-foot mansion he and his wife, Shirley, finished building last year in Moorestown, Burlington County. Villa Collina, Italian for "Hill House," is 10,000 square feet smaller than the White House, but boasts eight reflecting pools, a greenhouse, and 44 acres of woods.

Villa Collina is assessed at \$6.4 million. The Hills could have bought two such mansions with what they collected from Commerce Bancorp in 2001. That year, Commerce compensated Vernon Hill, Shirley Hill, and companies the couple own or are partners in with at least \$13.8 million.

Last year, Vernon Hill earned a \$1.5 million salary and a \$750,000 cash bonus, plus 150,000 Commerce stock options. He also earned \$170,500 in other compensation. Real estate companies in which Hill is a partner with other Commerce board members collected \$1.1 million in rent from 17 Commerce branch sites. And there was an additional \$451,000 for use of the Galloway links.

Commerce also paid millions to InterArch Inc., a Mount Laurel interior design firm owned by Shirley Hill, for "architectural design, facilities management, and furniture procurement."

Last year, Wall Street analysts, members of the financial press, and certain investors voiced concerns about some of the insider practices at Commerce, particularly the hefty payments to Shirley Hill's company. In 2002, Commerce paid InterArch \$8.1 million for help in opening 40 branches. Late in the year, a committee of Commerce Bancorp directors decided that her company's design services had added value to Commerce for 25 years and should continue on a more limited scale.

Some financial experts have no problem with the way Hill and Commerce operate.

The close relationships and political activity of company executives, board members, and employees do not concern Anthony R. Davis, a Ryan, Beck & Co. analyst who has consistently given Commerce high marks.

"This is an industry that has always been locally rooted," Davis says. "I don't see that they are doing anything legally or ethically that is out of line with what other banks are doing."

In fact, he adds, "Commerce has been pretty damn good at giving back to communities."

Other Wall Street watchers, however, urge investors and the public to pay closer attention.

"It doesn't square with a regular publicly traded company. There is way too much self-dealing," says Arne Alsin, an Internet financial columnist who has reviewed Commerce's filings with the Securities and Exchange Commission and other documents.

Alsin, founder of Oregon-based Alsin Capital Management, cited the contracts with Shirley Hill and the bank's real estate ventures involving Vernon Hill and other board members.

In addition, says Alsin, Commerce Bancorp's stock is highly diluted because of the generous way Commerce has awarded stock options to employees and board members in recent years. He says that could hurt shareholders in the long run.

Alsin says Commerce's true value and strength as a company will emerge when its growth slows.

"All companies that are growing this quickly eventually hit the wall," he notes. "It's not a matter of if, it's a matter of when."

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GETTY IMAGES PHOTO - Real estate titan Donald Trump, left, with Vernon W. Hill II at a Sept. 6, 2001, event promoting the opening of two Commerce Bank branches in New York City.

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2 - PHOTO COURTESY OF COURIER-POST - Villa Collina, the 45,000-square-foot Moorestown mansion of Vernon W. Hill II and his wife, Shirley, has eight reflecting pools.

Recent: YES Librarian: DF
Date-Sent: 05/21/2003 Resale: Yes
Type: SERIES Type: PROFILE
Series: BANKING ON YOUR MONEY Keywords: BANK
Keywords: BUSINESS Keywords: EXECUTIVE
Biography: VERNON W. HILL II Organization: COMMERCE BANCORP.
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Publication: THE RECORD Date: 05/21/2003
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Byline: By SHANNON D. HARRINGTON and JOSH GOLKE, STAFF WRITERS
Source: North Jersey Media Group

Branching north in a big way

Government deposits up 2,407 % since '97

It took Commerce Bancorp several years to march north, but the Cherry Hill-based company wasted no time after establishing a beachhead in 1997.

That year, Commerce trained its sights on Independence Bancorp, a tidy eight-branch operation based in Ramsey. Commerce CEO Vernon W. Hill II knew the bank well; he helped found Independence in 1975.

In the six years since Commerce acquired Independence, Commerce's growth has been explosive. Thirteen new branches have opened in Bergen and Passaic counties. The bank expects to have 25 by the end of the year.

Total deposits - consumer, business, and government - in Commerce Bank/North have ballooned 380 percent, from \$350 million at the end of 1996 to \$1.7 billion in December 2002, according to Federal Deposit Insurance Corp. reports.

But that overall growth pales in comparison with the speed with which Commerce has amassed government financial business in North Jersey - in both bank deposits and bond underwriting.

Since the start of 1997, the amount of taxpayer money deposited in Commerce Bank/North branches has surged from \$8.4 million, or 2 percent of all deposits, to \$211 million, or 12 percent of all deposits.

Looking at Commerce's success another way, its North Jersey consumer and business deposits increased 348 percent in six years, but its taxpayer-based deposits increased by 2,407 percent.

One-third of the Bergen County government's deposits are now with Commerce.

"They really bend over backward for us," says Bogota Mayor Steven Lonagan, whose town switched to Commerce last year after its old bank, Summit Bancorp, was purchased by FleetBoston Financial Corp. Lonagan says Summit's representative went to work for Commerce.

"They actually send a courier to us to pick up our tax checks," Lonagan says. "They're really angling themselves to get government business."

Commerce's growth in bank deposits has paralleled its rising share of the region's bond market. Last year, Commerce Capital Markets underwrote more than one-third of all debt issued in Bergen County; 17 other institutions split the rest.

Commerce also won the job of underwriting more than \$67 million in bonds to consolidate Bergen County and municipal debt obligations to the state pension system. The county negotiated exclusively with Commerce and did not invite other banks to bid.

In Passaic County, Commerce handled no bond sales from 1993 to 1998 but has since underwritten one-third of county bond deals, worth \$107 million. All were competitively bid.

Passaic County Auditor Steven Wielkotz says the bank simply offered the best deals.

"It's only been in the last five or six years that Commerce has become a major player," Wielkotz says. "It's the most rapidly expanding bank in all of New Jersey. I think it's been more aggressive than other institutions."

Still, the rate at which Commerce has developed government business has prompted public officials, government watchdogs, and banking competitors to ask whether its vast political connections are playing too great a role.

Those connections are forged through campaign donations and lucrative professional relationships.

Since the bank's emergence in Bergen County, its political action committee has distributed \$41,000 to Republicans and Democrats. Overshadowing that sum is the money poured into campaign coffers from fund-raising machines controlled by Commerce executive George E. Norcross III and one of the bank's regional board members, John A. Lynch.

Lynch and Norcross helped bankroll last year's \$4 million campaign that enabled Democrats to take control of Bergen County government.

"What you are seeing in politics is what you would call unfair competition," says Assemblyman Matt Ahearn of Fair Lawn. "The commercialization of government and politics is undermining the democratic process from top to bottom. There are no checks and balances in place to protect the interests of people in local communities."

Disgusted with the Bergen County Democratic Organization, Ahearn quit the party four months ago and became a Green Party representative.

Professional service deals have proven mutually beneficial to Commerce and to the county's political elite, including select municipal officials.

In 2001, Commerce hired the law firm of Kaufman, Gelbert & Bern to help it win Planning Board approval for a new branch in Fort Lee. A few months after the building site was approved, neighboring Leonia - whose mayor, Paul Kaufman, is a partner in the law firm - moved 85 percent of its deposits to Commerce.

Kaufman insisted that one relationship had nothing to do with the other. In fact, he says, Leonia's finance officer made the decision to pursue a new bank. During council discussion, Kaufman left the room, and he abstained from voting. Leonia's business administrator also went out of his way to announce that the mayor was not involved in the switch.

In Ramsey, a public outcry arose last year when Commerce asked the Planning Board for permission to build a helipad beside its regional headquarters. The bank, it turned out, had been landing helicopters in a nearby office park for 15 years without required approval from the Borough Council or state transportation officials, and despite occasional calls to police from the public.

One police report from 1999 describes how an officer relayed a helicopter complaint to James R. Napolitano, president of the Commerce Bank/North division. Napolitano told the officer that Mayor John Scerbo had granted permission for the landings. Scerbo's son, Ryan, is an associate attorney at the Teaneck law firm Decotiis, Fitzpatrick, Cole & Wisler, where Napolitano does occasional work. Contacted last year, Napolitano called

the police report "totally incorrect," and the officer could no longer recall a conversation with Napolitano.

Scerbo and the Ramsey Council maintained ignorance of illegal helicopter activity. A slate of Democratic challengers made an issue of the helicopters and in November defeated Scerbo and two councilmen, Joseph Pojanowski and Paul R. Harris. Commerce withdrew plans for the helipad.

Less than two months after his term ended, Pojanowski was working directly for Commerce, representing the bank in its effort to place a branch in Clifton.

"It seemed like Commerce Bank was getting special treatment from our governing body," says Mayor Richard Muti, who defeated Scerbo.

Muti says the borough is soliciting proposals from other banks for its \$10 million in deposits, most of which remain with Commerce.

"It's my intention to try and spread that business around," Muti says.

In 1998, an even bigger uproar accompanied the Passaic County government's decision to do business with Commerce, and resulted in calls for federal and ethics investigations.

Shortly after Democrats took over county government, the Board of Freeholders voted to open three new Commerce accounts with about \$10 million, more than 15 percent of the county's deposits.

The sudden movement of money prompted questions from the Republican minority.

They noted that Commerce had multiple links to the people who had just taken over. County Democratic Chairman John Currie was the bank's North Jersey community outreach coordinator. County Counsel William J. Pascrell III is a partner in Princeton Public Affairs Group, Commerce's lobbying firm. In 1998, the bank had donated \$5,000 to the reelection campaign of Pascrell's father, Rep. Bill Pascrell Jr., the county's top Democrat.

The younger Pascrell says he has never lobbied personally for Commerce and has "nothing to do" with decisions about the county's banking.

"Those were baseless accusations that never panned out," he says. "Nothing ever came of it."

Staff Writers Clint Riley and Brian Aberback contributed to this article. Shannon D. Harrington's e-mail address is harrington@northjersey.com. Josh Gohlke's e-mail address is gohlke@northjersey.com

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4 BETH BALBIERZ PHOTOS

1 - An office near you: Commerce locations include, from left, 102 South Paramus Road, Paramus;

2 - 63 West Allendale Ave., Allendale;

3 - 540 River St., Hackensack;

4 - and 1100 Lake St., Ramsey.

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5 - PHOTO - DON SMITH / STAFF PHOTOGRAPHER - James R. Napolitano, president of the Commerce Bank/North division, attended the grand opening of the branch on Palisade Avenue in Fort Lee on Nov. 23, 2002.

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GRAPHIC - R.L. REBACH / STAFF ARTIST - Explosive expansion.

Recent: YES Librarian: DF
Date-Sent: 05/21/2003 Resale: Yes
AssignNo: 1-4. 7826. 5. 4312 Type: SERIES
Series: BANKING ON YOUR MONEY Keywords: BANK
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Muti says the borough is soliciting proposals from other banks for its \$10 million in deposits, most of which remain with Commerce.

"It's my intention to try and spread that business around," Muti says.

In 1998, an even bigger uproar accompanied the Passaic County government's decision to do business with Commerce, and resulted in calls for federal and ethics investigations.

Shortly after Democrats took over county government, the Board of Freeholders voted to open three new Commerce accounts with about \$10 million, more than 15 percent of the county's deposits.

The sudden movement of money prompted questions from the Republican minority.

They noted that Commerce had multiple links to the people who had just taken over. County Democratic Chairman John Currie was the bank's North Jersey community outreach coordinator. County Counsel William J. Pascrell III is a partner in Princeton Public Affairs Group, Commerce's lobbying firm. In 1998, the bank had donated \$5,000 to the reelection campaign of Pascrell's father, Rep. Bill Pascrell Jr., the county's top Democrat.

The younger Pascrell says he has never lobbied personally for Commerce and has "nothing to do" with decisions about the county's banking.

"Those were baseless accusations that never panned out," he says. "Nothing ever came of it."

Staff Writers Clint Riley and Brian Aberback contributed to this article. Shannon D. Harrington's e-mail address is harrington@northjersey.com. Josh Gohlke's e-mail address is gohlke@northjersey.com

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4 BETH BALBIERZ PHOTOS

1 - An office near you: Commerce locations include, from left, 102 South Paramus Road, Paramus;

2 - 63 West Allendale Ave., Allendale;

3 - 540 River St., Hackensack;

4 - and 1100 Lake St., Ramsey.

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5 - PHOTO - DON SMITH / STAFF PHOTOGRAPHER - James R. Napolitano, president of the Commerce Bank/North division, attended the grand opening of the branch on Palisade Avenue in Fort Lee on Nov. 23, 2002.

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GRAPHIC - R.L. REBACH / STAFF ARTIST - Explosive expansion.

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Byline: By CLINT RILEY, STAFF WRITER Source: North Jersey Media Group

Ending 'pay to play' is easier said than legislated

Trenton has no shortage of proposals to curb conflicts of interest and end the widespread practice of "pay to play," in which contractors who make political contributions - such as Commerce Bancorp - can be rewarded with taxpayer-funded government work.

The problem is, no one quite agrees who should answer to the new rules.

In March, the state Senate passed a Republican-sponsored bill that exempts legislators from some provisions.

Assembly Democrats countered by introducing a package of 10 bills that includes legislators but leaves out municipalities.

Governor McGreevey dislikes both efforts, and promises to unveil a tougher plan including legislators and municipalities.

Reform advocates take a dim view of the entire effort, suggesting the governor and the Legislature are merely floating progressive ideas in an election year, with no intention of passing any law that would choke off the flow of campaign money from big contributors such as Commerce Bancorp.

For his part, Commerce CEO Vernon W. Hill II says he just wants a level playing field. "I want a clear set of rules so that everybody understands the accepted practice," he says. "Tell me what the accepted practice is, and we will follow it."

The Senate bill, which passed 36-0 in March, would limit campaign contributions from businesses and professional service firms that receive more than \$17,500 a year in work from the state, its authorities, counties, and municipalities. It would also limit the funds

that county political committees may give to other counties, to no more than \$7,200 per election.

The latter provision was inspired by last year's race for Bergen County executive, in which the Bergen County Democratic Organization received \$187,000 in donations from Democrats in Camden County, \$150,000 from Middlesex County, and \$110,000 from Hudson County.

The Assembly bills would prohibit political donations from any entity doing business with the state or a county, but does not address local governments.

McGreevey's proposal would require lawmakers to reveal more about their business interests and prohibit lawmakers from seeking government favors for people who are clients of their private firms. Lobbyists would have to report political donations, and any person seeking to influence contracts, executive orders, and permits would be required to register as a lobbyist.

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'Playing on the edges' of political giving

Repeated money transfers between political funds controlled by Commerce Bancorp have allowed some Commerce employees to sidestep laws intended to limit political donations from those who profit from government bond deals, a financial analysis by The Record shows.

Since 1994, federal securities rules have prohibited any bank, investment house, or employee involved in underwriting state and local government debt - known as municipal bonds - from contributing more than \$250 "either directly or indirectly" to politicians who can influence the awarding of bond business.

Additional federal and state election laws also limit the size of contributions and the way that money from individuals and regulated industries such as banks is given to politicians and political funds.

Commerce Bancorp is a major player in government bonds. Its securities subsidiary, Commerce Capital Markets, is the nation's 23rd biggest underwriter of long-term government debt, and last year underwrote one-third of all bonds issued in New Jersey.

The Record's review, begun last year, discovered that as much as \$182,338.22 obtained from 39 current and former employees of Commerce Capital Markets found its way into a political fund that directly benefits candidates with the power to determine who gets local bond business.

Commerce has two employee political action funds, one state and one federal. Compac NJ has distributed more than \$3 million to local, county, and state political funds in the Northeast since 1997, including \$1.65 million in New Jersey.

In the same period, Commerce Bank-FED raised an additional \$264,955 through employees, most of it from current or former municipal finance professionals covered by the 1994 securities rules. Only \$159,250 of those federal contributions, however, has actually gone to support candidates running for federal office.

Municipal finance professionals, such as those employed by Commerce Capital Markets, may donate to federal campaign PACs but are prohibited from contributing more than \$250 to state PACs that direct money to local and state officials.

Federal and state campaign records show that Commerce Bank-FED has loaned \$182,338.22 to Compac NJ since 1998, the year Commerce Capital Markets expanded. For years, state campaign finance records show, Compac NJ did not pay back the principal on the loans, instead merely adding to them and changing repayment dates from one year to the next.

"That is clearly playing on the edges. It is clearly playing in the gray areas," says Larry Noble, former longtime Federal Election Commission general counsel and now executive director of the Center for Responsible Politics in Washington, D.C.

Compac NJ repaid all the outstanding loans on March 13, two weeks after The Record requested an interview with Commerce officials about the bank's compliance with rules limiting campaign contributions by municipal finance professionals.

Commerce CEO Vernon W. Hill II told a gathering of investors last month that the bank's political donations had been "in total compliance with the law."

Hill reiterated the bank's position in an interview with The Record last week.

"Everything we have done with our PACs is approved by our attorneys," he said.

Despite that, campaign records show that Commerce last year may have violated a state election law limiting contributions. The law allows a federal or state PAC to contribute only \$7,200 a year to a state PAC, and Commerce Bank-FED made two loans totaling \$13,000 to Compac NJ in 2002. Loans that are not repaid in the year in which they are made are considered contributions under election law. The \$13,000 was part of the money repaid in March 2003.

On Monday, Philip Norcross, a campaign finance lawyer for Compac NJ and Commerce Bank-FED, declined to discuss the PACs' activities or the relationship between the bank and his law firm, Parker, McCay & Criscuolo. "Mr. Norcross cannot comment on any relationships with clients of the law firm," his assistant said.

The Record's analysis of campaign records also shows that at least \$23,250 in Compac NJ contributions that bank officials say went to six campaign funds do not show up in the six funds' records. Compac NJ reported the contributions were made to county and local funds for both Republicans and Democrats from Sept. 26, 2000, to May 13, 2002. It is unclear why the contributions were not recorded.

Christopher "Kit" Taylor, executive director of the Municipal Securities Rulemaking Board, declined to address specifics of Commerce's political giving.

But he did say any company that underwrites government debt is prohibited from making even indirect campaign contributions to funds benefiting officials responsible for issuing the debt.

"You may not do indirectly what you are forbidden from doing directly," he says.

(TABLE, PAGE a17)

A generous donor

A snapshot of where Compac NJ provided political contributions in New Jersey from 1997 to 2002.

Organization Amount

Camden County/Democrats \$279,685

Burlington County/Republicans \$229,980

Ocean County/Republicans \$187,596

Gloucester County/Democrats, some Republicans \$134,850

Middlesex County/Democrats \$103,500

New Jersey Democratic State Committee \$93,000

Mercer County/Republicans, urban Democrats \$77,085

New Jersey Republican State Committee \$72,250

Senate Democratic Majority Leadership PAC \$60,000

Essex County/Republicans, Democrats \$56,600

Monmouth County/Republicans, Democrats \$50,590

Salem County/Republicans \$46,800

Atlantic County/Republicans, Democrats \$44,700

Bergen County/Republicans, Democrats \$41,000

Somerset County/Republicans \$39,650

Assembly Republican Majority Leadership PAC \$32,500

Cape May County/Republicans \$27,500

Union County/Republicans \$21,375

Cumberland County/Democrats, Republicans \$17,850

Donald T. DiFrancesco Gubernatorial Campaign \$11,100

Senate Republican Majority Leadership PAC \$8,500

Morris County/Republicans \$5,000

Hudson County/Democrats \$3,000

Passaic County/Democrats \$1,950

Republican Senate President's Committee \$1,000

Hunterdon County/Democrats \$500

Total \$1,647,561

Source: Compiled from New Jersey Election Law Enforcement Commission data

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Banking on politics

Commerce Bank makes most of donations

Seemingly overnight, Commerce Bancorp has become a major force across North Jersey. Seven years ago, the bank with the big red "C" had no branches in Bergen or Passaic counties. It now has 21 branches here, with deposits of \$1.7 billion - including \$247 million in government deposits.

Commerce's meteoric rise shouldn't be all that surprising. Not only does the bank try to live up to its slogan, "America's most convenient bank," but as Staff Writer Clint Riley reports in The Record today, Commerce has had something else going for it: unrivaled political influence.

Today's Page One report, based on an eight-month investigation, shows how one company used money and influence to help buy its way to the top -- and underscores just how complicit New Jersey politicians have been in such manipulation.

Over the past five years, Commerce has made more political contributions --and received more no-bid contracts --than any other bank, insurance broker, or bond underwriter in New Jersey. And to make sure things go its way, Commerce has hired or given campaign donations to a passel of political insiders, including a former acting governor, two former state Senate presidents, and five county party bosses, including Bergen Democratic strongman Joseph Ferriero.

Ultimately, New Jerseyans pay the price for Commerce's political clout in two ways. First, they may well pay higher taxes to subsidize the no-bid deals. Second, they pay a price in the form of skewed elections, where candidates backed by Commerce-connected power brokers far outspend their rivals.

Consider: Since 1997, the bank's political action committee has donated \$1.65 million, and Commerce executives, board members, and lobbyists have helped raise and distribute an additional \$10 million, most of it to politicians in municipalities and counties where Commerce has garnered millions of dollars in banking, bonding, and insurance business.

Is it any surprise that as of last year, the bank held almost 20 percent of available government deposits, worth \$1.8 billion --or that last year, the bank underwrote one-third of all public bonds issued in the state, including long-term bonds that Commerce was chosen to underwrite without competitive bidding?

No other bank in New Jersey comes close in terms of donations, and no other bank in New Jersey comes close in terms of government deposits, or public bonding work.

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Commerce's political influence not only generates plenty of government business, but it can also help affect the outcome of elections.

Last year, Bergen County Democrats spent more than \$4 million to win control of county government --a record. A substantial chunk of that money can be traced directly to the South and Central Jersey fund-raising operations controlled by Commerce insiders.

Last month, after several media reports concerning some of Commerce's practices, CEO Vernon W. Hill II told investors the bank was suspending political contributions in New Jersey until lawmakers decide how to regulate donations from the bank and others who do business with government.

If past reform attempts are any indication, lawmakers will decide to do nothing. Over the years, Trenton has tried half-heartedly several times to curb these cozy sorts of deals.

The trouble is that while all the politicians talk a great game about reforming the way campaigns are funded, they always find an excuse not to pass the necessary legislation. The reason is simple. Politicians voting to put an end to these contributions is about as likely as a room of heroin junkies voting to go cold turkey. They're addicted.

Take the current situation in Trenton. Legislators came up with a measure that would have eliminated this sort of contribution --where donors "pay to play," or give money in exchange for getting government business --but Governor McGreevey killed it on grounds that it didn't cover all levels of government in New Jersey. Such a broad bill is considered unlikely to pass.

So now lawmakers are considering two reform bills, neither of which covers everything Mr. McGreevey wants. Not that the governor is particularly keen on reform either. Commerce and its minions contributed mightily to his campaign two years ago.

The only thing that will convince Trenton it should change the way it does business is a public outcry over these blatant conflicts of interest. As Larry Sabato, the highly regarded director of the Center for Politics at the University of Virginia, told The Record: "It's important for people to have faith that their government is representing them and not just the elite. When private money and government power get concentrated in the hands of a few, we end up with government of, by, and for the powerful."

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