
Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON GOVERNMENT CONSOLIDATION AND SHARED SERVICES

"Testimony from invited guests regarding private sector initiatives that could be used to streamline service delivery or make government operations more efficient"

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: October 25, 2006
10:00 a.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Bob Smith, Co-Chair
Assemblyman John S. Wisniewski, Co-Chair
Senator Ellen Karcher
Senator Joseph M. Kyrillos Jr.
Assemblyman Robert M. Gordon
Assemblyman Joseph R. Malone III



ALSO PRESENT:

Joseph J. Blaney
Brian J. McCord
*Office of Legislative Services
Committee Aides*

Patrick Gillespie
Senate Majority
Hannah Shostack
Kate McDonnell
*Assembly Majority
Committee Aides*

Rosemary Pramuk
Nicole DeCostello
Senate Republican
Thea M. Sheridan
*Assembly Republican
Committee Aides*

***Meeting Recorded and Transcribed by
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SENATOR BOB SMITH (Co-Chair): Almost as intractable as property taxes is traffic on Route 1. (laughter) So I apologize for our 15-minute late start. And I understand that Assemblyman Wisniewski is also stuck in the same traffic. Property taxes first, Route 1 next.

Anyway, our witnesses today have some unique views of what can be done not only in the area of State government, but county and local government, with the use of some of the new technologies that are available.

Our first panel includes Adel -- and Adel, if I say your name wrongly, incorrectly, please correct me -- Ebeid, is that correct? All right. And secondly, Terri Takai, from the state of Michigan. The state of Michigan is frequently used as the model of what can be done with information technology and some of the new technologies to help control the cost of government. And I believe Mr. Adel Ebeid is our information technology person here in New Jersey.

Terri, I understand we have you out in Michigan, right? That's you in the corner of the screen?

Good morning.

T E R R I T A K A I: Good morning.

SENATOR SMITH: Okay. Who would like to start the ball rolling?

A D E L E B E I D: I'll start, Mr. Chairman.

SENATOR SMITH: You need to push your microphone down, the buttons. (referring to PA microphone) And red is go.

MR. EBEID: Good morning. And thank you, Chairman Wisniewski and Chairman Smith, for the opportunity to address the special session on Government Consolidation and Shared Services.

My name is Adel Ebeid, and I am the Chief Technology Officer for the State of New Jersey. With me today are David Cappuccio, Managing VP with the Gartner Corporation, a vendor-neutral internationally recognized resource and advisory firm; as well as Terri Takai, Chief Information Officer of the state of Michigan, who is joining via Web cast.

A few months ago, the Governor asked me to redirect my attention and focus on the Office of Information and Technology, and authorized me to conduct a statewide assessment for information technology. Prior to taking on those responsibilities, I spent the past four years as the Chief of Operations and Technology at the Motor Vehicle Commission. I'm here today representing not just OIT, but the IT community at large. But I do recognize that you may have specific questions regarding OIT, and I want you to know that I will make myself available outside of the session to address any specific questions or follow-up items that you may have. I want to maximize your time and leave as much time for you to ask questions, so I will do my best to keep my statements here real brief.

When we conducted the Technology Assessment Report, which was one of the first tasks that the Governor had asked for, we basically went out and asked 23 agencies, 15 departments, and eight in-but-not-of of those departments to basically report a whole series of information. And the goal was to produce three products. The first product was, produce a

comprehensive picture of the IT resources; second is establish a baseline of IT assets and major projects throughout the state; and finally, also identify areas where we can improve and save dollars.

The report is very comprehensive, and I do plan to leave copies behind, in case your staff would like to have any slice and dice and have any questions. And we do plan to re-conduct this exercise every year to measure the effectiveness of our strategies and the decisions that we're making. The goal is also to benchmark our quality and cost of service to model states and private sector organizations.

To try to put the IT by the numbers, so to speak, the State spends anywhere between \$550 and \$600 million each year to maintain the current mix of hardware, software, telecommunications, and applications; and that number includes salaries. At the same time, the State, in the past two years and in the next three years, has committed to approximately \$450 million in large scale, multiyear renovation projects, such as the unemployment modernization, Motor Vehicle system renovations, automated child support, etc.

The State employs roughly 3,300 employees that are involved in day-to-day IT operations and maintaining critical applications. It's interesting to note, however, that while the State spends roughly 600 million each year on IT, the central agency accounts for less than 20 percent of that spent, and one-third of the staffing. So you can see that the majority of IT spending occurs really outside the central IT organization.

Some of the challenges that we identified, or findings that kind of led to IT being at the crossroads: The first challenge is sustainability. A revolving door leadership really narrows the window of opportunity to have

a positive impact. The second challenge: we found that the organization's mission is constantly evolving and there's constant shift in expectations. Challenge number three is the structure itself -- the organization is misaligned. And what I mean by that is, perhaps we're not focused on needs, the day-to-day priorities of the agency, but rather keeping the railroad running for some of the Legacy applications. Challenge number four is involvement. We obviously identified large gaps in business and policy participation. And what I mean by that is that there's really no seat for IT at the strategy table. IT is frequently tapped for tactical input and not for strategy or policy development. The fifth challenge is that there wasn't a comprehensive picture of IT priorities or resources outside of the central IT organization. The sixth challenge was capacity; and we found as development projects get larger and more complex, on time, on budget performance becomes harder to achieve. Another challenge was credibility, in that faith in the IT community's ability to get things done has eroded over the past few years. Challenge number eight was innovation, and that's-- It's very hard to be innovative when you're tasked with running the -- keeping the railroad running every day. The staff just can't seem to juggle nor -- and I clearly understand where they are. We're maintaining older systems and we're trying to keep them running. These are the systems that run day-to-day business of government operations. It's very hard to innovate when you're doing that. Challenge number nine is reality. There's obviously a graying workforce, compounded by the lack of succession planning. OIT alone has lost more than 200 employees in the last three to four years, and a lot of institutional knowledge and wisdom is walking out the door each day.

Some of the recommendations that we are proposing and that we proposed in different formats, whether it's the yearly commission report or presentations to the Governor's office: Recommendation number one is really trying to get away from the whole question of whether we centralize or decentralize. Frankly, that's probably not the right, or the appropriate question for IT. The bigger question for us is trying to find the right balance and trying to balance efficiency with responsiveness.

The second recommendation is that we -- we're recommending that we establish an IT governing board to define policy and set priorities at an enterprise scale. In the past, there might have been boards set up to oversee just the OIT organization. I think it's very important that the next governing board oversees the entire IT community.

Recommendation number three is establish a project review board and to review, approve, and monitor the progress of the major IT initiatives that are very large, high profile.

The fourth recommendation is consolidating infrastructure support functions to lower the operating costs and improve compliance with privacy and security challenges. And I want to call your attention to that particular recommendation because it's -- we're going to find out that my colleagues, David and Terri, are going to focus more of their attention on that particular recommendation.

The fifth recommendation is establish an aggressive *e-gov* program to spur the development of more citizen and business self-service options. And again, there's really hardly any time for staff to innovate and develop applications that improve the service delivery to our constituents

when they're really, day in and day out, maintaining the -- keeping the railroad running.

SENATOR SMITH: Have you done any estimates of what an aggressive e-government program would do in terms of the State's bottom line, and what efficiencies would you realize by expanding e-government programs?

MR. EBEID: I could refer to some academic literature that -- and in turn, David could jump in. There are several business case studies that will tell you serving a customer over the counter could cost \$40 per transaction, where serving a customer over the Internet could cost \$4 per transaction. So that's the kind of scale that we could be talking about for what e-governments solutions are built.

SENATOR SMITH: Okay. Well, just FYI for Terri Takai, out in Michigan -- the first question we're going to ask is, as a result of your success in Michigan, Michigan is now the top-rated digital state out of the 50 states. We're going to ask you the question, what efficiencies and hopefully what cost savings have occurred as a result of the Michigan's aggressive program?

But back to New Jersey.

MR. EBEID: Thank you.

And you have the recommendations in front. I don't want to really take a lot of time to go through them. I just wanted to really highlight a few. Recommendation #7 is reinforcing the central organization's authority and role in managing the State's critical IT infrastructure; followed by, consolidate service-type contracts and negotiate deeper discounts. And you'll see later where, in the last four months, we've

been very effective in actually getting the better discounts from our major suppliers and saving real dollars. Developing meaningful standards to reduce the complexity of the IT infrastructure to a manageable mix of hardware and software. The last recommendation on that page is exploring options to consolidate the 911 public service answering points. We recently had a Rutgers study that indicated that that's an area we should explore.

I should also explain that I'm -- a second hat that I wear, as CTO for the State, is the -- I'm the Chairman for the 911 Commission.

Recommendation #11 is make more use of off-the-shelf software and keep to a minimum some of the custom development that takes place. Exploit some of the programs that were developed by individual departments and make more use of them statewide. Community Affairs has an excellent system that they developed to track grants and allow folks to apply for those grants. And frankly, I think it should be an enterprise-wide application that's used by every department. The same as the Department of Environmental Protection -- developed a system for time tracking and cost allocation, and that's also a system that ought to be used by almost every state in the department (*sic*).

We ought to look at our call centers that are set up to answer the citizens calls, and all of our 800 numbers that are set up. And we ought to consider a model that is 311 or 211 -- and if you're not familiar with those, many of the states and the cities create a government services-type of easy-to-remember number that constituents can call for nonemergencies.

And we ought to look at the State's use of consulting services. In many cases, I'm a firm believer that if we have a well-defined scope with a start date and an end date, I'll bring in a consultant, get it done, and

move on to the next task. But in some instances, some of those consultants really are augmenting staff and have been there for a long time. And I think the State ought to look at the cost benefits of selectively turning some of those consultants into staff, where it makes sense.

And finally, examining the use of State-owned assets, such as fiber, to augment the State's increasing demand for bandwidth.

I'm going to skip the couple of slides on the benefits of consolidation, because I'm sure Terri and Dave are really going to touch on that, and theirs are probably more fact-based, because they've done it, they've gone through it, whereas New Jersey is just starting to talk about it.

I will highlight some progress to date, in the last four months. We did save real dollars -- 2.8 million in actual savings, due to bulk purchasing and negotiating deeper discounts from our major suppliers; \$8.5 million in a one-time savings due to our recent mainframe upgrade effort; and currently we're on track to saving a total of 20 million in total by June 30 of 2007. We revised many of the circular letters that govern the review and approval of IT purchases. We lowered the threshold limit from 29,000 to 2,500, so we're obviously seeing a lot more procurement requests. And we established a project management office to provide central focus on specific enterprise initiatives that touch every department. We established, working with the Office of Homeland Security and Preparedness, a cyber and information security office that is focused on maintaining the integrity and the availability of our data. And we're accelerating our efforts to have the statewide disaster recovery site operational by the first quarter of calendar year '07. And lastly, we've engaged all the departments and agencies in a multiyear, strategic planning process, and I'm happy to report

that some of those plans have started to come in. And I applaud the departments that are on schedule.

Lastly, we developed a business portal under the direction of the Office of Economic Growth that really -- the goal is to help businesses who are looking to locate or relocate in New Jersey have access to resources and information that helps them make an informed decision.

I will also leave risks and barriers to my colleague in Michigan, and with Dave. They could probably speak more eloquently to those issues.

And at this time, I want to turn it over to David. He's going to take just a few minutes giving you a-- He's going to try and answer three questions for you: Try to share with you best practices when it comes to IT, from a private and a public sector perspective. He's going to share with you the benefits of consolidation, and he's also going to share with you what to expect in terms of return on investment.

And then we will turn it over to-- I apologize. We're going to go to Terri first. Terri is also going to touch on the same issues -- her experiences in Michigan in the last four years, as well as what can be expected in terms of savings or cost avoidance.

SENATOR SMITH: Okay. Thank you very much for your comments.

Let's turn it to Terri Takai in the state of Michigan, who I understand holds the analogous position as your position. You're in charge of IT in the State?

MR. EBEID: That's correct.

SENATOR SMITH: Terri, Michigan is rated number one. Why do you deserve that rating and how have your citizens benefited from your rating as top digital state in the country?

MS. TAKAI: Well, Mr. Chairman, thank you very much for inviting me to attend this meeting this morning. I really appreciate being here and certainly want to support Adel in his efforts to really move New Jersey forward.

Let me answer your question in a couple of ways. I think one of them is related to the question that you asked about IT efficiencies and IT effectiveness in government. And I think from that we can move to what are some of the things that we've done in Michigan that we believe have helped us to stand out.

I would like to introduce Ken Tice, who is sitting behind me. He is my Chief Deputy Director and wanted to make sure that we were both here to be able to support your efforts and to offer you help going forward.

Let me just give you a little bit of background on Michigan, because I think we faced, four years ago, a very similar situation to some of the things that you're facing. The current Governor, Governor Granholm, came into office at that time, and was facing a \$4 billion budget deficit. And I think the woes and the economic issues in Michigan are pretty well known, in terms of the decline in the domestic automakers and what that's really doing to the economy.

In addition to that, one of the challenges was that, as former Governor Engler was leaving office, we had an early retirement program, so there was a significant decrease in state employees, and with that the same

issues that Adel mentioned in terms of expertise and just pure reduction in personnel. And that was really the IT side, as well as in the agencies. And both of those things are important.

So what we did, just to give you, in a nutshell, what happened, is that Michigan has been on a path to consolidate and control IT services really for the past 10 years. It's been about 10 years ago that all of the mainframe data centers were consolidated, all of the telecommunications were consolidated into a single organization. Five years ago then, under former Governor Engler, we consolidated all the rest of the IT services, and that included the rest of infrastructure, all procurement -- as Adel was talking about -- all project control, and all the services that are providing to the agencies. And all IT personnel were consolidated into a single organization from the reporting relationship standpoint. So they were drawn out of the agencies and brought into a single organization.

And just to give you that information, it was really done in Michigan through an executive order. So those are things that were a progression, of actually being able to move forward. And let me just go, I guess, to the bottom line, and then give you a little bit of insight, as Adel said, on some of the things we did right and did wrong in that effort, and what we think that that's done to benefit us.

In just sheer, pure information technology spent, we were able to reduce approximately 25 percent of what the state was spending in information technology. And let me put that in context: We took the 15 percent early retirement reduction and did not replace any employees, and yet had to maintain the equivalent service levels to what the agencies were experiencing before. The second piece, and the biggest piece of the savings,

is what Adel has started on, and that is consolidation of contracts and control of contracts. And we continue to get significant savings as a result of that. And so the 25 percent savings that I mentioned for us was, over the first two years, about \$100 million.

The third thing that we did which was significant, again as Adel talked about, is that we actually in-sourced. There was significant concern in the employee ranks that a consolidation was going to mean actually the opposite of that. But what we did was to replace some of our long-term, expensive contract support with state employees. And in some cases, interestingly enough, when we went through that effort, we found that we probably didn't need that many contractors. And so, in some cases, we actually saw a reduction.

And then, lastly, we've been experiencing efficiencies by actually improving our infrastructure. So let me give you a concrete example of that. When we came, we had over 700 servers running 70 different versions of two e-mail systems for our 55,000 employees. We now run two versions, one of each software company, and we've taken the 700 servers down to 70 servers that support our e-mail systems. We actually now also have uniform, 24-hour, seven-day-a-week support for that technology. So that's just an example of some things that we've been able to do on the efficiency side.

Now, to answer your question, in addition to what have we done from an information technology standpoint, one of the things that's happened in the state, as they've taken the budget reduction, is that the agencies really have needed more information technology support than less, to be able to handle the increased workload. For instance, in our

Department of Human Services, they saw a significant increase in the ratio of caseloads to caseworkers. Number one, because of the reduction in the caseworkers; but also because, with the economic environment, they had more people needing assistance. So what we've been able to do is to take moneys that they actually had in their budgets, divert those from maintaining the applications that they have. By becoming more efficient, we've been able to take that money and we are now investing in a major project upgrade of their integrated eligibility systems to provide workload relief for their caseworkers. So in the sense of the agencies, we've reduced what they're spending, but we've also changed the mix of what they're spending on, and been able to do new projects with the same amount of money that they were spending before.

Now, a challenge that we have, that is a caution, is that we've cut very, very deep to try to meet the budget deficit. That has carried with it some risk. We are now going back in because we cut, for instance, equipment expenditures. That's a problem in that we have aging equipment now that we are going back in, we are doing some spending on. So there is a mix between how much you will achieve and actual bottom-line savings; and also how much you want to take from that savings in order to be able to reinvest, to avoid a bubble in spending in the future, going forward.

Now, how did that go? Well, it's been a five-year journey. I came in the last -- after the process had been underway. It was a very difficult process initially. It needs very strong executive support and understanding from the Executive Office, also from the legislature. Because the agencies are going to feel that significant power has been taken away

from them. They're very dependent on their technology resources. They're very used to having control of them, and doing things in a consolidated, common way is going to be a challenge for them. It's also a challenge for the IT employees because they don't know what a consolidation is going to mean for them. But as you are able to establish standards, as you're able to really take the benefit of the consolidation, what we found is that we've actually improved the career path for the technology individuals. We've been able to attract new people to come into the organization, because they see that it's broader than a single agency. We've been able to institute much greater and better training programs. So ultimately, I think the employees have a feel for what it's going to be, but that initial change is extremely scary for them.

Now, back to your question on what we've been able to do. One of the things I think that's really helped Michigan move ahead is in a single organization, as Adel mentioned. We've aligned every information technology initiative that we have with the Governor's agenda. So we can point to every IT dollar and where it's going to benefit a specific agency. We've stopped certain initiatives that don't fit within what the plan is. So that, I think, is the number one area, from a governance standpoint, where we've been able to achieve benefit.

The second is project control. As Adel mentioned, IT projects and runaway IT projects are something that have kind of become a way of life. And we've put all of that under very strict control. We very quickly got a couple runaway projects in line, and we've been able to avoid expenditure on many, many projects that would have been projects that had -- been runaway projects, if you will.

The third thing is that we have been able to focus all the agencies into our eMichigan portal. And we're doing many things in a common way. We're sharing technology, and that gives us a chance to leapfrog in doing some innovative things on our Web site. That also is one of the reasons, I think, that has helped us to move ahead, both in the digital states and in the best of the Web competition.

So those are just some examples. I mean, there are a number of other areas. We're very anxious to share our experiences in terms of -- actually not so much what's gone right, but also what's gone wrong. Because I think that's where we can really help the other states and others of my colleagues. We certainly would invite any further dialogue. We've invited Adel, if he would like to send a couple of people to Michigan and spend a couple of days with us. If there are areas where we can help make connection for you with some of the legislators in Michigan, so that you can get perspective over this last four years of what our journey has been, we would very much like to offer that, as well.

SENATOR SMITH: Ms. Takai, would you mind sending us a copy of the Governor's Executive Order that started this process?

MS. TAKAI: I'd be happy to do that.

SENATOR SMITH: We'd like to share it with our Governor.

Can you describe for us the interaction you now have, digitally, with the other levels of county government? I don't know if you have -- do you have county governments in Michigan?

MS. TAKAI: Yes, we do. Yes, we do.

SENATOR SMITH: County governments and local governments, how has your IT program at the state level interacted with the other levels of government?

MS. TAKAI: Well, one of the things that we're doing is that we offer all of our IT contracts to all the local units of government. So, for instance, I'll give you an example. We had a contract that we were renewing for -- with one of the major vendors for database software. What we did was, our volumes weren't high enough to get the maximum level of discount. So we banded together with some of our larger counties, and were actually able to get a consolidated buy, and were actually able to reduce.

The second thing that we've done is that we've opened some of our e-business applications so that local government can actually be a part of them. So we have a permitting application, very similar to, I think, the effort that you're starting on from a new business standpoint, and the local governments can now put their permits on that site. We've assisted local governments who do not have Web sites in actually getting Web sites up for them. And we're now just beginning a process where we're going to start more electronic exchange of information with those counties. But one of our challenges has been that many of the counties, except for the large counties, are not digitally enabled. So one of our challenges is helping them get digitally enabled so that we can do a digital exchange of information with them.

SENATOR SMITH: One last question for me, and then I think I'm going to open it up to the panel. We understand you're under some time constraints, so we're going to ask some questions of you first.

But in terms of the e-government, which probably is -- or is the wave of the future -- has Michigan done anything in particular with regard to citizen and business self-service options?

MS. TAKAI: We've done a number of things. We currently have over 170 services online. We're adding about 40 to 50 services every year. In addition to citizens being able to do services online and businesses being able to do services online -- and I'll mention that -- we also are working with the Department of Motor Vehicles on a self-service kiosk that they're rolling out in their offices, to supplement. And we just had the first implementation of one of those kiosks, or self-service stations, outside a Department of Motor Vehicle office. So we're beginning to experiment with that.

But some of the services that we're providing online, for instance, is our online permitting process, business registration, income tax filing. We do some very innovative things with our Michigan Works, which is our employment assistance agency, where we've been able to actually create the opportunity to hold citizen resumes online, and then we actually match those with employer needs. We've been able to actually use that technology at fairs and career fairs. So those are just some examples. I mean, we're happy to send you--

SENATOR SMITH: Please.

MS. TAKAI: --a pretty comprehensive list of everything that we've got out there.

SENATOR SMITH: It would be wonderful if you would send us a list of those 170 services that you're offering online.

Let me turn to Chairman Wisniewski. I'm sure he has questions.

ASSEMBLYMAN JOHN S. WISNIEWSKI (Co-Chair):
Senator, thank you.

Ms. Takai, in your remarks you stated that you cut IT spending in Michigan by 25 percent. What type of -- where did that 25 percent of savings come from? Was that, as you said, you consolidated the number of different programs you're using and a number of different servers? Was it reducing personnel?

MS. TAKAI: We have not reduced personnel. What we've done is, we've not reduced state staff. We have reduced the number of contract support personnel that we had. That was our first priority -- was to protect state employees and to take our costs out of contract personnel. So we have reduced the amount we're spending in contract personnel to support. As I mentioned, we've taken-- A very large part of that savings was in consolidating contracts, and through those consolidating contracts driving down the cost. We actually also, through higher volumes, have been able to get better telecommunications rates. We've been able to get better rates from our vendors, from the mainframe standpoint. As I mentioned, on the contractor side, we've also replaced contractors with state employees, which is a significant savings to the state. And in some cases, what we've done is, where we took the early retirements and where we have had attrition, we've not backfilled those positions. And we've taken our savings over time in that way.

ASSEMBLYMAN WISNIEWSKI: So the savings that can be achieved really are not personnel savings, they're contract savings, they're infrastructure savings, all of those things.

MS. TAKAI: That's correct. And the way that we also look at our future savings, Mr. Chairman, is that we're not having to add resources to do many of the new initiatives that the agencies need to get their efficiencies. Rather, we're able to use the staff that we have today and the spending that we're using today, and divert it into those things that are helping the agencies get their efficiencies.

ASSEMBLYMAN WISNIEWSKI: Thank you.

SENATOR SMITH: Members?

Assemblyman.

ASSEMBLYMAN MALONE: Thank you very much, Mr. Chairman.

Ms. Takai, it's a very, very interesting presentation you made.

In your dealings with the governor and other commissioners within the state of Michigan, do you in some way have absolute power over what happens in IT in the state of Michigan?

MS. TAKAI: Well, let me couch the absolute part of that (laughter), because I think the bottom line is that I do. But we don't exercise that in that way. We really see ourselves as a service organization to the cabinet members. And so, when we make information technology decisions, we do it collaboratively with them. So we will decide, this is the kind of project. We will jointly look at who are the possible vendor partners, what's the possible approach. Because I've learned that you don't

-- you're not successful in IT if you dictate. You're only successful in IT if you work together with the business that you're supporting.

ASSEMBLYMAN MALONE: You do not seem like a person who would appreciate different cabinet members or commissions doing end runs around you in purchasing of IT equipment or for setting up contracts. (laughter) I just think that that's been--

Adel-- We've had this conversation with Adel during the budget hearings. But I am very concerned that in this state -- of the position that Adel has and what happens in IT in the State of New Jersey -- has become something of a game in which individuals will find ways to circumvent a process. And I'm just wondering, in your particular case, how do you prevent the individual cabinet members or commissioners from doing end runs around you, as far as IT issues are concerned?

MS. TAKAI: The Executive Order gives me the responsibility for all information technology procurement and all information technology named personnel. So what that means is that if the agency -- and in partnership with our procurement organization, because that's extremely important-- And I'll give you an example just, for instance, from yesterday, where an agency had submitted a request to the procurement organization for \$50,000 to buy IT services outside. The procurement organization immediately called us and said, "This looks like an IT procurement. It looks like something that you should be doing in conjunction." So you need both. One is that it is my responsibility, and the agencies know that, to do all IT procurement. But you also need the procurement organization to be a backstop, that looks at all the procurements and then comes back and says, "No, this is an IT procurement."

The same thing happens on IT personnel placement. If someone creates a position which is named IT, that immediately then comes to me and the self-service organization lets me know that it looks like there's someone creating IT positions out there. You really need that backstop. I kind of kiddingly say, if somebody buys IT and they call it pencils, I can't really stop them. But anything that's properly budgeted, it does come to me and we have an opportunity to actually stop it.

ASSEMBLYMAN MALONE: One more question, Mr. Chairman, before I go, I guess, to Adel.

The purchase and the standardization of the purchase of equipment for IT purposes -- are you pretty much of a stickler about standardizing the purchases, and not have a plethora of different products so that you have to have a variety of different individuals handling various aspects of this company or that company? How do you handle standardization within your operation?

MS. TAKAI: Well, actually, standardization is a combination of setting the standard and not letting anybody buy anything else. And that is the way that we do it. Because all purchases come through us, we have a set of standards and the agencies can't really buy anything that isn't within our standards. And we have a process whereby we review our standards periodically, because obviously the technology is moving very quickly, there are new things that the agencies want to do. But all of the things that they want to do have to fit within our standards, because otherwise we cannot get the operating efficiencies in the infrastructure if we have one of everything.

Our challenge, of course, is our legacy, because I already have one of everything. So now what we're doing is going through to get all of that moved out, as we can. Because, again, you don't want to spend a lot of money and replace everything, but what you want to do is, when you're replacing, you want to replace to something which is within your standards.

ASSEMBLYMAN MALONE: Yes. Let me just finish by saying, you're fantastic. If Michigan loses you for some purpose, they're going to be losing somebody who I think has the right plan, and right idea, and the tenacity to make sure it is fulfilled.

Thank you very much.

MS. TAKAI: Thank you. Thank you.

SENATOR SMITH: Any other questions?

Assemblyman.

ASSEMBLYMAN GORDON: I think we've all been impressed with what's going on in Michigan. You just referred to your legacy. How are you planning to perpetuate these improvements in future administrations, after you're gone?

MS. TAKAI: Well, I think, obviously you can never predict what's going to happen as you move from administration to administration, but we have made a number of organizational changes to get these efficiencies. We've taken individuals who were within their, if you will, their agency silos, and we've moved them into organizations that are either centers of excellence for particular technology or are a leveraged resource. For instance, we have one consolidated help desk now. We have one consolidated organization that provides desktop support. So those are things where -- to be able to break them apart would actually be more

expensive, because you'd have to put more people in and split them all out again to provide the services that we have.

The second thing, which again -- you know, never say never -- but we believe that our project management structure, our governance structure, has provided real value to the agencies. And our involvement with the agencies -- all we can do is really to make sure that our service is top quality, so that as people think about changing and moving away from what we're doing, they're going to see and they're going to recognize that they're going to see a deterioration in the technology services that they're getting.

SENATOR SMITH: Any other questions for Ms. Takai? (no response)

Let me say thank you for your participation today. And if you'd send us a copy of the Governor's Executive Order--

MS. TAKAI: Absolutely.

SENATOR SMITH: --and a description of the 170 services that you now offer online, that would be most appreciated.

And if you wish to disconnect -- I know you have a tight schedule today -- you're more than welcome to do so.

MS. TAKAI: Thank you. Thank you so much. I've enjoyed talking with you.

SENATOR SMITH: Thank you.

Our third member of this panel is David Cappuccio. Did I say it right, David?

DAVID CAPPUCCIO: Good job.

SENATOR SMITH: And David, maybe you could bring in your perspective on this issue.

MR. CAPPuccio: Thank you, Mr. Chairman.

I'll keep my comments brief. As Adel mentioned, I work for an international advisory firm; and we spend most of our time talking to clients, both business and government agencies, about how to more efficiently use technology to improve their business, basically. And one of the largest areas of interest, in the last six to nine months, has been this whole idea of IT modernization. And some people call it *consolidation*, some people call it *mainframe consolidation* or *legacy modernization*. But it's taking existing IT infrastructures, very distributive ones, and bringing them into more centralized locations.

I'm going to talk briefly about some of the drivers behind this, and it's interesting. The drivers are the same, it seems, whether they're agencies of governments or whether they're individual businesses. I'm going to talk about some of the inhibitors to success. And I've got some numbers around ROI and potential savings that we've seen from the clients we've talked to. We literally have thousands of clients. We do about 300,000 phone calls a year with these clients, having conversations about what they should do, what they shouldn't do. I tend to call it -- we learn worse practices instead of best practices. But I'll share some of those.

The drivers behind this, in most cases, the obvious ones -- save money. In most cases, it's because procurement has gone wild. The procurement is done in individual departments, individual agencies, not with central controls, not with central audits or governance. Companies and the agencies are trying to solve that problem.

Inefficiencies -- or some people say it's to provide more efficiencies. But as Terri mentioned, in many cases, we're finding that companies have hundreds, thousands in some cases, of servers or services being performed in distributed environments. And when they start to centralize, they realize that there's ways they can make those inefficient services much more efficient.

I was talking to a client just last week. They had literally 7,500 servers in different departments around the country. They consolidated them into a central location, reduced (*sic*) the average server utilization from 15 to 20 percent, which is the standard around the industry right now, to 80 to 85 percent. And by doing that, they reduced the numbers of servers they had by almost 60 percent. A huge savings in not only the cost of equipment, but the staff it takes to support that equipment.

Another major driver we find is customer service -- improved customer service, both internally and externally. And in a lot of cases, especially governments, it's internal customer services between interagency communications. It's a huge driver. And the biggest one we're finding now is audit and compliance. Both audit in, from respect of purchase, acquisition costs -- where are the dollars going? There's a lot of centralized budget for IT, but in many cases that's about 15 to 20 percent of the actual IT spend. So once you begin this consolidation effort, you start to realize where the real spend is coming from, and you get some controls around that, which ties that into procurements, procurements standards, and standard architecture. There's a lot of individual drivers behind this.

Another one, which has been very interesting the last couple of years, is improved security by reducing complexity. I mean, everybody's

been trying to improve their security, especially with the services over the last few years. And the biggest problem that distributed environments have had is that it is distributive. And individual agencies, individual departments make their own decisions, have their own security infrastructure, and it is not applied with an overall infrastructure. So by consolidating, we see a lot more control around how we secure things, how we audit, who has access to what and when they have access to it, and over time, how we report on who actually did what. Without a consolidated environment, or at least consolidated control, there's no way to do that.

Lowering head counts, as Terri mentioned. We see a lot of instances where there's a reduction in the amount of staff it takes to support IT. In many cases, companies aren't releasing staff because of that reduction. What they're doing is freeing up that staff to do other things like new projects, and not hiring new people. So you see a reduction in overall spend, not necessarily in head count.

IT modernization, as Terri mentioned -- everybody has the exact same problem. It's the legacy systems. We've had large systems and IT around for 40-45 years in most departments. The problem is, a lot of it has been around for 40 and 45 years. I mean, there are legacy applications that have been running for 35 years in most companies. One of my colleagues calls them *leprosy applications*, because if you touch it, it might fall apart and nobody can fix the darn thing. And everybody is running through this problem. So this idea of IT modernization, as the ongoing effort, begins to make sense when you start to consolidate all the resources into a central location, under a central governance theme.

And shared services is another one, she mentioned as well. There is a number of services which individual departments or agencies have developed which are very interesting and could be used across other agencies, which you cannot do unless you have a centralized authority structure.

Some of the inhibitors -- there's really only three inhibitors: it's technology, process, and politics. And it's interesting, if you do these on a scale from easy to hard, the easiest inhibitor to get around is technology. You develop a standardized architecture, some level of governance that dictates or controls who can buy what and when, and it's fairly easy to get around.

The second most difficult is process, because each group, each agency has their own process, their own way of doing things, their own way of accessing data, confirming employee ID, whatever. And that's more difficult.

SENATOR SMITH: You're not going to tell me that we have Republican and Democratic computer systems. (laughter)

MR. CAPPuccio: But the most difficult one is politics and individual turf wars. Because people are used to doing things their own way.

SENATOR SMITH: Oh, cabinet kind of politics.

MR. CAPPuccio: Some of the benefits we've seen -- and these are generalities based on literally thousands of companies we're dealing with. From a budget point of view, in general we're finding out that 75 to 80 percent of IT budgets right now are spent to keep the lights on. That's to run the stuff that's already in existence. Which means that only

20 percent of your multi-million dollar spend is actually used for improving what you're doing today. We're finding that, sort of, when people begin to consolidate, they realize that they can take that 75 to 80 percent and reduce it down to 55 to 60 percent and keep the lights on. And the rest they can reinvest in doing new things -- creating an e-governing structure, creating more efficient security organizations. There's a lot of things they can reinvest in. The second--

SENATOR SMITH: If you were king--

MR. CAPPuccio: Yes.

SENATOR SMITH: --and you could do this in New Jersey, what would be the cost to go to the centralized, more efficient computer systems? And what would be the savings over the long term?

MR. CAPPuccio: The savings in the long term -- I'll give you some percentages, if you would. Savings and staffing would be from 18 to 20 percent. That's a modest application to support the environment. The savings in hardware -- servers, storage, or those kinds of things -- between 30 and 35 percent, if you did it right.

SENATOR SMITH: All right. Now what does it cost to get there?

MR. CAPPuccio: That's a good question.

SENATOR SMITH: Would you get back to us--

MR. CAPPuccio: The companies we're talking to today--

SENATOR SMITH: Yes.

MR. CAPPuccio: --the initial cost, in many cases, for hardware goes up slightly because they have to buy-- You're not going to take 2,000 servers and put them all in one building. What you're going to

do is buy other ones, the larger ones, and let the leases expire on existing ones, if you have leases, and then migrate over. So the initial cost is anywhere from 8 to 12 percent higher. But within a year, it begins to drop dramatically. We're seeing return on investments in these things, especially like server consolidation, in seven to eight months, because the savings are so great. But it all depends on what the existing contracts look like. You can save on license costs for all those other servers out there by centralizing, so there's a lot of cost savings, but you need to get the procurement group involved early.

Larger companies I'm dealing with now, and larger governments, we're finding out that the savings are anywhere -- well, Terri's point was they saved 100 million, 25 percent. So in your case, you're looking at 150 to 170 million. It might take a year and a half to two years to begin to see those savings, but if you don't start, you just keep throwing good money after bad.

SENATOR SMITH: What would it cost to get to the point where we would realize those savings?

MR. CAPPuccio: Well, the obvious answer is, it depends. I really couldn't give you an exact number. I would say, from a percentage point of view over today's spend, you're probably looking at 10 to 15 percent additional cost for equipment to start, but then you start releasing licenses -- software licenses and old equipment within the first eight to nine months. You can regain that spend fairly quickly.

SENATOR SMITH: All right.

Let me turn to Mr. Abeid. I'm not sure, Mr. Cappuccio, whether you're finished or not. But let me turn to Mr. Abeid. Are we

moving in Michigan's direction in New Jersey? How long is it going to take? What is it going to cost? And what savings do you anticipate? Do you see the same savings as Mr. Cappuccio?

MR. EBEID: I think the same savings can be achieved in New Jersey, but at the risk of sounding cliché, we have to spend money to save money.

SENATOR SMITH: I understand.

MR. EBEID: The predicament we're in is that-- Just like the four years I spent at Motor Vehicle, we learned that many years of neglect are going to take several years to turn around.

SENATOR SMITH: Right.

MR. EBEID: I'm very passionate about where New Jersey needs to go. And Michigan is, frankly, maybe one of several states that have done some tremendous things, and I'm constantly watching to make sure that we learn from what they're doing.

We have started some very aggressive e-government services. You go on the *NewJersey.gov* Web site, and you will see that between the Motor Vehicles, between Taxation, between the Department of State there are many services that are now provided online. And again, Motor Vehicle Commission, probably the Department of Environmental Protection have been really spearheading quite a bit of that automation. But there's always room to do more. And I think we want to see more successes, not just at the agency level, but more innovation at a department-wide level.

As far as how much we need to spend or what's it going to take to get us there -- and I hate to start out with *it depends*. Because it really does depend on what we're looking to achieve. When we looked at what we

needed to do to achieve Phase One -- Phase One, what we're calling, is catch up, handle the pent-up demand and the expectations, and reach a level of satisfactory service. That's very different from Phase Two, where, achieve equal to or better service to our customers. And there is probably a \$50 million package, a \$100 million package, and a \$200 million package. And the savings are different from -- depending on what you want to achieve.

At a minimum, I think we -- that the State's infrastructure has been neglected. The fiscal crisis has really rippled down all the way to IT. I can only speak for my 1,000 employees. I can tell you that their skills are not up-to-date. I need to spend some serious dollars to train them, to raise their level of confidence that they can satisfy the demands and the expectations of their customers. Even though we're a central organization, we don't have the capacity and we might have lost the credibility and the wherewithal to be that central organization that everybody is looking for. But I can tell you that in the last five months that I spent at OIT, I see some unbelievable individuals who are willing to go through a brick wall for anyone, frankly. And they want direction, they want the support; and I'm very confident in our ability to overcome the challenges, and I don't underestimate this effort at all. I think, as Terri said in Michigan, there are a lot of barriers and risks, but this is the right thing to do. This is good government, and I think we need to start.

Just one last comment for Assemblyman Malone. I can't really speak for the past. I can only speak -- I've been there since March 15, and I can only speak to what happened in the last four or five months. And I can tell you with all confidence, that no cabinet member, or chief of staff, or

subcabinet member has ever tried to end run me. In fact, if anything actually, I've really seen them trying to reach out, trying to have some face time and a dialogue, because they want to reconcile what they're hearing from their own folks and what they ought to be doing. I'm not a cabinet member, but I sit at the cabinet table. And I'm able to pick up the phone and talk to my cabinet folks and let them know that I have a concern. And I hope that they would share that sentiment back and say that Adel would not sign any purchase order unless he's totally convinced that that there's fact-based information behind it. So I can only speak to the last four or five months, Mr. Chairman.

SENATOR SMITH: I'm not sure, Mr. Cappuccio, if you'd finished your testimony, so--

MR. CAPPuccio: I just had a quick bottom line, if you would?

SENATOR SMITH: Please.

MR. CAPPuccio: The times we've seen this effort work -- and we've seen it a lot, both in governments and large enterprises -- it's for three reasons. One, very high-level senior executive support, which stayed consistent across the length of the project in its multiple years. The second, a very strong governance body that's had overall control of all governance of what was going on and the authority to make decisions. And the last is a program management office, which centralized and understood and monitored and managed all the major projects across the agencies. When that happens, the success factor goes up dramatically. When it doesn't, you go back to turf politics again. That's it.

SENATOR SMITH: Mr. Abeid, would it be possible for you to provide to this Committee, in a relatively short time frame, your estimate of -- and you mentioned this question of what do you want to achieve, etc., and how much you're willing to spend -- but perhaps the two or three plans that you think that New Jersey might embark upon? What would be the benefits associated with the plan? What would be the costs? And then ultimately, the savings to taxpayers and what other additional services or what better services could be provided? We have a chance-- It's a little difficult. You put in a budget request, and I'm sure it gets reviewed by someone else, but we have a chance in this Committee to send recommendations to the Governor about what we think should be happening to help make our State government deliver services -- the best possible services at the least possible cost. So you have an opportunity here to give us some ideas, hopefully without creating any problems with your administrative structure. But we'd like that information. It would be very helpful to every member of the Committee to see what the potential benefits of a better IT program in New Jersey, in State government, would be for all of our citizens. So we're asking if you would forward that information to us relatively quickly.

MR. EBEID: I will go back and, in fact, we might have some information that we've done, that we've completed for our IT assessment. And I'll try to share with you what I can, as far as the lessons that I've learned and through my travels.

I will also add a couple of other things. There are some things that are outside of the executive branch that I think are worthy of exploring. I mentioned the concept of looking at how 911 is structured

throughout the state, and exploring ways to consolidate what we call the *public service answering points*. Today there's roughly 195 throughout the state, and I think there is good information that it would behoove us to just look at that and to say, can we do things -- can we do it better? And those things, obviously, the cost savings are more visible to the local government, frankly, on this issue than the State.

Another area is, we hosted the IT directors from all 21 counties last week. And I was very happy to see that 17 of them showed up, and frankly, I have absolutely no authority over them at all, but I think they showed up out of necessity. And many of them have excellent ideas to aggregate IT services at a county level. And I think they really deserve some mention, at least some time to present their ideas.

So I will do my best to try to get something out quickly to the Committee and pass it through the chain of command.

SENATOR SMITH: And also the 911 information as well, and the potential savings associated with that.

Okay, we're open for--

I'm sorry. Co-Chairman Wisniewski will ask some questions, and then we'll open up to the Committee.

ASSEMBLYMAN WISNIEWSKI: Thank you, Chairman Smith.

Mr. Abeid, you mentioned in your concluding remarks that you don't believe that any cabinet member has ever done a deliberate end run, and we can accept that. I guess the question is, historically though, we have all of the different departments with different -- some proprietary programs, different ways of running their data, Division of Motor Vehicles -- Motor

Vehicle Commission; we often get issues in from the Transportation Committee. And Sharon Harrington and Shawn Sheekey will come here and say, "Well, we'd love to do it, but it's going to take us six months, a year, a year and a half, to deal with the OIT issues." And you hear that repeated in a variety of departments. How did we get to that point? Has it just been a long series of benign neglect? Has it been turf battles, where everybody wants to have control of their own information technology?

MR. EBEID: A couple of dimensions to answer that question. First of all, I'm a little more familiar with Motor Vehicle obviously, and I think what we found doing the Fix DMV initiatives was, yes, there were many years of neglect, frankly. There was a struggle to keep up with citizen expectations of what a motor vehicle agency ought to deliver. And between Sharon Harrington, and Shawn Sheekey, and Diane Legreide, they've done a tremendous job turning Motor Vehicle around, frankly. And you hear the success stories almost every day.

I really compare OIT to Motor Vehicle, frankly. I think OIT has been neglected. They haven't had a seat at the table. The dollars that they get are barely enough to keep the railroad running. There's absolutely no discretionary dollars of any kind to innovate, or to raise the organization's credibility that it can deliver on time and on schedule with other projects. Incredible talent is leaving every day, and we don't have a way to capture that institutional wisdom and do any succession of planning of any kind.

ASSEMBLYMAN WISNIEWSKI: Why are they leaving?

MR. EBEID: Well, OIT is probably the second oldest organization in State government. So it is--

ASSEMBLYMAN WISNIEWSKI: The second oldest?

MR. EBEID: It is second oldest. Many people don't know, but if you're interested in history, you can go back to Executive Order Number 22, that was signed on August 30 of 1965 -- then-Governor Richard Hughes created what's called the *Bureau of Data Processing* to reign in all the data processing folks and projects that were going out there then. And since then, there's been about a half-dozen executive orders that have constantly reorganized the IT functions. And that may be, also, part of the issue -- is that the problem is always being fixed through executive order rather, perhaps, than long-term, enabling legislation that has more credibility. People seem to respect that more.

So back to the Motor Vehicle question is, Sharon Harrington, Shawn Sheekey are absolutely right in that all their demands to renovate the agencies are stacked up in a queue at OIT, because they do have limited resources on who can work on those things. And the type of work -- and in this case Motor Vehicle -- it's not the type of work you could throw an army at it and get it done quicker. It's truly the type of work where you need someone who is very familiar with the titling process, registration, licensing, how to handle insurance, and all the-- You need someone who understands the business to develop some of these applications.

ASSEMBLYMAN WISNIEWSKI: And I understand that. I guess the question is, is why -- and I don't want to disparage their work; they've done good work. But why is every request -- if you want to make a modification in how we register vehicles or you want to make a modification on how plates are assigned -- it is always a six-months-or-more process to write the program, to reconfigure the program. Is that simply a

function that you don't have enough resources, and if you did it could be done much more quickly?

MR. EBEID: You don't have enough -- the right resources. Resources who understand the Motor Vehicle business and who can get those programs done quickly. We have a small contingent of staff who have maintained Motor Vehicle applications since the early '80s. The second issue is, you really have an obsolescence issue. You are dealing with a system that was developed in the early '80s. Now, granted it's been modified somewhat over the years, but today's comprehensive system for Motor Vehicle did not start out the way it looks like today, 25 years ago. It started out as a very simple system to track registered vehicles and the licensed drivers. Things got very complicated. And then today, you have a system that's a patch quilt of a lot of things.

ASSEMBLYMAN WISNIEWSKI: And I guess that's the ultimate point, is -- I don't think all of us up here who use computers, I don't think any of us go home and check our e-mail on the computer we bought in 1980, because it probably wouldn't work. But the State is using not only hardware, but programs that were procured a long time ago. So is that, I mean--

MR. EBEID: I think when you think of the--

ASSEMBLYMAN WISNIEWSKI: Does the situation get solved simply by being more aggressive then, updating our hardware and our software so that it's more modern, and therefore you don't have the six-month and one-year lags in changing things?

MR. EBEID: Motor Vehicle has been proceeding on a parallel path. In the last three to four years, they've developed a lot of customer-

facing initiatives that improved the quality of service. At the same time, they have been working to renovate their back office. You might have heard of an initiative called Matrix. Matrix is going to be the replacement system to today's existing comprehensive system. They have the resources on board. They are in what we're calling the *conceptual* or *detail design phase*, and I do think there's some relief in the near future.

In the meantime, they actually have responded quite well to producing some small changes that satisfy some of the legislative mandates that are also coming out.

ASSEMBLYMAN WISNIEWSKI: And I understand that. I don't want to belabor it. I know there are other members that have questions. It just seems -- you said they're doing Matrix and they're in the conceptual stages. The Fix DMV program started several years ago, and I guess that's one of the frustrations that I have. You see private industry, they want to undertake creating a paperless office. There's one law firm I know is undertaking that. They get a company in, they implement it, and within a month they've got the process up and running, and the software and the hardware have been running. And it just seems frustrating, on a State level, when we know what we want to do -- we want to make getting people in and out of the Motor Vehicle office much more efficient. We want to be able to manipulate that data much more quickly, and it just always seems that the answer is, "Well, we're designing it, and we're working on it, and we're going to get there." And I've just concluded on this with one "no."

When I first got in office 11 years ago, there was a question about the property tax program -- I think it's called MOD4 -- and as I

understand it, back then I was being told that it was being worked on. And as I understand it, it's still being worked on. That's not a recipe for a lot of confidence in moving forward.

MR. EBEID: Thank you, Mr. Chairman.

I could tell you that -- having worked, spent four years at Motor Vehicle, I -- there's a lot of truth when they tell you that, "We're working on it," and they are. I will give you an example of an area where-- The digital driver's license -- we're probably the only state in the entire country that got that project done in nine months. We couldn't have done it unless -- first of all, without your support. But most importantly, without calling in all hands on deck, and drop everything and focus on that one project. So I think you're probably seeing deliberate-- We had to sequence these projects so that we can produce visible successes and take care of our pressure points. But at the same time, I can tell you that there are folks at Motor Vehicle and folks at OIT who are working every day, day in and day out, to handle some of the amendments coming out and some of the legislative bills, improve the way things are working. And I have a lot of faith in that team and, obviously, in Sharon Harrington. And I can tell you, you can get to see the results very soon.

MR. CAPPuccio: To your comment, just -- and to your point, we hear this a lot from both enterprises and large governments, and it is a solvable problem. In a consolidated environment, we have what's called an *IT architecture*. But the difference between that and today's world is the architecture is built from the top down, so we look at all agencies, all departments and figure out what it is we need to get done and what the right technologies are. In today's environments, Motor Vehicle is a good

example, the architecture is built from the bottom up, so it revolves around this monolithic application. And as new changes come out, they keep modifying and growing this application. And it becomes an entity in and of itself. Changing it is almost impossible, unless you move off the food chain. By consolidating, you can begin to break down those barriers. We're seeing companies now do what we call *common services*. So if I do something at Motor Vehicle -- validate a driver's license -- other agencies might use the same services. Wouldn't it be nice that you shared those services? You can't get there unless you've got a centralized environment with a governance organization that actually looks at this higher-level, top-down architecture. You can make it happen. But if you stay distributive like this, it's never going to happen.

ASSEMBLYMAN WISNIEWSKI: Thank you.

SENATOR SMITH: Members?

Senator Kyrillos.

SENATOR KYRILLOS: Thank you, Mr. Chairman.

Mr. Cappuccio, you're not currently consulting for the State of New Jersey?

MR. CAPPUCCIO: No.

SENATOR KYRILLOS: Have you ever?

MR. CAPPUCCIO: No.

SENATOR KYRILLOS: He said earlier that if Michigan could save a total of \$100 million, we could save something on the order of \$170 million. That's immediately, over time, over a couple of years?

MR. CAPPUCCIO: I extrapolated that based on their budget of-- She said they saved 25 percent. So I assume their budget's around 400

million, and yours, I think, is slightly above that. And that's where the number came from.

SENATOR KYRILLOS: And you said we would have to spend, obviously, some money to gear up, as did Adel. But within a year or two, according to what you told us earlier--

MR. CAPPuccio: There are certain facets of this that you can begin seeing savings within six to nine months, especially with hardware consolidation. Other facets, if you're looking to change centralized processes, interagency communications, that obviously is going to take longer. But, yes, you can begin to see some savings early on. And as Adel said, you need to prioritize what to do first.

SENATOR KYRILLOS: Have you consulted with other state governments?

MR. CAPPuccio: Absolutely. Well, we're not consultants. We advise other state governments. We talk to them about best practices.

SENATOR KYRILLOS: You advise.

What other states?

MR. CAPPuccio: I've got a list of, like, 17 governments that are working on this: Texas, Utah, California, Virginia, and Michigan--

SENATOR KYRILLOS: And how would you evaluate New Jersey in terms of where we are from an evolution point of view?

MR. CAPPuccio: You're at-- If the process was a percentage of completion, you're in the low -- the single digits right now. You've started the process. And I would say, of all this governance I'm talking of now, most of them are within the 10 to 15 percent range, have just started the process. Obviously, they're all using Michigan as a best practice.

SENATOR KYRILLOS: Most are in the-- I didn't understand the last point.

MR. CAPPuccio: The ones that are looking at consolidation are just now in the process of evaluating what it is they've got to do, what the costs are, what they should prioritize. Some of them are working on -- like Texas is just working on data center consolidation. Other ones are working on just automating services. So they're setting priorities on where they think they needed to focus.

SENATOR KYRILLOS: But you think we're in the lower tier of that?

MR. CAPPuccio: You're in the process of getting it completed. Yes, you're in the lower tier. You're starting the process now, you're getting budget approval. But you're thinking along the right lines.

SENATOR KYRILLOS: Right.

Well, you know, we're lay people. And when it comes to technology, I'm the layest of the lay, perhaps. (laughter) I have a Blackberry now.

But this is what I don't get. And I think, Adel, you've got to really take seriously the Chairman's request of you. What I don't understand intuitively, and what most people who would listen to this would not understand is -- we have someone who has consulted or advised 17 state governments say we're in the lowest of tiers, tells us we have to spend a little money -- as you have too -- to get to where the top tier is, and to save, in aggregate, money each year, over years; where we once were the headquarters for telecommunications jobs and industries in this state. If we know what the formula is -- and I know that there are human obstacles,

constraints, and it sounds like one of the inhibitors that we heard about early, one of the three was politics -- sounds like politics, not in the partisan sense, but in the intergovernmental, intermural sense is the reason why we can't get there. Why can't we get there?

MR. CAPPuccio: Just one perspective here. Of the 17 governments, that means there's another 30-some-odd that haven't even started yet.

SENATOR KYRILLOS: So when you say we're in the lower tier, we're in the lower tier of what, then? Of 50 states, of 17 states, of what?

MR. CAPPuccio: Of the 17 I'm talking to right now, that actually have active projects; you're fairly new starting this project. These other ones have been doing it longer. But the other governments, many of them haven't even thought of it yet. They're just beginning to realize there's a problem.

SENATOR KYRILLOS: Well, I know I'm talking in a very basic way, but you understand where I'm coming from.

MR. EBEID: I do, Senator. And I don't want to take away from any of the successes of my peers at the departments. Each one of them can stand up and mention one or more, a handful of examples of where they've really made the most out of their limited dollars. I can tell you that there are some areas where actually New Jersey is leading. And there are some other areas where we are the last state to think about or implement some of those things.

I explained in my presentation that the IT community, or the OIT organization itself, had a revolving door in leadership. And sometimes

it takes -- things don't get done in a year or two. Things get done over multiple years, over multiple administrations, and there has to be the will and the courage to honor that vision.

There's also the -- one thing we haven't talked about at all here, and that is one of the obstacles, is funding sources. When you look at the \$550 million that are being spent on technology, a very large portion of those dollars are either Federal or dedicated funds. And your ability to repurpose those funds is very limited. That will be a real barrier to moving forward. There's also, the central IT organization needs to -- a clear mandate on what its role in the future--

SENATOR KYRILLOS: You've only been in your role for half a year, right? Perhaps not even.

MR. EBEID: I've been there for the last five months. But I should also mention that this is my second tour of duty at OIT. I spent about three years, four years, in the past.

SENATOR KYRILLOS: I thought we had met many years ago.

MR. EBEID: We have. We have.

SENATOR KYRILLOS: Yes, I know that. I know that.

Well, do you agree with Mr. Cappuccio that if we spend more money -- and that sounds what the -- like what one of the big answers is to this issue? We have to spend more to save more over time. Do you agree that if we make investments like that -- I don't know what the number is we're talking about -- that in relatively short order we'll see an overall reduction in what we spend as a State government?

MR. EBEID: I think if we go about intelligent, meaningful consolidation of, let's say -- we can start with data centers. A data center is

a very large computer room that is built in a very specific way. It's got all these cords. It's got -- it's environmentally efficient. It's got battery backups, digital generators--

SENATOR KYRILLOS: I asked you a funding question. Simply, should we invest more money? If we do, over a reasonably short period of time -- a couple of years is what I heard earlier -- we would have an overall reduction in what we spend. Do you agree with that or you don't agree with that?

MR. EBEID: I don't agree that there would be an overall reduction. I believe that there would be better use of the existing dollars. The State spends \$550 million today. Even if you keep that funding either relatively flat or a very short increase in the next three years, if there's more say in how that money is spent, and what priorities are satisfied, I think that's better use of the dollars.

SENATOR KYRILLOS: So you think there can be better use of the dollars. You don't think we can actually reduce the dollars, as Michigan has?

MR. EBEID: I think we can reduce dollars, but there has to be an understanding that the savings to be realized are -- ought to be placed in reinvesting and replenishing the infrastructure, so that you don't get to a point of diminishing returns or the infrastructure reaches efficiency peak. There has to be a commitment that if we're going to put some money up front to upgrade the infrastructure so it can handle the agencies' needs, that there's a replenishment or replacement cycle that we have to keep up with so that we don't create more costs in the out years to catch up.

SENATOR KYRILLOS: Well, Mr. Cappuccio--

Or no, I'm sorry.

Do you have advisors like the gentleman to your right? Do you have outside counsel that helps you sort these things through?

MR. EBEID: Absolutely.

OIT subscribes to many of the services that are available, whether they are Giga, Meta, CIO, Executive Board. All of these services are available. Basically, they write papers based on their experience, and that's how the IT community, frankly, learns from what others have gone through.

SENATOR KYRILLOS: Well, you're going to get back to the Chairman on his specific request. And perhaps the Legislature, through the Office of Legislative Services, because this is a large efficiency item and a large dollar item, ought to have advisors of our own to ensure that we're maximizing our potential out there. So it's obviously an area that we have not thought a lot about, and need to.

SENATOR SMITH: Thank you, Senator.

Any questions?

Assemblyman Malone.

ASSEMBLYMAN MALONE: Thank you very much, Mr. Chairman.

Adel, welcome.

This sort of seems like a little bit of a warm up for what's going to be in the budget process next year. And as you well know, the budget meetings last year were rather messy, with your predecessor and his admissions that people were doing end runs, people were purchasing stuff. There was no cohesive effort in the IT services. And I guess my concern is

this: unless we get a handle on this, unless an executive decision is made by someone that it's either got to be fragmented, or it's got to be centralized and somebody has to be in charge. Because, really, it's been, as you well know-- You're trying to put a nice face on what has been, through the budget process and everything from last year, a very, very bad picture.

And I just think it's necessary, as was mentioned by the Chair and by Senator Kyrillos, that this is not partisan politics. This is just internal politics. And everybody wants a piece of that IT pie. And whether it's, as Vice (*sic*) Chairman Wisniewski said, Motor Vehicle-- And every time I meet with Sharon or Shawn, it's "Well, the computer can't do," or "We can't do" it. And I know we have spent massive amounts of money, and given authorization to Motor Vehicles to spend a massive amount of money to upgrade their computer systems.

Look, I don't expect miracles. And you can't walk on water yet. But I just think that, given what we know from the Budget hearings I've been at and other kinds of situations, that just about every aspect of OIT has some serious problems -- whether it was contracting; whether it was purchasing of equipment from various vendors having no thought about any kind of uniformity; to talking to the Department of Personnel about the fact that their computer is in excess of 25 years old, and they just pray that the people that currently understand how to keep it operating don't either retire or do something else.

And I just-- I'm not certain that I feel comfortable that we're getting a real clear message from you as to what direction we're going. Are we consolidating or are we keeping a fragmented system going?

MR. EBEID: First of all, let me just say that your frustrations early on came out loud and clear. And the Governor's Office reacted, and a lot of change has taken place. My vision is that we have a consolidated infrastructure in the State of New Jersey for how we deliver services. My vision is that there is a much more -- stronger central OIT organization that is truly a service provider, and not just a mandate-and-tell or dictating instructions out.

Now, there are-- I have absolutely no problem -- I've had no problem in the last five months picking up the phone and talking to a cabinet member or their folks, and letting them know I am not approving something or I'm not comfortable with something. That normally generates a meeting, that generates several phone calls. And I feel like that's my job.

If they do not-- They don't have to like the decision I make, but they respect it. And if they don't like it, there are obviously folks above me. And they can go, and we'd have a different debate.

ASSEMBLYMAN MALONE: But you know, as well as I do, that there have been many cases of end runs and people doing what they damn-well pleased, as far as IT services. And let me ask you, the number of people you have directly under you is a thousand. What is the total number of IT people, if you add up all the different departments in the State?

MR. EBEID: To be exact, the number of actual folks at OIT is about--

ASSEMBLYMAN MALONE: Let me phrase it a different way.

MR. EBEID: Sure.

ASSEMBLYMAN MALONE: The number of people that may have IT functions, that may not even be in IT titles, throughout all the departments.

MR. EBEID: Through the assessment we made several months ago, the agencies reported back-- When we add up all those numbers, it's close to 3,300.

ASSEMBLYMAN MALONE: So you, in essence, have charge, basically, of a third of the IT functionaries within the State of New Jersey.

MR. EBEID: To be exact, 914.

ASSEMBLYMAN MALONE: Okay. So it's less than a third that you have control over.

So it's, like, incredible.

Are all-- Let me ask--

MR. EBEID: But I don't want one message to get lost, Mr. Assemblyman. I apologize.

ASSEMBLYMAN MALONE: Sure.

MR. EBEID: The one message I don't want to get lost is, New Jersey is a very complex structure -- the amount of systems that are required to run the day-to-day business. I'm not sitting here suggesting that 3,300 is too much.

ASSEMBLYMAN MALONE: I'm not even questioning that. What I'm questioning is how it's managed. And if we don't have a centralized management of what is going on, as far as IT services are concerned, we have duplications, we have purchases that are going awry. I mean, have we established a uniform purchasing practice and a uniform

computer configuration that is generally utilized, currently, by the State of New Jersey?

MR. EBEID: Yes, to the first. Purchasing is something that I personally--

ASSEMBLYMAN MALONE: For all Departments?

MR. EBEID: --get involved in. All Departments buying anything over \$2,500 are required to submit their request to us.

ASSEMBLYMAN MALONE: An individual item or bulk? I mean, you could--

MR. EBEID: Individual or an aggregate.

ASSEMBLYMAN MALONE: A laptop or a tabletop computer is-- I think if we went around the State, right now--

MR. EBEID: I truly-- I can confess to you that I see 99.9 percent of what's being purchased.

ASSEMBLYMAN MALONE: Okay. All right. That's an improvement.

MR. EBEID: And within my organization, we've developed a tiered review process. I don't necessarily need to look at everything. But I want to weigh in on the large-ticket items, the high-profile items. And I review those personally. And if I'm not happy with the justification, we go back and-- The goal is to not necessarily just send it back denied. The goal is to work with the department, because they do have real needs.

ASSEMBLYMAN MALONE: Do you have individuals within your Department that are assigned to, sort of, semi-oversee what's going on in the various other departments?

MR. EBEID: There's a mix. For most of the applications, for most of the projects where there's a renovation of an existing system that was at OIT, yes, OIT has a role, an involvement.

ASSEMBLYMAN MALONE: What about if it was a system that they developed themselves? Are you a party to that system that they operate outside of being in OIT?

MR. EBEID: If they developed it outside of the OIT environment, then they're probably running it in their own environment, and they are in total control of it.

ASSEMBLYMAN MALONE: Is that something you think should come under your jurisdiction as to--

MR. EBEID: I think where I draw the line is, that an application or a system is -- if enterprise in nature or supports a critical function in State government, I think I should have every say in it. And I should be very involved, not just in the development, but in the up-front planning piece of it. But there are-- I can think of a lot of other applications where, frankly, I shouldn't have any business in. And to try to accelerate some of the development, I should try to leave them as local as possible, to a department -- define some rules of the game, the non-negotiables, and let everybody run as fast as they could.

ASSEMBLYMAN MALONE: Assemblyman Cryan's favorite topic is the SACWIS system, as you well know. And I know he's been concerned on the progress on that. Is that something that's totally run out of Human Services? How does that function, and is it part of your function?

MR. EBEID: Up until a couple of months ago, the SACWIS was totally run out of -- referred to now as NJSPIRIT. That project has been totally run out of Human Services. However, I really want to give kudos to Commissioner Kevin Ryan, and Lisa Eisenbud, his Chief of Staff; and John Ducoff. They have brought us back to the process -- at least -- not in the day-to-day development, but at least in-- They basically said, "Hey, listen. We want to get this project back on track, back on schedule. And we want to do it as a team." So applaud them for doing that. And I have been involved in more meetings. And they are trying to set up an executive steering committee. The Commissioner is doing his best to be more engaged in this project. And we have some challenges, but I'm confident that the process he's embarking on right now is heading on the right track.

ASSEMBLYMAN MALONE: What is the total-- And you mentioned, I think, 550 million. Is that the total, total of all IT functions within the State of New Jersey?

MR. EBEID: The 550 million is the total spent, as reported by those 23 agencies.

ASSEMBLYMAN MALONE: That includes Motor Vehicle, that includes everything?

MR. EBEID: It's probably easier to talk about what it does not include. It does not include courts, AOC, it does not include the New Jersey Turnpike, TRANSIT. It does not include all those large authorities.

ASSEMBLYMAN MALONE: Through you, Mr. Chairman, maybe if Adel could give us an exact accounting as to exactly what's included in that total amount of 550 million and what is not in it, so that we can have an idea -- if there are efforts that could be made to consolidate

even further, as far as some of the computer functions of some of these different agencies or commissions, that might be worth looking at for saving money.

MR. EBEID: And Mr. Chairman, just so you know, we-- All that information is really in the IT assessment. And we brought copies with us, and we'll be happy to leave them for yourself and your staff. I think that would answer the questions from Assemblyman Malone.

SENATOR SMITH: Assemblyman, after you take a look at the IT assessment, if you think you need anything further, just let us know.

ASSEMBLYMAN MALONE: Okay. I just want to make sure it's -- that I don't miss something in an easy chart that says what is and what is not in that 550 million. I mean, there might be something out of it.

You're saying Motor Vehicle is in it, and it's something that you control through IT, or it's part of that 550?

MR. EBEID: A portion of keeping Motor Vehicle running day to day is in the 550 million. The other portion for developing the new systems, such as Matrix, are in the other number that I mentioned -- of 450 million on multiyear, ongoing, large projects.

ASSEMBLYMAN MALONE: And those 450 -- are they other, outside authorities or agencies? I mean, when you say 450-- I mean, Motor Vehicle-- It's a Commission.

MR. EBEID: They include the 23-- They are all inclusive within the 23 departments that I've surveyed.

ASSEMBLYMAN MALONE: And maybe I can ask the question later, in a different way.

MR. EBEID: Sure. I really think your questions are answered in the assessment that I'll leave behind. And I'll make myself available to go through it.

ASSEMBLYMAN MALONE: Okay. Thank you very much.

Thank you very much, Mr. Chairman.

SENATOR SMITH: Any other questions? (no response)

If not, let me thank the two of you and Ms. Takai for coming in today and helping us out with our deliberations. If you'd get that additional information to us, we'd appreciate it.

Our next witness is the former Treasurer of the State of New Jersey, who currently chairs the New Jersey Commission on Government Efficiency and Reform. He's the honorable Richard Leone. I'd ask that he come forward.

Mr. Chairman, if you'd give us some ideas, we need all the help we can get. Can you give us some ideas about what we should be doing in State government to help provide a little property tax relief and a more efficient government? And any other ideas you have about any of the things we've been talking about, we'd really appreciate it.

RICHARD C. LEONE: Thank you very much.

I've been trying to think of how I could be helpful.

I commend you and the other--

SENATOR SMITH: You need to press the button. (referring to PA microphone)

MR. LEONE: I commend you and the other members of the Legislature for this broad-ranging look at State government, and county and local government. I think, too often, committees focus on particular items

over a period of years and become part of the system that compartmentalizes government and doesn't look at the big picture.

I don't think the situation we're in is an accident. And I've never seen it this bad, and I-- When that Executive Order was issued by Richard J. Hughes, in August of 1965, I was on his staff. So I feel a little bit like a time capsule on some of these issues. Over the years, I've seen reforms come and go, and efforts to change the vector of spending and revenues -- heroic efforts by Governors of both parties and Legislatures controlled by both parties.

I'm not troubled by the fact that we have to keep coming back to this. I don't think you ever fix something that's run by human beings permanently. You'd have to-- As "Mr. Dooley" said, a man who thinks he just met a talking elephant goes to a lunatic society; a man who says, "I can make men and women behave like angels," can get elected in the next election day. So we are going to have these problems periodically. This one we're in today is the worst I've ever seen, because the imbedded structural problems on both the revenue and spending side, which have been papered over for a decade and a half, are not easily solved. The deficits in the pension plan, in the health financing plan, in day-to-day expenditures can be papered over and gimmicked for a year or two, or gamed -- it turns out -- for many years. They can't be solved.

The GEAR Commission was started by Governor Corzine with the idea of finding ways to make government more efficient, and also to cut spending in certain areas. The first report we issued was on information technology. I hope there will be action on that report by the administration relatively soon. It recommends more power in a more centralized way,

largely because the decentralized system we have today is not working well. It's hard to get cabinet members to give that up, because in the short run it's not only more expensive for the government, it's more expensive for them, because it is inefficient to change to new systems -- in the short run. In the long run, it's going to be in their interest. But you'll have a tough time of convincing them of that.

And OIT, despite the fact that it's got much improved leadership these days, is not a favored agency within the government. So people don't come to OIT with their problems, they come to OIT in the hope that they can find a way around it.

We've also put together reports on procurement reforms, strategic sourcing, commerce reorganization, personnel reorganization. We have a task force on health-care costs that includes looking both at Medicare and charity care, as well as public employee health care. And we have a task force on higher education reform.

I'm going to spend a few minutes on the last topic. New Jersey came late to higher education. Back in the 1960s, it was at the bottom in states. It had six State colleges, and they were just strictly for teacher training. The presidents of those colleges were former principals. There were no community colleges. Our Rutgers was a relatively small institution. And over a period of years, a number of Governors acted forcefully, and a number of Legislatures acted bravely to finance a vast expansion of that system, which I think has been the jewel in the crown in New Jersey's economic revival in the last 30 years. Along the way, we made some reforms in the original conception, which had a strong State presence. I think we've gone too far toward laissez-faire, with the consequences that

we're going to have to pay for. It's not generally realized that we have some of the most indebted institutions in the country. We borrowed a lot of money, which eventually will come home to roost at the State if it can't be paid back. We need to think more in a statewide perspective. Our future economy depends on those schools working well, and expanding them.

SENATOR SMITH: Are you suggesting that we should go back to the future and have a chancellor of higher education?

MR. LEONE: I think there are a variety of ways to strengthen the State's role, maybe without avoiding -- maybe avoiding that particular model. We're going to come up with some of those questions. As you know, there's considerable interest in what happens to the University of Medicine and Dentistry, another wonderful idea. Remember, it was a salvage operation when New Jersey was losing the only medical school it had at Seton Hall. And it became a gigantic institution, which has produced a lot of good medical care, and a lot of good doctors, and nurses, and dentists. But it also became imbedded in the New Jersey political culture.

I want to say, a lot of the things we have to do, I think, are because of the weight of history. We are living through a time when people are reasonable and cynical about public institutions in New Jersey. And we have to go that extra mile now. That's why I think things like the State Comptroller are a good idea, even though I'm not generally in favor of adding more apparatus to government.

We have to re-earn the trust of the people. And we have to become, I think, slightly fanatical about the need for it. In higher education, that probably means some structural changes, but not structural

changes that take away the independence of these institutions; just some sensible prioritization of who does what and how we pay for it.

In health care, we have to bite a much tougher bullet. And we'll have a report on that that I'm sure will not be very popular. But there's no magic to health care. As Herb Stein, Chairman of the Council of Economic Advisors under President Nixon, and an old friend of mine later-- Stein once said, "Things that are unsustainable won't be sustained." And these increases in health-care costs cannot be sustained. The system has to change.

You can sit back with a perspective of not having your jobs and say, "Well, I'm not really worried about it, because eventually they'll have to do something." But in the spots your in, and the Governor's in, and successive governors are going to be in, you're going to have to change things in ways that make people unhappy -- not just public employees, but people in general. And we have to move to a different system over time, because we cannot afford this one.

SENATOR SMITH: Your Commission is going to have specific recommendations?

MR. LEONE: Yes, we're going to have some. The Commission has a task force, headed by Joel Cantor at Rutgers University.

By the way, we're doing this, essentially, without much in the way of staff. We've gotten some help from Rutgers, and Princeton, the Fund for New Jersey, and other people. But we're not trying to invent things. This Commission is screening ideas that have come up before. It's a bipartisan group. It includes people like Hazel Gluck; and Bob Franks; and Fred Hassan, head of Schering Plough; John Degnan, former attorney

general. It's a small group of people who are experienced. So we're not trying to reinvent the idea of efficiency in government or having an era of discovery about the obvious. We're looking at what's been recommended over the years and how it can be refashioned in the practical circumstances we're in, which are that we have a structural deficit that will take us, in my judgment, five to 10 years to work our way out of. Because I don't think we can raise any major new taxes, and we have to make government function pretty well along the way. It's a good group, but don't expect any magic from us or anybody else.

I think I might do better to respond to questions or things that are on the mind of the commission. I've done a variety of things in my day. And looking back on them, I'm not sure how much good we did in the past. So I don't know how much I can tell you about the future.

SENATOR SMITH: We have-- I think we're going to have a fairly large legislative package when we're done.

But let me ask you your opinion on the three most controversial ideas, all right? One is a suggestion -- and actually a bill by Senator Kyrillos -- which we affectionately call the *base closing commission* idea. And the way in which it works is that we would set up, in effect, the equivalent of the Federal base closing commission, with regard to the merger of municipal governments. They would study the issue for some period of time. And we're talking back and forth about how this might work.

But let me just throw a target out there for you to shoot at. We might set them up for, say, five years. Each year they'd make a list of recommendations to the Legislature about what towns could conceivably

merge and there would be significant savings or significant enhancement of services to the residents.

And then, once the Legislature accepted that report, it would become a -- it would automatically become a public question on the ballot in the affected municipalities. And we would allow a majority of the people in all the municipalities -- not a single municipality. No one municipality could veto it -- but the overall citizenry of those towns would have a chance to vote on it and see those services in municipalities merge.

What do you think of the idea?

MR. LEONE: I think we'd probably need something like that to break the deadlock. I'm not-- Since I've lived in Princeton for 40 years, I know putting these questions to the public doesn't always result in rational decision making. But I kind of like that idea.

I think we have to think in terms of things like sunset laws, as well as even expansion of sunshine laws, as well as things that force questions to the public. Eventually, the public of New Jersey has to come to terms with the fact that it wants the things that cost a lot of money, but it doesn't want to pay for them. And I think one of the--

SENATOR SMITH: This is a way to put that issue right squarely in front of the people that are paying the bill.

MR. LEONE: Put it in front of them.

SENATOR SMITH: All right. The second controversial idea is the concept of putting on the ballot, in 2007, the question of whether the people of a certain county want to send, to the county level, tax assessment, tax collection, animal control, and health services. So they would become county functions. They would be consolidated functions -- and, again,

asking the people whether or not they concur with that, and indicating what the potential savings might be.

MR. LEONE: I should probably take a minute just to mention that when we set this kind of controversy in motion, it often takes a form that we didn't intend, initially. And the distortion of what's at stake in these elections is often grotesque. However, that sounds like a fairly modest agenda for the counties.

My concern about the idea of regionalizing around the counties -- and I'm sure I'm going to offend a great many people by saying this is -- I don't consider the existing county governments the models of efficiency within the Federal system, here or in very many places. So I think you'd want to be sure you were reforming those county governments at the same time. Simply shifting the locus of management doesn't necessarily result in savings and efficiency.

SENATOR SMITH: That's always true. That's always one of the comebacks that we get on any suggested consolidation.

The most controversial idea -- and if you have your Kevlar vest, please put it on at this moment -- is the idea that the 618 school districts in the state is an obscene number of governments, that have outrageous administrative costs when we compare with some other states; that we could consolidate the business functions -- the transportation, purchasing, human services, perhaps curriculum -- to a county superintendent; still maintain the local identity of the school district with a supervisor, but basically no other administrative structure. The rest of the administrative structure would go to the county.

We've done an audit and, in New Jersey, about \$553 million is spent on central administrative services. In Maryland, they spend one-fifth -- which ends up being 2.5 percent of the cost of educating a child in New Jersey. In Maryland, they spend .5 percent, roughly one-fifth -- the ratio of one-fifth -- for central administrative services. There might be the potential savings of up to \$400 million. But the other thought is that if you ended up, ultimately, with county contracts for educational -- for your educational professionals and your support staff, then ultimately you might also see some savings there over the long term. Because you'd have an 800-pound gorilla negotiating with an 800-pound gorilla, as opposed to 618 districts negotiating as 100-pound weakling versus an 800-pound gorilla. And then the economy is related to the economies of scale, where now you can do contracts that are at such a larger level that you could get further discounts, etc.

Any thoughts on that?

MR. LEONE: New Jersey spends a lot on elementary and secondary education. That's not a result of lack of democratic participation in the process. People want to spend a lot on education in New Jersey. And they get pretty good results. We send a higher percentage of kids to college than any place else. Our kids do well on scores. We waste a certain amount of money along the way, I would argue. And therefore, we need to put the question to the people, whether they want to eliminate some of that waste. Because they don't want to take money out of the classroom. I don't think they even want to take money out of teachers' salaries, frankly.

I mean, we live in a society in which -- to take a company at random-- Goldman Sachs is a great company, and it pays people a lot of

money. It does that to get the very best people. I don't think, for the job of educating my kids, I want the people who work for cheap.

On the other hand--

SENATOR SMITH: Right, and we agree with that. We want the best and the brightest.

MR. LEONE: In inefficiencies in administration, you ought to be able to tackle that. You might even be able to tackle that -- some of that legislatively, with carrots as well as sticks, not just by putting the question to people. This fund from the half-penny on sales tax, that may or may not come into existence to deal with efficiencies, might be a reward for communities that make their school districts more efficient, or counties that do that. It's a possible solution to it.

I have no problem with the issue you suggested. I know it's a hot-button issue. I'm old enough to remember a name that many of you don't, probably -- Carl Marberger, who was Commissioner of Education 30 years ago and got the bright idea that these school districts were inefficient, and there were too many of them, and they ought to be combined. And he, and anybody who even knew him remotely, was run out of this town on a rail. He was a very talented man, by the way. He went -- was a successful commissioner elsewhere, before and after his unfortunate mention of economy and efficiency of school district lines, here in New Jersey.

SENATOR SMITH: Thank you for your encouraging words.

(laughter)

Questions for Chairman Leone?

Senator Kyrillos.

SENATOR KYRILLOS: Chairman, thank you.

And thank you, Mr. Leone, for your comments.

I'm not familiar with your Commission -- or committee -- that the Governor has charged you with.

MR. LEONE: I'll make sure all of you--

SENATOR KYRILLOS: Just give us a quick outline of -- you said who is on it -- roughly.

MR. LEONE: It's by executive order, and it's a group that has a hunting license to look at almost any part of State government we want to, and to try to come up with some ideas, as advice for the Governor -- it's not a statutory Commission -- on ways in which the government might operate more efficiently and there might be some more economies.

It really grows out of a belief-- As you know, I chaired the Governor's transition. And I've had a variety of governmental experiences. And they've convinced me -- as well as experiences in private sector -- that the hardest thing to maintain is momentum. And Jon Corzine believes that, as well. And sometimes people get caught up in their day-to-day jobs, and the momentum of reform disappears. The idea is that within the administration, this small group would be a prod to continue thinking about reform and continue making changes.

What happens, I think, in any institution is, on any given day, it's easier to go along with the status quo than to say, "I'm going to take on this issue," which probably will still be there when you leave. I remember when I was State Treasurer, one of my wake-up calls-- I was the youngest State Treasurer ever, and I thought I knew everything. A career employee was the head of the Division of Administration. He and I were arguing about something, and he said, "Well, look, I'll be here after you're gone,

and it will wind up being my way, anyway.” And you know, he was about 90 percent right.

So the Commission is to try and correct some of that, on an ongoing basis, by raising issues. And I’ve given you a list of some of the things we’ve looked at already, or are looking at.

SENATOR KYRILLOS: You don’t have a fixed time line, then.

MR. LEONE: I hope to have many of these reports done by the end of the year or early next year, for the current budget cycle.

SENATOR KYRILLOS: Well, I would say, if I could, Mr. Chairman, that clearly you’re a -- in capacity as Chairman of this Commission, and as former chairman of the Governor’s transition, following his election -- and obvious advisor -- counselor to the Governor-- And I think we’re going to need his very aggressive leadership on some of the items that are obvious to many of us.

I think the Chairs of this Committee understand what needs to be done with regard to sharing and consolidation of services. There’s other aspects to how we reform government that are very important. I think you understand some of the things that need to be done -- because he’s so stated. And whoever said, “That which is not sustainable can’t be sustained,” was right. And you understand that.

So I would urge you to counsel the Governor. I’m sure he understands this. I hope he understands this -- that no matter what comes out of this Committee, it will not be easy to educate a skeptical public; a legislative institution that is used to the status quo, and fear their election or reelection; the bureaucracy that feels they’re going to be here long after we’re gone, as you put it. And it is going to take his very strong, aggressive

leadership. And if he does the right thing, he's going to have bipartisan support. He's going to have support from me, I can tell you that -- at least from me, and I think some other people, as well.

So I just wanted to mention that to you.

MR. LEONE: Thank you.

SENATOR SMITH: Thank you, Senator.

Assemblyman Gordon, you had a question.

ASSEMBLYMAN GORDON: Thank you.

I'd like to begin just by thanking Mr. Leone for his many years of service to New Jersey. Some years ago I, for one, thought that an ex-treasurer was better preparation for the U.S. Senate than success on the basketball court.

MR. LEONE: I should have been taller though. That's the one thing I hadn't thought of.

ASSEMBLYMAN GORDON: One of the things that has been troubling all of us is the great duplication that occurs in the State in the procurement of capital equipment, whether it's fire trucks or the construction of new schools.

In the health-care sector, we have attempted to address this through a certificate-of-need process, where there's some higher body trying to provide a coordinating function and making decisions about which institution gets the CAT scanner. Is there some mechanism like that to try to rationalize spending on capital items at the local level in New Jersey, or do you have any other thoughts on how to approach that?

MR. LEONE: I actually do. This is just speaking for myself. Under the Byrne administration, we created the Capital Budgeting

Commission -- which was chaired, at that time, by the head of Morgan Stanley, Frank Petito -- which became an effective institution at the State level, proposing capital expenditures and reviewing the very many requests that come in from different departments and different agencies.

When I was-- Tom Kean appointed me to the Port Authority, and I became Chairman. When I was there, we established a capital review group, and that was a pretty good agency for looking at capital, which screened things and set priorities. I think the State ought to do that across the board because, ultimately, all of this debt belongs to the State. We really can't let-- As New York found out, and as we almost found out when Newark nearly went belly up 25 years ago, we stand behind all that debt, one way or the other, even if it's not legally or contractually. And we ought to have a voice in it.

As you know, the Department of Community Affairs does have a voice in local debt. But there's no effective body that screens this and considers, as a whole, what we're doing. The story of New Jersey and debt is pretty sad. We used to be the only triple A state anywhere around here. And we had no short-term debt, and we had relatively low long-term debt. And we took very seriously the Constitution's admonition that for almost all forms of debt, you had to go to the people.

Over the years, one of the ways -- one of the corners that was cut was on debt. And now we have this enormous overhang of debt when you add in the authorities and the local governments. I don't even want to mention the number, because it might affect our rating tomorrow. And it seems to me, in these circumstances, we are justified in saying we're going to introduce a new intermediary body that takes a look at the total debt

burden of the State and whether this makes any sense. If we were a business, we would do that. Other states do it.

And New Jersey, in fact, did something quite like it years ago, and ought to consider doing it again. You can-- This is one of those things that isn't an immediate issue right now, because the barn door has been opened, and we have all this damn debt and implicit debt in, like, pension obligations. And we're going to have to work our way out of it. It's going to take a long time. So we are constrained by that. But looking ahead, we still shouldn't be adding to it through the back door, or in ways that we haven't thought of.

So I would be for a forceful, robust State presence overseeing a debt, something beyond what we're used to, for a while. Remember, when New York City really was going under, they created the Emergency Financial Control Board. And for a while, the city was essentially in receivership to that Board. I don't think we're quite at that state, but I do think we're at the state where incurring more debt has to be looked -- held up to the light.

Nothing-- No institution operates very well when it operates without enough sunshine, whether that's the Catholic Church, or United Way, or any department of State government. So that's a very good question.

SENATOR SMITH: They were the only two groups we hadn't offended. So we now have everybody mad at us. We appreciate those comments. (laughter)

MR. LEONE: You can always count on me for--

SENATOR SMITH: Other questions? (no response)

ASSEMBLYMAN MALONE: You'll get the Bishop after you now.

SENATOR SMITH: Chairman Leone, thank you so much for coming.

MR. LEONE: Thank you.

SENATOR SMITH: We do appreciate your comments.

MR. LEONE: Good luck.

SENATOR SMITH: We're going to need it.

The last panel for today is Jonathan Stomberger, from SMART; and David Crossed -- who are both Senior Partners with SMART and Associates (*sic*). This is a firm that brings private sector efficiencies to the public sector. And we also have Dr. Keon Chi, Editor-in-Chief, Council of State Governments, who is the leading expert in the privatization of government services.

Mr. Chi, are you out there? Please come forward.

And why don't we give Dr. Chi the chance to be our first witness.

Dr. Chi.

KEON S. CHI, Ph.D.: Good morning.

SENATOR SMITH: I'm sorry. We need to give you a second to get the PowerPoint presentation up.

Are we ready with that? (affirmative response)

Okay.

DR. CHI: I need--

SENATOR SMITH: I have the same problem with the remote control in my own house. (laughter)

ASSEMBLYMAN MALONE: You have to have your kids do it for you.

SENATOR SMITH: Dr. Chi.

DR. CHI: Good morning.

SENATOR SMITH: Good morning.

DR. CHI: I realize I have to compete -- my presentation -- with your lunch hours, so I don't want to be--

SENATOR SMITH: It's okay.

DR. CHI: Thank you for inviting me.

My name is Keon Chi. I am Editor-in-Chief of *The Book of the States*. And I am currently Director of -- State Governments Transformation Director.

Before I start my presentation, I'd like to recognize the presence of Alan Sokolow, who is in the audience, who is Director of ERC.

As you know, The Council of State Governments is housed -- or located in Lexington, Kentucky. But we have four regional offices: one in New York for the Eastern Region, one in Chicago for the Midwestern Region, one in Sacramento for the Western Region, and the one in Atlanta for the Southern Region. I am in the national office, but we work closely together for many projects.

I am here to make two short presentations. One is on privatization, and the second one is on consolidation of local governments and shared services.

So that I don't waste my time, as well as your time, I asked Ms. Hannah Shostack about specific questions your Committee members might have. So I will confine my remarks to those specific questions.

Talking about privatization -- which is one of the most controversial issues in state and local governments in the last 20 or 30 years -- the Council has done several special reports on privatization. Those reports are on the screen. So I will be making my remarks based on our survey of 50 states, particularly the state budget officers, state legislative service agency directors, as well as the five largest state agencies across the nation.

The seven questions I've been asked to address are the following. First question: Does privatization save money? Secondly: Have you observed any resistance to privatization if the savings were not realized immediately? Number three: How would you define successful privatization? What have been the successes and the failures of privatization? What services tend to be easier -- or easiest, or hardest? What kind of a trade-off might be between cost savings and the quality of services following privatization? And how would you handle organized labor, and how have you addressed labor's concerns? So I will try to answer each of the seven questions.

The first question: Does privatization save money? Now, privatization has taken place for several reasons, but cost savings has been the number one purpose and objective of most privatization activities. However, there are other reasons for privatizing state or local services, such as -- because of lack of expertise among government workers; secondly, when you try to implement policies and programs immediately, quickly, you tend to privatize. So there are other reasons for privatization other than cost savings. But, ultimately, cost savings is the most important reason for contracting out services.

Now, the answer depends on who answers when the survey was conducted, and how the study was done. You can have different answers, depending on these variables. Cost savings also depend on states, agencies, policies, and programs, as well as providers. Based on our survey, I must report to you that accurate cost savings data is not available from most state agencies, if not all.

However, CSG surveys in the last 10 to 15 years have indicated average savings from most privatized services in major state agencies have been between less than 1 percent and 5 percent. Of course, there have been some exceptional cases. In some cases, state agencies have loss. But in other states, they have been able to obtain more than 15 percent savings.

Now, the next table shows a table based on our survey data of 2002. As you see here, the answers to our survey on cost savings varies. Budget directors and LSA directors tend to have more “no” responses, or “I don’t know” answers, compared to agency director answers. But as you see in the orange color figures, most states reported that their savings have been between less than 1 percent and 5 percent.

The second question: Any resistance to privatization if no immediate savings are anticipated? Privatization has been opposed by state workers in most state agencies, whether it saved money immediately or not. Opposition becomes more vocal when immediate savings are not realized, of course.

The third question is: How would you define *successful privatization*? The answer is: If your purposes or objectives of privatization have been realized, then you say you can -- you have been successful -- such as cost savings, speedy implementation, and high quality of services.

Question number four: What have been the successes and the failures of privatization? Now, privatization has several forms or methods. Of those, contracting out has been probably the most successful method, followed by public-private partnerships, and grants-subsidies to private providers.

In terms of polices and programs, privatization has been successful in welfare, corrections, human resources, highways, and IT in many states. On the other hand, privatization of public education, K-12, particularly public -- private management and voucher programs -- has not been very successful.

Now, talking about local services that have been more widely privatized, you will find the following areas: fire protection, trash collection, drug abuse counseling, recreational activities, office maintenance, emergency ambulance services, jail administration, shelters for the homeless, automobile/freight maintenance, window cleaning, parking garage maintenance, abandoned car removal, golf course management, and drug addiction treatment.

Question number five: What services tend to be hardest to privatize? Privatization can be implemented in several ways, ranging from sale of government assets to service shedding. Now, *service shedding* means termination of public services by state or local agencies. On the other hand, contracting out core or major state functions and services have been most difficult, because they tend to have major implications on a large number of state workers. Privatization of certain functions, such as IT in Medicaid or facilities management have not been as hard as privatization of corrections and mental health services involving human lives. So I think we need to

distinguish between privatizing certain maintenance or technology services; and privatization of law enforcement, corrections, or mental health services involving the lives of the people.

Question number six: Trade-offs between cost savings and the quality of services. In my opinion, privatization does not necessarily mean lowering the quality of services. I think the quality depends on how RFPs have been written or prepared, how contractors have performed and been evaluated. In some cases, state agencies have privatized certain services to raise, not to lower, the quality of services with the same or even less money.

Now, it is very important to correctly understand what privatization really means. *Privatization* means the use of private providers in managing or delivering public services. But it does not mean state or local governments giving up their decision-making authority when spending taxpayers' money. State officials, county, and city officials are still responsible for what private contractors are doing, how they are performing. If they make mistakes-- Mistakes can also be brought to -- can go to state and local policy makers.

And the final question is: privatization and organized labor. Now, as you're well aware, organized labor, state/local employee unions -- especially AFSCME -- have resisted privatization -- for good reasons, because privatization can mean their employment status. So some states have sought employee unions and associations buying into privatization projects from the beginning, not after contracts have been signed.

In other states, state employees are given the same opportunity to compete with private contractors in certain privatization projects. As a matter of fact, the state of Washington -- the legislative service agency is

conducting a 50-state survey -- or some sort of survey -- to find out how many states allow state or local employees to bid along with private providers. As a matter of fact, in some states, they have already done so. I know one thing for certain. I guess in New York City, when privatized trash collection projects -- they allow the local employees to compete with the private companies. And in many states, displacement of state workers have been addressed with the private contractors prior to privatization, so that they can hire some impacted state or local workers.

And in conclusion, the success or failure of privatization depends on five major points. Number one, state/local governments must have carefully designed, pre-privatization analyses; number two, detailed request for proposals by experts; number three, you need to have able and willing providers in local communities or in the state; number four, you need to have a consistent and transparent monitoring; and finally, number five, you have to have objective performance measurement, not just by state agencies involved, but also by experienced evaluators, including third parties. So these are my answers to each of the seven questions posed.

The final word I'd like to leave with you is this: Based on my 25 years of monitoring, and studying, and publishing reports on privatization, I can say that privatization once was an ideological and partisan issue. Republicans tended to promote privatization, while Democrats were against it. Conservatives were in favor of it, and the liberals were against it -- as you know why. But today I find that the Republican governors, Republican legislators tend to favor or reject privatization just like the other party members -- the other side of lawmakers.

SENATOR SMITH: We've become Tweedle Dum and Tweedle Dee?

DR. CHI: Pardon me?

SENATOR SMITH: We've become Tweedle Dum and Tweedle Dee on this issue? (laughter)

DR. CHI: I think you can use that.

Okay. The next presentation is on local government consolidation and shared services.

I decided to prepare this report after reading some of the minutes of this Committee in the last couple of days. So my information, hopefully, will be relevant to your Committee work these days.

I've been particularly asked by Ms. Shostack to address economies of scale issues. So I've prepared some information for your Committee work. I will give you some quick trends in local governments, particularly in the number of local governments.

In a 50-year period, from 1952 to 2002, the number of county governments in the United States has remained about the same, a little more than 3,000. However, the number of municipal governments has increased greatly because of suburbanization and the emergence of new cities. The number of towns and the townships has decreased slightly. The number of school districts has been reduced significantly. I hope you note this one. I will come back to this issue. And, lastly, the number of special districts has grown three times -- about three times. So total: We now have close to 88,000 units of local government in the United States, compared to more than 116,000 50 years ago.

ASSEMBLYMAN WISNIEWSKI: Dr. Chi.

DR. CHI: Yes.

ASSEMBLYMAN WISNIEWSKI: How do you distinguish between municipalities, and towns, and townships? I mean, in my mind I lump them all as one.

DR. CHI: The Census Bureau uses the term *municipality* to mean a city with 2,500 in population. And what I did not include there is -- because the Census Bureau does not include it. The Census Bureau includes only five types of local governments. I realized that, in New Jersey, you have many boroughs. In Bergen County, for instance, you have Borough of Edgewater, Borough of Fort Lee, etc., etc. So boroughs can be equated with the towns or townships.

Now, in other cities -- I mean other states -- they have different names, as you know. There are two states in the United States that do not have county governments, per se. They are Connecticut and Rhode Island. Even though they have counties, they don't have county governments. In Louisiana, county governments are called *parish* governments. In Alaska, county governments are called *borough* governments. But the term *borough* is used for county government in Alaska; or municipal, or town, or township, in the State of New Jersey. So there is some confusion there.

Now, moving to local government restructuring. Broadly speaking, there are three approaches in restructuring local governments. One is called *one-tier*, or one government approach. This includes school district consolidation and city-county consolidation. Now, Louisville, in Kentucky, merged Jefferson County with the city of Louisville and several other smaller cities, in 2003. And they claim to have realized cost efficiency in the last two or three years. Now, you can also add annexation as an

example of one government approach. To raise additional revenue, you try to annex part of unincorporated areas under county jurisdiction.

Now, the one-government approach, the one-tier approach, has not been easy though. It has been difficult, but it has been successful in some parts of the country.

The second approach is called the *two-tier* approach. This is called the *metropolitan federation*. And a good example here, in the United States, is Miami and Dade County. And I understand you had testimony from a person from Toronto, Canada. So these are the same. In other words, you create another layer of government so that layer of government can handle areawide services or functions, while existing municipal governments or township governments handle what they have handled before, to meet the needs of particular localities.

And the third approach is called a *third-tier*, or the government approach. And the best examples are Portland, Oregon and the Twin Cities in Minnesota. They create two layers of all cities, of all counties. And, as a matter of fact, this is really regional government. And they say they are more cost-effective now than before they formed this regional government.

Now, how local governments share services: You can start with the easiest one, which is informal cooperation without contracts among cities, and towns, and boroughs. The next one is joint powers agreements. Two or more cities agree to contribute funds to provide particular services, or two or three services, such as libraries. You don't have to have a city library in each state (*sic*). Rather, you create a city library by two or more municipalities.

The next type of shared service is extraterritorial powers. You allow certain cities to handle services or functions outside their territory boundaries, but usually under county jurisdiction.

The first example is councils of government. Councils of governments, or COGs, have been in existence in the last 34 years. And you can have many interlocal cooperations. Then you have city-city shared services. If I read the proposed legislation, here in New Jersey-- I think this is what you are trying to do -- interlocal contractual agreements. And then, finally, you have county-city share the services. A county, which provides urban services is called *urban county*, of course. But the best example you might want to look at in detail is the Lakewood Plan. Lakewood is a name of a city in Los Angeles County. There are more than 70 cities within L.A. County, which has nearly 8 million. Now, many of those cities within the county contract with the county government so that they can buy certain services. They don't have to have their own fire department, they don't have to have their own ambulance. So you just-- They just contract with the county governments. And this model has been in use in L.A. County since the mid-1950s.

Now, this model is easier to consider if cities are willing to give up their existing services in favor of the contractual work or services provided by county government. So the county, which was initially created to provide services to rural residents, is providing urban services to realize economies of scale.

Finally, based on my own research, I can give you five or six future trends, briefly. First, we will see continued school district consolidation for the reasons of economies of scale and probably better

student performance, as well. We will see continued increases in the number of special districts. I believe New Jersey has many special districts, as well. Continued city-county consolidation attempts-- I used the term *attempts* because city-county consolidation has not been very easy, because this deals with doing away with the existing city governments. And so it is very tough to persuade the citizens to give up their city government in order to have one, merged government. But I happen to live in a city which has been merged with the county government -- Lexington-Fayette County Government. And this was -- became effective in 1972. And I came to Lexington in 1970. So I had the chance to observe this merged government in person, as a taxpayer. And I have to say that this merged government has worked very, very well.

Continued regional alliances; continued development of city-states -- that crosses state boundaries, sometimes -- and through interstate agreements and compacts, local governments can also share their services and functions.

This is the end of my presentation. Thank you for your patience.

SENATOR SMITH: Thank you, Dr. Chi.

Are there any additional questions for Dr. Chi?

ASSEMBLYMAN MALONE: Yes, just--

SENATOR SMITH: Yes, sir, Assemblyman Malone.

ASSEMBLYMAN MALONE: Have you looked at all--

And those are very nice presentations. Thank you very much, sir.

Dr. Chi, have you looked at the privatization of purchasing practices by states, whether they should go to privatized systems of purchasing?

DR. CHI: I would say, in certain areas-- I think Pennsylvania has implemented what they call *strategic purchasing*, using the private sector. And they have initiated this practice maybe a couple of years ago. So they might not have the track records.

Talking about purchasing, there have been multistate purchasing efforts, particularly in the case of pharmaceutical purchasing by three states -- they are West Virginia, Virginia, and Maryland. So they collectively used private vendors to reduce the purchasing.

And the last example I just learned recently is Kansas. To purchase drugs, particularly for inmates -- state inmates -- more efficiently, they created what they call *collaborative Kansas*. Under this initiative, private vendors agreed to sell drugs cheaply to state and local agencies for just inmates. So there have been some cases.

ASSEMBLYMAN MALONE: I guess the point I'm trying to make, Dr. Chi, is that in my work in trying to reform the Division of Purchase, I have found that you, as an individual, would probably be much more successful in getting an item cheaper than the State of New Jersey, with all its buying power can purchase. And I've done that repeatedly, and I've looked at that, and I find that is a phenomenon that -- I don't know if the bureaucracy is such that there is inherent, built-in cost factors. But I would say that any individual who went out today and tried to buy a similar or identical product that the State of New Jersey goes out and buys regularly could actually get it cheaper.

DR. CHI: I'll give you one example. This has to do with Iowa's Charter Agency program. In Iowa, two or three years ago, the governor, through executive order, allowed six state agencies -- state major agencies -- to do whatever they wanted to do to save the cost. Now, just like in New Jersey today, Iowa, several years ago, had a major fiscal crisis. So Governor Vilsack came up with this idea called Charter Agency program. Under this program, state agency directors who have volunteered to participate in this program have been given the authority to restructure their departments, their units, as well as the authority to purchase whatever they needed.

In the past, it took several months to replace a motor vehicle for state employees. They say nowadays, it takes us only a few days, because agency directors have been given such authority. So I think that's what you're referring to. And I strongly--

ASSEMBLYMAN MALONE: It's not just the speed. But I just find that there is a built-in cost factor for companies to deal with State government, that they need to protect themselves, because of payment schedules and everything else. There is a built-in padding of State purchases because of a cumbersome nature of buying -- or selling to public entities or the State.

And I have found -- and I have introduced legislation that would allow municipalities, if they could find an item 5 percent cheaper than State contract price, they could just go buy it without having to go through any rigorous political bureaucracy. And I'm just finding that we just, in essence, don't think through how we do some things. And I think

your presentation sort of -- I think is a little bit enlightening -- that there are other ways of doing things.

And, again, I appreciate your effort in trying to bring some of this to our attention. Thank you very much.

DR. CHI: Thank you.

ASSEMBLYMAN MALONE: Thank you, Mr. Chairman.

SENATOR SMITH: Thank you, Dr. Chi.

Any other questions? (no response)

Well, let me thank you for your contribution here today, Dr. Chi.

And we have Jonathan Stomberger and David Crossed, from SMART and Associates (*sic*).

Gentlemen, I'd ask you, in light of the late hour, to try and be--
JONATHAN S. STOMBERGER: Be brief.

SENATOR SMITH: Succinct.

DAVID X. CROSSED: Thank you very much. I appreciate the Assembly -- this Committee inviting our firm to present.

We do have a presentation. We will be brief. And we would very much welcome your comments during this discussion, as we are here today to share with you some of our experiences from the private sector and public sector in employing shared services.

Jonathan, do you want to grab that clicker? (referring to remote control)

MR. STOMBERGER: I'd love to.

Do you want me to click?

MR. CROSSED: First of all, my background. I have 15 years experience in business operations. I have worked with many of the State agencies and authorities in New Jersey to help with consolidation activities, improve services through strategic planning, procurement, and better use of technology within those organizations.

Jonathan Stomberger, my colleague, brings 17 years experience deploying shared services and implementing enterprise systems, particularly within hospital organizations, which often we liken when we look at the challenges between municipal and county government.

Quickly, just about our firm -- and this is not a commercial. It's just more to credentialize what we bring when we go in and we look at organizations. We provide business advisory and consulting, independently, to these organizations, to address people, process, and technology when identifying some of the challenges that the state is addressing, that Adel's group is addressing -- that he spoke of earlier. And, frankly, I have to commend Adel on his ability to realize and address savings so aggressively in only five months, because these are complicated issues that he is dealing with.

But within our public sector practice, we strictly look at how our government clients can drive greater efficiency through improved business process and better use of technology. And that's a mantra we bring to all of our clients. And in State government, some of our successes are-- We were responsible for all the consulting work around the consolidation between the New Jersey Turnpike Authority and the Highway Authority only a couple years ago. And we consider that a very successful initiative, both in cost savings, efficiency, and the services that are now

being provided through modernized roadway to the constituents of the State of New Jersey.

We are currently working with many counties within the state, through improving records management practices. And that is also having, we believe, the beginnings of tremendous success for the State and the counties.

The other items up there are for your reference.

I'm going to ask Jonathan to speak more about the particular shared services lessons learned.

MR. STOMBERGER: So to transition, my background has been in the private sector, but we have applied a lot of the same principles as you've been talking about today, in terms of services and/or business processes that can be taken to a shared services function, whether it's at a county level, whether it's at a school district level.

The list that you see on the presentation is primarily focused around back-office processes -- those processes where we typically see high volumes of transactions done through a lot of different locations, and often times being deployed by individuals who are tasked with multiple activities during the course of their normal day, thereby sometimes creating inefficiencies in the way these activities are done.

If you look at some of the other -- in my experiences in this industry -- other areas, that aren't on this slide, that may be worth entertaining as this organization looks at shared services and its deployment within the State of New Jersey: Insurance, legal services, maintenance, property management -- areas that, often times, can be aggregated, performed by an individual or individuals who are more expert than

someone who is going to do it in an off-the-corner-of-their-desk manner. Other areas-- If you look at this list of transactions, and the transaction sets that are here, there are really three areas in which an organization, or municipality, or entity can take on shared services and hope to gain. It's through volume, efficiencies, or dollar savings.

To Assemblyman Malone's comments around strategic sourcing, of which I am responsible within our firm, we have also seen the ability to aggregate spend in a shared services function. An example I can provide is that in central Pennsylvania, about 10 years ago -- when I was a partner at Anderson -- we combined six -- seven colleges and their purchasing functions. We also combined their legal services to try to create savings. Those savings -- although I will not say that you couldn't get it cheaper, also I agree with your comments there -- by providing standardization, and the ability to maintain the same process throughout each of those colleges, it allowed there to be more efficiency, thereby driving savings in the end.

I'm going to actually just spend a second on this slide, for sake of time, because it really speaks more to the academic nature of what a shared service center -- in either private or public sector -- can provide. But if you look at it from the sense of increased *efficiency* and *effectiveness* -- those two words that consultants often use -- you can derive, through most of these, the concept of leverage -- whether it's through a single technology platform, whether it's through specialized skills and the leverage that can be achieved through those; even down to similar service levels or standardization that we've talked about. The key to these types of benefits that, again, from more of an academic slant, is that it's going to drive lower

costs, and it's going to achieve -- help your organizations achieve the strategies that you're putting forward by looking at a shared services function.

What I really want to spend two or three more detailed minutes on is-- As David indicated, we break our clients' situations and problems -- and yes, we are consultants -- we break them into three areas: people, process, and technology; with the view that by looking at those three elements, and paying attention to not one but all three of those, the organizations can achieve best.

Examples I can -- frankly have heard several times today. If you look at the people side of how to employ shared services and our lessons learned: Michael Lapolla, at the New Jersey Turnpike, provided strong leadership at the top. He's not our only example, but one that is probably most pertinent here.

By providing strong leadership at the top -- which we've heard probably throughout all of the presentations today -- and having the ability to make and stand by the decisions that are made, it helps the organization continue through what will be a challenging time. Employing shared services -- as you heard from Ms. Takai earlier today, from Michigan -- took some time, and it is a struggle. The struggle shouldn't be looked at as short term, but recognize that it's going to really take an immediate amount of pain. But then we can leverage that out over the years to generate the savings.

Effective and frequent communication: The concept of employing this, whether it's by allowing all the public to know what you're doing, or just doing it internally-- But by employing frequent

communication and allowing the organizations, and those affected by it, to know what's going on, how it's impacting them, how it's impacting their municipalities or their counties, is important.

But to do that, you need to do one of the other aspects of the people side of that, and that is establish benchmarks and performance measures. The consulting term around that is, you must establish the measures, you must attain them, and then you must maintain them. That seems awful consultanese, until you recognize that -- how are you going to measure and track your baseline unless you've established one, particularly around the savings that can be generated by the transaction process? And it can happen within a shared service center.

On the process side-- Process savings, and the ability to create more efficient processes, typically are what organizations look at -- private sector or public -- in helping create savings. We're involved and engaged with one of the other examples that Dr. Chi would have also mentioned, which is in metro Nashville -- Nashville and Davidson counties -- helping them install a single, standardized procurement practice using a single technology, allowing all the counties -- agencies and all -- within that constituency to purchase through the same process, through the same set of contracts, using the same tool.

The process part of this -- what really becomes most important, as my slide, two slides ago, would show, is that there are multiple functions that an organization that chooses to embrace shared services can take on. Determining early what those services are that are going to be in to the shared service, and what those are -- not going to be taken care of by shared service -- needs to be an early, analyzed, documented, service-level

agreements -- maintain and then reevaluate that. Because what you may find-- A very large, multinational, dental manufacturer, that is a client of mine, that did this, looked at -- is that during the first two years, they were only going to have four or five functions -- benefits administration, legal, payroll, some of the ones you all have had access to. They looked at those initially, and then they said, "We think we have a handle on that. Now let's go back and try to determine what other services might we want to bring inside the shared service center."

The last piece around technology is, it does offer the opportunity to leverage advanced technology across multiple entities. Whereas you may not have the ability for a single county to have an advanced computer system, when you can combine those with others you can leverage that cost, leverage the training that is also a requirement, to drive some successes.

Some of these are the lessons learned that we have in private sector. I welcome comments and questions around those. What I'd like to do, for the sake of time, is transition back to David, and have him talk a little bit about some of the points to consider, as we sat, and researched, and thought about how might it apply -- the concept of shared services -- in this instance.

MR. CROSSED: Thanks, Jonathan.

What we did is, we outlined a few points that we feel are important for the Committee to consider in any legislation that would be put forth. So I would think Jonathan and I could speak for both of ourselves.

We did come wearing our Kevlar vests this morning -- this afternoon, rather.

MR. STOMBERGER: It was morning.

MR. CROSSED: It was morning, yes.

And we feel that, irrespective of the shared services that are deployed, each one of these elements is important and probably worth mentioning. But we really need to define the success of the program up front. What is success, so that you can measure against it as you move forward and try to gauge what the lessons learned are from pilots that you might employ, and as you further roll out into the organization. That requires time. Often, it's not fun. It's not something that everybody wants to spend their resources on, but let's define it early. Let's understand that funds must be invested to -- relating to the planning for, designing, and implementing shared services properly. We need to establish a cross section of pilot programs to ensure implementation of operating standards.

What that means is -- you don't always know what the best business process is for accomplishing payroll in a particular county for municipalities, let's say. But by running through and developing standards and then learning from the pilot program, you are going to get strong lessons learned and you will then improve upon those processes. And we suggest that you emphasize the back-office business functions rather than consolidation -- the business functions that Jonathan mentioned in the earlier slides.

The next slide regarding points to consider. We feel that there should be mandated adherence to a single set of policies and procedures for each business function. That's the only way that you're going to get

standardized procurement and be able to leverage the pricing that Assemblyman Malone referred to. And when you create a shared services functions, you need to have a standard support structure with titles, job descriptions, and qualifications for the people who are supporting those functions, and employ that as you go out to multiple counties, for example, or multiple school districts.

MR. STOMBERGER: And just to chime in, I would also add that that goes down to the level of a service level agreement. If, in fact, payroll is one of the activities in a large IT shop, or that IT hardware had their payroll in a shared service center, they had to establish the service level agreement so that the locations knew, if in fact there was a payroll question, when would they get response. And those service level agreements are dictating things like the cost and the allocation that typically occurs in the private sector, as to what's the value of opting in or being part of the shared service center.

MR. CROSSED: That's going to lend comfort to people participating in the shared services, because the next item we suggest is that you mandate that they participate -- and that's not always easy.

And the last item that we believe should be included is that you need to determine up front exactly how savings will benefit the municipality, school district, or county. Are your constituents going to see it? Is it going to be absorbed into the budget? Gloucester County has implemented certain shared services that have been very successful, but those costs have been-- They're not very visible to the constituents of the county.

Next -- pardon me (wrong slide) -- next, I would like to transition to a little bit -- a different idea that we had as preparing for our testimony. I wanted to introduce to the Committee the fact that today there is an organization within your Division of Archives and Records Management that is exploring shared services. They began through the PARIS Grant program, which I've described in this slide, and they are granting money to counties within the state to explore shared services between the county and municipal government. And that is, as I said, that that money was awarded in July of this year, and those studies are beginning in the upcoming months.

And why I bring that up is because I suggest that the Committee may consider leveraging the capabilities of this program management office, by requesting of that Division that they expand the scope of these analyses that are being done to examine all shared services within the county and look at the business operations. Because, as we are suggesting, it's important that we measure success, we understand what the best opportunities for savings are, and what it's going to take to get to employ those shared services.

The benefits to this idea that we present to the Committee is that a shared service strategy, prioritization of services, and anticipated savings will be analyzed and developed quickly. It would require little additional funding from the State; and it would take advantage -- which cannot be underestimated -- it would take advantage of resources that already understand the people that are involved at the municipal and county level. They have established benchmarks for applying for and

adhering to grants, and are reviewing quality control, and are providing advice across the state.

Thank you.

We are both open to any questions you may have. We appreciate your time.

SENATOR SMITH: Would we be taking advantage of you if we asked you to take a look at some of the models that we've been discussing, to anticipate what the savings might be for the State of New Jersey?

MR. CROSSED: Not at all.

SENATOR SMITH: All right. Well, if you could, get back to us quickly then, we were talking about a county administrative school district, where all of the administrative stuff would go to the county level, while still maintaining the identity of the local school district. Would you take a look at that and get us some idea-- And we have an audit of this. We spent \$553 million for these services now -- and we'll be happy to share the audit with you. But if you'd take a look and see what you thought, that might result in savings to the taxpayers, we'd appreciate that.

We have a "base closing" bill where we're talking about merging municipalities, putting it before the voters of the affected towns. There I don't think you can, in any way, do -- take a look at 566 municipalities. But maybe you could take a look at a place where two or three towns -- where it might work, and just give us some idea of what the savings might be if they did consolidate.

MR. CROSSED: Absolutely.

SENATOR SMITH: And--

MR. CROSSED: And I might add, we-- As we both looked at the bills and -- believe that they're sound. They certainly need to be-- Many of the details around them need to be thought-- And referendums--

SENATOR SMITH: Tweaked up.

MR. CROSSED: --are difficult in this area around consolidation and municipalities. But we feel that, done right and with effective communications as to the benefits--

SENATOR SMITH: Right.

MR. CROSSED: --to the constituents up front, they can be very successful.

SENATOR SMITH: Also, too, we have another model which is moving assessment, collection, animal control, and health services to the county level. And we know that currently costs in excess of \$200 million statewide. And we'll be happy to share those figures with you as well. Can you give us some idea of what you think the impact might be, tax-savings wise? We'd appreciate that. And of course, we'd like this yesterday.
(laughter)

All right. Chairman Wisniewski, any questions?

ASSEMBLYMAN WISNIEWSKI: I have no questions.

Thank you, Chairman.

SENATOR SMITH: Members?

Senator Kyrillos.

SENATOR KYRILLOS: Mr. Chairman, thank you.

Thank you very much for your excellent testimony, and for the discussions that we've had privately.

And Adel, I want to thank you publicly for agreeing to help us sort out the potential savings of the initiatives that we've been discussing for these last several weeks.

You said in your presentation that we've got to define success in analytical terms and measure it. And so success, I think, means that we're going to save people -- save the government money, save taxpayers money, lower taxes. And these initiatives that we've been talking about up here are going to be hard to move through the process. But they will be immensely easier to have happen if we can point to specific dollar amounts, or specific percentages, or a range of percentage savings when we collapse municipalities -- collapse and consolidate services and the like.

So what Senator Smith has asked of you, I think, is very, very, very important to this process. And I think, Mr. Chairman, to the degree that we don't get enough feedback or thorough feedback, depending on what you can or cannot produce, we've got to find a mechanism with which to do it. We have to go to our colleagues and to the public in general and give them, with some reasonable specificity, what it is we're talking about.

You talked about this PARIS Grant, which I guess you're helping the State with right now, with the Archives Division.

MR. CROSSED: Correct.

SENATOR KYRILLOS: And you said that it could be -- this pilot project could be expanded to all county services with the current PARIS Grant, leveraging that money with a little additional cost to the State. Can you talk more about that?

MR. CROSSED: Yes.

Really, records management runs throughout all of government, in all organizations; and how you store and maintain and process your records. We talked about digital government, right, and we often hear about the freeholder meetings, and the binders, and how you store and reproduce records. Records-- When we're in and we're performing these engagements at the county level, we're looking at all departments and business processes within those departments. Right now, the scope -- not just for us, but other consulting firms that are engaged at county governments looking at shared services -- is really about how can records be stored and processed more effectively, and how can business processes be improved more effectively. We need to take this a little bit deeper, I believe, if we want to leverage that and look at all shared services to say, "What's the process really going to be, and what is the realized opportunity that can be born through consolidating payroll as a shared service, consolidating accounts payable procurement, some of these operations?" Measure it, define the success in that organization, and create a future business process that then would need to be adhered to. That is not in the current scope of those types of assessments.

SENATOR KYRILLOS: Mr. Chairman, I think these gentlemen told us that this grant program was for about \$3 million. Is that what you had on the screen?

MR. CROSSED: The grant program specific to shared services-- And I want to be clear -- we are not currently engaged in any shared services assessment work with any county.

SENATOR KYRILLOS: You're not part of the PARIS Grant?

MR. CROSSED: We are. We are doing some PARIS Grant work, but not related to shared services assessment. County and municipal examinations is \$3 million. In the current year, 2006-2007, around the mission as described in the presentation of modernizing records management, the PARIS Grants gave \$26 million. I shouldn't say *gave*. People applied for, to receive, \$26 million to modernize records management, to drive efficiency at county government. So the total grant for the year is \$26 million -- 3.1 is for examining shared services.

SENATOR KYRILLOS: So you think that that money is adequate, or relatively adequate, to expand to look at other potential operations?

MR. CROSSED: Not significantly more would be required to expand the scope and include that.

SENATOR KYRILLOS: And it wouldn't be the Archives Division, however, that would administer that money necessarily. Did-- They worry about records and the like. Could they do it?

MR. CROSSED: They are. That's correct.

SENATOR KYRILLOS: That's correct they could do it, or--

MR. CROSSED: Right now, their emphasis is on records, correct, but they have a program-- What we've described is a program management office, and they understand the process of administering the grants. And I would suggest that you leverage those resources and make sure that these projects are going in, hand in hand.

SENATOR KYRILLOS: Do you think the people there and the infrastructure there, and because they're experienced with the current program, is such that we could broaden their mission with this existing

appropriation and perhaps a little bit more added to it? Is that, in essence, what you're saying?

MR. CROSSED: I do. I wholeheartedly believe that. I think that it's not-- They're providing advice around records management. But at the program management level, they're coordinating a lot of activities. And I would not take that for granted.

SENATOR KYRILLOS: Well, Mr. Chairman, I think that one of the very early pieces of legislation that we ought to consider doing is to -- and perhaps it doesn't need legislation--

SENATOR SMITH: Expand the program.

SENATOR KYRILLOS: --is get some specific guidance from these gentlemen to codify what they're suggesting to us orally, and figure out the right mechanism to tell the Archives people. We'd have to take your word for it that they're the right people to do it. To take money that we've already appropriated and expand it to look at other possibilities -- I'm not sure why we wouldn't do that. I'm sure you would agree. It's refreshing to hear from experts out there that we already have an existing pile of money working, to some degree, toward the ends that we want to see achieved, that we can use without asking for more money, or reinventing the wheel, or with a different agency, or whatever. So--

SENATOR SMITH: Let me ask that question.

Is that money unspent at this point, or is it committed?

MR. CROSSED: It's been allocated to the counties. And when you say spent, have the consultants gone out and done the work? The answer is, no, they have not.

SENATOR SMITH: But the money is committed, so we would be talking about new money, Senator.

MR. CROSSED: I'm suggesting, if a particular county has been given a grant to do an examination--

SENATOR SMITH: Right.

MR. CROSSED: --that a discussion be had between DARM and that county to expand the scope of that review, and understand if additional money is required -- how that would be allocated. And I'm not--

SENATOR SMITH: And I believe municipal government clerks have also received PARIS Grants for these records functions as well.

MR. CROSSED: Yes, that is correct. They have.

SENATOR SMITH: But it -- I get the general concept, which is we should have more carrots.

MR. CROSSED: But that is-- I would say that--

SENATOR KYRILLOS: Did you help set up this system with the Division of Archives?

MR. CROSSED: Did we help set up the system?

SENATOR KYRILLOS: This program? What was your involvement?

MR. CROSSED: Our involvement-- We-- Our only-- We won, through competitive bid, to do some work around developing five-year strategic plans for the counties and helping them employ effective, strategic plans and understand their current needs.

MR. STOMBERGER: What I might suggest is, some of what you all are saying here is-- If you would allow us to go back and write a little bit of this down, in terms of what we think the approach might be,

how we would envision it, whether it's further defining what this project management organization looks like, and how we see that being valuable to your end means -- your end results and goals, and get that back to you, that will at least give you something to go with.

SENATOR SMITH: We appreciate that.

MR. STOMBERGER: And the other stuff.

SENATOR SMITH: And we additionally appreciate the evaluation of those -- three of our more radical suggestions.

SENATOR KYRILLOS: Mr. Chairman, if I could.

I think that's a great service to us, to give us advice on that money that's already out there. Perhaps it was already allocated, but that's where the stick of carrot -- the sticks comes in -- if we have a little bit more money and we say, "Look, we've already allocated this to you, but look at these dozen other services, or five, or whatever -- perhaps the services you're talking about aggregating at the county level and then some, and we want to incent you to do that." If we miss the boat on \$26 million and isolate it -- just one potential area to explore, when there could be multiple areas, we ought to try to save the day, so to speak. And I think that's what you're suggesting.

MR. CROSSED: It is. And it's a fairly significant amount of work to coordinate getting information from a county level out to all the municipalities. So why not ask them the five additional questions and understand a little bit more business process?

SENATOR KYRILLOS: It's not only a money situation, but a time consideration as well.

All right. Thank you, Mr. Chairman.

MR. CROSSED: And also, just one question -- Senator Smith. The municipalities who did receive funding for this-- DARM is moving away from issuing funding to the municipalities. Rather, they are trying to consolidate this at the county level. And that is advice that we are supportive of, and that is a direction that they are moving towards to try to-- It's been a very--

SENATOR SMITH: The direction we're trying to move toward, as well, in a whole bunch of other areas.

MR. CROSSED: Yes.

SENATOR SMITH: Good.

Any other questions for our panel? (no response)

Well, let me thank you for your contribution today.

And I'm reminding our members that we begin our road show. We'll see everybody tomorrow night in Bordentown.

ASSEMBLYMAN MALONE: Yes. They're all excited and ready to go for you. (laughter)

(MEETING CONCLUDED)