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# *Public Hearing*

before

## SENATE COMMUNITY AND URBAN AFFAIRS COMMITTEE

*“Testimony regarding the New Jersey State Commission of Investigation Report: The Beat Goes on: Waste and Abuse in Local Government Employee Compensation and Benefits; and the New Jersey Department of Community Affairs, Division of Local Government Services’ Performance Audit of the City of Newark”*

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**LOCATION:** Committee Room 7  
State House Annex  
Trenton, New Jersey

**DATE:** January 7, 2010  
10:00 a.m.

### **MEMBERS OF COMMITTEE PRESENT:**

Senator Ronald L. Rice, Chair  
Senator Jeff Van Drew  
Senator Christopher J. Connors  
Senator Philip E. Haines



### **ALSO PRESENT:**

Robert C. Rothberg  
*Office of Legislative Services*  
*Committee Aide*

Julius Bailey  
*Senate Majority*  
*Committee Aide*

Brian Alpert  
*Senate Republican*  
*Committee Aide*

***Hearing Recorded and Transcribed by***  
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Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

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**SENATOR RONALD L. RICE (Chair):** Just for the record, this is the hearing of the Department of Community Affairs to bring us up to date on the Newark audit.

For the record, let me just read some comments on the record, because I think it's important to note that when the request was made to have an audit in the City of Newark, the Commissioner of the Department of Community Affairs was the Honorable Joseph Doria, Jr. And since that time, the acting commissioner Charles Richman has had to pick this ball up, and I respect the fact that he himself inherited this as the Commissioner, although the team and the staff remain pretty much the same.

I also want to go on record to indicate that a written report of the agency's findings and recommendations was supposed to be sent to the Governor and to the Legislature. The audit, I believe -- I got a copy finally -- was hopefully sent to the Legislature and to the Governor. And we're having this hearing as a follow-up on that request, to kind of find out what's going on.

But I also want to mention, for the record, when this request was made, Commissioner, in writing to Commissioner Doria, we had asked Commissioner Doria to actually coordinate his efforts with the Department of Labor, the Attorney General's Office, the Inspector General, and SCI to do a thorough investigation. And the reason that was done was because there were complaints -- and they still come in to our offices, and my office in particular -- questioning the (indiscernible) administration's hiring practices from 2006 to the present -- the financing and the awarding of the professional service contracts; but also the City of Newark Office of Workforce Development finances in the awarding and payments of

contracts funded by the Department of Labor. For example, in the Department of Labor One-Stop, there were allegations that money was missing. And I remember running across the Commissioner and asking him if he was looking into this stuff, and he said, "Oh, by the way, I am." He said, "I just want you to know money is not missing." He said they spent more money than they had. I said, "Let me ask you a question, Commissioner. If I have \$100, and someone takes \$50 from me, am I not missing \$50?" He said, "Yes." I said, "Okay; if I have \$100, and I spend \$150, am I still not missing \$50?" He said, "Yes." I said, "Well, your inquiry should tell us why the \$50 is missing; why they spent more. Is it because of poor systems and propriety, or bad management, or what have you?"

We also asked that, in this effort, that if local government finance services-- And we're starting to move legislation that way. If you're going to go and look at a city, particularly a big city like Newark, there's a lot of complexities and interaction there that you need to be aware of before you can go in. Because if, in fact, you're going to do a true cost-benefits analysis, then you need to look at those quasi and independent agencies they set up. So we would ask the Commissioner to have his department or have auditors in the controller's office to go in and take a look a Brick City Development Corporation, the Newark Parking Authority, the Newark Watershed Conservation and Development Corporation, Newark Housing Authority, Newark Special Improvement District, Newark Downtown Core Redevelopment, Newark Enterprise Zones. Because in Newark, what they do is, they use these entities to try to either offset revenues, and to deal with hiring, or to raise revenues to go

back to the city. And we're not sure which, but there is impact on their request for additional dollars.

And so we never know what the real need is. For example, if the City of Newark requests \$45 million, they may very well only need \$30 million. We are also asking you to look at those agencies, because we know that money has been returned to the Federal government from CDBGs. And, as a result, if you have dollars that you're not spending or managing properly, then your hand is coming to the State's side saying, "Give me money to make that up," when you got it here. And so we need to know what your findings are, primarily because the concerns that the taxpayers have -- and they're frustrated -- is that every administration gets looked at; except for the request from taxpayers with this administration.

This is what the communities say we don't pay for (indicating magazines). They said we don't pay for public relations, that it's only a magazine that you get periodically -- and sometimes a lot of mistakes -- just depicting council. That's really a political document, on the (indiscernible) of being a tool.

They don't know that every Sunday -- and I think you know what an ad like this costs (indicating newspaper). That's a pretty expensive ad. And it doesn't say anything; it just says, "Your memories are a part of your legacy. Honorable Cory A. Booker, Mayor of Newark, Honorable Mildred Crump, President of the Council." And the public is trying to figure out, "Well, is this inviting them someplace, or what is it? It says nothing." And this is the stuff you get for dollars in Newark, and you ought to reflect some of that; I think you ought to reflect it in one area. And we're going to go over it and let you tell us that a contract for \$2.25 million

was given out for a consultant. I believe, for some of this stuff. Then they came back and awarded -- with all the *Star-Ledger* articles out there questioning this website and what wasn't done -- they come back and award another \$750,000. So you're talking roughly \$3 million in public relations consultant work that wasn't even done properly, according to the *Star-Ledger*. Then they come back and award another \$490,000 to a different company to clean up the mess. But yet, you ask for \$45 million -- well, that's \$5 million right there that my colleagues did not have to support us on, if in fact we get the audits (indiscernible). Then we read the audits; the audit that I read said that they don't submit the audits on time, and there are questions about that: whether or not, if they're not submitting the audits, why are we approving their budgets? You know, because when I was on council in the City of Newark, if you didn't submit audits to us, or tax abatement things, we didn't approve you -- we just took you out of the system. You didn't get any help from us.

And so why don't you take the opportunity, Commissioner, to start the conversation to tell us about your findings in the audit, or at least what they mean to you; and then you can leave (indiscernible) around to handle the questions. Because there's no doubt in my mind, even when you perform an audit -- because I had asked for something much broader -- it's clear to me that we need to go back and have other agencies take a look at that city. And if anybody wants to play with that, I'm going to be quite frank: If we can't do that from the State level, then maybe we should have the Federal level look at our departments, because this is starting to be too costly. A lot of people are being harmed economically -- they're workers and they're taxpayers.

And so why don't you do that for me, Commissioner.

**COMMISSIONER CHARLES A. RICHMAN:**

Thank you, Senator.

For the record, I'm Charles Richman, the Acting Commissioner of the Department of Community Affairs. I have with me today Susan Jacobucci, who's the Director of the Local Government Services; and Marc Pfeiffer, who is the Deputy Director of the Division.

If I can just quickly take a couple of minutes to go back in time, in terms of the auditing process over the last 25 years, in terms of Special Municipal Aid and how it's been handled; and then talk about the process we now have; and then get to the audit specifically.

Special Municipal Aid, or its predecessor, Distressed Cities, came about during the late 1980s. It was a program of about \$150 million then, and the staff in the Division of Local Government Services of about 120, of which about 25 were specifically assigned to these activities. So we had internal staff that did the audits of the municipalities, in addition to the independent audits that are conducted. Those audits then were performance audits; we looked specifically at programs and got to the depth, Senator, that you spoke of that should be accomplished in these audits.

The program was ended in 1994 when the CMPTRA legislation, combining some 20 programs of aid to municipalities and Distressed Cities, was folded in. The general financial audits -- the independent audits -- continued at that time, but the program staff at DCA and the whole concept of this independent program ended. In about 1997 the program was resurrected, and down from 50 communities that

participated in the 1980s, it began with three, and now at various times there's been as high as nine, eight. Again, at that period of time, there was significant staff, both at DCA and in the Treasurer's office, that conducted audits and programmatic audits of municipalities. Some we were invited in, many of which we chose based upon audit findings. Over time, the staff at DCA dedicated to this purpose, as well as the staff of Local Government Services generally, has shrunk dramatically from the 120-member staff we had in the mid-80s -- in 2001, there was a staff of 66. Today the Division of Local Government Services has 39 individuals. We can't, with 39 individuals, conduct the type of audit you just described, internally.

In my transition report that I submitted to the Governor-elect's office, aside from each division's list of key issues I had two that I considered essential department-wide: one of which was the sufficient staffing of the Division of Local Government Services, and rules to give that Division some additional authority in terms of supervision over municipalities before it necessitates a virtual failure of municipalities to be able to pay bills. I think we need to seriously -- and I recognize in a time of extraordinary restraint and in terms of the budget -- but we need to seriously look at how to properly provide oversight to our municipalities, both in terms of the technical oversight, in ensuring that there's transparency and dollars are spent correctly, but also to provide assistance to municipalities in their day-to-day operations.

We have no one at the State level any longer -- because of retirements -- that is an expert in the purchasing procurement area; and that is an awful, awful failure. Municipalities shouldn't have to individually hire

people when we should have at least one or two staff members who can answer those questions.

Having said all that, based upon language in the budget two years ago -- which I believe became part of the budget document at Senator Rice's insistence -- the Department was able to use 3 percent of the Special Municipal Aid to provide for this audit function. We issued an RFP at that time under the State contracting system and began the audits of the municipalities that are under the Special Municipal Aid Program. Bridgeton, Asbury Park, Jersey City, Paterson, Harrison were ordered in the first round; Newark, Camden, and Union City in the second round. We chose to create a system where we try not to duplicate auditors and, in some cases, we had to space out because there weren't sufficient auditors bidding at reasonable levels for us to take advantage of their work. All those audits are completed; all the audits are posted online. They're available to the public and we have supplied -- I believe we have supplied -- copies to the Legislature and to the Governor's office.

The first round of audits are what are called *statutory compliance and internal control audits*, and that's what you have before you and what you have reviewed. That isn't parallel to the independent audit that's conducted each year by an independent auditor for the municipality. In some cases, the work overlaps; and in some cases a municipality, in responding to us, responded to both; and you'll find -- if you compare the two of them -- the municipality has attempted to address the issues.

Before commenting specifically on Newark, what our intent is -- and obviously the incoming administration will make this decision -- our intent is to make a second round, to issue a second RFP, to provide for a

subsequent audit in conjunction with the State Controller to review compliance with the first audit, to review compliance with the independent financial audit; and probably the most important aspect is to do what we call a *root cause analysis*: if things have not been complied with, to delve into that level as to why. That is critical to understanding how we got to where we are; that we understand, within each municipality, the why.

We have sat down -- Susan, Marc, and I -- with the Bowman company -- the Bowman company was the company that performed the audit of Newark-- By the way, the audits of all municipalities in total, the first round, ran \$1.3 million. The audit of Newark was \$300,000. In reading the audit and discussing with Bowman's firm, you have identified a wide area of what auditors like to call *weaknesses*, particularly in internal controls. Insufficient staffing in financial areas; insufficient staffing in the business office; questionable costs, in some cases -- there was identification of some trips to South Carolina, there was identification of buying of flowers; and lack of documentation, often where contracts were done without bid, and the reasons for them. A fair amount of lack of documentation in the accounting system, and our internal auditor -- who also reviewed this at DCA -- questioned where like balances occurred year-to-year, and was skeptical that balances, down to 53 cents year-to-year, could actually be repeated in the same way. So there's, at the very least, room for improvement.

This is a difficult process, given that we don't have sufficient staff to do it ourselves. It took almost a year to get through the bidding process, to be able to hire Bowman, to get them in, to meet with them on their preliminary data, and to have them report back to us.

I think the most telling will be the next audit, because that will be the audit that will prove the veracity of what the City is telling us, relative to how they're making corrections in both their financial audit and this audit. They have, in comments at the end of the audit that you've received and in the additional comments they submitted to us last night -- which we will make available to you -- they have documented where they believe they've made progress in meeting the requirements in the identification of these items.

This second round of audits will prove whether, indeed, what they're telling us is accurate and will identify additional areas that savings can be made.

SENATOR RICE: Well, Commissioner, let me ask you a couple of questions, because I know you have to go meet the Governor--

MR. RICHMAN: Sure.

SENATOR RICE: --and then Marc can pick up from there.

That's not going to be good enough because, to be quite frank about it -- from Bergen County all the way down to Gloucester County -- people have actually -- in local government, in State government -- been indicted by the incoming Governor and prosecuted. The issue in cities like Newark is not how they're correcting things, it's what happens correcting what you want them to do and get them on track. But if you tell me that someone may have gotten \$750,000 and there's a proprietary question, at what point in time does that go directly to the Inspector General, the Controller, or someone?

The reason we asked the Commissioner prior to you to start looking at these other entities -- the smaller cities don't have a lot of these

entities, so you can look at it one way. But when you come to cities like Newark and you establish these agencies that you're really putting a lot of your political friends and people to work, and you're sharing CBDG dollars that could go to another purpose with them, or they're raising dollars that should be coming back to you -- we're not even sure what this is all about. The Brick City Development Corporation is nothing more than the old (indiscernible) Shop -- and you know the name -- NEDC. And you know what happened back then.

We don't know if that's happening now -- we're getting all kinds of allegations. How do you account, for example-- The Commissioner was sent a list of names, because you said you're short from 66 to 39. Newark is short, too. Your report indicated that in the court systems and others, there's personnel that's lacking and it's costing the taxpayers dollars because they are not there. But yet, they're furloughing and laying off workers who often serve providers in those areas, as well as the streets; but they're hiring people -- \$110,000 from Maryland in some management level, who may be related to the BA, I'm not even sure; but anyway, from Maryland; \$95,000 from San Antonio, Texas; \$95,000 from Fort Worth or someplace. And the Mayor's comment is that, "I will continue to do it." How do we defend here, at the State level, providing dollars when you look at a document where, through executive order -- when I was on the Council, we weren't allowed executive orders to come through. With an executive order a person gets a \$25,000 pay raise, basically from \$100,000, roughly.

You know, how-- We can put a system in place, but shouldn't someone be looking at why that is and what that relationship is? You

know, if we don't look at the Housing Authority-- I mean, we talked about two helicopters. The question is, do we need two helicopters, what's the cost to keep a person on call for the helicopters? But if you look at the helicopters, had you looked at the Housing Authority, you would have seen -- because it was all over the newspapers -- that the Trenk family took away some housing opportunities -- the Housing Authority did -- but they got the Trenk family to come in and basically approve them to build a heliport. But they wanted an investigation by the Federal government. But the problem is that the attorney -- making about \$500,000 at the time, according to the information we've received -- for the Housing Authority was a Trenk family member, who was the former councilman for West Orange who was under questioning then, but they couldn't prove the stuff in court. Do you see what I'm saying?

How do we make sure that we're looking at people making requests, that we put the connections together so those relationships can be scrutinized, too, as to this entity and these people versus this. The Chief of Staff for the City of Newark is the Chairman of the Newark Housing Authority Board of Commissioners. He comes there as Chief of Staff and gets roughly a \$20,000 pay raise. But he's making decisions on people who may get transferred. We take them out of the city and put them at work over there. CBDG money is going back to the Federal government -- we can document that -- for the same thing: noncompliance, nonuse, etc.

How do we help you to look at that? Because in this case, this audit can't remain what it is; this audit is going to have to go further. And I really believe this should be shared with SCI and anybody else who can give

you a hand until you get some help. And so that's where we are. Where can we help you to get through? This is only one municipality--

MR. RICHMAN: Senator--

SENATOR RICE: --you have several out there that need to have this kind of a look at.

MR. RICHMAN: Senator, my recollection is that you have sponsored legislation to expand the requirements to go into the authorities operated by the municipality; I would welcome that. I think we should; the interrelationships you described ought to be examined. There is a line -- and I think we -- back up. I lay awake at night worrying about spending money properly. I don't think there's anybody on our staff who isn't concerned about that. We have a dedicated, fine staff; but the reality is, with 39 people we are limited in what we can do. We changed, in approximately 1989, to a three-year cycle for examining municipal budgets for a whole host of municipalities, because we don't have enough staff to do that. And when you limit the oversight that way, things slip through.

I believe what you authorized through the Budget Act began the process in the right direction. We certainly have shared this with the Comptroller's Office. We take your advice, and we'll certainly share this with the other entities that you have described and make sure that our auditors look at where an investigation has been conducted by other agencies. You made mention of Department of Labor expenditures and excess expenditures; I believe our State Department of Labor examined that. We will ensure that our auditors look at that.

But at some point, we don't substitute for the local officials; the voters make that call. We'll be there to ensure the integrity; we'll be there

to make sure dollars are spent properly. But how the dollars are expended within the confines of the law -- that's decided locally. But I assure you -- and I'm sure the incoming administration will make it even more apparent -- that the expenditure of dollars -- that the taxpayer is first, and that the dollars that are spent are done wisely, done properly, and that monies aren't spent in any way that is foolish, as I think some of the descriptions here. I thought-- You know, you made mention of the helicopters. The response in the document was that it was paid for out of Federal funds. That's not adequate.

SENATOR RICE: No.

MR. RICHMAN: Why -- and going back, we expect whomever wins the bid to go back -- why do you really need two helicopters, regardless of which taxpayer paid for those helicopters?

SENATOR RICE: Commissioner, I'm going to let you go; I'm going to let Marc pick up on this. I think he's capable in this venture.

But let me say this to you: You need to get back to this Committee to let us know-- I don't know how the new Governor is going to organize the administration; I do have a meeting coming up with him. If we have to legislate it, I don't have a problem. Hopefully, I will work with the new Governor; but if I have to fight him, I will. I think everybody knows that; I'm that independent. But some kind of way-- I'm not going to hear people keep talking about accountability and we're passing all these pay-to-play laws which don't make any sense. We have more than enough of those laws. We're not passing the right kind of laws to get to the heart of this.

Once again, if I can document \$5 million in consultant things, then why are we approving \$45 million -- do you hear what I'm saying? -- or whatever number they're asking. We have to have a system to say, "Hold it. We're going to look at your city" -- regardless of what city it is -- "to find out just what's there." If there are other entities affixed or next to that city, directly or indirectly, then we need to have a system so we can look at all of that collectively to get a true cost-benefit analysis, and let cities know that there are things we're not going to pay for; let counties know the same thing. Because the County Executive is running these half-page ads every day, you know? I don't know which authority pays for them, but the point is that they're asking us for dollars that they have there. As you said, ultimately the local people elect the people. But if they're coming down here, and I'm saying, "Well, Senator Connors, I need your votes here, I need your votes to get this bill out of here, to send \$45 million," and they are kind enough to give it to me, because they believe that I understand that need because they don't represent the big city-- Like I try to rely on them to deal with, say, the Shore community. They may be wrong, but I rely on their integrity. I can't come back when they pick the newspaper up and say, "We did something stupid up there," and we're saying, "We just gave you \$45 million."

And so we're going to have a better system of accountability. Now, if you're telling me that we're down from 66-- First of all, I think that's terrible, particularly because the entities that save dollars -- I always said this in government -- the entities that make us money and save us money are the ones we shouldn't be cutting. If anything, during tough times, we should be enhancing them to get those revenues back in. And so

I'm going to work with the new Governor and with you and, if need be, I'll legislate a floor (*sic*) and try to get the votes, unless the Governor vetoes it, to get you some help. Hopefully, it will do it on its own. Because we have Inspector General, Attorney General, Comptroller -- I don't know -- SCI; and I've always said they need to come under -- they need to be there working with you, they need to come under some type of grouping where we will know, as soon as you look at this and something is flagged, it automatically kicks over here. It's not a question; it automatically happens. So think about that as well, as you move on. And let the Governor know I'll be talking to him tomorrow.

MR. RICHMAN: Absolutely, Senator. And one of the things I'd like to have is-- Susan Jacobucci is the Director. When a municipality enters the Special Municipal Aid program, they sign a memorandum of understanding with us that creates a higher level of scrutiny in terms of decision making. For instance, Susan signs off on any hirings and looks at the level of those hirings. So I'd like her to at least take you through that with regard to how the SMA program operates, because it does provide a higher-level of scrutiny than we've done in the past.

Thank you for indulging me; and the time--

SENATOR RICE: Thank you, Commissioner; you've always been a great guy.

MR. RICHMAN: Thank you.

**S U S A N J A C O B U C C I:** Thank you, Senator.

When a town gets awarded money in the SMA program, as a contingency of receiving that money they have to sign a memorandum of understanding. Within that memorandum of understanding, they have to

provide monthly reports, they have to have a plan to get out from under Special Municipal Aid; so they have a number of financial reports and documents they have to provide for us -- copies of labor contracts, etc. Also under there is-- Hiring is frozen and they have to submit a waiver for any hiring, any transfers. I meet with CSC -- I forget what they're calling themselves these days -- but DOP, CSC -- weekly to go over these hirings and the waivers with anyone. And I remember your letter asking about specific people, which I answered -- I don't know if it ever got back to you on the specific people who you asked about. They come through our office. In Newark's case, I also looked at all the purchase requests, the resolutions on a certain period of time about what I considered taxpayers' dollars that weren't spent appropriately, i.e. sending people to North Carolina, (indiscernible) North Carolina. And I talked to the individual council people at that time and said, "This is inappropriate if you're receiving Special Municipal Aid, because it's the taxpayers' -- the dollars of everyone in the State that are going to pay for this as well."

So we look at those things. We look at -- I know the helicopters keep coming up -- but we look at the helicopters as well, etc. The people who were from South Carolina or from Texas who came on -- they had a requirement. I don't think they're employed any longer there. So I could provide you with a list of every waiver that we've had from Newark, and what was done with it, and whether it was denied, and what the problems are with it.

But we also have our people in the police department who have identified 175 positions that could be civilianized and put police officers back on the street; and I'm still working with Newark in that regard.

So we have our people there to the limit of our limited staff, so to speak. If you have any specific questions, I'll be happy to answer those along the way, but I agree with you: I think that all these towns that receive Special Municipal Aid require heightened scrutiny because it's everybody's tax dollars that are going into it.

SENATOR RICE: The -- and Marc, you need to listen to this too -- there were several sections that were in there-- Do you have the audit with you?

MS. JACOBUCCI: Yes.

SENATOR RICE: If you go to the section known as Engagement Summary, page 12-21; it was broken down with findings, receipts findings, tax abatements, and all that stuff.

In the tax abatement findings, you indicate that we're not collecting tax abatements. We're letting people go. Someone needs to query why that's happening. Some of that is not by error, in my opinion. I live in Newark, so do you get the drift? Some of it is not by error. You're talking about documents that can't be found. Newark is known for losing documents that come up later after certain things are done. I'm telling you that -- I've been there for 50-some years. Good people get hurt because of their politics. And so I think that, for the sake of expediting this -- because I thought we would have more time with this because of no committee meetings today -- we're going to revisit some of this. But for the sake of this, would you give us some response as to how we're going to treat this stuff? Because the question is: are there penalties? See, you recommended that people be penalized, and they go get this stuff. So naturally, you said, someone would say yes. But that's like somebody robbing the bank and

you're telling them in the future, "Correct your system, don't rob banks." Well, hold it. Are you going to deal with the bank -- with the violation that was made? See, my point is, what are we doing as a State to hold municipalities accountable? And counties? Are we sanctioning them? Because if you go through this stuff, these findings, they're not doing any ethical reports. Every time I turn around, the lady here in the State is calling me, saying "You got to come in; the law says you have to sit down with me." And I say, "I know the law; I wrote the law. Why do I have to sit down?" Well, you got to sit down. They bug me to death. And if I don't come in, I'm on the front page of the newspapers: Senator didn't file his ethics report -- disclosure. You know, but yet, in municipalities, they give you these frivolous answers, and that's acceptable without sanction.

If you look into the areas of "Professional Services" -- some of this stuff, talking about vendors and contractors -- there is no doubt in my mind that this stuff should be moving forthwith. I wouldn't even wait for a response on this; this right away should be going to the Inspector General, Comptroller, SCI, somebody -- because you can't tell me that \$750,000 (indiscernible) propriety question. That's got to be investigated further. You can't tell me that payments were made against 32 open-ended contracts and certification wasn't there. They're awarding contracts prior to getting Council approval. Do you understand what I'm saying? That can't happen; who are these people, what's the relationship to the administration, why are they doing this? All the council members aren't new; most of them are, but some of them have been there a while. My delegation has met with the business administrator. Her first excuse was, "Well, we didn't know, but now we do." Then, two weeks later it's in the paper again.

I just think that you need to take this section here and send it to someone else in the administration, and I wouldn't wait for the new Governor to come in. We still have departments over there, and ask them to go take a look at this while you get your responses back from the administration. I'm being honest about that. Because if not, I'll tell you what I'm going to do with this: I'm going to take this and all these other documents, and I'm going to send them to the Federal government and ask them to be kind enough to take a look at this State government and find out why we can't look at the local government. Because maybe we have the problem with the relationships. Do you understand what I'm saying? And this is not to put-- This is not making you guys the bad guys. I've been here 23 years, I know you have the ability to get it done, but I also know you are lacking the resources now. But there has to be a system that if A is flagged, then something else has to kick in automatically; versus the other stuff where you can truly give good recommendations, enhance your system, and stuff like that.

That's what we are talking about: We need to come back and tell this Committee how we're going to take a look at these other entities to define -- and they need to explain to us the relationship with the City, and vice versa, and the fiscal impact on the local budget versus their request to the State. Because the new Governor is heading in that direction anyway. He may not know how to get there -- he probably knows these things exist -- but I would sure help direct him to those areas. (indiscernible) from my members.

Let me ask the members: Do you have any questions at all in regards to all this stuff?

SENATOR HAINES: No.

SENATOR RICE: Okay; all right. Marc, do you want to explain some of this, and the kind of response-- Are you happy with the responses from the City? I know you're probably not, but I have to ask that anyway.

**M A R C H. P F E I F F E R:** Thank you, Senator.

I think that the general response is -- and again, we're dealing with Newark, plus seven other municipalities on this -- is that the current step of the process is that the municipalities have the assignment to go back and basically respond to the comments. All the municipalities did provide an initial response in their audit. Newark provided a response -- an initial response; it was part of the audit document. As Commissioner Richman indicated, we have recently -- as of this morning -- received an update to that document; we'll provide that to you later today, and we'll post that online as well.

The general concept is, now, the municipalities have the responsibility to respond and fix the problems that were identified in the audit report. The next round that we're looking at, we're in the process of preparing the RFP to bring auditors in, is to say, "Okay; did they do it? What did they find? Are their corrections adequate?" We're also going to go and see, for anything that wasn't fixed or anything that gets repeated, why hasn't it gotten fixed?

I think Commissioner Richman mentioned the root cause analysis process. And frankly, I guess, from my own perspective in listening to your comments here today, Senator, I think there may be some other things we may be able to do along those lines, in the next round of audit, to

look at the component (indiscernible) questions and this issue of public benefit corporations that the municipality may be engaged in, and look at those relationships. That is something, conceivably, that could be part of the next round of auditing all the municipalities. So I think your points are well taken, and those are things that we may be able to address in the next round.

SENATOR RICE: Marc, there was-- Someone went to -- and my colleagues may not be aware of this -- we know that some folks went down south. But somebody went out of the country, to a fight or something? Let me see--

MS. JACOBUCCI: To Puerto Rico? They sent a boxing team to Puerto Rico? Or a baseball team?

SENATOR RICE: No, it was *a* person who went to either a fight in Panama-- But the point is-- I'm going to find it for you; just give me one quick moment. The reason I'm raising that is we need to know who and why, how that occurred. Because I think it was \$20,000 or \$30,000, or something like that; it was a big number for the person. And the problem I have with it is that I can recall one of our colleagues being indicted and serving time, allegedly for the use of trips and a credit card in that same city. And so the question is, how does this happen? Who looks at that? Does that go to an agency to be looked at, to pull them in and say, "Well, what's going on here?" You understand what I'm saying?

MS. JACOBUCCI: We'll certainly look at that, Senator.

SENATOR RICE: Sure; what happened to the audit, because you indicated that there was a 2006 audit and one of these audits was never received?

MS. JACOBUCCI: I don't understand that. We have-- I have both the 2006 and 2007 audit, and corrective action plans, so I'm not quite sure where that comment came from -- from the Bowman audit.

SENATOR RICE: Do you have all the audits?

MS. JACOBUCCI: We don't have the 2008 audit yet.

MR. PFEIFFER: The 2008 audit-- We were told that we should have it in about two weeks.

SENATOR RICE: But you have all the rest of them.

MS. JACOBUCCI: Yes.

SENATOR RICE: So the comment on the audit about one not being found, and it wasn't recorded, that's not accurate?

MS. JACOBUCCI: Yes, we had them.

SENATOR RICE: Okay. For the sake of brevity, we heard from Chuck; you know where I'm coming from. You need to go back and revisit it. Let me assure you that the good Lord blessed me and, if things work out, I'm going to be calling you back before this Committee and we may only discuss these municipalities and their audits. But this one -- I want to know that they're going to some other people to take a look at some of those findings, okay?

All right; thank you very much.

MS. JACOBUCCI: Thank you, Senator.

MR. PFEIFFER: Thank you, Senator.

SENATOR RICE: Also-- Are they going to stop buying flowers for-- Marc? Are they going to stop buying flowers for \$14,000?  
(laughter)

MS. JACOBUCCI: Unless they send them to me.

SENATOR RICE: Oh, okay. All right.

Okay; that really concludes the hearing part on the City of Newark audit. And for the record, we'll be asking them to come back in. I would put a list of questions and things together to address that.

What I want to do now is get back--

Hang on one moment.

I tell you what we're going to do. Why don't we do this: Hold up on the bill, because my colleagues are out having a discussion on it. Why don't we have SCI come up and start, for the record, a discussion and bring us up to date on this.

Okay, for the purpose of this part of the meeting, this is the SCI update on their report on local abuse. I want to thank you for coming in. I know we have some work to do, as we always have to do, and you do such a good job. But you kind of heard the concerns that were raised in just one municipality in terms of what we need to be doing. I mean, I look at your report, and I'm looking at Newark, and I'm saying, "Well, yours is here, and this stuff is just so big in some of these municipalities in terms of what needs to be looked at," that it just boggles me.

But why don't you go ahead and bring us up to date, where we are, and what we should be doing, and what your findings were.

**A L A N A. R O C K O F F:** I'm Alan Rockoff, the Executive Director of the State Commission of Investigation. And with me is my Assistant Director, Lee Seglem.

But before I get to my prepared remarks here, I'd like to tell you that coming to your meetings is a learning experience for the SCI, too. It's almost a symbiotic relationship. We learn what you're looking for,

what your needs are, and we try to respond to it -- continually -- because, as you know, we are of the Legislature: you created us, you hopefully will need us to be your independent eyes and your ears with respect to whatever is going to come down the pike over the next several years. So we're looking forward to that relationship as the years go on. And I have to comment, for the record, that we have an excellent relationship with you in all the reports that we've done over the last decade.

So thank you very much for the work that you've done on behalf of the State.

SENATOR RICE: Thank you. Let me ask you a question: Did the State ever send you a copy of the City of Newark audit that they just recently got?

MR. ROCKOFF: Yes, we have it. We've seen the Newark audit, and we've done an analysis of that audit and we are very interested in your remarks today. That's why we say, it's a symbiotic relationship. I took mental notes, and so did Lee Seglem. And we also have a good relationship with Susan Jacobucci and Marc, so we'll be talking to them.

Mr. Chairman, and members of the Committee who are in abstentia at this point, we are here to advise you of the work that was done basically by the team of SCI investigators, and led by one of our counsel who is here standing, just for observation, and that's Dick Steffian (phonetic spelling). But basically it was led by Lee Seglem, my Assistant Director, whose work was instrumental in completing the investigation and the report that we're going to discuss.

As always, Mr. Chairman, on behalf of our Chair, Cary Edwards, and the full Commission: Commissioner Hobbs -- Dean Hobbs;

and Commissioner Martin -- former Senator Martin, we appreciate the opportunity to appear before you on matters of vital importance to the taxpayers of this state.

As we stated on many occasions when we have appeared previously, the SCI exists to serve and to provide the Legislature with the facts and the recommendations necessary to achieve sensible, balanced, and beneficial systemic reforms. During the past 15 years, the Commission has repeatedly examined the nature and fiscal impact of the questionable and excessive public employee benefits that exist in our state. Our findings have demonstrated time and again the significant amount of taxpayers' money that can be saved in this arena if some of our recommendations from the past were finally put into some operative form.

In 1998 the SCI, in our report, revealed costly abuse and manipulation of the State's public employee pension system, and that report is contained in a report that's been on the shelves since 1998. In 2006, we found pension padding and excessive compensation in the public school administrators, and the superintendents, and the business administrators, and others in administration; and pointed the way to initial savings of at least \$10 million for local property taxpayers in just the select school districts cited in that report.

Now, up to that point we thought we had seen everything until our investigators started to come back with evidence of even more egregious waste and abuse that exists today in our communities in the state. Everything from six-figure payouts for unused sick leave, to bonuses and severance deals, to lucrative cash rewards for perfect attendance, and paid time off even for Christmas shopping and other personal business -- all at

taxpayers expense. And much of the excess involved those who were sworn to protect and serve. They did so by interpreting the law to suit their own greed.

During this latest investigation, we identified more than \$30 million of exorbitant cash benefit payoffs to local public employees. Although the report focused on only a fraction of the State's local government entities, we have seen enough of these practices to conclude that such examples are emblematic of a larger problem.

Now, from that report-- We disseminated it, we distributed it to every municipality; and it's amazing the number of responses that we have received, and the number of leads that we have received from various municipalities. Only this week we received a letter from a mayor in a small town in southern Jersey telling us of a situation that developed in that town, where there has been a payout to the Superintendent of Schools of that town and to three of the teachers in that town. The Superintendent of Schools, in a town of 5,000 people with approximately 667 students in the school system, received a payout upon his retirement of \$181,567.36. Most of that was from 434 days of accumulated sick time; that was \$142,239. And that was on a formula: They took his salary and they divided it by the number of days, and then they divided it in half, and it came to \$327 a day that he was entitled to.

Now, that was one of them. Another teacher in that same school district got 153 days of sick time; another one, 225 days of sick time; another one, 194. It all added up to approximately \$300,000. Their total tax levy for that year was about \$1,600,000-some-odd; I don't have the exact figure, but if you want it, I can give it to you. It adds up to 19

percent -- just to pay those four people -- 19 percent of their tax levy for that year.

Now, that's something we've received -- and it was not in our report -- but it is indicative of what is existing among the 556 municipalities we have and the 616 districts in this State.

Now, during this latest investigation of those municipalities that we were able to review, we identified more than \$39 million worth of exorbitant cash benefits. Indeed, if you were to extrapolate what's going on here, it's plain that with concerted action to curtail such exaggeration and such extravagance -- has to result in enormous savings, going probably into the billions of dollars; especially when the fact is that, in addition to State aid, nearly \$40 billion is spent by local taxpayers every year to fund municipal governments, school districts, and local authorities in our state.

Throughout our investigative fact-finding in this area, the objective has been consistent. We sought to provide a rational basis for effective legislative, administrative, and regulatory remedies to ensure that all local employees -- be they at the State, county, or municipal levels, or in any of our schools districts, authorities, and our commissions -- are compensated and treated fairly and uniformly, but without sacrificing the vital interests of the taxpayers who foot the bill.

Some municipalities have already recognized the need to curb unbridled public employee benefits on their own, and their individual initiatives are commendable and they should be credited -- and we did credit them in our report. In the final analysis, however, it's clear and meaningful that balance and equitable reform will require a comprehensive and systemic approach by this Legislature, and we have outlined a plan of

action that includes the following core elements: One: Legislation to restrict the yearly cashing in of sick, vacation, or other leave by all public employees so that they are not treated as entitlement bonuses each year. With regard to redemption of sick leave -- which is where the big money is - - bills already pending in the Senate and the Assembly would, at the very least, restrict some of the local government workers to a maximum of \$15,000 worth of unused sick leave at retirement.

Now, that is a very generous ceiling, and that ceiling is going to affect the State employees for years. It went from \$12,000, and it went up to \$15,000, and that reform alone would save millions of dollars a year if we reduced the cost to a small town like this town in South Jersey that had to pay out almost \$300,000 in sick leave to four employees.

I have also called for other reforms: The elimination of the so-called terminal leave, in which employees stay on the public payroll without working prior to retirement. Now we all know -- we're all people here who have been involved in government for many, many years -- we all know that that condition allows for an individual to leave office and it doesn't allow for the supervisor, it doesn't allow for the town, it doesn't allow for the taxpayer to be represented, because you can't fill that position while that person is on terminal leave; it's frozen, it's vacant. And that situation should not be tolerated. Strict regulation and control of severance arrangements, bonuses, stipends, and related payouts -- you have to deny severance pay for municipal officials, particularly those who are fired for cause. Now, there has been a bill that's been pending, but no action has been taken on it. But just think about it: there are guys and gals who are leaving office for cause, because they've done something -- I mean, they

don't have to be identified by indictments; they could have been just identified by violations of ethics or other types of administrative violations. But these people leave the job for cause and yet the taxpayers have to pay them a severance arrangement that's in their contract. That's unconscionable; it shouldn't be allowed.

Elimination of non-traditional leave, such as paid time off for shopping, weddings, and other personal matters. Now, I'm of the Jewish faith, and I am really opposed to that because we don't get it for Bar Mitzvahs, and we don't get it for-- They happen on Saturdays; you can't get it for that. (laughter) We need to do something about that. I just don't understand why people get off for shopping, and weddings, and other personal matters, and we don't get off for-- Some other religions don't get off for their holidays.

Legislation requiring local government employees to contribute at least one-and-a-half percent of their pay to health insurance. Now, we do it in the State; municipalities don't do it. Why not? It's just common sense to say that we are all employees -- we're all being paid by taxpayers; comes out of the same pocket. It goes to different locations within the State, but it's still the same pocketbook -- the taxpayers of our State. And at this particular time, that 1.5 percent -- if we were to require it to be paid by municipal workers as well as by State workers-- In our report, you can see that there's a chart; and that chart reveals, in just some of the towns that we've looked at, that you can save \$6,300,150 per year from just about -- what do we have, about 12 towns here --

**LEE C. SEGLEM:** Fourteen.

MR. ROCKOFF: Fourteen towns, including Atlantic City, and Edison Township, and the City of Camden -- \$6 million. Now, extrapolate that into what kind of a savings that would be, and maybe we could save some of the cost cutting that some of the new administration may want to do with respect to some of those of us who work every day trying to protect against these excesses.

Oversight, transparency of personnel contracts and benefit policies. There's not a problem in allowing the public to see what administrators, and what these chiefs of police, and fire departments, and schools, and municipal authorities are getting. I think there should be that type of legislation which would obligate -- certain period of time. We've said it in our administration of the school system report about superintendents, that their contracts should be part of the agenda of the Boards of Education before they are approved, and people should have a chance to have a 30-day period to review it and then to speak about it.

But these are things that we've talked about again and again in our reports, and finally I think it's time for the rhetoric to stop. We said it in our report, *The Beat Goes On*, and that's what we believe -- the beat is going on and it's time for us to stand up, in light of current drastic fiscal conditions that extend all the way from State Street to Main Street.

So the facts are on the table. Simply put -- as we state in this report -- it's unacceptable for taxpayers to continue to be burdened by gold-plated benefit packages for active and retiring public officers and public workers, especially when such arrangements can erode local budgets, drive up property taxes, and actually coincide with the layoff of essential personnel.

Again, on behalf of the full Commission, Senators -- who are sharing this Committee -- I thank you for devoting your time and attention to these important issues, and at this time I would be happy to respond to any questions you might have.

SENATOR RICE: Thank you very much. Do you have any comments?

MR. SEGLEM: No, that's fine

SENATOR RICE: First of all, I know the hour is getting late and there's a lot happening today. I wish we could spend more time with this. But I think that it was important to kind of not just read it, but hear from you, because you emphasize so much the kinds and the ways that we should be getting accountability. I'll try to move legislation in some areas that were recommended from SCI. We're going to continue to try to do that. We need to take a look at recommendations in these reports. You've heard this morning during the hearing with DCA about the large cities. Last year we got into budget situations, and the vote for the budgets became really tight ones -- because I remember Senator Buono indicating she would like to restore the money to small municipalities that were cut. And I asked her at the time, "How much are we talking about for the restoration of what was cut?" She said \$30 million. And I said, "Well, Senator, I know how to get that. If we stop paying for public relations with State dollars and we go and do some of the things that SCI is saying, I guarantee if I went to 10 or 15 municipalities -- if I started in Newark, with \$5 million or \$10 million just being thrown away as far as I'm concerned -- then you would have your \$30 million. If you go and you put these kinds

of things with it (indicating magazines), then you would have the \$100 million. Do you see what I'm saying?

The question I have for you is whether or not any of your members are on the Governor-elect's transition team; or have they reached out for you in terms of the work you've been doing, and some of the concerns that you have that may not have been addressed yet, by way of legislation, with the previous administration? Has that occurred yet?

MR. ROCKOFF: We have had contact with the transition team the Governor-elect has put together. As a matter of fact, it's been published that two of our Commissioners have been asked to share their experiences at the SCI and their previous experience in government with Governor-elect Christie and the new administration. We've shown them our reports; they are familiar with what we do and what our efforts are going to be in the future. So they're aware of these problems that we brought to your attention with respect to The Beat Goes On, and with these other reports that we've done on superintendents, and also on pensions in the past.

MR. SEGLEM: Mr. Chairman, I would just like to emphasize one point. With respect to the reforms that we recommended: we're dealing with some pretty low-hanging fruit here. The Director indicated in his opening remarks that the big money is in unused, accumulated sick leave that's cashed in both on an annual basis and at retirement by public employees. There has been legislation pending for years -- we've made that recommendation repeatedly -- to, at the very least, bring local public employees at the county and municipal level into the same restriction, or ceiling, or cap on the cashing in of unused leave that has prevailed for State

workers for years. That reform alone would save tens of millions of dollars, right out of the gate, starting almost immediately. The bulk of the \$39 million that we cite in our report as having identified in just a small fraction of communities that we looked at, the bulk of that was accounted for by cashing in of unused leave. That's a major big deal, and it could be easily resolved. So I just wanted to put a point of emphasis on that.

SENATOR RICE: Now is this-- Are all the municipalities you look at the same? Is this for civil service workers, or is this time just for workers in general? Is it for union workers and non-union workers, or just workers in general?

MR. SEGLEM: Across the board. And it's a tangled thicket; some of these communities you go into -- depending on their size -- may have a multitude of bargaining units. You may be dealing with 10 or 15 different contracts, each of which have different iterations and perorations and structures of the kinds of benefits and perks that are provided. Some group that's represented by one bargaining unit may be allowed to cash in sick leave on an annual basis; another group may not. Some of them are allowed to cash in different intricate formulas when they retire. And that's an issue also that extends to transparency and public disclosure. I feel sorry for average taxpayers who may want to go into their town board or town hall and find out how much is being spent for these purposes; it's very technical, difficult. Our investigators had to spend a lot of time. We were very meticulous about this, because we want to be right 100 percent of the time. But it's very difficult for the average taxpayer to get a handle on this. So it's all across the board.

MR. ROCKOFF: Mr. Chairman, there's an article that we came across that was written by James McQueeney, who was formerly the White House Bureau Chief at the *Star-Ledger* in Newark and now is a host on New Jersey 12--

SENATOR RICE: NJ 12.

MR. ROCKOFF: --and he came up with some thoughts that Governor Corzine has left to the League of Municipalities attendees in his farewell address. He said, "Governor Corzine, in his farewell address to the League attendees, and freed of his prior political restraint against speaking ill of powerful uniformed unions, made note of the fact that New Jersey and New York City have roughly the same population; but the City has a police force -- New York City has a police force with one commander, and the mayor negotiates one contract for all. Now, in New Jersey, contracts are negotiated town by town, and town governments are played off against each other. The result: departments are vastly over-priced, over-staffed, and over-equipped." And I think that about says and summarizes the fact that-- Why are we treating each one of these municipalities as a separate, almost, province, or--

SENATOR RICE: It's our kind of home rule--

MR. ROCKOFF: --fiefdom. Fiefdom. Well, we know -- we know what it is and how it grew up in New Jersey, but isn't it time for us to really start looking at-- We are looking at the consolidation, we are looking at regionalization, we are looking at shared community work. And Rutgers University is doing an interesting job on that -- there's this Rutgers School of Public Affairs *Municipal Efficiencies* that's starting to send out information concerning consolidation of police services and other services, and asking

people to give them input as to what's happening. So there is that trend. Now we're hoping that some of our reports will be a catalyst in keeping this on the front burner of the Legislature at this point.

SENATOR RICE: I think that, because of your reports, you're getting more attention now from the Legislature, at least the rhetoric part of it. You know, you can hear individuals coming in and those who have been here talking more about transparency, and this and that, and shared services. It just hasn't gotten to the point where the majority of the legislators are willing to move the kinds of recommendations, and that goes back to the local politics. I'm kind of where we have to sever the politics locally from what we're supposed to be doing once we get here. I don't find that a lot of my colleagues have the courage to do that. You get thrown off the party line two or three times, like me, then you know you can survive, then it's easier to say, "No; we're going to do it right way." But I think we're getting there.

But I am concerned, because every time I read this report I'm reminded that I spent eight years as a police officer, 16 years on City Council, four years as Deputy Mayor; was never out sick, and never thought about asking for some sick time -- money. So they owe me a lot of money, huh? (laughter) I'll just never get it -- I guess I'll never collect it now. And so I can see where it can add up, and we have to watch. Let me just say to you that, as we get into the new session, we're going to be communicating more; we're going to be taking a look at this. We are going to have new leadership in both Houses of the Legislature and a new Governor. What all that means, I don't know, but I'll do all I can to continue to push the kind of things that I think, from my perspective and the taxpayers' perspective,

are correct. The advantage I have is that I never worked for SCI but I'm a former investigator. I spent 16 years on Council, I'm a former Deputy Mayor; it's been 23 years -- I know what's going on in the big cities. And I always tell people, "Whatever happens in your town is not news to me from my town; we get it 10 times, it's just new to you."

So that's what makes me very supportive of you and that independence there. If I can find a way to give more -- to give you more teeth, I'm going to find a way to give you more teeth. I'm going to talk to the Governor, because the Governor's coming from the same background, and that's all I've been hearing during the campaign, that's what I still hear. If, in fact, that's his mind set, then he needs to look at his structure as to what happens with the DCA once they provide information that may raise some flags -- does it just sit there? Where does it go? Is this the wrong place? Should everybody be lined up this way -- as you say, shared services -- where as soon as it comes down we know it's going to get dealt with, because after it goes here, it's going there because they've got a flag. You don't have to go there and negotiate with somebody to look at it; because that's what you may have to do sometimes. So I think you ought to take a look at this. "Well, we will when we get to it." "No, no; you'll take a look at it now, because he's in charge of all of you." Hear what I'm saying? And so there's got to be some organization, or reorganization, and SCI has to be a part of it; and that's my fight. And I respect Cary Edwards, and give him my regards.

Thank you very much. I don't have any members here for questions, okay? Thank you.

MR. ROCKOFF: Thank you.

MR. SEGLEM: Thank you.

SENATOR RICE: All right; we're going to go back now, for the purpose of this Committee, to hear from some of the speakers who were first of all in opposition. Let me just check with Bob--

I'm sorry; yes, come on up. Okay, we have one more speaker for SCI, then I'm going to bring the speakers up. I understand that the members who aren't here left their vote, whatever they are, for the Beck bill and the Cunningham bill; I'll find out what they are once we get to them, but I'll hear the speakers first.

Go ahead, for SCI.

**WILLIAM LAVIN:** Yes, Senator, thank you for the opportunity.

My name is Bill Lavin -- William Lavin -- I'm the President of the New Jersey State Firemen's Mutual Benevolent Association. I wanted to make some public comments regarding the SCI report and make some comparisons to-- Earlier there was a vote out of committee regarding a health benefit bill. And there was some testimony from the League of Municipalities of great concern, and I wanted to address-- One of the comments was of the spiraling costs to the pension system and some of the benefits that our members and the police officers of the State of New Jersey are receiving.

And I want to point to what I see as a political schizophrenia or a hypocrisy: That while we are talking about spiraling costs to the pension system, the same Director and representatives of the League are supporting bills to -- once again -- defer pension payments for municipalities, which is kicking the can down the road, or the payments down the road. And there's some similarities with the SCI report that I want to allude to.

First off, as you know -- as being a police officer-- I mean, today is a bitter cold day; there's police officers out on the beat; there's probably firefighters on the roof of some burning building somewhere; and members of our Association who are putting their fingers into the blood of, literally, bodily fluids and the blood of our citizens, being exposed to every disease, blood-borne pathogen, swine flu, and every illness and injury known to man. So that when a police officer or firefighter were to retire with a health benefit package -- and that particular individual doesn't ask the community, or the State, or the municipality that he serves in to accept a percentage of any back injury or cancer or illness that he receives -- the covenant that he made signing up for that particular job was that at least those illnesses and injuries would be treated with the best health benefits available.

Now, our pension system was one of the healthiest pension systems not only in the state, but in the country. And the reason that is, is because police and firefighters, on average, lose their lives about eight to 10 years earlier than the average rest of the population. So while we don't get to, necessarily, collect our pensions for what was described as 25 and 30 years, many, including my dad who never received a pension, actually passed away prior to -- actually days prior to receiving his pension. So it was a healthy system.

For eight of nine years, the State of New Jersey decided -- as a tax break to the municipalities, as you know very well -- did not make those payments. Those were lawful payments that needed to be made and are still required to be made. So there was a correction in the stock market, the investments didn't do as well as we had hoped, and a huge hole was placed

on our system. So because that money was either taken or not put back into the system, we agreed and, in fact very recently, had agreed that the State of New Jersey and municipalities would be allowed to pay back their payments in an incremental way: in 20 percent, in 30 percent; or 20, 40, 60, 80 percent. So the same people who are now encouraging the State of New Jersey to allow for these payments to be once again deferred are doing two things that is a frustration and an affront to our members. And that is: After not making these payments, and saying that they are doubling and tripling and quadrupling -- if I didn't make my mortgage payment or my credit card payment for eight or nine years, and then I would complain that, in fact, the amount of money I owe has exponentially grown, people would say, "Well, what did you expect?" So once again, as the League of Municipalities states that they can't afford to make these payments, so they need, again, another break, we are only fulfilling a prophecy that has no end. We are going to suggest -- and with, hopefully, the support of some of the legislators -- to potentially have those payments made and maybe taken outside the cap, which-- Once again, the League and some of the municipalities, who want to take advantage of a deferral and again kick the can down the road so that some others would have to make the payments in the future--

Which brings me to the SCI report. And I think that, while what they investigated -- and there sure are some glaring examples of abuse. But I would point out that they missed a huge portion of the investigation. I don't know of any union official, labor negotiator, or, for that matter, interest arbitrator that was contacted as to why those payments-- And I would tell you that the payments they talk about -- and sometimes they are

six figures -- are payments due, because of the same type of system created in municipalities -- Newark, or Elizabeth, for example, on a regular basis -- Jersey City is another example -- that at the current time cannot afford, or do not afford, or do not set aside monies for overtime to keep their staff, or do not hire. So they'll offer to our members compensation time to come to work -- and not work for time-and-a-half, but in fact to work for straight time -- and they will, in say 2010, receive compensation time versus overtime or straight time that they would be normally entitled to.

So that creates a pool of time where we would much prefer to be paid directly or with overtime, that it's put into a bank. And as time goes by, 10, 15 years when that member, it's his time to retire -- he's absolutely entitled to that particular amount of payment. And we are now-- While it is a benefit to the municipalities, and an absolute management prerogative -- and in fact encouraged in most of our communities -- to defer payment upon, whether it's retirement or later on in years -- and again kick the can or pass the buck to the next administration so that their budget is not impacted negatively-- Now we come, and that individual -- who came to work and put his life on the line for 25 and 30 years, and accumulated quite a bit of this compensation time that he was not paid, as he was entitled to be, back 10, 15, 20 years-- If we're going to look at things with transparency and not the hypocrisy -- because there's been a huge campaign of rhetoric by legislators, by mayors, who lament the situation that they have, in fact, been very much a part of and have created.

So I would encourage and I would submit that the next time SCI, or the League of Municipalities, or any investigative body takes into consideration what they perceive to be abuses, they need to look at the

system and why those-- I would tell you this, Senator, that many of these cases are only paid on a 40, 50, 60 percentage of what the true dollar figure is. So while I appreciate the professionalism and the criteria of which this was taken under, I think they missed an entire segment of why the problem, and how we got here -- why those numbers are. If we're going to correct them, certainly let's pay the bills when they're due, not kick them down the road and then complain about them later.

SENATOR RICE: First of all, thank you for your testimony.

I think that what SCI did, at least, was to show the nature of the economic problem as it relates to the fiscal impact; that's real. The question is, if everybody operated on the premise that that's real -- and it is, okay? -- then the question gets back to, where do you go from there? As you said, how do you fix it?

I always thought -- and I'm a former cop -- but I always thought God has blessed me; I have never really been sick. I can't stay home. I never thought about, when I left a job -- whether it was private sector, etc. -- that I was entitled to it. If I was-- Sick pay -- I always thought the sick days were if you got sick. I know people take sick days like vacation; and I always thought it was wrong. I thought it was wrong in police departments. I didn't like riding on my partner because he decided to take a sick day and he wasn't sick. I had a real problem with that. You shouldn't be lying about that, okay? I just lived with it.

MR. LAVIN: Right.

SENATOR RICE: The question is how do you fix that prospectively. But if it's contractual, I just believe that once somebody makes a contract, I may not like the contract, but they agreed to it; they

have to fulfill that. That's the problem that we just ran into -- the Labor stuff with Governor Corzine. In cities like Newark, it doesn't make any sense; a small town, I understand. Because I know they can cry wolf because I know how much they abuse. Like I said earlier, if you take what we did with \$5 or \$6 million with two vendors -- normally they do it with others in other departments of big cities -- this is what we get (indicating magazines). We get every council members' picture and a "hello" message; and this is really political, but it's not stated as political -- it's like "communications." But it doesn't say anything; it doesn't say anything, okay? Everybody had their little corner. And this is what we get for \$5 and \$6 million.

So if I went across the board and cleaned this kind of stuff up, and said, "Look, every time we know that you -- we look at you--" That's what I was trying to get to DCA. When we start looking at your requests for budget approval, all of this stuff we see we action out, you understand? Now if you want, you go find some place else. Because those are dollars we are going to accumulate statewide, from 560 municipalities, to put into the fund to make sure they get these benefits that are due them so they don't have this compounded note. You're talking about everything's going up. Because you're correct: The taxpayers-- I've always said, coming from government and working in government a long time -- and I deal with those who have the least. At one time I represented those who were the most wealthy in the state, and they always told me -- a good example is they would tell some council, "Well, my sewage bill is going up, up, up and I can't afford it." And they used to come before the Council and beat us up. And the Council would play politics, and I just told them the truth:

“There’s nothing I can do about it, because Passaic Valley set the rates, not the City Council. The bill says the City of Newark Water and Sewage, so you come to us because our name’s on the bill.” So I told the Council, “Why are we going through these headaches?” I would ask the people, “Your concern is that it’s going up, so you’re angry because the pocket.” I said, “So let me ask you a question. I control the water rates, so if I can maintain the water rates to give you what you need in your pocket, would that satisfy you?” “Yes, I don’t care where you get it from.” You understand what I’m saying?

So the point is, those things we can control. The government can’t-- SCI did the right thing saying, “Hold it; let me find out what’s happening.” Well, this is a lot of money you’re hanging out here, and there’s a way to deal with it. It may not be the way they suggest, but we all acknowledge that’s a problem. We can’t pay them, that’s what they’re really saying. We found we can’t pay them. We never said we didn’t *owe* them; we can’t *pay* them, okay? Well, we can if we take away this stuff (indicating magazines). So maybe our focus should be here. We can if we take the 66 workers -- 39 workers, and put them back to 66 so that we can stay on top of the waste, etc. We were cutting the wrong places, that’s the point I’m making. And I want to bet you that the people who got cut --I want to bet you they’re union workers. It’s by the same token.

So I just want to say that I think that SCI and individuals in organizations like yours are on the right page. I think the League frustration-- I think the League understands it, but I think the frustration is they don’t know where else to get thousands from, because they are looking at what the State and the Federal government doesn’t have. They don’t

want anybody to raise taxes, and they just need to slow down a little bit and say, "Look, out of 566 municipalities" -- and I'm going to tell them the same thing that I tell people as a Senator -- "we're going to purge our own house." If I got some bad municipalities in this League, I'm telling you right now, we're cleaning up, okay? We're going to police ourselves. We're going to educate you, but we're policing, because we can't have you hurt all of us because your city's not doing things right. Because that's what's really happening, and eventually we will probably wind up consolidating some.

So let me thank you very much for your support, your leadership, and your comments.

What I want to do now is get back to--

MR. LAVIN: Mr. Chairman, I just want to close with this; and I can't agree with you more. I think you know this, as being somebody who is from law enforcement.

This gamesmanship-- My message here today is that this gamesmanship going on is about making your payments when they're due. We are not the enemy; we're still the people out there who stand between a safe situation and an unsafe situation. It's just an overall theme that, quite frankly, our membership becomes tired of being vilified and being the enemy. We're still there. And, in fact, if somebody were to drop you off in a particular part of town, and then chastised you for being in that part of town, you would say that's the height of ridiculousness. And this is what's going on -- the municipalities, and the themes, and the negotiations. And the League is complicit here as well, who say, "Listen, let's pay them later on versus now." I'm just saying we need to look at all sides here.

I appreciate your time here today. I think I'm not telling you anything here today that you haven't already heard or know. I just thought it needed to be said in the wake of what we read because, quite frankly, our members are tired of being portrayed as the bad guys or the enemy here. They're dedicated, committed public servants who deserve and apologize for none of the benefits they get.

Thank you.

SENATOR RICE: You're welcome. Let me say, while you're leaving, that good guys and minorities are always portrayed as the bad guys. I go through it all the time, politically. Even some of the people here who are supportive, they fall apart when it comes to challenging people. You know, in politics, everybody always asks the question, "Well, can she win? Can he win?" I'm saying that's not the question you ask. The question is, is that the right person? Then if they win, you got (indiscernible). Do they have any money? Well, money doesn't vote. And so we're starting to ask the wrong questions now, and it's costing us. Those good guys who don't have money, those good guys who are doing the right things, can't win if you think they can't; they will never have the money to win. People in your position, or in your organization's position, are always going to be vilified for doing the job because somebody needs a scapegoat; then they get harmed in the process of speaking out. As a union leader, what happens is you continue to speak out, then enough of the bad guys get together and put money into your organization to get one of their members to challenge you -- who happens to be one of the bad guys and your members don't care one way or the other.

So we're going to stay bonded, and we're going to do the best we can to put this in its proper perspective.

So thank you very much.

MR. LEVIN: Thank you. To the good guys.

SENATOR RICE: Thank you. To the good guys, right.

**(MEETING ADJOURNED)**