



# **The New Jersey Privatization Task Force**

**Report to Governor Chris Christie**

**May 31, 2010**

**The New Jersey**  
**Privatization Task Force**

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## Executive Summary

On March 11, 2010, Governor Christopher J. Christie signed Executive Order 17, creating the New Jersey Privatization Task Force, which was given until May 31, 2010 to undertake a comprehensive review of opportunities for privatization within state government and to identify impediments to privatization.

To achieve these stated mandates, the Task Force heard presentations from numerous experts and practitioners on the use and implementation of privatization, as well as stakeholders and the public, including extensive testimony at three public hearings, in Trenton, Summit and Voorhees. The Task Force also conferred with nearly all the members of the cabinet and the leaders of the state's transportation authorities and studied the reports submitted by Governor Christie's transition team.

The Task Force has come to the conclusion that, through sensible planning and implementation, privatization offers a variety of benefits to governments and taxpayers, including lower costs, improvements in the quality of public services and access to private sector capital and professional expertise.

Privatization has been used effectively by the federal government and by New Jersey and many other states.

In New Jersey, successful privatization initiatives have not received nearly as much attention as those that began unsuccessfully. The Task Force identified numerous examples of privatization done well. That said, as privatization skeptics and opponents reminded the Task Force, the state's privatization failures have much in common: poor conception, unclear goals and lax oversight. The lessons learned from these failures have informed the recommendations in this report.

The most successful government practitioners of privatization have centralized its management and oversight. New Jersey should do so, too. The state should institute sound policies, employ best practices, define clear objectives and measure progress toward them.

The Task Force has identified estimated annual savings, upon full implementation, from privatization totaling more than \$210 million.

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## INTRODUCTION

The Task Force heard presentations from numerous experts and practitioners on the use and implementation of privatization. There is no question that privatization can substantially help New Jersey state government address its fiscal challenges and position the state to compete more effectively in an ever-changing and increasingly global economy. Provided that it is implemented sensibly, privatization offers many benefits to governments and taxpayers, including lower costs of service delivery, improvements in the quality of public services and access to private sector capital and professional expertise.

The term “privatization” refers to a broad array of strategies that governments increasingly employ to take advantage of the capabilities of the private sector and thereby provide better value for taxpayers. It covers a spectrum ranging from a simple outsourcing contract—for example, with a private firm to mow grass around public buildings—to sales of government properties and to complex public-private partnerships that are government-owned but financed, built and operated by the private sector under long-term leases.

Though citizens may not recognize it, privatization is an ever-present part of the operation of their government. For example, more than half of suburban governments in the United States currently contract with private waste haulers for garbage collection, as do approximately one-third of core metropolitan municipalities, according to a 2007 national survey. Nonprofit and volunteer organizations provide a wide array of social and community services in many communities, including fire protection, education and mental health, as well as environmental and community development programs and activities. Central Park in New York City is one of many urban parks managed by a voluntary community organization, and nonprofits run more than half of the major urban zoos in the country, including those in New York, Chicago, Dallas, Houston, San Diego and Seattle. Citizens and businesses routinely use government websites and e-services designed and operated by private information technology companies. What have not been privatized across the country are state-run lotteries. Although they have been valued and targeted as saleable assets, a U.S. Dept. of Justice opinion restricts states from capitalizing on their value.

Infrastructure is another area in which there has long been a large private sector role. Entrepreneurs built the first roads in the United States. Opening in 1794, Pennsylvania’s privately built and financed Philadelphia and Lancaster Turnpike was the nation’s first major long-distance toll highway; 25 private toll roads were operating in New Jersey by 1857. The tax-financed roads and highways of the modern era have been built by private construction firms under contract, as have nearly all of the water, wastewater and other vital infrastructure systems that support our economy. Today more than 1,000 local governments in the United States—including many New Jersey municipalities—have entered into public-private partnerships for water or wastewater services, or both, contracting out the operation and maintenance of these systems to private companies. Similarly, government-regulated utilities finance, build and operate the vast majority of the energy and telecommunications systems upon which we rely.

Sterile philosophical debates about “public vs. private” are often detached from the day-to-day world of public management. Over the last several decades, in governments at all levels throughout the world, the public sector’s role has increasingly evolved from *direct service provider* to that of an *indirect*

*provider or broker* of services; governments are relying far more on networks of public, private and nonprofit organizations to deliver services.

## PRIVATIZATION OVERVIEW

Privatization is used by leaders of both major political parties and at all levels of government to lower the costs and improve the efficiency and performance of government services. Prominent examples include the following:

- Under the administration of President Bill Clinton, the federal government sold the Elk Hills Naval Petroleum Reserve, the U.S. Enrichment Corporation, the Alaska Power Marketing Administration, Sallie Mae and billions of dollars worth of electromagnetic spectrum; and instituted a serious effort to create a nonprofit corporation to take over air traffic control (as more than 40 countries have done since 1987). The Clinton administration also conducted competitions for the operation of more than 100 airport control towers and numerous military base functions. Further, the Clinton-era Environmental Protection Agency declared public-private partnerships for water and wastewater systems a “classic win-win.”
- The administration of Florida Governor Jeb Bush used privatization and competitive sourcing more than 130 times during his eight-year tenure (1999-2007), saving more than \$500 million in current dollars and avoiding more than \$1 billion in estimated future costs. Governor Bush also created the state’s Council on Efficient Government, which developed a centralized process for evaluating when and where privatization is appropriate, as well as assessing the competitions for contracts.
- Chicago Mayor Richard Daley privatized more than 40 city services and, since 2005, generated more than \$3 billion in upfront payments from private sector leases of city assets, including the Chicago Skyway toll road and several parking assets.
- Former Indianapolis Mayor Stephen Goldsmith identified \$400 million in savings and opened more than 80 city services—including trash collection, pothole repair and water and wastewater services—to competitive bidding.
- While serving as mayor of Philadelphia, current Pennsylvania Governor Ed Rendell saved \$275 million by privatizing 49 city services.

Leaders across the political spectrum have embraced privatization because it introduces competition in the delivery of public services and challenges public monopolies. Implemented properly, competition drives down costs and creates incentives for performance and results. In well-structured outsourcing initiatives, contractors have strong incentives to deliver on performance—for instance, a vendor’s bottom line would be hurt by the cancellation of an existing contract or by losing to a competitor when that contract expires and is rebid. A public agency exposed to competition for the first time might be spurred to improve its own performance. Introducing competition helps managers determine their true costs and promotes innovation, efficiency and greater effectiveness in serving customers’ shifting demands.

## Privatization Goals

Governments turn to privatization to achieve many desirable goals, including:

- **Cost Savings:** Cost savings may be realized through privatization via economies of scale, reduced labor costs, better technologies, innovation or more efficient business processes. A Reason Foundation review of more than 100 privatization studies found that cost savings typically averaged between 10 percent and 25 percent depending on the service. Competition often spurs in-house improvements that may obviate the need for outsourcing.
- **Quality Improvements:** Competitive procurement encourages bidders to offer the best possible service quality to win out over their rivals and to be competitive for rebid upon contract expiration.
- **Improved Risk Management:** Through privatization, governments may be better able to control costs by building cost containment provisions into contracts. Privatization may be used to shift major liabilities from the government to the contractor, such as budget/revenue shortfalls, construction cost overruns and compliance with federal and state environmental regulations.
- **Timeliness:** When new services must be rapidly initiated, privatization can provide a quick start because private firms can hire people more quickly than governments generally can. Similarly, private firms can increase staff more quickly when additional workers are needed to handle increased demands or to speed up work in an emergency by offering incentives typically unavailable to public workers.
- **Accommodating Fluctuating Demands:** Privatization allows governments to deal efficiently with services whose demand varies by hour (for example, bus service), day or season. In winter months many states, including New Jersey, supplement their own snow plows with private plowing companies, avoiding the need for staff and equipment that are underutilized in the spring and summer.
- **Access to Outside Expertise:** Privatization allows governments to obtain staff expertise that they do not have in-house on an as-needed basis. For example, because of the fast-paced and ever-changing nature of information technology, governments routinely partner with private companies to provide such services.
- **Innovation:** The need for lower-cost, higher-quality services under competition encourages private vendors to create new, cutting-edge solutions to help win and retain government contracts.

All of these goals fall under the banner of "performance." Using privatization to achieve a combination of cost savings, quality, timeliness, expertise and innovation are keys to achieving higher performance in government services.



## Privatization in Other States

During the course of its work, the Task Force received information and testimony regarding a wide range of recent state-level privatization initiatives and programs.

- Twenty-six states have passed laws authorizing privately financed transportation infrastructure since the mid-1980s, giving those states a new source of infrastructure funding.
- Virginia's Department of General Services (DGS) opened vehicle fleet maintenance to private competition first in the late 1990s, lowering costs by approximately 25 percent. In 2005, DGS contracted out for a new maintenance information management system that provides 24-hour, on-call service and networks for nearly 500 private maintenance facilities (and 77 state facilities) to provide vehicle repairs. The management system reduced preventive maintenance costs by 16 percent, reduced average brake service costs from \$228 to \$81 and significantly reduced vehicle downtime.
- Aspects of road and bridge maintenance are privatized in most states. In 1996, the Virginia Department of Transportation began outsourcing more than 250 miles of Interstate maintenance to one contractor in a five-and-a-half year, \$130 million fixed-cost contract that was subsequently renewed and extended to cover hundreds of additional Interstate miles. Savings ranged from six percent to 20 percent. As of 2008, the Florida Department of Transportation had developed 32 similar "fence-to-fence" maintenance contracts covering Interstates, toll roads and other state highways, with an estimated 16 percent savings.
- West Virginia Governor Joseph Manchin signed a law in 2005 fully privatizing the state's Workers' Compensation Commission, transforming it into a private insurance carrier, BrickStreet Insurance. Since the completion of the process in 2008, workers' compensation rates have declined an average of 30 percent statewide, translating to more than \$150 million in annual employer savings. BrickStreet—formerly the state monopoly—is now competing for business in other states.
- Private providers play a major role in operating prisons and delivering correctional services in more than a dozen states. A 2009 Avondale Partners survey of 30 state correctional agencies found that states currently using private sector services report average daily savings of 28 percent. The Indiana Department of Correction has reduced correctional food service costs at dozens of facilities by approximately 30 percent since contracting out in 2005.
- After the state-run South Florida State Hospital saw a dramatic turnaround in quality and patient care following privatization, the Florida Statewide Advocacy Council—a human rights advocacy group—unanimously passed a resolution in 2003 supporting the privatization of additional psychiatric facilities in Florida. The Florida Department of Children and Families told a legislative committee in 2007 that the average cost per bed in privately-operated state psychiatric facilities was as much as 15 percent lower than at state-run hospitals.
- Georgia's Department of Juvenile Justice (GDJJ) began outsourcing facility maintenance at 30 of its 35 secure-site facilities in 2001, marking the first successful outsourcing of maintenance in a

state correctional system. The success of this model prompted Georgia officials to apply a similar model for the maintenance of numerous facilities across the GDJJ, the Georgia Department of Corrections and the state Bureau of Investigation.

- Privatization can play a role in environmental protection. For example, privatization was used in New Jersey to implement regional groundwater restoration efforts in Camden, Gloucester and Burlington counties. In coordination with the New Jersey Department of Environmental Protection, a private water company built and financed—at no cost to the state—more than \$200 million in new water treatment and transmission infrastructure to deliver treated surface water to several communities and help address aquifer depletion issues.
- In 2002, Florida began a major \$350 million privatization contract to consolidate and automate human resource, payroll administration, staffing and benefits functions. The state has saved \$12 million from staff reductions and \$80 million by avoiding the cost of rebuilding its own system, in addition to other efficiencies gained through the elimination of duplicative services.

These and many other state experiences offer overwhelming evidence that, when implemented carefully using best practices, privatization offers state officials a powerful means of reducing costs to taxpayers and improving state services at the same time. Privatization will not be a panacea for all of New Jersey's current fiscal challenges, but the Task Force believes that it can and should play a role in streamlining state government.

## **New Jersey's Privatization Efforts**

### **Successful Initiatives**

There have been – and continue to be – numerous privatization successes in New Jersey.

A national model for public-private partnerships is the Hudson-Bergen Light Rail line, which connects the communities of Bayonne, Jersey City, Hoboken, Weehawken, Union City and North Bergen. Owned by New Jersey Transit, the project was funded by the state and federal governments. It was developed through the award of a "DBOM" (design/build/operate/maintain) contract to an engineering and construction consulting firm, which agreed to deliver a fleet of vehicles, a guaranteed completion date and 15 years of operation and maintenance of the system for a fixed price. Commencing operation in 2000, the project has met or exceeded its objectives and the contract with the vendor has been extended. The light rail line has been a catalyst for both residential and commercial development along the route and has played a significant role in the revitalization of Hudson County.

The state's preschool program, following the New Jersey Supreme Court's ruling in 1998, is an example of using a privatized system. Following that ruling, which required that the state provide free pre-school for three- and four-year old students in 28 of the state's poorest school districts, New Jersey created a system where certified private providers of pre-school instruction were allowed to provide these educational services. The taxpayers avoided the expense of building new facilities in these state-supported districts as well as the extraordinary expense of expanding faculty at traditional public schools. The program, now more than a decade old, provides pre-school programs for approximately 44,000 students.

Another high-profile privatization program is the Atlantic City International Airport (ACY), operated by a private contractor for the South Jersey Transportation Authority. The operation of ACY through this successful initiative has allowed for unprecedented growth of the airport, which serves as a key economic driver for the Southern New Jersey region.

Certain state departments extensively outsource. For example, almost every division within the Department of Human Services (DHS) has a public-private partnership including Medicaid HMOs, the development of the NJKids child support computer system, the operation of day programs for those with developmental disabilities and the operation of the community mental health system.

The Division of State Police was the first regulatory agency requiring electronic submission of fingerprints. The ink-and-roll fingerprinting process required by law was successfully converted to an electronic submission process (the MorphoTrak system) by a private vendor.

The New Jersey Turnpike Authority has fully privatized all service areas along the Turnpike and the Garden State Parkway.

The Department of Corrections has a longstanding privatization initiative for substance abuse services and relies extensively on privately run residential community release programs.

Individuals wishing to obtain their birth, death or marriage records may do so online through a privately run program organized by the Department of Health and Senior Services.

The Department of Children and Families (DCF) also has a robust privatization initiative. The department's Division of Youth and Family Services has privatized almost all group homes, as well as specialized case management services and post-adoption services. Within its Office of Education, most occupational, physical and speech therapy services have been privatized, along with the Safe Measures program, which provides DCF with essential data analysis on more than 50 measures.

About 80 percent of all new car registrations are processed by dealers through a private vendor that contracts with the Motor Vehicle Commission. The MVC also uses a vendor to process surcharges paid by drivers who have earned excessive points or committed specific violations; the vendor provides customer service and administers payment plans.

At the Department of Transportation, all line striping, bridge painting, guide rail work and resurfacing has been outsourced.

The development of civil service exams has been outsourced by the Civil Service Commission and the development of licensing exams has been outsourced by the Department of Environmental Protection.

Of course, the state turns to outside vendors for many routine tasks as well, including information technology services, building maintenance, snow removal and some vehicle repairs.

## Lessons Learned

The Task Force invited the State Inspector General, the State Comptroller and the Executive Director of the State Commission of Investigation (SCI) to its first public hearing to testify about the failed privatization efforts investigated by their offices. They told the Task Force about the lessons they learned from failures in the privatizations involving E-ZPass, EnCap, schools construction, motor vehicle inspections, tax collections, inmate health services and municipal utilities. These failures have much in common: they were poorly conceived at the start, goals were not clearly articulated, due diligence was superficial, contractors were inexperienced or undercapitalized and government oversight was lax or nonexistent. In extreme cases, government officials had clear conflicts of interest and engaged in official misconduct.

These failures have led to the enactment of significant, albeit piecemeal and incomplete, statutes to avoid future reoccurrences.

In response to the E-ZPass procurement failure, the state's Public Contracts Law was overhauled to enhance procurement integrity and balance administrative efficiency with public accountability.

In the wake of the failed EnCap environmental cleanup and redevelopment in the Meadowlands, laws were adopted requiring redevelopers receiving \$50 million or more in public financial assistance to meet enhanced financing, fiscal transparency and oversight standards.

Following a criminal investigation by the Attorney General into allegations that the outside company performing tax debt collections was overbilling the state and giving gifts to state officials, the state indicted six state employees and three vendor employees. The state also entered into a non-prosecution agreement with the vendor under which it paid the state nearly \$2 million as restitution and the costs incurred for the investigation and agreed to oversight by an independent monitor. The state has since strengthened its Conflicts of Interest Law and mandated ethics training for all state government employees.

Although the new laws resulting from failures of past privatization initiatives form a good foundation to ensure the success of future privatization initiatives, New Jersey does not have a comprehensive system for managing the privatization process. New Jersey's privatization experience – both its successes and its failures – have informed the recommendations made by the Task Force.

## **INSTITUTIONALIZING THE PRIVATIZATION PROGRAM**

Experiences in New Jersey and elsewhere show that, to establish privatization as an effective policy, an appropriate management structure is needed, suitable policies must be adopted and best practices must be followed. The principal determinant of success, however, is political will, which begins with the Governor, who we recommend announce as an administration priority that achieving efficiency through private sector competition is a standard policy for all state agencies.

### **Establish a Centralized Privatization Entity**

States that have had the most success in privatization created a permanent, centralized entity to manage both privatization and related policies aimed at increasing government efficiency. Such an entity can constantly evaluate agency performance, and implement and oversee privatization initiatives in a consistent way across state government. New Jersey would be well served by an entity whose mission is to seek government efficiency and create competition for service delivery. It should assist government agencies in developing a “business case,” for any proposed privatization, that takes into account and evaluates potential cost savings, service quality improvements, risks and other factors, and applies a rigorous cost-benefit analysis to determine if a privatization should go forward. This entity should also:

- Apply and disseminate lessons learned and best practices for privatization.
- Conduct an annual or biannual inventory of all functions performed by state government to determine those activities that are non-core, commercial functions and appropriate for privatization, and publish this inventory on the Internet.
- Maintain an inventory of surplus state properties and other underperforming assets that can be sold, and make this information available on the Internet.
- Design comprehensive, performance-based contracts for privatization vendors, and the process for awarding them.
- Develop protocols and procedures for contract monitors, and assist the monitors in carrying out their responsibilities.
- Track agency performance in implementing the privatization strategy.
- Report periodically to the Governor and to the Legislature on the results and status of the privatization program, and the overall effort to increase efficiency in state government.

### **Apply Best Practices in Project Selection & Contracting**

Successful privatization will be achieved only through a combination of best practices for project analysis, for vendor selection, for contracting and for performance monitoring and oversight. Accordingly, the Task Force recommends that the following policies be adopted to guide privatization efforts:

- Base decisions on accurate, activity-based costs, and a uniform cost accounting model.
- Ensure that only qualified bidders—in sufficient numbers—participate. If an RFP attracts only a single bidder, it may be defective and in need of revision and rebidding.

- Award contracts based on predetermined, merit-based criteria, and following a documented scoring process. This process should include consideration of a mix of factors including quality, experience, technological innovation and risk transfer, as well as cost.
- Use qualified and unbiased evaluators to rank and judge proposals.
- Require successful vendors to have a strong balance sheet. A performance bond is not a substitute for sufficient financial capital. Ideally, there should also be other companies with the interest and ability to step in should the original vendor fail.
- Vet subcontractors and downstream contracts as thoroughly as prime contractors and subject them to the same requirements.
- Build specific metrics, goals and outcomes into contracts so that a vendor's performance can easily be measured after the contract is awarded.
- Enforce contract terms and impose prescribed penalties—up to and including contract termination—if the contractor fails. To encourage better performance, reward the contractor if specific goals are exceeded.
- Conduct open, competitive rebidding upon contract expiration to create a permanent competitive climate and prevent the creation of a private monopoly that merely replaces the previous public monopoly.
- Require rigorous and vigilant monitoring of each contract on a real time basis to maintain the accountability of the vendor and ensure that contractual terms are enforced. Monitoring must be independent, transparent from the beginning of the contract and inserted into every facet of the project. The cost of the monitoring should be included in each privatization proposal and taken into account in the required cost-benefit analysis.

In general, it is essential that the public trust the integrity of the public officials charged with approving and managing privatization initiatives. In every step in the process, from project analysis to contract award and project monitoring, government officials must be free from conflicts of interest and the appearance of conflicts. Moreover, taxpayers, other stakeholders and the media should understand the motivations, goals and likely effects of a proposed privatization initiative. As much information as possible about each project, including RFPs, contracts and other documentation, should be posted on the Internet.

### **Involve Public Sector Managers & Employees in the Process**

Privatization is most successful when it is done in collaboration with public sector managers and employees rather than as an adversarial process. The public employees who actually provide a service on a day-to-day basis often have the most knowledge about potential efficiencies. Giving them the opportunity, whenever practicable, to implement these efficiencies by “reengineering” the present government operation (either as a stand-alone entity, or in partnership with one of the private sector bidders) sometimes provides a more cost-effective option than turning over the operation entirely to a private vendor. However, in order to accomplish a true “apples-to-apples” comparison between public sector providers and a private contractor, it is essential that all costs associated with the current governmental structure, including pension and other overhead costs, be ascertained and included in the analysis. While there are additional costs associated with allowing the public employees to compete, such as providing them with experts to support the structuring of their proposal, these costs are

generally more than offset by the enhanced level of competition that occurs as the result of their participation.

### **Create a Process for Unsolicited Privatization Proposals**

A task force with a limited time frame cannot possibly produce a definitive statement on all of the opportunities for privatizing functions within such a huge and complex organization as state government. Moreover, the market environment is always changing. New private sector vendors with different areas of expertise, experience and innovative business strategies are continually emerging. These vendors will present new ways to test the efficiency of publicly provided services.

While the centralized privatization entity should be tasked with compiling, maintaining and publishing an inventory of the commercial activities being carried out by state agencies to identify potential candidates for privatization, this alone is not sufficient to uncover services appropriate for privatization. The best way to challenge government to provide services in the most efficient way on an ongoing basis is to provide a process whereby private sector vendors can put forward privatization proposals, both for those services identified on the inventory of functions performed by state government and also for others that are identified by them on an unsolicited basis.

The relevant public sector agency, under the guidance of the centralized privatization entity, should be required to review each proposal submitted by a potential vendor and respond to it. Obviously, at the same time, this requirement must take into account the length of time since the last privatization process concerning a certain service in order to provide a balance between remaining competitive and time spent having to respond to new proposals.

### **Protect the Environment**

Privatization can and should promote environmental stewardship and sustainable development. It is essential that, where applicable, privatization initiatives reflect the state's policy priorities and uphold existing environmental laws and standards. Appropriate privatization contracts should:

- Include environmental requirements as part of the performance standards;
- Incorporate environmental goals early in the bidding process so that potential contractors have the opportunity to offer ideas for improving project performance;
- Include monitoring and compliance provisions to ensure that projects continue to meet environmental performance goals; and,
- Encourage private partners to provide plans for the reuse and recycling of materials as well as for the safe and environmentally sound disposal of non-reusable materials where privatization projects involve the replacement of aging infrastructure.

## IMPEDIMENTS TO PRIVATIZATION

The Task Force has identified a number of impediments that restrict the managerial prerogative of government to better serve the state's taxpayers by privatizing its services and functions.

**Civil Service:** The venerable civil service system, created in 1883, replaced the old spoils system and for many years served well to protect public employees from arbitrary management actions. Starting several decades ago, however, a parallel system—collective bargaining—emerged to protect employees, rendering the civil service system largely redundant. Today civil service frustrates good management and impedes the pursuit of policies such as privatization that improve government performance. The legislature should reform civil service for state employees and pass the legislation proposed by the Governor in May, 2010, which would provide municipalities and counties the ability to opt out of civil service by ordinance or referendum initiated by 15 percent of the voters. The Task Force also supports the Governor's proposal giving state colleges and universities the opportunity to remove classified employees from civil service and offer them opportunities to be included in the institution's personnel system

**Displaced Workers Pool (DWP):** The state should oppose extension of current labor contract language regarding the Displaced Workers Pool (DWP), which allows workers who are laid off or displaced due to privatization, outsourcing or closure of facilities to remain employed by the state for up to four months, with the option of an extension to six months. These state employees continue to receive their full salary, health and all other contractual benefits, and continue to accrue seniority, without performing any work.

**Auxiliary Services:** New Jersey's public colleges and universities need the flexibility to look at all available options to cut costs. Under the Employer-Employee Relations Act, state colleges have the managerial prerogative to privatize maintenance functions; however, they must comply with overly burdensome Civil Service procedures before privatization implementation. State colleges and universities would save tens of millions of dollars annually if they could outsource a variety of facility maintenance functions.

**Restrictions to School District Contracting:** School boards have the managerial prerogative to privatize certain functions. In the New Jersey School Boards Association's 2009 survey, 238 (40 percent) of the state's operating school districts responded and 84.2 percent of them reported that they fully contract food services, maintenance, transportation, child study team services or business operations. They reported an annual cost savings of \$38.8 million dollars. Legislation has been proposed in several sessions of the Legislature that would place detrimental restrictions on school boards' ability to contract. In these financially challenging times, school districts need to be encouraged to outsource more operations. Attempts to place restrictions on contracting should be opposed.

**Administration of Workers' Compensation:** State colleges and universities should be authorized to explore the services and insurance coverage required to manage their own workers' compensation programs. Currently, Treasury's Division of Risk Management administers the state colleges' and universities' worker compensation claims, and the Attorney General represents the institutions in the Workers' Compensation Court. The Division of Risk Management bills the institutions quarterly for money paid by the state on behalf of the institutions for administering their workers' compensation claims.



**Public-Private Partnerships:** The state should enact broad-based enabling legislation that would allow both the state government and local governments to enter into public-private partnerships without requiring state authorization for every individual project.

**Mandatory Negotiations:** The New Jersey Employer-Employee Relations Act should be amended to permit public sector employers to outsource services to private vendors without the need to negotiate the impact of these actions.

## **PRIVATIZATION OPPORTUNITIES**

The necessarily short time the Task Force has had to complete its work has not always permitted the exhaustive vetting and cost-benefit analysis that it recommends in this Report for all privatization initiatives.

Nor has the Task Force been able to calculate precise savings for the proposals that follow. This is due not only to the fact that the actual cost of a privatized alternative will often not be known until the end of a full-fledged competitive bidding process, but also because New Jersey state government agencies have difficulty calculating with precision the full cost of functions currently performed at the state level.

The Task Force, given these constraints, has done its best to estimate the monetary savings, if any, of each of the privatization opportunities identified.

## SUMMARY OF ESTIMATED SAVINGS

OPPORTUNITY	Estimated Annual Savings Upon Full Implementation
<u>Dept. of Community Affairs</u> Housing & Uniform Construction Code Enforcement	TBD
New Home Warranty Program	TBD
<u>Dept. of Corrections</u> Inmate Medical Services	\$6.5 million
Prison Food Services	\$6.8 million
Food Distribution Network	TBD
Inmate High School Education	\$2.7 million
<u>Dept. of Education</u> Public Pre-K Reforms	TBD
Special Education Scholarships	TBD
The Opportunity Scholarship Act	TBD
<u>Dept. of Environmental Protection</u> State Parks Concessions	\$6 million
Golf Course Management & Maintenance	\$0.1 million
<u>Dept. of Human Services</u> Child Support Services	\$3.74 million
State Psychiatric Hospitals	\$9.6 million
Developmental Centers	TBD
<u>Dept. of Labor &amp; Workforce Development</u> One-Stop Career Centers	\$3.2 million
Boiler/ Pressure Vessel Inspections	\$1.7 million

**OPPORTUNITY****Estimated Annual Savings Upon Full Implementation**

<u>Higher Education</u> Auxiliary Services	\$27.4 million
<u>Motor Vehicle Commission</u> Passenger Motor Vehicle Inspections	\$28 million
Title, Registration Paperwork	TBD
<u>NJ Transit</u> Parking Facilities	TBD
Bus Maintenance	\$10 million
Bus Routes	\$7.5 million
<u>Turnpike Authority &amp; South Jersey Transportation Authority</u> Manual Toll Collection	\$35 million
SJTA Cashless Tolling	\$3.7 million
NJTA Rest Areas & Service Plazas	TBD
SJTA Advertising & Naming Rights	TBD
<u>Dept. of State</u> Trenton War Memorial	\$0.8 million
<u>Dept. of Transportation</u> Interstate Rest Areas	\$1 million
Emergency Service Patrol	\$12.3 million
<u>Dept. of the Treasury</u> Worker's Compensation Claims Processing	\$4 million
Payroll, Pensions & Benefits Disbursement	\$1.1 million
Hospital Bad Debt Collection	\$26 million
<u>Inter-Departmental</u> Third-Party Power Management	\$1 million

Printing Services	\$1 million
Security Guards	\$3 million
Water, Wastewater Plants	TBD
Employee Parking	TBD
Highway Maintenance Contracts	TBD
Fleet Management & Maintenance	\$4 million
Program Eligibility Determination	\$4 million
<b>Total</b>	<b>\$210 million+</b>

## **Department of Community Affairs**

### **Opportunity**

Housing & Uniform Construction Code Enforcement

### **Background**

The Division of Codes and Standards in the Department of Community Affairs is responsible for establishing and enforcing building codes. Building plan review and inspection of state facilities and hospitals, casinos and nursing homes, power plants, amusement facilities and other large or complex structures fall within the Division's purview when local code officials do not have resources, authority or licenses.

The Division also enforces building codes in 37 municipalities that do not have local code officials. It provides elevator inspections to 457 municipalities. Additionally, the Division licenses construction and sub-code officials and inspectors. Enormous inspection backlogs for elevators, rooming houses, boarding homes, health care facilities and multiple dwelling units currently exist. The Transition Report from the Sub-Committee on the Department of Community Affairs noted that more than 200,000 units are due for inspection this year alone but that the Division has the capacity to inspect fewer than 175,000. This is unacceptable when there exists a vast private sector that is capable and willing to complete these inspections.

The Division, which is designed to be entirely supported by fees, incurred a loss more than \$10 million in FY 2009.

As noted in the Transition Report: "... for the Division to perform adequately, efficiently and cost effectively in meeting its statutory obligations, it must change the way it does its business. "

Cities and states across the country have privatized inspections. They have seen permit processing backlogs shrink while at the same time saving taxpayer money.

### **Recommendation**

With careful monitoring and robust oversight of all contracts, the Department should outsource the following code enforcement functions:

#### **1. Plan Review**

Outsource plan review to design professionals, who already are state-certified in their professions. Review by registered Architects and licensed Professional Engineers will shorten plan review time frames.

#### **2. Housing Inspections**

Outsource inspections of multiple dwelling units to licensed entities to reduce the backlog of inspections.

Retired state workers who are licensed inspectors and who are currently receiving pension benefits through PERS cannot do state-contracted work above \$15,000 annually. This significantly diminishes the universe of individuals qualified to perform these inspections.

The state should consider revisiting the arbitrary use of a \$15,000 threshold for retired state workers performing these and other types of services.

### **Estimated Cost Savings and / or Other Benefits**

It is difficult to estimate a specific savings but it is clear there is a robust private sector of state-licensed building and code enforcement inspectors available to competently and safely perform this work, thereby eliminating the need for the Division to undertake this function at a financial loss.

Outsourcing plan review and field inspections would improve the efficiency of the code enforcement process and ultimately save state resources. Additionally, inspection backlogs reduction will enhance public safety.

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### **Opportunity**

New Home Warranty Program (NHW)

#### **Background**

The New Home Warranty program was created by the New Home Warranty and Builders Registration Act in 1977.

The Act requires all new home builders to be registered with the Department of Community Affairs and to provide their customers with a limited, 10-year, new home warranty. This warranty is insured through the state plan or through one of the five state-approved private plans.

Private plans generate about 80 percent of all enrollments.

#### **Recommendation**

There is a robust private insurance market offering builders New Home Warranty plans. The Task Force believes New Jersey should sell the state's New Home Warranty program to a private insurance company through a competitive bidding process that maintains the current high level of oversight New Jersey exercises over the home building industry, registration of builders and private warranty programs.

### **Estimated Cost Savings and / or Other Benefits**

Only an underwriter can place an accurate value on the state's NHW plan.

During the last 10 years, nearly 64,000 homes have been enrolled in the state's plan, with a market value of \$24.2 billion. During that period, the state has collected \$71 million in premiums. The current NHW fund has a reserve of approximately \$17 million, which needs to be increased for this asset to have real market value. Annual claim payouts based on the last 10 years average \$2.2 million per year.

With the sale of this asset there would be an immediate cash infusion and long-term cost savings to the state.

## **Department of Corrections**

### **Opportunity**

Inmate Medical Services

### **Background**

Although now provided by UMDNJ, inmate medical and dental services had been privatized in the past. Under the private vendor, poor fiscal monitoring and weak contract enforcement led to increased costs. Recently, the contract with the private vendor was cancelled and the University of Medicine and Dentistry of New Jersey (UMDNJ) expanded its presence at DOC to offer medical and dental services in addition to the behavioral health services that it had been providing pursuant to a memorandum of agreement.

The projected fiscal 2010 annual expenditure for inmate behavioral health services alone, including pharmaceuticals, is \$44.5 million. While UMDNJ is realizing savings for DOC, a portion of those savings are measured from the inflated costs previously charged by the private vendor. UMDNJ is also realizing additional savings for DOC through prudent buying of prescription drugs. These savings are both short term.

A private vendor well-monitored by DOC should introduce innovative programs designed to achieve real long-term savings, such as health and wellness programs designed to reduce inmate need for medical services and prescription drugs. In all cases, vendors should be made to compete for the opportunity to provide these services. Such competition will drive costs down and at the same time, improve service quality.

Provisions of the *C.F. v. Terhune* settlement, a prisoner rights lawsuit, that apply to male inmates have expired and provisions that apply to female inmates will expire on July 2, 2010. This presents DOC with the opportunity to revisit the delivery of inmate medical services and reconsider the level of services provided. New Jersey is generally considered to provide quite generous medical services in its correctional facilities.

### **Recommendation**

Explore privatization opportunities for inmate medical health services.

### **Estimated Cost Savings and / or Other Benefits**

Through a combination of privatization and changes in the delivery and management of inmate medical services, the state should realize a 15 percent savings across the board. For behavioral health services alone, the savings would be \$6.5 million per year.

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### **Opportunity**

Prison Food Services

The State Food Distribution Network



## **Background**

Each year, the Department of Corrections (DOC) spends \$75 million to prepare and serve more than 28 million meals for inmates, staff and vendors. The average cost per day is \$8.18, or \$2.73 per meal.

DOC has a central production kitchen at South Woods State Prison (Bridgeton), which provides pre-cooked meals for the DOC institutions. This menu meets American Dietetic Association's (ADA) nutritional requirements.

This centralized distribution network – from Trenton to the vast majority of the state facilities, including those operated by the Juvenile Justice Commission and the Departments of Human Services and Military and Veterans' Affairs – is outdated. All but three states have privatized this function.

Kansas, for instance, recently privatized its prison food service. In so doing, it realized a 25 percent savings. Based on that experience, reducing prison meal costs by \$2 per day in New Jersey – from \$8 to \$6 – is a reasonable expectation.

## **Recommendations**

1. Long-term savings of privatizing the entire DOC prison food services function could begin to be quantified through a short-term food service privatization pilot program at the Central Reception and Assignment Facility (CRAF). Currently, CRAF serves approximately 1.1 million meals annually for an annual cost of \$3 million.
2. DOC should also issue a Request for Proposal to privatize the entire prison-specific food services operation.
3. New Jersey should privatize the Distribution and Support Services infrastructure. This privatization can be done independently of the privatization of inmate food services.

### **Estimated Cost Savings and / or Other Benefit**

1. Based on the experience of Kansas, New Jersey would save \$400,000 as a result of a pilot program at CRAF. DOC supports this pilot program.
2. Based on the experience of Kansas, New Jersey would save \$6.8 million annually if it privatized the entire operation.
3. Absent a Request for Proposal, the Task Force cannot estimate a cost savings.

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## **Opportunity**

Inmate High School Education & GED Program

### **Background**

The Department of Corrections (DOC) is required to provide education through which all offenders under age 21 who have not graduated from high school might earn a high school diploma.

The high school diploma program is offered in 10 institutions and has an enrollment of 404 inmates. The total educational budget for inmates under age 21 years is \$11.6 million. Funding for the high school diploma program is provided by the New Jersey Department of Education.

DOC also provides a high school equivalency (GED) program for adult offenders 21 or older who have not graduated high school. The GED program is offered in all 13 DOC institutions and has an average annual enrollment of 12,000 to 15,000 offenders. The budget for the GED program is \$16.9 million.

In the proposed FY 2011 budget, total combined spending for inmate high school diploma and equivalency programs is \$27.5 million.

### **Recommendation**

Through a competitive bidding process, the state should contract out both the high school diploma and equivalency programs.

### **Estimated Cost Savings and / or Other Benefits**

Without going through the competitive bidding process, it is difficult to ascertain what the savings would be. That said, based on a 10 to 25 percent range of expected savings, the state should expect to save anywhere from \$2.75 million to \$7.13 million annually.

## **Department of Education**

### **Opportunity**

Pre-K Reforms

### **Background**

New Jersey state government spends approximately \$12,000 per student annually to fund the 40,000 three- and four-year-olds enrolled in the Supreme Court's mandatory pre-k program in the former Abbott districts. New Jersey's new school funding formula includes significant expansion of pre-k programs throughout the state. When the plan is fully implemented, about 20,000 more children will be enrolled in publicly supported preschools. Taxpayer funding for this program will increase by approximately \$240 million, bringing total taxpayer funding for pre-k to about \$790 million annually. This does not include capital costs to provide classrooms for pre-k students.

According to the New Jersey Schools Development Authority, the estimated cost per classroom for Early Childhood Education Centers in 2010 dollars is more than \$430,000. Including land acquisition, relocation and other costs, the per classroom cost jumps to more than \$527,000. The estimated per seat cost for building new preschool classrooms is between \$43,000 and \$53,000.

At the program's inception, nearly 100 percent of students were served by providers in the private sector, many of which are women-and minority-owned businesses. Now, approximately 60 percent are served by private providers, as traditional districts have built preschools at great public expense and unfairly regulated their private-sector competitors out of business.

There are currently two sets of state regulations governing pre-k. The majority of private pre-k providers are subject to Dept. of Children and Families (DCF) regulations, but private pre-k providers working in the former Abbott districts and serving low-income children in some other districts are subject to the regulation of the DOE and the respective districts themselves, effectively crowding out the private sector and driving up costs to the taxpayer without any documented benefit to the children they serve.

### **Recommendation**

- Stop the construction of new pre-k facilities at public expense.
- Require public pre-k to charge at a rate that reflects its full cost, including the cost of facilities constructed at public expense and employee benefits paid by the state.
- Districts are eliminating parent's ability to choose their preferred school by declaring that all four-year olds must be enrolled in district-run pre-k programs. This process should be ended.
- Replace DOE staff-to-student ratios with DCF standards.
- Replace DOE square-footage and other facilities requirements with DCF standards.
- Transition to a voucher system for qualified pre-k providers similar to the ones currently used in federal welfare-to-work programs, family assistance programs and the supplemental education services provisions of the No Child Left Behind Act.

### **Estimated Cost Savings and / or Other Benefits**

The state will avoid \$18.4 million in projected FY 2011 capital costs by stopping the planned construction of public pre-K facilities.

Long-term savings will be much higher; if new public school classrooms are added for all of the pre-schoolers that will enroll by 2014, New Jersey taxpayers will be responsible for between \$870 million and \$1.1 billion in new debt. The NJSDA has already received proposals and estimates for new public pre-k projects that will cost \$172 million.

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### **Opportunity**

Special Education

### **Background**

The parents of some students with disabilities are dissatisfied with their children's progress at the school they attend and would like to have other options. Such parents often face time-consuming, expensive and frustrating disputes with local school districts that may result in their children being deprived of the best appropriate educational opportunities.

### **Recommendation**

Any parent of a public school student – including a student in any of the 17 regional schools of the Department of Children and Families (DCF) – with a disability who has an Individual Education Plan (IEP) and who is dissatisfied with the student's progress would receive a scholarship to allow the child to go to another school if the student has spent the prior school year in attendance at a New Jersey public or DCF school.

An eligible student with a disability would be given several options, including:

- Attendance at another public school within the student's home district;
- Attendance at an eligible public school in an adjacent district that has space and provides the services identified in the student's IEP; or,
- Attendance at an eligible private sectarian or nonsectarian school.

The amount of the scholarship would be equal to the full amount that would have been spent on the student in the public or the DCF school to which the student is assigned (based on his or her IEP) or the amount of a receiving school's tuition and fees, whichever is less. Parents will retain all their rights under the Individuals With Disabilities Act.

### **Estimated Savings and / or Other Benefits**

The principal benefit of this program is that students are able to attend a school that provides them with the most suitable education. While it is difficult to estimate precisely what savings might accrue to the state and to local school districts, the value of the scholarship cannot exceed the costs incurred for the student by the school he or she is currently attending so overall costs will not be increased.

In New Jersey, approximately 16,000 special education students are served by a private education provider.

Studies of the McKay Special Needs Scholarship program in Florida indicate that availability of special needs scholarships creates a more responsive, less confrontational relationship between districts and parents of special needs students. This results in reduced legal costs for school districts and aggrieved parents.

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## **Opportunity**

The Opportunity Scholarship Act

### **Background**

The Opportunity Scholarship Act (OSA), as amended by the Senate Economic Growth Committee, would establish a five-year pilot program that would provide tax credits to corporations that contribute to scholarships for eligible low-income children. These corporate contributions would provide approximately 3,200 scholarships in the first year of the program, with an additional 3,200 scholarships to be added each subsequent year up to an estimated 16,000 scholarships by the fifth year of the program.

The OSA program would permit eligible children to move to either public or non-public schools that have been approved to participate in the program. Scholarships would be up to \$6,000 for elementary schools and up to \$9,000 for high schools (for a weighted average of \$7,000 per student); in no event would scholarships be more than the cost per student of the receiving school.

Today, the weighted average amount of state aid paid per student paid to school districts covered by the bill is \$15,725.

The bill requires that a district's state aid for certain categories be reduced by the per pupil amount generated by the student. However, the entire amount of the state's savings from reductions in state aid would be dedicated by the OSA to an Innovation Trust, which would distribute innovation grants on a competitive basis to the affected school districts to implement creative new programs.

### **Recommendation**

Pass S-1872 / A-2830, the Opportunity Scholarship Act.

### **Estimated Cost Savings and / or Other Benefits**

The cost of the tax credit to the State Treasury will be more than offset by the savings achieved from educating students in lower-cost settings. Also, to the extent that the program stems the closure of private schools, it also will prevent the flow of displaced private school students into high-cost public schools.

## **Department of Environmental Protection**

### **Opportunity**

Park Management Concession Agreements

### **Background**

New Jersey already uses the services of concessionaires in several state parks, but for a limited variety of services. The National Park Service is far more aggressive in its use of concessionaires in some of the nation's most beautiful, and successful, national parks, including the Grand Canyon, Yosemite and Yellowstone.

Federal agencies like the U.S. Forest Service have undertaken an even broader use of concessionaires to operate their recreational facilities in a manner generally referred to as the "whole park" concept. In this model, a concession would essentially be a long-term lease – 10 or more years -- of the entire operation of a park or group of parks under a performance-based contract with a private recreation management company.

Contracts are typically structured as commercial leases in which the concessionaire collects 100 percent of gate and recreation fees to fund the park's operations and maintenance costs (including labor), and the concessionaire pays a set percentage of the gate revenues back to the public agency as an annual lease payment. Public expenditures on these parks can be significantly reduced—if not eliminated entirely—depending on the level of ongoing involvement by the park's agency.

Concessionaires' functions are strictly limited by the contract; they cannot change fees, operating policies and procedures without approval from the contracting agency. The public authority would establish the recreation or preservation mission for the park, and a detailed, performance-based contract would require the concessionaire to manage the park to that mission.

### **Recommendation**

New Jersey should enter into one or more long-term concession agreements with private recreation firms for the operation and management of all state parks.

### **Savings and / or Other Benefits**

An analysis based on park-specific expense and revenue data from the New Jersey Department of Environmental Protection suggests that the state could save approximately \$6 million to \$8.2 million through the strategic use of whole-park concessions throughout the system.

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### **Opportunity**

Golf Course Management & Maintenance

### **Background**

New Jersey has approximately 65 government-owned golf courses, including two state-owned courses. In all cases, these facilities are ultimately owned and paid for by the taxpayers of New Jersey. These properties produce no property taxes, while the private sector pays the highest such taxes in the nation for private courses. Government golf courses are usually operated at a loss. That is, they are taxpayer subsidized. For example, the state-owned Spring Meadow Golf Course is projected to lose \$56,000 this fiscal year on revenues of nearly \$1 million.

Outsourcing of government golf management in New Jersey, through long-term lease of these taxpayer-owned properties, can generate tens of millions in franchise payments to governments in lieu of real estate taxes each year.

Private operators of the state-owned Centerton Golf Course pay the state a fixed rent of \$104,000 per year plus a percentage of gross revenue above a threshold amount.

### **Recommendations**

State government should enter into a long-term management and grounds maintenance lease of its golf courses. The Request for Proposal should require respondents to propose an annual franchise fee payment and revenue sharing plan.

The RFP should be made available to county and municipal governments, who should also outsource golf course management to the private sector.

### **Estimated Cost Savings and / or Other Benefits**

The typical golf course outsourcing conservatively generates a franchise payment of \$250,000 and provides for the elimination of government-related spending of approximately \$100,000, for an estimated annual benefit of \$350,000.

The savings and benefits increase as local and county governments participate.

## **Department of Human Services**

### **Opportunity**

Child Support Services

### **Background**

The Department of Human Services' Division of Family Development competitively contracts out eight services. Each is considered a success by the Department. More can be done to save taxpayer money and increase service efficiency and effectiveness. New Jersey's child support program is fragmented. It involves and entangles the Department of Human Services, the Administrative Office of the Courts, 21 county welfare agencies, as well as local Judiciary fiscal divisions, all of which have a hand in – and personnel – providing these services.

The currently configured, inefficient system should be reformed.

### **Recommendation**

The state should centralize the delivery of these services, issue a Request for Proposals and expand existing contracts where practicable.

### **Estimated Cost Savings and / or other Benefits**

Preliminary savings calculated by DHS indicate the potential for an immediate \$11 million in annual state and federal savings, of which \$3.74 million are state dollars. However, the state can use the federal funds for other purposes.

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### **Opportunity**

State Psychiatric Hospitals

### **Background**

The State of New Jersey currently operates four psychiatric hospitals.

There is a threshold question as to whether the state – or New Jersey's counties, for that matter, which separately operate a number of psychiatric hospitals – should be providing this service at all. Experience outside New Jersey indicates these important services could be more efficiently, effectively and more comprehensively provided by private sector organizations.

State psychiatric hospitals have been privatized in Florida, Kentucky, South Carolina, Massachusetts and New Hampshire; Texas is in the process of doing so. In Florida, a new state-of-the-art 300+ bed psychiatric facility (South Florida State Hospital), serving indigent and severely mentally ill patients, was financed and constructed, and has been operated since 1998, by a private company. It replaced a 40-year-old facility that had never been accredited and suffered from poor conditions. The Florida Department of Children and Families reported in 2007 that the average cost per bed in privately operated state psychiatric facilities was as much as 15 percent lower than at the state-run facilities. A



February 2010 report by the Florida Legislature's Office of Program Policy Analysis found similar quality of care at six to 14 percent less per bed.

### **Recommendation**

The state should initially consider the privatization of one of the psychiatric hospitals it operates as a step toward privatization of the entire system.

### **Estimated Cost Savings and / or Other Benefits**

Absent an actual procurement, it is difficult to quantify the true potential cost savings through privatization.

However, applying the cost savings estimates identified in the 2010 Florida OPPAGA study (six to 14 percent) to the \$160 million that Ancora is likely to cost in FY 2011, New Jersey could potentially save between \$9.6 million to \$22.4 million per year through contracting out operations to a private provider.

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### **Opportunity**

Developmental Centers

### **Background**

The state operates seven Developmental Centers: Green Brook, Vineland, North Jersey, Woodbridge, Woodbine, New Lisbon and Hunterdon. Throughout the nation, states are shifting public funding away from large institutions like these. This reduced reliance on institutionalized care is driven in part by the U.S. Supreme Court's *Olmstead* decision, which held that isolating and segregating those living with developmental disabilities in institutions violates the Americans with Disabilities Act and constitutes discrimination.

Nationally, the population in large residential centers declined by 22.5 percent from 2000 to 2007. By comparison, New Jersey reduced its population in the residential centers during that same period by just 15.6 percent.

While New Jersey is among the states with the highest spending for institutions, New Jersey is among the lowest in spending on community services. The cost of care in the institutions continues to rise every year. Community based programs are capable of serving a portion of the population now served in the centers at a much lower cost – in many cases less than a third – and of providing appropriate care in an environment favorable for patients and their families.

Reducing the census in the state's developmental disabilities centers necessitates the development of community based services, supports and residential options to meet emergency needs and to avert out-of-home placements.

### **Recommendation**

Expand the use of community based services, supports and residential options for residents of the development treatment centers.

**Estimated Cost Savings and / or Other Benefits**

The benefits of serving developmentally disabled individuals in the community versus state residential centers are beyond economics. Building capacity in the community can also serve a greater population due to reduced costs.

## **Department of Labor & Workforce Development**

### **Opportunity**

One-Stop Career Centers

### **Background**

Across New Jersey, 18 One Stop Career Centers assist the state's unemployed with job training and search support, career networking, as well as vocational and trade school training. This training occurs on-site, in various schools and through apprenticeships. The centers provide technology to assist the unemployed, such as computers, telephones and photocopiers, which aid the job search and interview process.

These facilities are funded 80 percent by the federal government and 20 percent by the state; they are staffed by 485 full-time employees.

California, Washington, Oklahoma, Ohio, Florida and Texas have been successful in providing these services in a privatized setting. These states have competitively bid out the operation of their centers to non-profits, for-profit entities and to public workers.

### **Recommendation**

New Jersey should outsource its One Stop Centers through a competitive bidding process, similar to what was done by the Texas Workforce Commission.

### **Estimated Cost Savings or Other Benefit**

Direct state spending is \$3.2 million annually. Other savings would be determined through the competitive bidding process.

Other benefits will include improved outcomes for the state's unemployed workforce if vendor contracts are tied to performance benchmarks. Additionally, New Jersey will realize more federal funding through improved performance.

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### **Opportunity**

Boiler & Pressure Vessel Inspections

### **Background**

Under state law, the Department of Labor & Workforce Development must annually inspect boilers owned by certain commercial and residential entities.

At its discretion, the Department may assign the inspections to private insurance companies. Boilers are inspected in compliance with nationally recognized standards and state regulations. During FY 2009, nearly 77,000 inspections occurred statewide, with nearly 70 percent performed by state-certified and licensed inspectors who work for insurance companies. There are currently more than 100 certified inspectors.

New Jersey sets the inspection rates charged to commercial and residential entities. Last year, the state collected more than \$4.1 million in inspection fees.

Today, there is a more-than-three-year backlog of required boiler and pressure vessel inspections, according to the Department, creating a safety issue for the public.

**Recommendations**

Since the bulk of the inspections are now handled by private insurance companies, all inspections should be outsourced to private insurance companies and private state-certified and licensed boiler and pressure vessel inspectors.

The Department should produce a plan to implement a fully private inspection program in FY 2011.

The Department should retain robust oversight responsibilities.

**Estimated Cost Savings and / or Other Benefits**

Removing this function from the Department will produce \$1.68 million savings annually.

## **Higher Education**

### **Opportunity**

Public Colleges Auxiliary Services

### **Background**

New Jersey's public colleges and universities face increased fixed costs and rising costs in a broad range of areas, including salaries. These institutions need the flexibility to look at all available options to control spending.

In considering the privatization of certain campus auxiliary services, such as facility and ground maintenance, significant impediments arise. Under the Employer-Employee Relations Act, state colleges have the managerial prerogative to privatize maintenance functions; however, they must comply with overly burdensome Civil Service procedures before privatization implementation.

Without reform, lengthy, expensive processes will continue to lead to administrative hearings and legal challenges that are financially significant, handcuffing higher education officials.

The Task Force applauds Governor Christie's recent recommendation to allow public colleges and universities to opt out of Civil Service, which is among the governor's "toolkit" measures that will help higher education institutions in New Jersey to lower costs.

### **Recommendation**

State colleges and universities should outsource a variety of facility maintenance functions.

### **Estimated Cost Savings and / or Other Benefits**

In total, these institutions will save approximately \$27.4 million annually through outsourcing these functions.

## **Motor Vehicle Commission**

### **Opportunity**

Passenger Motor Vehicle Inspections

### **Background**

New Jersey partially privatized this program by outsourcing it in 1998. In 2010, this public-private partnership is a successful one that leaves a vast majority of motorists satisfied with the experience.

Still, a threshold question needs answering: Why is New Jersey, at great taxpayer expense, directly providing mechanical and emissions inspections at all? Other states provide or oversee this service in a variety of ways.

Approximately one-third of states have centralized lanes, meaning they provide all inspections; another one-third oversee a fully private inspection program; and, the remaining one-third have a hybrid program, like New Jersey's current system, in which both public and private inspections are available.

The Motor Vehicle Commission has proposed eliminating mechanical inspections in FY 2011. Emissions are another matter.

States are rightly required by the U.S. Environmental Protection Agency to oversee an emissions inspection program – but they do not have to operate them directly. State-certified, private emissions inspection shops can and should provide this service – as many already are – with vigilant oversight by the MVC and New Jersey Department of Environmental Protection (DEP) professionals.

### **Recommendations**

In FY 2011, the MVC and DEP should develop a transition plan to move vehicle emission inspections entirely into the private sector. This plan should include properly certifying enough private emissions inspection shops to make the transition seamless for motorists and assure that private inspection fees will be transparent and reasonable.

Beginning in FY 2012, New Jersey should withdraw entirely from direct participation in the vehicle inspection process. To do so, MVC will have to pay a termination fee under its contract with the vendor now providing inspection services for the state. This will produce a large net savings.

MVC will likely require a vendor to operate the vehicle inspection data computer system. Additionally, a vendor should be hired by the state to rigorously monitor the private emission inspectors.

Following this planned transition, MVC should declare surplus all appropriate parcels of land on which its inspection facilities now operate, then sell the land for the highest and best use.

### **Estimated Savings and / or Other Benefits**

The FY 2012 buyout noted above is \$7.9 million; doing so will produce a net savings of approximately \$28 million.

An additional benefit is the potential return of currently tax-exempt land to municipal tax rolls.

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## **Opportunity**

Title & Registration Processing

## **Background**

Motor vehicle titling and registration functions are currently provided through a hybrid system.

This system allows a private entity to provide titling and registration services for new car dealers, but requires the purchasers of used automobiles to obtain titles and registrations at MVC agencies. Motorists can complete registration renewals online or in MVC agencies. In other states, a variety of private entities provide titling and registration services.

Computer and process upgrades currently underway will make it feasible for MVC to partner with third parties to perform additional functions.

## **Recommendation**

Following the completion of its new computer system in 2013, MVC should increase its partnerships with private entities. Doing so will ultimately reduce foot traffic in MVC agencies, allow the redeployment of state personnel and decrease the need for state-owned or leased office space.

Contracts should in all cases provide for the stringent protection of personal data.

## **Estimated Savings and / or other Benefit**

Savings cannot be currently estimated. Motorists will benefit by being able to have many more options for handling their transactions with MVC.

## **New Jersey Transit**

### **Opportunity**

Parking Facilities

### **Background**

NJ Transit operates 144 parking locations around the state that include approximately 45,000 rail parking spaces.

### **Recommendation**

The income stream from NJ Transit parking facilities makes them a desirable opportunity for a public-private partnership. The Task Force acknowledges and commends NJ Transit's movement in this direction, and believes it should continue exploring opportunities for partnering with a private entity for the operation of these assets.

### **Estimated Cost Savings and / or Other Benefit**

Absent procurement, it is difficult to determine what these assets might draw through a PPP. However, NJ Transit should receive an up-front payment should it enter into an agreement with a private firm to operate NJ Transit parking facilities as well as develop abutting and other land owned by the agency.

In addition, if the transaction is structured properly, NJ Transit should obtain a predictable income stream and avoid costs of maintaining and upgrading the facilities.

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### **Opportunity**

Bus Maintenance

### **Background**

NJ Transit maintains its bus fleet at 16 maintenance garages located throughout the state. Vehicle maintenance is a common commercial activity, and many governments outsource this work.

### **Recommendation**

NJ Transit should create a competitive system for bus maintenance that allows for full privatization or a mixed system of public and private maintenance. Spurred by competition, in-house units may improve their performance. NJ Transit would likely end up with several garages operated by different contractors and several by its own employees, creating a permanent competitive environment and thereby putting NJ Transit in a better management position.

### **Estimated Cost Savings and / or Other Benefits**

A cost analysis of two of the agency's maintenance garages indicates an FY 2011 savings of \$3.7 million is possible, with subsequent year savings from increased privatization rising to \$10 million or more each year.



Savings will be determined as a function of the number of full privatizations and the effect that competition has on the remaining public maintenance facilities. The New York City Parks Department (DPR) experience is instructive: With eight garages for its 2,000 vehicles, it hired a private contractor to maintain the vehicles in one garage. After a year of good results, it contracted out two more garages – so contractors maintained 35 percent of the fleet and in-house employees maintained 65 percent. Contract costs were 35 percent less than in-house costs. Total automotive maintenance costs (public and private) in FY 2001 were 26 percent less than they were five years earlier adjusted for inflation and a costlier labor agreement.

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## **Opportunity**

Bus Routes

### **Background**

NJ Transit Bus Operations provides bus service on 197 routes with an FY 2010 operating budget of \$601 million. NJ Transit has already privatized some of its routes. It contracts with private carriers for 67 routes that have an FY 2010 operating budget of \$46 million. NJ Transit outsources 25 percent of its routes, which accounts for seven percent of the agency's operating budget.

NJ Transit designs the route, sets the timetable and issues an RFP for a contract that is generally for seven years – three years with two optional two-year extensions. NJ Transit compares the bids it receives to what it would cost to directly provide the service. In most cases, the private carriers' bids are lower and the contract is awarded. The carrier does not keep the fares; NJ Transit does, but pays the contractor the fixed contract price, which is based on several cost factors.

### **Recommendation**

NJ Transit should aim for a more equal distribution between direct and contract service, the latter with multiple private carriers.

This would create a permanent competitive environment in which NJ Transit management would be ideally positioned to manage both the public and private sides more effectively. This should be done gradually and only through attrition. If done in this manner, no employees would be terminated and the federal "13c" requirement – which mandates six years of wages and benefits for workers displaced by privatization – would be inapplicable.

### **Estimated Savings and / or Other Benefits**

Outsourcing has led to large savings for NJ Transit. For example, in the five most recent contract awards, NJT saved \$59 million, or 25 percent, over the seven-year life of the contract. If only half of NJ Transit's \$647 million annual expenditure for bus operations were outsourced gradually over seven years, as recommended above, and if that same savings rate were achieved for the outsourced half of the work, NJ Transit would save \$7.5 million the first year, increasing to \$150 million per year by year seven. The cumulative savings over seven years would total more than \$300 million.

## **New Jersey Turnpike Authority & South Jersey Transit Authority**

### **Opportunities**

Manual Toll Collection / New Jersey Turnpike Authority

Cashless Tolling / Atlantic City Expressway

### **Background**

About 70 percent of all tolls collected on the New Jersey Turnpike and Garden State Parkway are paid by electronic toll collection, known in New Jersey and more than a dozen other states as E-ZPass. Manual toll collection accounts for nearly all of the remaining 30 percent on these two roads. Manual toll collection has been outsourced successfully by such toll facilities as the Florida Turnpike Enterprise, a much larger entity than the New Jersey Turnpike Authority that has a similar electronic-to-manual toll collection ratio.

The South Jersey Transportation Authority intends to install all-electronic tolling on the Atlantic City Expressway, eliminating the manual collection of tolls completely. SJTA's plan is to replace existing toll plazas with 13 strategically-placed gantries to support electronic tolling equipment.

While there are significant business analyses issues to solve before this technology is operational, other toll facilities – such as the Port Authority of New York and New Jersey – are also moving toward cashless tolling.

### **Recommendation**

As a stop-gap until the Turnpike Authority transitions to all-electronic, cashless tolling, it should issue a Request for Proposals for a private vendor to assume the manual toll collection function on the Authority's two toll roads.

The SJTA should move forward with its cashless tolling plan and share best practices with the Turnpike Authority.

### **Estimated Cost Savings and / or Other Benefits**

#### Turnpike Authority:

The Authority currently pays \$85 million annually for toll collection labor costs. Based on experience in other states, the Authority is paying between 40 percent and 50 percent more per hour per employee than a private vendor might charge.

Based on these estimates, between \$35 million and \$42.5 million annual savings is possible.

#### South Jersey Transportation Authority:

SJTA anticipates an immediate annual toll collection operational savings of \$3.7 million in addition to significant capital cost avoidance and associated annual debt service from moving to all-electronic tolling.

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## **Opportunity**

Turnpike Authority Rest Areas & Service Plazas

### **Background**

Rest areas and service plazas along the Turnpike and Parkway are currently operated and maintained through a contract with a private vendor.

The revenue stream generated from these outsourced operations can be enhanced by providing additional and higher quality services.

### **Recommendation**

Assess the potential revenue generating capacity of providing additional services at rest areas and service plazas under Turnpike Authority oversight.

### **Estimated Cost Savings and / or Other Benefits**

An estimate for what enhanced use might produce is difficult to determine absent a thorough opportunity study.

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## **Opportunity**

South Jersey Transportation Authority Advertising & Naming Rights

### **Background**

The South Jersey Transportation Authority (SJTA) was established by the Legislature in June 1991 to assume operational responsibilities for the Atlantic City Expressway, Atlantic City International Airport (ACY) and parking facilities in Atlantic City.

The SJTA plans to erect 13 gantries along the 44-mile Atlantic City Expressway. These structures are intended to enable all-electronic toll collection and to communicate information to motorists. In addition to important transportation and safety messages such as traffic and weather conditions, the displays will have the capability of changing images, making them useful for advertising should the SJTA navigate Federal Highway Administration (FHWA) guidelines.

### **Recommendations**

The SJTA's new system of information gantries should be designed to offer messaging for commercial purposes when the signage is not needed for travel or emergency communication.

SJTA should also identify and implement additional opportunities for naming rights, such as the sale of naming rights for existing roadside emergency call boxes and areas where wildflowers, rather than grass, are planted.

In all cases, these revenue enhancements must be implemented in a manner that does not affect traffic safety, and should only proceed after any impact on traffic safety is fully assessed.

**Estimated Cost Savings and / or Other Benefits**

The SJTA estimates that the net income from commercial messages posted on the new gantries could be \$6 – 8 million annually.

Until the targets for naming rights and advertising opportunities are identified, it is difficult to place a value on the revenue to be realized from these new income streams.

## **Department of State**

### **Opportunity**

Trenton War Memorial

### **Background**

A Trenton landmark since the 1930s and the recipient of a \$35 million renovation in the 1990s, the War Memorial is listed on the National Register and State Register of Historic Sites. However, the War Memorial has the potential to generate increased revenues if managed in conformity with theater and conference industry standards. The facility is clearly underutilized. The main auditorium and ballroom can support meetings, training and conferences in conjunction with other nearby facilities such as the Marriott Hotel and the Masonic Temple. There is an important opportunity to seek out smart, entrepreneurial management that maximizes this state asset.

Adjusting fees and charges to match industry standards for this state-of-the-art facility will immediately generate additional revenue. It will also make it attractive to a potential private operator.

### **Recommendation**

Use a management company to operate the War Memorial under a long-term agreement that maintains the dignity and special uses of the facility without unduly impeding the operator's opportunity to increase revenue.

### **Estimated Cost Savings and / or Other Benefit**

New Jersey would realize cost avoidance of \$800,000 annually.

## **Department of Transportation**

### **Opportunity**

Interstate Rest Areas

### **Background**

For budgetary reasons, DOT has closed the Springfield rest areas on I-295 in Burlington County and the Harding rest area on I-287 in Morris County. Today, the Department operates two rest areas: Knowlton on I-80 in Warren County and Deepwater on I-295 in Salem County. The annual cost of operating these facilities is approximately \$431,000 and \$493,000, respectively.

At present, Federal Highway Administration (FHWA) regulations do not allow states to charge the public for goods and services at Interstate rest areas. Pay telephones or items dispensed through vending machines are exceptions.

### **Recommendation**

Seek FHWA approval to allow the DOT to enter into a Public Private Partnership for the purpose of operating a full-service concession at New Jersey's Interstate rest areas

### **Estimated Cost Saving and / or Other Benefits**

Motorists on New Jersey's interstate highways would have better access to the services they need.

DOT estimates a cost avoidance of approximately \$925,000 annually in the operation of the Knowlton and Deepwater rest areas. Substantially greater amounts could be generated from concession fees for these and other Interstate rest areas throughout the state.

An additional benefit would be the re-opening of the I-295 and I-287 rest areas.

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### **Opportunity**

Emergency Service Patrol

### **Background**

The New Jersey Department of Transportation (DOT) operates Emergency Service Patrols (ESPs) on approximately 400 miles of major interstates and highways throughout the state. The purpose is to provide motorists with roadside assistance and other related services. The ESP program is 100 percent federally funded. These funds can and should be used for other transportation programs.

The total budget for the ESP Program is approximately \$12.3 million annually.

A variety of private vendors can provide these services on all major interstates and freeways throughout New Jersey.

**Recommendation**

DOT should dismantle this program immediately and cease competing with private sector roadside assistance entities.

**Estimated Cost Savings and / or Other Benefits**

DOT will have the flexibility to reprogram approximately \$12.3 million annually.

## **Department of the Treasury**

### **Opportunity**

Workers' Compensation Claims Processing

### **Background**

The Division of Risk Management currently handles the management and investigation of all Workers' Compensation claims filed against state agencies. While the Division already uses a private entity for medical claims management, state employees handle Workers' Compensation claims management and investigation.

Because of employee turnover and hiring freezes for the past few years, state workers' compensation investigators/adjustors are handling a caseload of 1,000-1,200 claims each – compared to the industry standard of 250-350. The huge case load makes it impossible to do much more than move paper, which results in increased workers' compensation costs, prolonged worker absence, reduced productivity and increased agency overtime.

Using a third-party administrator (TPA) for workers' compensation claims investigation might provide better efficiency with managing these claims, and would allow for a shift of the remaining investigators to perform contract management functions related to managed-care.

### **Recommendation**

Through a competitive bidding process and careful evaluation, outsource the state's workers' compensation claims management and investigation.

### **Estimated Cost Savings and / or Other Benefits**

The State of Louisiana accomplished a similar undertaking. After issuing a Request for Proposals, it outsourced claims management and adjusting of property and casualty claims and loss prevention under a five-year contract based on estimated savings of at least \$20 million, as well as access to technology without any capital investment.

The RFP included a requirement that the company awarded the service offer employment to all state employees displaced by the privatization, at a salary based on the company's pay scales for their existing employees, and providing immediate eligibility for enrollment in benefit plans and the establishment of local offices to service the state.

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### **Opportunity**

State Government Payroll & Pensions Payments

State Government Benefit Payments

### **Background**



New Jersey currently processes its human resource and payroll tracking through three separate mainframe systems. As with all older technology that has not kept up with current capabilities, the state system is a patchwork of solutions and manual processes. This disparate system requires a large number of Office of Information Technology personnel to operate.

Furthermore, in calendar year 2009, the state printed approximately 26.7 million non-payroll and non-pension checks. Of that total, 21.4 million (80 percent) were Unemployment Insurance (UI) checks. Overall check volume was significantly less in previous years when unemployment was lower. Income tax refunds also generate a substantial number of printed checks.

Outsourcing of payroll and human resource systems has allowed private sector businesses to save substantial sums and offload the cost of replicating and maintaining systems and expertise that are needed to manage payment disbursement.

Doing so in New Jersey would produce significant savings on the cost of physically producing and distributing checks. The chosen vendor would also provide call center support to payment recipients while back-end eligibility and benefit processing would remain with the state.

New Jersey has experience in this area. Several years ago, the state began providing food stamps and TANF cash benefits through the Families First Card, which is an Electronic Benefits Transfer (EBT) card.

### **Recommendation**

1. Outsource the state's entire payroll and pension operation to a vendor through a competitive bidding process that abolishes paper checks for payroll and pension payments.
2. Through a competitive bidding process, New Jersey should retain a private firm that can quickly and seamlessly move all non-direct deposit UI and other state benefit payments to EPCs.

### **Estimated Cost Savings and / or Other Benefits**

Based on PricewaterhouseCoopers research, which found a 35% savings from outsourcing the entire payroll, pension and benefits disbursement system from an in-house model, New Jersey will realize annual savings of \$15 million. A complex outsourcing like this would require an implementation period of up to 18 months.

Alone, the elimination of all state-issued paper checks will produce annual savings of \$1.1 million.

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### **Opportunity**

New Jersey Hospital Debt Collection

### **Background**

A state contract that provides third party "secondary" collection services to New Jersey's 73 acute care hospitals was awarded but has never been implemented. This contract entailed no cost to state

government or hospitals as it was performance based – vendor commissions were based on receipts collected. In 2008 alone, hospital cost reports indicate a cumulative reserve for bad debt of \$1.3 billion.

New Jersey originally entered into this contract in an attempt to centralize collection of hospital debts one year or more in delinquency. In the current state budget year, hospital charity care payments and related assistance totaled more than \$900 million. Improving hospital self-pay collections is considered an effective strategy to offset some of this state assistance.

Although the centralized vendor was selected, the program was never implemented. The current contract expires November 30, 2010.

### **Recommendation**

Enforce the contract already awarded, either by regulation or by using budget language, to require hospitals, as a condition of receipt of charity care and related assistance, to forward receivables if uncollected by the hospital after one year to the state contracted secondary collection agency.

### **Estimated Cost Savings and / or Other Benefits**

Using the \$1.3 billion cumulative bad debt reserve identified in 2008 hospital cost reports, and an average collection rate for hard-to-collect hospital debt between two and four percent, New Jersey can generate between \$26 million and \$52 million in revenues in FY 2011 that will offset future charity care and other hospital-related expenditures.

## **Inter-Departmental**

### **Opportunity**

Third-Party Power Management

### **Background**

Reducing Personal Computer (PC) energy consumption across agencies through power management could produce immediate and long-term savings for the state. Automatic computer shutoff software enables the state's IT personnel to impose power management policies on all state-owned PCs without compromising usability.

### **Recommendation**

New Jersey should consider a pilot program in select state agencies to determine if a business case exists to use this software, which would be administered and supported through shared third-party technology infrastructure.

### **Estimated Cost and / or Other Benefits**

Savings per computer will average between \$20 and \$50 annually.

An organization that uses 50,000 PCs could save more than \$1 million annually using power management software.

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### **Opportunity**

Printing Services

### **Background**

The Treasury Print Shop is a central facility that provides printing and photocopy services to most state government agencies.

Products and services include: forms, high speed photocopying, letterhead, binding, envelopes, desktop publishing, booklets, desk memos, brochures, newsletters, flyers, route slips, color copies and lamination. Primary clients, in addition to the Department of the Treasury, include the Governor's Office, the Legislature and the Department of State.

Treasury has recently explored assuming other agency print shop operations within state government to eliminate Executive Branch redundancy.

In addition to the Treasury Print Shop, there are five additional departments with printing capabilities:

- Labor and Workforce Development
- Military and Veterans' Affairs
- Health and Senior Services
- State Police

- Education.

In total, these printing services exceed \$5.7 million per year.

State departments in Kentucky and Utah, the Missouri Legislature and the U.S. Government Printing Office have all realized significant, continued savings – up to 35 percent in most cases – for taxpayers by outsourcing printing services to the private sector.

### **Recommendation**

Outsource all printing services to a vendor through a competitive bidding process.

### **Estimated Cost Savings and / or Other Benefits**

It is reasonable to assume New Jersey, by outsourcing its print shop functions, would realize savings of between 10 to 25 percent, or approximately \$500,000 and \$1.4 million annually.

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### **Opportunity**

Security Guards

### **Background**

The Division of Property Management and Construction (DPMC) operates 40 state-owned facilities in and around the Capitol Complex in Trenton.

Providing security guards in these facilities has historically been handled by State Police, who train and employ non-police guards who report through the State Police. There are approximately 285 guards working in this capacity.

The Task Force acknowledges and applauds Governor Christie's FY 2011 budget proposal to privatize this function.

### **Recommendation**

Contract out for the use of private security guards in appropriate state buildings.

### **Estimated Cost Savings and / or Other Benefits**

Private guard services will provide the same service at a lower cost. Even with prevailing wage requirements factored in, the state cost for private guard service would potentially drop to \$11 million annually, a savings of more than \$3 million per year.

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### **Opportunity**

Water & Wastewater Treatment Facilities

## **Background**

The state owns and operates various stand-alone water and wastewater systems throughout New Jersey. For example, there are several facilities on the Turnpike, Parkway and Atlantic City Expressway. Numerous state institutions, including prisons, parks and schools, also have their own facilities. The operation of these facilities is not the primary mission of the departments or agencies that own them. Many are not efficiently run and improvements, particularly capital improvements, are a very low priority. The problem of chronic underinvestment in these systems has been exacerbated by the state's fiscal difficulties, leading to deferred maintenance and subpar operations that accelerate system deterioration.

## **Recommendation**

A study should be undertaken of the best method of privatizing these facilities, the potential economic and other benefits, and a process designed for doing so. Potential options include long-term operating leases and outright sales to private water firms and will vary by facility.

## **Estimated Cost Savings and / or Other Benefit**

Savings of as much as 25 percent through privatization of water and wastewater treatment facilities should be expected.

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## **Opportunity**

Employee Parking

## **Background**

The Division of Property Management and Construction (DPMC) "owns" nearly 32,000 parking spaces and operates parking facilities at 24 locations statewide – 20,000 of which are in and around the Capitol.

While New Jersey currently provides employees parking without charge, many other state governments require employees to share at least some portion of parking costs, particularly in urban areas, where spots are limited.

## **Recommendation**

New Jersey should issue a Request for Information regarding the potential sale or lease of its parking facilities to a private vendor with an eye toward charging a reasonable rate for employee parking.

## **Estimated Cost Savings and / or Other Benefits**

Absent procurement, it is difficult estimate either a cost savings to the state or benefit in terms of workforce mobility.

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## **Opportunity**

### Highway Maintenance Contracts

#### **Background**

Traditional contracts for road and highway maintenance—including many of the piecemeal contracts that New Jersey currently uses for certain aspects of road maintenance—are work-order and per-unit oriented.

Contracting companies are typically paid for the amount of work they do—not on the quality of work. These contracts are usually limited to one year with an option to renew for two more years. While traditional road maintenance contracting offers significant cost savings over in-house work, there is little or no flexibility in determining work methods, as the contracting agency typically defines the work processes.

Current best-practice techniques in outsourcing of this type rely on longer-term performance-based road maintenance contracts. Under this type of arrangement, the contracting agency defines an end outcome goal and the contractor decides how best to achieve the desired outcome. The most common form of these performance-based contracts in road and highway maintenance is total asset management, or “fence-to-fence” contracts. These contracts cover every part of the road or highway and include all maintenance managing the “total asset.” The contracts specify minimum performance standards. Payment is based on achievement, rewarding contractors for high or exceptional performance with bonus payments, and penalizing them with fines for poor performance.

Cost savings and efficiencies might not be immediate, but this approach sets the stage for predictability (fixed-costs) in the maintenance budget and transfer of significant risks.

#### **Recommendation**

The New Jersey Department of Transportation, the New Jersey Turnpike Authority and the South Jersey Transportation Authority should pursue procurements for performance-based road maintenance for the roads, highways and toll facilities they operate and maintain.

#### **Estimated Cost Savings and / or Other Benefit**

This performance-based asset management approach was pioneered in Australia and New Zealand in the early 1990s, proving successful in realizing savings for governments.

Virginia’s DOT became the first to adopt this approach in this country, in 1996, outsourcing more than 250 miles of Interstate maintenance to one contractor in a 5.5-year, \$130 million fixed-cost contract.

Judging cost savings based on government accounting of its own costs is always difficult. Nevertheless, several studies tried to quantify the savings attributed to the new approach and results tended to be in the range of six to 20 percent savings.

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## **Opportunity**

## Vehicle Fleet Management & Maintenance

### **Background**

The Bureau of Transportation Services (Central Motor Pool) in the Department of Treasury is responsible for the assignment, use, fueling and the maintenance and repair of the state's vehicular fleet.

Nearly all State of New Jersey fleet vehicles are titled to the Central Motor Pool (CMP) in the Department of the Treasury. (The Department of Transportation and the New Jersey State Police operate their own motor pool facilities, which service their own vehicles.) CMP operates eight facilities around the state to provide service to client agencies and is currently maintaining, fueling and servicing a fleet of more than 6,000 passenger vehicles. The average age of the fleet is more than six years; the average vehicle has more than 70,000 miles.

The CMP charges a monthly rate to client agencies to cover either maintenance or fueling or both. The monthly rate is based on the class of vehicle and the anticipated usage class (mileage per month). Repairs due to accidents or negligence are charged back to the client agency, but other maintenance and repairs are included as part of the monthly charge. Agencies purchase vehicles under state contracts using agency funding. CMP's monthly rate does not include any replacement costs for vehicles.

While CMP already uses private vendors for body work and repairs covered under warranty, certain specialty repairs and "overflow" maintenance and repair, a broader goal should be to identify a model of fleet management that lowers fleet costs while still maintaining adequate numbers of appropriate vehicles for employees to conduct official state business.

DOT, which owns and maintains more than 2,000 vehicles, should work with Treasury in identifying how to lower costs.

### **Recommendation**

Working together, Treasury and DOT should issue a Request for Information, followed by a Request for Proposals, to contract out some or all CMP and DOT fleet maintenance and management, whichever model produces the most taxpayer savings.

### **Estimated Cost Savings and / or Other Benefits**

Only through the RFP process will a specific cost savings be identified. However, similar privatization across the country has yielded significant savings, between 10 to 25 percent.

CMP operational costs exceed \$32 million annually. A conservative estimate of savings is between \$3 and \$8 million annually.

DOT maintenance costs exceed \$12 million annually. A conservative estimate of savings is between \$1 and \$3 million annually.

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### **Opportunity**

## Program Eligibility Determination

### **Background**

Means-tested program eligibility for various state offerings is provided by numerous state departments but a single point of entry makes much more fiscal sense. For instance, low income residents are eligible for a variety of prescription drug (in the case of seniors and the disabled) and energy assistance subsidies. Eligibility determinations are spread across two departments – the Department of Community Affairs and the Department of Health and Senior Services – with more than two dozen non-profit agencies handling application intake and eligibility determination as subcontractors to the Department of Community Affairs. Funding comes from multiple sources, including the federal and state governments and the Board of Public Utilities.

Resources devoted to program eligibility in-take and verification are considerable: The Department of Health and Senior Services spends \$6.5 million. The Department of Community Affairs contracts for an additional 491 staff at community agencies.

Given the dispersion of eligibility activities across numerous entities, it is no surprise that various compliance bodies, including the U.S. General Accounting Office, have recommended tighter controls to limit fraud and abuse.

Nearly every state uses private contractors to centralize eligibility determination for benefit programs similar to those in New Jersey.

### **Recommendation**

New Jersey should solicit a vendor to assume all program intake and eligibility determination for its eligibility determination programs to create a single point of entry. The vendor should administer a toll-free hotline and issue ID cards.

### **Estimated Savings and / or Other Benefits**

Savings across state government will be significant. Savings for the Department of Health and Human Services alone are estimated at \$3 million (out of the \$6.5 million currently spent to administer PAAD), with additional savings to be realized by Department of Community Affairs.



## **Surplus Real Estate**

### **Background**

The State House Commission is required by law to approve sales of state-owned properties with a value of \$500,000 or less. Properties valued above that threshold require legislation. However, the practice has been that all dispositions, whether above or below \$500,000, are brought to the State House Commission for consideration.

While it could be argued that a burdensome process impedes reckless divestiture, holding on to surplus land imposes significant costs. For instance, over the previous three fiscal years - including FY 2010 – state taxpayers have paid more than \$2.55 million in total to maintain the property on which the state previously operated the Marlboro Psychiatric Hospital. This property is vacant and has long ago been declared surplus.

According to Treasury data, it takes more than 29 months on average after the signing a contract of sale for surplus state property until authorizing legislation is enacted.

New Jersey state government should provide for a deliberate, rational framework for divesting state-owned surplus land. What actually occurs, however, is an irrational, frustrating slog for many businesses and individuals who have legitimate redevelopment plans ready to be executed, only to find the process to be time-consuming and brutal – and more often than not, fruitless.

### **Recommendations**

Engage a real estate valuation firm, through the Request for Proposals process, that will value and sell surplus state land in FY 2011. This contract should not be a retainer contract but one in which the service provider is paid based on the value received from actual sales.

Streamline the legal process for disposing of surplus state property.

### **Estimated Cost Savings and / or Other Benefits**

The Task Force is unable to estimate a total for potential land sales. However, in addition to whatever payments are made to the state for the sale of the properties, an additional benefit is that properties will be returned to municipal property tax rolls.

## **Infrastructure Public Private Partnerships**

Even in flush economic times, the state should be open to entering into Public Private Partnerships (PPP) that make sense for New Jersey taxpayers. In difficult economic times, PPPs make even more sense.

### **Background**

Like most states, New Jersey's growing infrastructure needs are enormous, and the need for maintenance and renovation of existing roads and bridges, hospitals and prisons, energy, water and other public infrastructure is eating up available resources. This reality affects the state's economic competitiveness and its citizens' quality of life.

PPPs are contracts formed between public agencies and private companies that facilitate greater private sector participation in the delivery of infrastructure assets and services. PPPs offer a way to leverage private capital and expertise to provide a public service. While these partnerships may take relatively simple forms—such as a design-build procurement process or competitive contracting for highway maintenance—long-term partnerships are increasingly being used to finance new and existing infrastructure construction and maintenance.

The Task Force acknowledges that PPPs will never completely replace the traditional means of funding infrastructure improvement, construction and maintenance, but they are a tool that will augment traditional revenue sources and provide more project delivery options and cost-savings to the state.

New Jersey currently lacks broad enabling legislation for these partnerships. Practical legislation is generally needed to entice private sector investment.

### **Recommendations**

- Pass broad-based and flexible infrastructure PPP legislation that encompasses not only new projects but also projects already in-progress.
- Create a state advisory body for PPPs. California's Public Infrastructure Advisory Commission could serve as a useful model.

### **Estimated Cost Savings and / or Other Benefits**

PPPs leverage the capital and expertise of the private sector with the management and oversight of government to provide public services, and they are an effective way of financing, managing and operating infrastructure while minimizing taxpayer costs and public financial risks.

Until New Jersey policymakers embrace PPPs and pass broad-based enabling legislation to facilitate them, estimating savings is impossible.

## Appendix I

### Stakeholders

As noted in Governor Christie's Executive Order No. 17: "The Task Force may consult with experts or other knowledgeable individuals in the public or private sector on any aspect of its mission."

The Task Force did just that. In addition to maintaining an active, dedicated e-mail address, which received more than 150 e-mail messages, the Task Force:

- Held three public hearings:
  - April 7, 2010, in Trenton
  - April 14, 2010, in Summit
  - April 21, 2010, in Voorhees
- Met with dozens of potential stakeholders to gain valuable insight into how privatization might work throughout the various state government agencies and authorities.
- Met with most of the Cabinet officers within the Executive Branch, as well as the Executive Directors of various authorities.

Members of the Task Force and its staff thank the members of the Governor's Cabinet and Executive Directors of the various Authorities for sharing their expertise and time.

What follows is a list of organizations, individuals and entities with whom the Task Force met and / or communicated:

New Jersey Departments of:

- |                                 |   |
|---------------------------------|---|
| • Agriculture                   | • Military & Veterans Affairs           |
| • Banking & Insurance           | • Motor Vehicle Commission              |
| • Children & Families           | • NJ Transit                            |
| • Civil Service Commission      | • NJ Turnpike Authority                 |
| • Community Affairs             | • Office of the Attorney General        |
| • Corrections                   | • Office of the Inspector General       |
| • Education                     | • South Jersey Transportation Authority |
| • Environmental Protection      | • State Commission of Investigation     |
| • Health & Senior Services      | • State Comptroller                     |
| • Human Services                | • Transportation                        |
| • Labor & Workforce Development | • Treasury                              |

AAA Mid-Atlantic  
Academy Express LLC  
ACS

Maximus  
MHM Correctional Services Inc.  
Microsoft

AFSCME  
Alcohol Monitoring Systems  
Alliance for Action  
Aqua New Jersey Inc.  
Aramark  
ASAH  
Brickstreet  
Castalia Strategic Advisors  
Catholic Charities  
Center for Guidance  
Community Education Centers  
Corrections Corporation of America  
CWA  
CWA Local 1033  
E3  
Education and Child Care Association  
Education and Health Centers of America, Inc.  
Bob Eggers  
ESOP Advisors  
Food & Water Watch  
Forthright  
Gallenthin Realty Development, Inc.  
Steve Goldsmith  
Health Care Association of New Jersey  
Human Resources Development Institute  
IFPTE  
Integrity House  
Isles, Inc.  
IXP Corp.  
Kean University  
Kintock Group  
Assemblywoman Pamela Lampitt  
Macquarie Capital (USA) Inc.

NJ CAR  
New Jersey American Water  
New Jersey Association of Counties  
New Jersey Catholic Conference  
New Jersey Council of Community Colleges  
New Jersey Education Association  
New Jersey Environmental Federation  
New Jersey Gasoline-C-Store-Automotive Association  
New Jersey League of Municipalities  
New Jersey School Boards Association  
New Jersey Taxpayer Alliance  
New Views  
Opera Solutions  
Paladin  
Parvin State Park Appreciation Committee, Inc.  
Pearson Vue  
Policy Studies Inc.  
Protection Plus Security Corp.  
PRWT Services  
Scott Balice Strategies  
Securitas Security Services USA, Inc.  
Sen. President Stephen Sweeney  
Trenton Downtown Association Inc.  
United Water  
Sen. Jeff Van Drew  
Vehicle Management Solutions  
Virtua  
Volunteers of America Delaware Valley  
Weston Solutions  
Women and Men Go Forth  
Xerox

## **Appendix II**

### **Advisors to the Task Force**

Leonard C. Gilroy, The Reason Foundation

Arthur Maurice, NJ Business & Industry Association

Peter J. McDonough, Jr.

Prof. E.S. Savas, Ph.D., Presidential Professor, Baruch College, City University of New York

Beth Leigh Mitchell & Todd Wigder, Office of the Attorney General

Dept. of the Treasury, Office of Management and Budget