MEETING THE CHALLENGE:

SAVING TAXPAYER DOLLARS BY ADOPTING BEST BUSINESS PRACTICES PHASE III

presented by

Chamber of Commerce
Southern New Jersey
Where Business Grows

Board Council on Responsible Government Spending

INTRODUCTION

This is the third in a series of reports prepared by the Chamber of Commerce Southern New Jersey's Board Council on Responsible Government Spending focusing on potential New Jersey state government cost reductions. The first report, issued in May 2005, identified 43 cost control opportunities in the areas of public employee health benefits, fleet management, procurement practices, property management, space utilization, and information technology compatibility. The second report, issued in June 2006, presented 34 recommendations in the areas of state government employee benefits, energy utilization, distribution logistics, and cooperative purchasing.

This series of reports is intended to recommend how private sector practices can be used to reduce and contain state government expenditures and improve operational efficiency. In the preparation of these reports, we have asked Chamber member companies to share their best practices that have made them more competitive by reducing expenses and becoming more efficient. Our intent is to provide these ideas, developed and tested in the private sector, to New Jersey's policymakers, which in turn can assist them in a responsible resolution to our state government's far too chronic financial problems.

It is our contention that the state government can and must spend smarter, manage better, operate much more efficiently, and be considerably more productive. Having examined a number of state government operations, organizational structures, compensation policies, personnel management approaches, and other seminal factors in the conduct of the public's business, we have concluded that dramatic and fundamental improvements are both needed and possible.

It is in the spirit of cooperation that we offer this report and its recommendations on one of the largest state government cost centers: the deployment of the workforce. In particular, we discuss here the barriers to the efficient use of labor in the New Jersey state government and advance an agenda of fundamental reform of personnel management.

The New Jersey state government's personnel management system is a costly antique that does not serve the public need for the efficient deployment of the state government workforce. It differs markedly from private sector best practices and is at the root of a host of expensive operational problems. It is a system that improperly categorizes state government employees, fails to provide incentives to spur employee productivity, prevents the efficient allocation of workers to meet public needs, stifles employee career development, does not use contemporary modes of employee recruitment, and insufficiently invests in employee training to increase effectiveness. At the heart of these problems is a bizarrely balkanized job classification system developed and administered by the New Jersey Department of Personnel (DOP). Governor Jon Corzine's proposal to eliminate this department, which we completely support and think is long overdue, is an appropriate moment to reconsider the management of the state government workforce.

This report also outlines the steps taken by state government officials to implement the recommendations advanced in our 2005 and 2006 reports. We also highlight the efforts of Camden County government to control operating expenses, especially employee benefit costs. We believe the steps taken by the Camden County Board of Chosen Freeholders to control and stabilize taxes represent what can be done when government partners with its employees to reduce expenses, while maintaining and enhancing services to its residents.

We look forward to continuing our dialogue with state officials, both appointed and elected, to further our shared agenda of reducing state spending by utilizing practices that can make our government more efficient.

METHODOLOGY

Research for the preparation of this report was conducted over a period of 18 months, focusing on the personnel management practices of the New Jersey state government, Chamber of Commerce Southern New Jersey member companies, the Camden County government, and several institutions of higher education. We greatly appreciate the input of dozens of experts from both the public and the private sectors who provided us with information and perspectives which were invaluable in the preparation of this report.

We studied public documents, contract documents, websites and survey information in our examination of state government personnel practices and administration. We also interviewed past and current government officials and participants in the state government personnel system.

We are deeply indebted to many of our member companies for participating in our survey research on private sector best practices, for providing access to their personnel specialists, and for assisting in so many ways in our understanding of how their employees are hired, evaluated, promoted, compensated, managed, and–if needed–disciplined. We conducted interviews, held roundtable discussions, reviewed processes and documents, and met with senior management of several firms to develop our understanding of how leading companies approach human resources issues.

This report is the product of that extensive research, and we are certain that there are many ways in which state government adoption of private sector best practices would greatly benefit the public interest. Clearly, personnel management is one of them. We look forward to working with our state's policymakers and engaging the public in a dialogue on this important and growing item in state government spending.

Challenges to the Efficient Deployment of Labor in State Government

WORKFORCE SIZE & COST

The New Jersey state government workforce is huge, with 83,435 positions as of January 5, 2007, the most recent data published by the New Jersey Department of Personnel (DOP). According to the department's *State Government Workforce Profile* reports, from January 2002 to January 2007, the number of state government full time workers in the executive, legislative, and judicial branches, combined, increased from 76,670 to 81,201, or by 5.9%, and the number of part time, seasonal, intermittent and per diem workers increased from 1,753 to 2,234, or by 32.6%.

In his preface to the most recent edition of the department's report, Commissioner of Personnel Rolando Torres, Jr., discussed the differences between the workforce data compiled by his department and that compiled by the Treasury Department's Office of Management and Budget (OMB). He stated, "Because OMB's primary concern with employees is their impact on the State Government's fiscal resources, it counts only those employees who actually draw paychecks during the pay period in which they take the measurement. Because the Department of Personnel's primary concern with employees is their legal and administrative status, we count all employees who are in active status, whether or not they are drawing a paycheck during the pay period in which we take the measurement." In essence, the reason for the difference between the number of employees counted by the New Jersey Department of Personnel and the OMB is that OMB's numbers do not include employees who are on paid or unpaid leave, such as maternity, disability, sick leave injury program, and for other reasons.

Table 1, on page 3, indicates the pace at which the total state government workforce grew during this period. It is important to note the reduction of 924 workers between January 2006 and January 2007, affected by actions undertaken by the Corzine Administration and the Governor has proposed additional headcount reductions in his Fiscal Year 2009 budget.

According to the most recent data available from the U. S. Census Bureau, public employment has been growing more rapidly in New Jersey than in the nation as a whole by the fairest comparative measure – the total number of state and local full time equivalent workers (FTEs), combined, as a percentage of the state population. Further, between March 2005 and March 2006, New Jersey ranked third in the nation in the *increase* of public sector FTEs per 10,000 residents. New Jersey ranked 15th highest in the nation by this measure in March 2006, with 587 FTEs per 10,000 residents. In March 2002, New Jersey ranked 22nd in this ratio and, in March 1998, we ranked 31st in the nation.

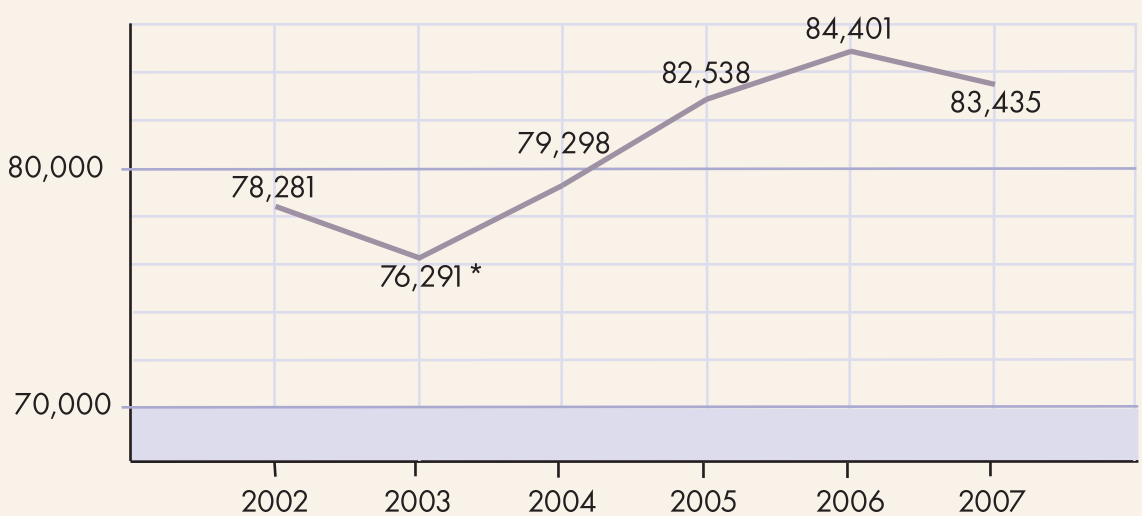
In comparison, New Jersey's private sector non-farm employment increased by only 2.3% between 2002 and 2007, according to the data from the New Jersey Department of Labor and Workforce Development. Further, U. S. Census Bureau data shows that New Jersey's population increased by 1.72% between July 2002 and July 2006, the most recent information available.

Employee compensation is one of the largest expenditure items in the state government budget. Governor Jon Corzine's proposed budget for Fiscal Year 2009 includes close to $3 billion for state government employee salaries and wages, and $5 billion for employee benefit costs, including: more than $2 billion in health and post retirement medical benefits, $1.5 billion for pension and debt service costs, and close to $1.2 billion for employer taxes. According to the Fiscal Year 2009 *Budget in Brief*, state government expenditures for employee salaries and benefits, combined, increased by more than $1.45 billion in just two years (from Fiscal Year 2006 to Fiscal Year 2008). And according to U.S. Census Bureau data, aggregate payroll expenditures for all levels of New Jersey government increased by 50.5% between March 1998 and March 2006, compared to the national average increase of 46.5%

The average New Jersey state government employee salary increased from $47,947 in 2002 to $57,901 in 2007, or 20.7%, according to data contained in the Department of Personnel's *Workforce Profile* reports. While some of this increase may be attributable to a change in the composition of the workforce, we are unaware of any evidence to that effect. In comparison, New Jersey per capita personal income grew by 17.91% from 2002 to 2006, the most recent year for which data is available from the U. S. Department of Commerce's Bureau of Economic Analysis.

Thus, public employment and payroll expenditures have been growing more rapidly in New Jersey than the national averages. Further, New Jersey's state employee job growth has outpaced that of the private sector's, as well as New Jersey's population growth. The increase in the average state government employee salary has grown more rapidly than has per capita personal income in the Garden State. Still, virtually no public attention has been devoted to the large overall increases in the size and the cost of the state government workforce.

TABLE 1: SIZE OF STATE GOVERNMENT WORKFORCE 2002-2007



*Reflects reduction of 2,000 employees through Early Retirement Incentive Program
Source: *New Jersey State Government Workforce Profile*, published by the New Jersey Department of Personnel

JOB CLASSIFICATION SYSTEM

PRIVATE SECTOR BEST PRACTICES

A major objective of private sector personnel management is to maximize the utilization of the workforce by minimizing unproductive downtime and making the most efficient use of workers. As time has passed, many larger companies have eliminated artificial barriers to the deployment of workers by reducing the number of job titles and defining jobs more broadly. This strategy, called "broad banding," assists a company in allocating workers to meet the shifting demands and opportunities faced by the firm.

Broad banding provides greater flexibility in directing a company's workforce and in moving people more easily in necessary directions within the organization without the constraints of narrowly defined job titles and restrictive pay grades or ranges.

In essence, broad banding involves compressing a number of salary grades into fewer employee categories, or "bands." The broad band is constructed to facilitate an employee's career progression, to account for varying degrees of employee qualifications and experience, and to allow more generality and mobility within job titles.

Generally, bands are established at major breaks in responsibility or skill and competency requirements. For example, bands may be created for hourly, clerical, managerial, and executive level positions in a company. Generically written job descriptions are applicable across the organization, and, sometimes, a company will have single-page job descriptions based more on general responsibilities rather than on specific duties.

STATE GOVERNMENT PRACTICES

This private sector broad banding approach is entirely superior to the current practice of the New Jersey state government in ensuring the efficient deployment of workers. The state government has too many job titles and job descriptions that are too narrow in scope, too specific, too inflexible, and too overlapping. The state government's employee job classification system prohibits the efficient deployment of workers by limiting the scope and amount of work that an employee can perform within his or her title. The classification system limits the state government's ability to mobilize personnel where and when needed to cope with shifting workloads, changes in staffing levels, unusual circumstances, or pressing public needs. The classification system is inimical to the sort of personnel management that is common in the private sector. Fundamental reform is necessary.

According to New Jersey Department of Personnel data, as of January 6, 2006, there were 3,249 different state government job titles that were occupied by at least one employee. Another DOP document, the *2005 Active State Job Titles* list, indicated that there were 4,540 total job titles. The Chamber's review of the DOP website's listing of job titles in specific occupational categories found 3,583 state government job titles. Perhaps these three DOP sources disagree in the total number of job titles because they were prepared at different intervals, and the creation and reduction of job titles is an ever dynamic process. In any case, there is an excessive number of job titles, far beyond the number that would be used in a comparably sized company.

Of the 3,249 job titles (we will use this figure as the basis of our analysis), 841 had only one employee in the title, an astonishing degree of specialization. There were five or fewer employees in 1,810 job titles. Such precise classifications raise the issue of whose interests are served by this very endemic approach to the organization of the state government workforce. It raises the issue of the possibility that, at some point in the past, job requirements may have been devised for some titles to restrict the pool of qualified applicants for a position, rather than to seek a more competitive approach to hiring or promotion. Regardless, the size of the state government workforce is inflated by the classification system, which is a barrier to the efficient deployment of workers.

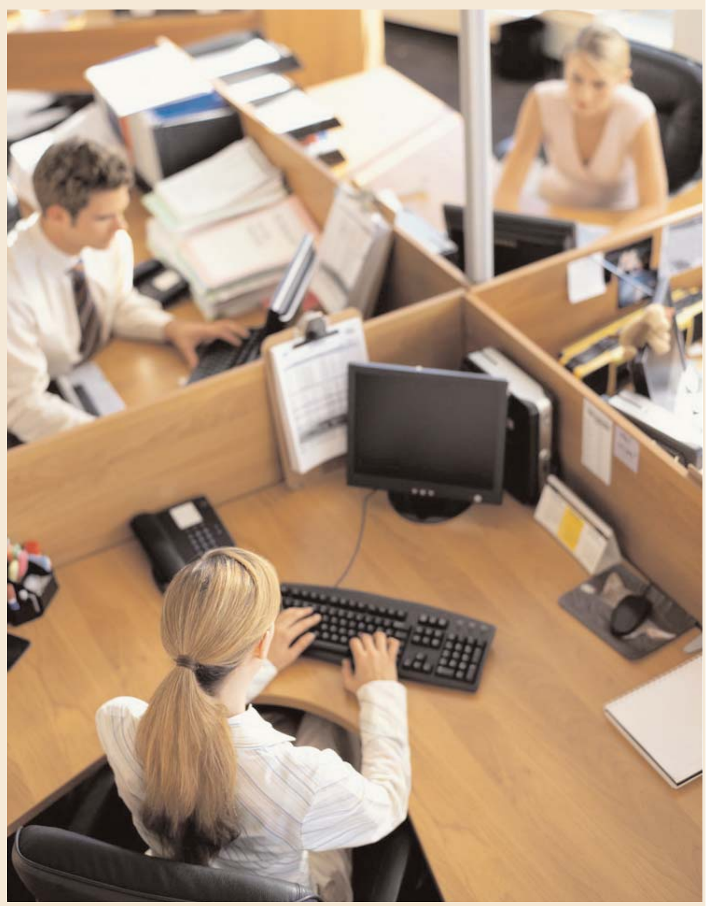
There are additional problems with the employee classification system, beyond the ways in which narrowly defined job classifications undermine competitive hiring and promotions. The narrowness of the titles makes it difficult for some employees to be promoted.

TABLE 2: JOB TITLES BY OCCUPATIONAL TYPE

OCCUPATIONAL CLASSIFICATIONS	# OF JOB TITLES*	# OF EMPLOYEES**
PROFESSIONAL, TECHNICAL & MANAGERIAL		
Museum, Library & Archival Sciences	81	162
Law	223	3,136
Administration	932	10,781
Education	280	2,344
Medical & Health Services	197	3,924
Community Development & Social Sciences	153	430
Social & Psychological Services	231	9,287
Life Sciences	121	291
Physical Sciences & Statistics	181	1,870
Environmental Engineering & Architecture	52	287
Engineering & Surveying	164	1,191
Information Processing	166	2,893
Recreation	8	121
Public Broadcasting	32	112
Inspections & Investigations	316	3,487
Financial Specializations	327	2,383
Art	25	47
Writing	94	282
CLERICAL		
Stenography, Typing & Filing	276	12,220
Computing & Account Recording	38	528
Stock, Storage & Inventory	35	325
Information & Message Distribution	50	806
BENCHWORK		
Medical/Scientific Repair	2	2
Repair of Electrical Equipment	20	187
MACHINE TRADES		
Printing	8	73
Machinery Repair	35	395
STRUCTURAL WORK		
Infrastructure Repair & Maintenance	74	1,473
Skilled Trades	33	456

Sources: *New Jersey Department of Personnel website.
***New Jersey State Government Workforce Profile 2007*,
published by New Jersey Department of Personnel.

OCCUPATIONAL CLASSIFICATIONS	# OF JOB TITLES*	# OF EMPLOYEES**
MISCELLANEOUS		
Production & Distribution of Utilities	16	190
Transportation	17	598
Multiple Groups	38	1,149
AGRICULTURE, FISHERY & FORESTRY		
Forestry	2	8
Animal Farming	9	52
Planting & Gardening	26	138
SERVICE		
Protective Services	166	12,005
Direct Care, Personal & Health Services	22	7,417
Barbering & Cosmetology	4	13
Food & Beverage Preparation & Services	33	1,100
Building, Institutions & Facility Services	39	1,272



Additionally, if an employee completes academic study in a field not directly related to his or her title, the employee may have to move to a new job with a different title to be compensated for such academic achievement.

Not surprisingly, the state government's job titles are tremendously overlapping. Among the 932 job titles within the Administration grouping in the "Professional, Technical, and Managerial Occupations" there were: 48 titles in which the word "administrative" was used, 13 different "assistant chief" titles, 53 "chief" titles, 43 "manager" titles, 45 "director" titles, 74 "program" titles, 69 "supervisor" titles, and 60 titles concerned with human resources. In the "Education" title grouping, there were 73 "education development specialist" titles and 37 "institutional trade instructor" titles. Within the 33 titles in the "Food and Beverage" occupational category, there were seven "head cook" titles. Within the eight job titles in the "Printing" occupational category, there were four "print operations technician" titles.

> "The state government has too many job titles and job descriptions that are too narrow in scope, too specific, too inflexible, and too overlapping."

The following listing of 20 current state government job titles containing the word "program" illustrates the absurdity of the classification system: program analyst, program analyst & operations specialist 2, program assistant health and senior services, program assistant policy research and planning, program assistant state scholarship program, program associate student assistance, program compliance & support specialist 1, program coordinator, program coordinator special events, program development specialist 1, program development specialist human resources, program director housing assistance, program manager 4, program manager addictions, program manager health facilities, program monitor, program researcher, program supervisor 3, program support specialist 2, and program technician.

In Table 2, "Job Titles By Occupational Type" on page 5, are the broad groupings and the numbers of titles and employees classified within each.

The huge number of state government job titles begs the question: Is everyone properly classified? This is an important question in the view of many state government employees, as there are frequent employee claims of misclassification. Questions about misclassification are addressed through what are called "desk audits," which are evaluations of the duties of a position resulting from an appeal, question, or complaint that a state government employee's duties do not conform to the current job description for his or her position. Desk audits are conducted by the human resources staff of the agency for which the employee works.

Any employee can request a desk audit of his or her position or of someone else's job. Desk audits may take between one hour to a full day to complete in order to determine if a job is properly classified. These time consuming evaluations are the logical consequence of a classification system that establishes minute distinctions between job titles, inviting invidious comparisons to be drawn by employees when viewing each other's work responsibilities. This is in stark contrast to private sector practice, where employees are more flexibly deployed.

RECOMMENDATIONS

We recommend a complete reform of the state government employee classification system by broad banding titles to permit efficient deployment of the workforce and to permit greater individual mobility for ambitious, highly productive workers. More generic job descriptions should be used to reduce the number of titles and to reduce the number of employee requests for both reclassification and desk audits. Further, job descriptions must include the computer skills or other technical expertise required to perform the duties of a position. We recommend that the state government retain the assistance of a consulting firm to devise a plan to implement this reform. In making this recommendation, we recognize the interest that thousands of state government employees have in seniority rights and believe that such rights should be protected in a new, broad banded classification system.

HIRING PRACTICES

PRIVATE SECTOR BEST PRACTICES

The state government's hiring practices differ markedly from those of the Chamber members that we surveyed. In the private sector, we found the management of hiring (and promoting) employees is a key function of a company's human resources staff. Various means are used to identify candidates for positions, with candidates' credentials reviewed by the firm's human resources professionals. When candidates are interviewed, behavioral-based techniques are utilized, including the use of values-based questions intended to delve into a candidate's work habits. In behavioral-based interviews, the employer asks very pointed questions to elicit detailed responses to determine if a candidate is, for example, a self-starter, a team player, someone with professional comportment, and other characteristics related to the company's expectations of its workforce.

Background screening often takes place, and frequently this part of the process is outsourced. Background checks can include the verification of the candidate's educational attainment, work history, licensure, involvement with the criminal justice system, and drug and alcohol testing. The hiring process is generally guided by clearly defined company values and job descriptions. It is also common for panels of managers and human resources staff to participate in the interview process so that candidate selection is based on input from multiple interviews. Managers are held accountable for the quality of their hiring decisions.

STATE GOVERNMENT PRACTICES

The state government hiring process is time consuming and often test-based, but it may also involve an evaluation of candidate credentials conducted by the Department of Personnel, rather than by the agency with a position to be filled. The Department of Personnel establishes eligibility lists, and agencies are often required to choose one of the three highest scoring candidates on the list to fill a position. This is termed the "rule of three." If an agency wishes to hire someone other than one of these three candidates, it has to justify bypassing the "rule of three," and its justification may not be accepted by the Department of Personnel. There are also special rules providing competitive advantages to candidates who are veterans or disabled veterans.

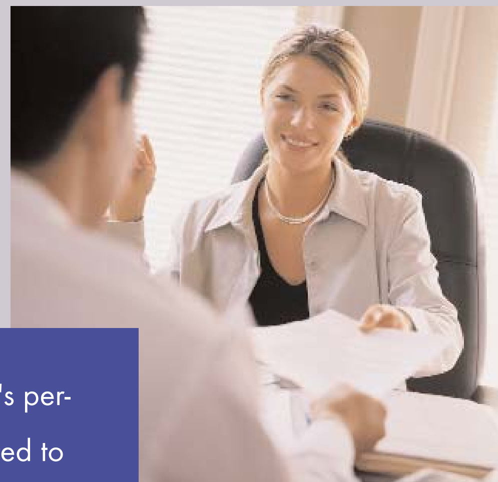
RECOMMENDATIONS

We recommend the elimination of the "rule of three" approach. In conjunction with our proposed broad banding strategy, discussed previously, and a corresponding updating of the qualifications for broad banded positions, state government agencies should be able to choose candidates from larger pools of applicants. We recommend that agencies have great flexibility in hiring decisions, as is the case with private sector employers. State government agency management should be able to evaluate candidates on such factors as interpersonal skills and teamwork, professionalism, work record quality, skills, experience, and, of course, core competencies.

Consistent with Governor Jon Corzine's proposed elimination of the New Jersey Department of Personnel, the state government should outsource all aspects of the candidate qualification process, including testing and experience evaluation, verification of past employment and educational attainment, criminal background checks, reference checks, drug and alcohol testing, licensure, and other reasonable screening actions. The results of such screening should be considered in the overall rating of candidates. In essence, we are recommending that the state government decentralize the hiring function to the operating agencies and that the agencies be given more flexibility in the hiring process.

PRIVATE SECTOR BEST PRACTICES

In the private sector, many companies employ rigorous employee performance evaluations to determine worker effectiveness, and compensation is often tied to performance. Indeed, the measurement of the quality of work performed by both individual employees and work units are critical factors in the management of human resources in leading companies. Performance evaluation strategies are used to determine employee retention, promotion, career paths, and compensation. Managers are held accountable for the quality of the evaluations of staff under their supervision. Companies train managers to be effective and fair-minded evaluators of employee performance.



The private sector is far more assiduous than the public sector in the evaluation of workers' performance. It is typical to conduct an annual evaluation of all employees during one common review period. One characteristic approach is to assess each employee in terms of whether he or she exceeds, meets, or does not meet expectations. Each employee's performance is related to his or her work unit's goals and to the company's overall goals, all of which are explicit, quantifiable, and measured. It is typical for managers to have a merit pool of funds to allocate to workers in a unit based strictly on the workers' performance evaluations. The goal is to use the performance evaluation process to determine an employee's contribution to the company, to identify outstanding employees and reward them, to use financial incentives to stimulate higher quality performance on the part of the workers, to align the workforce with the company's goals, and to identify and terminate poor performers.

"Each employee's performance is related to his or her work unit's goals and to the company's overall goals, all of which are explicit, quantifiable, and measured."

Consider the approach of one Chamber member. This company has a three-part performance appraisal process. First, the employee assesses his or her performance, identifying both short-term and long-term goals. Second, the employee's supervisor provides an assessment addressing five competencies that are behavioral characteristics universally important in that company and applicable to every position. Also, the employee is rated in terms of five major goals and/or objectives that were identified for him or her, specifically, during the employee's previous performance review. Third, a development action plan is provided for each employee, identifying the worker's strengths, opportunities for improvement, and an individualized plan to achieve that improvement. A performance rating is calculated for each employee and serves as the basis for merit pay. This company does not guarantee that all workers will receive merit pay increases. Merit pay increases, if awarded, are based on each employee's performance rating.

At some companies, targeted efforts are made to identify, say, the highest performing 20% of the firm's workforce or the bottom 10%. This approach, called "force ranking," is used to motivate workers and generally incorporates explicit quantifiable performance benchmarks. It is often used with a requirement that supervisors identify development plans for poor performers.

The critical element in the successful implementation of private sector employee performance evaluation systems is the work of the supervisor in the assessment process. Companies invest significant time and resources to train managers in conducting effective evaluations. Managers are evaluated, in part, on the accuracy of their employee performance appraisals.

Employers in the private sector also may provide longevity increases and give guidance to managers in the allocation of such increases. The manager is given the discretion to determine the exact amount of each workers' increase based on the individual employee's performance.

STATE GOVERNMENT PRACTICES

In the New Jersey state government, the employee performance evaluation system is broken and needs to be fixed. In particular, the evaluation provision in the state government's contract with the Communications Workers of America (CWA), effective from July 2007 to July 2011, undermines the promotion of excellent performance. That contract has reduced the evaluation categories applied to workers in the CWA bargaining units to just two: satisfactory and unsatisfactory. One wonders on what basis the state government negotiators thought this approach to be in the public interest, as an evaluation finding of "satisfactory" levels the differences between the employee who is simply not failing to perform and the diligent, high performing, innovative star worker.

A consequence of this negotiated diminution of performance appraisals is that there is no particular incentive for employees in these bargaining units to perform at levels of excellence. There is no way to provide incentives to highly productive employees; indeed, this evaluation system makes it impossible to designate an employee as highly productive. The contract's language ensures that all employees who receive a satisfactory rating will receive their prescribed longevity (or "step") pay raises, plus the annual across the board percentage wage increases stipulated in the contract. These "step" increases are prescribed according to an explicit schedule. Certain state government managers do not receive annual step increases, but, when funds are available their supervisors determine their raises in variable, but specified amounts.

As a result of this practice, excellent employees and marginal performers are treated exactly the same. Therefore, entirely contrary to common private sector practice, there is no financial incentive provided to outstanding performers. If a state government agency wishes to reward an outstanding employee, the options are a promotion or a reclassification of the worker's title.

Employees given an unsatisfactory performance assessment do not receive a longevity pay raise that year, but they do receive the negotiated across the board salary increase. A state government employee cannot be terminated based solely on a single negative performance evaluation.

RECOMMENDATIONS

We recommend that the state government adopt an employee performance evaluation approach that is similar to that used by many companies. Specifically, state government agency heads should establish explicit employee performance goals, supervisors should be trained to conduct rigorous performance evaluations using measurable criteria, and an incentive pay approach should be implemented.

Employee performance evaluations should be related to express goals, objectives, and measurable targets applicable to both the unit in which an employee works and to each individual worker. Care should be given to the determination of these targets and to their measurement, and the responsibility should reside with each agency's top management.

As is common in the private sector, the state government should train supervisors in the techniques and practices of accurate, fair-minded, and insightful employee performance appraisal. Where applicable, the state government should use technology, including computer programs, to measure the volume and accuracy of work actually accomplished by individual employees. This approach is particularly applicable to the quantification of tasks associated with processing activities.

The performance evaluation process, itself, needs to be improved. In particular, the state government should, as soon as possible in terms of the labor contract cycle, end the practice of having just two evaluation categories: satisfactory and unsatisfactory. A more finely calibrated performance appraisal system is in the public interest, so that outstanding performers can be identified and rewarded and to enable incentive-based compensation. Specific evaluation criteria should be utilized, including such factors as contribution to expenditure reduction, prudent management of financial resources, innovation, service to clients, teamwork, and other factors that are broadly applicable to state government work. We recommend a three-tiered approach to the performance appraisals: the employee's self evaluation, an evaluation by the employee's supervisor, and an evaluation by the employee's supervisor's supervisor.

We recommend incentive compensation be tied to the employee performance evaluation system. The Chamber stands ready to assist the state government in the implementation of a new performance appraisal system modeled on private sector best practices.

PROFESSIONAL DEVELOPMENT

PRIVATE SECTOR BEST PRACTICES

In surveying Chamber member companies, we found that employee professional development is commonly an important objective of human resources management. In examining private sector best practices, several approaches stood out as having potential application to the New Jersey state government workforce.

One private sector best practice is a formal process of encouraging an employee to identify future career goals.

"...professional development is commonly an important objective of human resources management [in the private sector]."

Then, the employee's supervisor works with him or her to map a strategy to achieve those goals, possibly including specialized training or education plus the accomplishment of progressively more responsible workplace objectives that are aligned with the company's overall goals. In a related approach, some companies provide "performance coaches" both to help ambitious workers who aim to rise in the firm's ranks and to help employees who are struggling with their assignments.

With respect to promotions, it is typical for a company to consider an employee's qualifications (candidates are expected to meet specified standards established for the position) and demonstrated performance, including such factors as work history, work habits, skills, and abilities. In such situations, seniority is used only as a "tie breaker" in circumstances in which equally qualified candidates seek to be promoted to the same position. We found this approach to be used for the promotion of employees who are members of bargaining units and with employees who are non-aligned.

STATE GOVERNMENT PRACTICES

We believe that the state government's personnel management system does not provide sufficient opportunities for professional growth and career development. The pathways to upward mobility for the civil service employee are complex, highly reliant on test scores and seniority, and governed by a thicket of rules.

These factors are limiting from the standpoints of both employees and state government agencies. The promotion process pigeon holes employees and limits flexibility in their professional growth. The many nuanced rules applicable to the promotion process complicate agency decision making and are often not completely understood by the employee, who may thus consider a promotion decision unfair. From the employing agency's standpoint, the promotional process restricts management's discretion to promote based on managers' knowledge of their organization's needs and individual candidates' known capabilities.

The use of civil service tests to determine employee promotion eligibility lists is central to the state government's current practice. The Department of Personnel determines the qualifications for eligibility to take these tests and then ranks those who complete the tests. We are concerned about the content of these tests, particularly the degree to which they are kept current with developments in specific software programs typically used in data processing and management, other work-related technologies, and productivity enhancements common in the private sector.

Another impediment to state government employee upward mobility is the way in which experience requirements for some professional titles sometimes exclude recognition of work that an employee performed. In these situations, "out of title" work performed by an employee is not counted as professional experience. Take, for example, a clerical employee who performs satisfactorily, on a temporary basis, work that would normally be done by someone with a professional title. Should the clerical employee seek a promotion to that professional title, the work that the employee performed at that professional level would be deemed "out of title" and not credited to the employee's body of experience used to determine eligibility for the promotion. This rigid approach has the effect of discouraging the deployment of state government employees into "out of title" work, since the worker gains little from the performance of the more challenging assignment. This is quite the opposite from private sector best practice, where working successfully at a higher level is seen as a demonstration of an employee's qualification for promotion. The state government's approach to "out of title" work limits state government agencies' capacity to promote workers who have the skills and the demonstrated ability to work in a higher title.

"The state government's approach to 'out of title' work limits state government agencies' capacity to promote workers who have the skills and the demonstrated ability to work in a higher title."

RECOMMENDATIONS

We propose an approach that provides operating agencies with greater flexibility to promote employees, based on merit, as determined by more rigorous evaluation of employee performance. In essence, we are recommending a decentralization of the promotion process to aid in both the achievement of employee career goals and the operational needs of state government agencies. In our view, the budget process should be used as a check against potential agency abuse of this recommended promotional authority.

DISCIPLINING AND DISMISSING EMPLOYEES

PRIVATE SECTOR BEST PRACTICES

In surveying Chamber members, we found that private sector employers generally use an approach of progressive discipline with non-performing employees, leading to swifter termination in cases in which the employee continues to fail to meet expectations.

Some companies use the same discipline process for employees who are represented by bargaining units and those who are not. Progressive discipline may typically involve the following steps: counseling; a verbal warning that the employee's performance is substandard; a written warning of nonperformance; and, ultimately, termination. During this progressive process, meetings are held with the employee and include the person's immediate supervisor, the head of the unit in which the employee works, and a human resources specialist. The employee is given the opportunity to give his or her view of the situation, and a corrective action plan to resolve whatever problems are occurring is put together, so that the employee knows what has to be done to keep the job.

For new hires, it is common for companies to establish a probationary period that may range from three to six months. During the probationary period, an employee may be terminated for failing to perform at the expected level prescribed for his or her position; engaging in misconduct, as defined by the employer; or for attendance deficiencies.

STATE GOVERNMENT PRACTICES

Newly hired state workers are employed for a four month "working test period" and are evaluated by their supervisors monthly during that time. Unsatisfactory performance can result in their termination with no rights to appeal.

Once an employee is out of this test period, it becomes difficult for the state government to dismiss a non-performing or problem employee for cause. The dismissal process is extraordinarily lengthy and cumbersome, so much so that it is a disincentive for managers and supervisors to take action to discipline or dismiss a poor performer. It is not uncommon for managers to try to work around a problem or nonperforming employee rather than devote the time necessary to seek a dismissal. In such instances, the failure to take action is unfair to those employees who perform their work as expected.

In state government, there are eight steps to the employee discipline process, including departmental reviews, hearings, and appeals that can take up to 174 days to complete. Throughout that process, the employee still reports to work. Remarkably, in the contract with the Communications Workers of America effective from July 1, 2007 to July 1, 2011, the maximum duration for which an employee can be suspended was negotiated down from 182 days to 45 days. The contract, under certain circumstances, allows for what is termed a "record" suspension with no loss of pay.

RECOMMENDATIONS

We recommend a comprehensive review of state government's employee discipline and dismissal policies to identify effective approaches to streamline these processes to be similar to private sector best practices. Streamlining these processes should be a major objective of state government negotiators in future rounds of contract bargaining.

PRIVATE SECTOR BEST PRACTICES

The human resources function in the private sector is a key element in the overall success of an organization. Finding and retaining outstanding employees to advance the company's mission and meet its goals can be the difference between a firm's success or failure. Fostering a culture of achievement, paying for performance, and promoting star performers strengthens companies.

Typical corporate human resources functions include: managing employee recruitment and compensation, benefits management, ensuring workforce diversity, contractual compliance, and fostering positive employer-employee relationships. The leader of the human resources function is a member of the company's senior management team, and a human resources professional is typically assigned to every business unit and is deeply involved in its operational success. Technology is an important part of the management of the human resources function in the private sector. A company's investment in human resources information systems can reduce manual data input and provide information to employees in an easy, transparent fashion.

"Finding and retaining outstanding employees to advance the company's mission and meet its goals can be the difference between a firm's success or failure."

STATE GOVERNMENT PRACTICES

The New Jersey Department of Personnel has jurisdiction over every civil service action, including testing, the ranking of candidates for employment, hiring, transfers, promotions, title changes, "desk audits" to resolve questions about the misclassification of employees, separations, and layoffs. While the vast majority of the department's work is regulatory, it also has responsibilities for workforce planning, training, and the provision of services to units of local government.

RECOMMENDATIONS

In his Fiscal Year 2009 budget message, Governor Jon Corzine proposed the elimination of the New Jersey Department of Personnel. We concur with the governor's recommendation and see his proposal as an opportunity to streamline a host of cumbersome processes and to enable state government to develop the sort of human resources approach common in successful private sector organizations.

As we have discussed, the state government has a complex, inflexible, and regulatory approach to much of its personnel management. Each operating agency has its own personnel specialists, and often, these people devote much of their work to navigating the complexity of the personnel system and labor contract provisions and interfacing with the Department of Personnel. In our view, the personnel system, on too many occasions, is the root of excessive cost, less than optimal customer service, and inefficiencies throughout state government.

As this report is being prepared, the details of the Corzine Administration's plans for implementing the elimination of the Department of Personnel have not been released. However, we believe consideration should be given to the following approach. We recognize that the elimination of the department cannot occur overnight and may have to be accomplished in stages. While devising a complete plan for the elimination of the department is far beyond the scope of our report, we do want to provide our perspective on this important potential reform.

Clearly, the state government will need to retain the assistance of a consultant to devise a strategy for the elimination of the department and the decentralization of some of its responsibilities to the human resources staffs of the operating agencies. We see this decentralization as the key to the successful implementation of the elimination of the Department of Personnel. However, the formidable complexity of the state government's personnel management system will make this difficult to accomplish swiftly and some centralized functions will have to be continued. Decisions will have to be made about record-keeping responsibilities, management of data repositories, matters in transition, and a host of other considerations. That said, we advance the following general approach.

At present, a number of important human resources functions are performed by the Treasury Department, particularly benefits and pension administration. This suggests that the Treasury is an appropriate agency for the relocation of many of the Department of Personnel's functions that need to be continued in some fashion. We propose that a new position, Deputy Treasurer for Administration, be created, and that any continuing activities (as determined by the consultant's recommendations) of the following current Department of Personnel units be transferred to the Treasury to report to that position: the Division of Selection Services, the Division of Employee Services, the Division of State Human Resource Management, the Division of Equal Employment Opportunity and Affirmative Action, the Human Resource Development Institute, and the Division of Merit System Practices and Labor Relations. These surviving functions should be further analyzed to identify opportunities for streamlining; potential to transfer responsibilities to agency human resources staffs; and–importantly–to outsource as much of the selection, training, and dispute resolution functions as is feasible.

The Department of Personnel's Office of Finance, Technology and Administration should also be absorbed by the Treasury Department, while the Department of Personnel's Division of Local Human Resource Management should be transferred to the Department of Community Affairs.

"...the state government has a complex, inflexible, and regulatory approach to much of its personnel management."

The elimination of the Department of Personnel can be the catalyst for many of the reforms recommended in this report, ultimately resulting in improved state government operations, enhanced career opportunities and financial rewards for outstanding employees, and cost reduction.

What State Officials Have Said About CCSNJ's Board Council's Phases I & II Reports

"We will continue to work cooperatively within and outside government with groups such as the South Jersey Chamber of Commerce as we continue to explore new and better practices in the procurement area. We are particularly grateful to the Chamber for the support they have offered us over this past year."

Bradley Abelow, Chief of Staff to Governor Jon Corzine &
Former New Jersey State Treasurer

"The Responsible Government Spending report is the single best document by an outside entity that I have seen during my tenure as New Jersey State Treasurer."

John E. McCormac, Former New Jersey State Treasurer

"The Chamber's reports are some of the more comprehensive studies of the way Trenton uses taxpayer dollars that I have read. They have proven to be invaluable tools in my caucus' efforts to streamline and economize spending in this state's annual budget process."

The Honorable Kevin J. O'Toole
Senator, District 40
Member, Senate Budget Committee

"The Chamber's Board Council on Responsible Government Spending reports have provided government with a unique opportunity to learn directly from some of the best and brightest of the business community. The recommendations offered demonstrate that through a meaningful partnership between the private and public sectors positive change can occur."

The Honorable Louis D. Greenwald
Assemblyman, District 6
Chairman, Assembly Budget Committee

"The South Jersey Chamber's contribution and their insight on issues during the budget process, have been tremendous. I would be remiss if I did not compliment the quality of input and information from the Chamber through this whole process."

The Honorable Joseph R. Malone, III
Assemblyman, District 30
Assembly Republican Budget Officer

CCSNJ's Board Council Phases I & II Recommendations: Making it Happen

INTRODUCTION

CCSNJ's Board Council on Responsible Government Spending recognizes that the private sector can provide great insight to the public sector in how to reduce spending and increase efficiency. The need for such efficiencies is evident in the growth experienced in New Jersey's ballooning state government budget. Over the past five years, the budget has grown by over $9 billion - from $23.7 billion in Fiscal Year 2004 to $32.97 billion in Fiscal Year 2009. That astounding growth of 40% can no longer be sustained, and because of this, the Board Council has vowed to work cooperatively with state government to identify and implement cost saving measures to save taxpayer dollars.

"...the Board Council has vowed to work cooperatively with state government to identify and implement cost saving measures to save taxpayer dollars."

Since 2005, the Board Council has worked with policymakers to adopt and implement the recommendations contained in the Phase I and Phase II reports. The Board Council's intentions were never to issue a report and walk away; instead, its charge was to use the reports to initiate meaningful change and assist in making those changes. Whether that was through meetings, conference calls, or training sessions, the members of the Board Council have rolled up their sleeves and offered their expertise and time in educating state officials about best practices in areas of state government operations that are analogous to business.

Since their release, the Phase I and Phase II reports have been widely praised by policymakers in Trenton. In June 2005, then state Treasurer John E. McCormac called the Responsible Government Spending report the single best document by an outside entity that he had seen during his tenure as state Treasurer. The Treasurer shared the initial report with his senior management team, which was tasked with reviewing the recommendations and identifying ways to implement them.

The momentum of the Phase I report with Treasury officials was continued under the Corzine administration. Upon release of the Phase II report, members of the Chamber's Board Council met with newly appointed State Treasurer Bradley Abelow and his staff to present the findings of both reports. Members of the Board Council have met numerous times with Treasury officials, offering insight into specific areas of government operations, particularly in the area of procurement.

In his testimony before the Senate and Assembly Budget Committees on the Fiscal Year 2008 budget, then- Treasurer Abelow remarked that the administration "will continue to work cooperatively within and outside government with groups such as the South Jersey Chamber of Commerce as we continue to explore new and better practices in the procurement area." The Treasurer continued by saying that he and his staff were particularly grateful to the Chamber for the support that has been offered to his staff. Chamber staff also met with acting Treasurer Michellene Davis, who was aware of our reports and the importance that her predecessor, Treasurer Abelow, placed upon the work of the Board Council.

"The Phase I and Phase II reports have also piqued the interest of many New Jersey lawmakers seeking to explore cost savings."

In addition to the Board Council's work with the Treasury Department, the reports have been shared with every member of the state Legislature, the Governor and his senior staff, cabinet officials, and other policymakers in Trenton who have direct oversight of the areas of state government operations impacted by the reports' recommendations. Dozens of meetings were held with leadership in both houses of the Legislature and other interested parties to provide details on the recommendations and to offer assistance in implementing them.

The Phase I and Phase II reports have also piqued the interest of many New Jersey lawmakers seeking to explore cost savings. Upon the release of the initial report, the Chamber was invited by Assembly Budget Committee Chairman Louis D. Greenwald to present the Council's recommendations before the committee. Both Republican and Democratic leaders in the General Assembly have embraced the Board Council's efforts. In 2006 and 2007, Assembly Republicans cited the work of the Board Council as credible options to cut government spending.

The Chamber's peers have also recognized the efforts of the Board Council and its impact on reducing the cost of state government. In December 2005, the Phase I report was honored with a "Positive Impact Award" from the New Jersey Society of Association Executives (NJSAE). The Positive Impact Award is presented for projects that achieve significant positive results and that "raise the bar" for the organization. In May 2007, the New Jersey Business & Industry Association's public policy foundation, the New Jersey Policy Research Organization Foundation (NJPRO), honored the Chamber for its Board Council on Responsible Government Spending Reports at its "NJPROActive Policy Makers" awards reception. The Chamber received the NJPROActive Policy Award in recognition of its leadership, achievement, and determination in public service to further government cost cutting and efficiency.

While the Phase I and Phase II reports have received accolades by New Jersey's policymakers, the work of the Board Council on Responsible Government Spending is not over. With each report, momentum continues to grow and the members will continue to push to implement management efficiencies throughout state government operations. It is only through a meaningful partnership between the private and public sectors that change will occur.

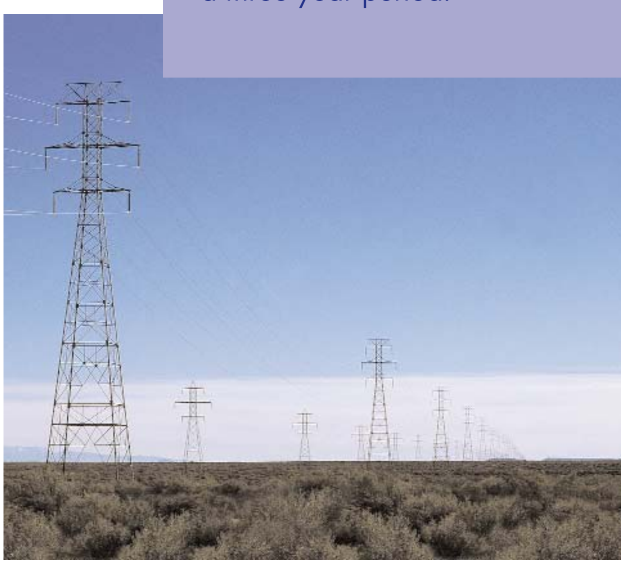
The following pages outline recommendations and initiatives contained in Phase I and Phase II of the Board Council on Responsible Government Spending reports that have been implemented by state government, resulting in savings to taxpayers.

ENERGY UTILIZATION & FLEET MANAGEMENT

In April 2006, Governor Corzine issued Executive Order No. 11 creating a director of energy savings within the Treasury Department. The Governor's Executive Order outlined the new director's role in reducing utility bills through energy efficiency and other measures. At the time, it was estimated that state government spent $128 million per year for energy; therefore, the administration saw that significant savings could be realized by streamlining energy purchasing and consumption.

Since December 2006, the state government has completed several initiatives which are expected to yield an $8.6 million benefit over a three year period. Approximately $6 million of that savings will be from supply initiatives and the remainder is through conservation efforts in buildings located in the Trenton region. Simple conservation tasks have included efforts to reduce the number of information technology devices that are powered by the state government's server. Rather than supplying electricity to separate copiers, faxes, printers, and scanners, the state has begun purchasing equipment that serves all those functions. By reducing the number of machines in need of electricity, the amount of energy needed to operate the devices decreased substantially.

"One recommendation of the Board Council that was successfully completed was a reverse auction to procure energy, which reduced costs by $2 million over a three year period."



The Office of Energy Savings has also been focusing on more sophisticated methods of energy conservation, including a review of building energy performance, changing operating schedules, and improving and better maintaining equipment. The state government is also using Energy Star Scoring for eligible buildings in Trenton and has seen that the average score has increased by 4% since December 2006. Starting in July 2008, the Office is rolling out a Statewide Energy Tracking System (ETS), which will measure energy and cost performance for all agencies and facilities.

One recommendation of the Board Council that was successfully completed was a reverse auction to procure energy. In 2007, the reverse auction resulted in a robust bidding environment with a number of large energy suppliers participating in the process. Through that process, the state government will realize a benefit of $2 million in cost reductions over a three year period. Contracts for natural gas supply were also renegotiated to yield an immediate 5% reduction in price, which is expected to deliver $4.1 million in cost savings over the remaining three years of the contract.

In 2007, $6.9 million in energy efficiency projects were launched at nine state government facilities. Collectively, these projects are expected to deliver $1.3 million in annual cost savings and pay for themselves in less than six years. These improvements include upgrades to building automation systems, lighting, boilers, and climate control systems. In addition, a cogeneration feasibility study is underway for the Woodbine Developmental Center in South Jersey. This will evaluate potential for a renewable energy combined heat and power plant, which would utilize landfill gas (biomass) for power generation.

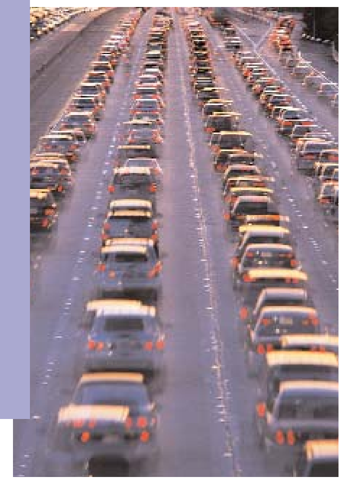
Fleet management is a major component in achieving significant savings in energy consumption. In 2005, the Board Council's Fleet Management Subcommittee recommended a variety of ways for state government to reduce and manage its vehicle fleet in an effort to realize significant cost savings.

The subcommittee identified that the cost of purchasing, insuring, maintaining, and fueling a single vehicle represented at least $3,000 per year; therefore, potential savings could be realized for every vehicle that is eliminated. The Department of Treasury reports that the administration has recalled 835 vehicles, 40% more than originally projected. Of those vehicles, 764 have been sold at auction, generating revenue of roughly $1.1 million and eliminating approximately $1 million in annual operating costs.

The Office of Energy Savings has also been working diligently on this initiative, forming an inter-agency task force to look at the state government fleet and how it can be better managed, maintained, and reduced. Various departments, such as the Department of Environmental Protection and Department of Transportation, are working together to gather more comprehensive information on the fleet, how it is fueled, and how efficiently it operates.

The Office of Energy Savings is also exploring better methods to purchase new and replace old vehicles in its fleet. The state government has received special approval from the United State's Environmental Protection Agency (USEPA) to purchase electric hybrids, instead of just the alternate fuel vehicles typically required under EPA regulations. This will enable tangible improvements in fleet fuel economy starting with model year 2008.

"Fleet management is a major component in achieving significant savings in energy consumption."



PROPERTY MANAGEMENT & SPACE UTILIZATION

Phase I recognized that the proper management of the state government's real estate assets has the potential to generate enormous cost savings. The Board Council made detailed recommendations, including the need to evaluate and explore consolidation of state properties.

Governor Corzine's Fiscal Year 2008 *Budget in Brief* stated that, during Fiscal Year 2007, the Division of Property Management and Construction (DPMC) conducted audits of state government owned and leased buildings in the Trenton area with the goal of identifying cost savings. The DPMC and the departments have been working to identify opportunities to terminate leases or consolidate office space. Through these efforts, Treasury has reported that nine leases have been eliminated, generating a $1.8 million rent expense reduction.

Furthermore, the *Budget in Brief* states that through the audits conducted by DPMC opportunities to consolidate vacant space would yield another $1.7 million in savings.

In addition to these efforts, a joint legislative committee chaired by Assemblyman Joseph Cryan and Senator Stephen Sweeney (the Joint Space Utilization Committee) is requiring that all agencies report and justify their current space allocations. This information will be reviewed and used to prepare for future space needs.

The Property Management Subcommittee of the Board Council met with Senator Sweeney to discuss the Phase I report in detail and offer their assistance to the Joint Committee. The subcommittee will continue to be at the disposal of the legislature to offer expertise in this area.

INFORMATION TECHNOLOGY COMPATIBILITY

In 2005, the Board Council reviewed opportunities to save taxpayer dollars in the area of Information Technology (IT). The need for greater oversight and increased efficiency was evident because, at the time, state government was supporting: 16 different agency budgets with five overlapping networks; four different desktop operating systems; six e-mail/GroupWare tools; 21 call centers; and many server operations with vastly different capabilities. The Board Council sought to bring this problem to light and offer suggestions as to how to make these systems compatible and, therefore, yield increased efficiencies and savings.

The Board Council Information Technology Compatibility Subcommittee members met with representatives of the Office of Information Technology, as well as Treasury officials, to present the recommendations contained in Phase I and offered a more detailed overview of private sector IT best practices. Through those meetings, state government representatives acknowledged that the state's current IT practices were not efficient and, therefore, were costly to the state.

In April 2006, Governor Corzine created the Commission on Government Efficiency and Reform, which was tasked with exploring ways to improve efficiency in state government operations. In August 2006, the commission released its first report which urged the Governor to streamline and reform state information technology operations. In November of that year, Governor Corzine signed Executive Order 42 which sought to implement the commission's recommendations.

> "The restructuring of the Office of Information Technology and the reforms contained in the [Governor's] Executive Order mirrored the recommendations of the Board Council's Information Technology Compatibility Subcommittee."

The restructuring of the Office of Information Technology and the reforms contained in the Executive Order, as suggested by the Government Efficiency and Reform Commission, mirrored the recommendations of the Board Council's Information Technology Compatibility Subcommittee.

The Board Council recommended that a centralized IT policy in the Office of Information Technology was needed and that it was imperative that the authority of the head officer be strengthened, while creating a support structure to assist that individual in removing barriers and accomplishing change. The Governor's Executive Order abolished the position of Central Information Officer (CIO) and created the position of Chief Technology Officer (CTO).

The CTO has responsibility for all IT operations in the executive branch, where before the CIO lacked that authority. Further, the CTO has several Deputy CTOs to assist in executing the functions of structuring and coordinating the IT processes for each of the departments.

The Board Council also recommended that the state establish a consistent long-term technology strategic plan in an effort to streamline processes. Through the Governor's Executive Order, a new Technology Governing Board was established. The function of this board is to set the overall direction and priorities pertaining to IT in all executive branch departments. The board, along with the CTO, is tasked with crafting a proposal for greater efficiency in government and providing innovative applications to support high priority initiatives. In addition, a review board composed of executive branch officials was established to provide greater accountability on projects requiring additional funding and assist in executing the restructuring and consolidation plan.

Another major focus of the Board Council's work surrounded IT applications and exploring opportunities for consolidation. Through the newly restructured OIT, the Technology Governing Board with the Chief Technology Officer must review the results of an IT assessment study and identify opportunities for improvement, as well as consolidating redundancies. In Fiscal Year 2007, New Jersey joined the Western States Contracting Alliance to take advantage of the buying power of 44 states. As a result, the price of a standard personal computer has been reduced from $774 to $565.

Finally, the Board Council advocated that the state identify outsourcing opportunities to allow focus on vital projects. This was recognized by the Government Efficiency and Reform Commission, which stated that, "Outsourcing holds great promise for the state once its core IT operations have been put on a sounder footing." The Commission went on to say that, "This outsourcing option would not be a good decision today principally because the IT organization and delivery of IT services are too dispersed and confused and therefore not ready for a new environment." It is the hope of the Board Council that once state government gets a better grasp of restructuring its IT operations, it will outsource appropriate operations in order to achieve significant cost savings.

DISTRIBUTION LOGISTICS & PROCUREMENT PRACTICES

Both the Phase I and Phase II Board Council reports highlighted procurement practices that yield efficiencies and cost savings in the private sector. One aspect of the procurement process that the Distribution Logistics & Purchasing Subcommittee focused on was warehousing operations. The subcommittee recognized that the state government may have a vested interest in controlling its own warehousing of items; however, operations could be streamlined to increase efficiency. For example, the subcommittee recommended that obsolete items should be removed from inventory, sold as scrap, trashed, or recycled. In addition, it was recommended that the state government consolidate goods that are currently warehoused at multiple locations. Doing so would yield significant cost savings and make the state's warehousing operations more efficient.

Over the past few years, the state government has been implementing both of these recommendations as they undergo a warehouse reduction effort with an attempt to store equipment, furniture and documents more efficiently. During the first phase of this process, it was reported that 48 dumpsters of obsolete equipment were discarded. Treasury officials also reported that 16 trailer loads of forms, records, and periodicals were shredded that were previously being stored. In addition, 20 trailers of records were shipped to a record storage company, while 14 trailers of supplies were relocated to the central distribution center.

> "A meeting between Board Council members and the Treasury Department confirmed for the government representatives that automated reverse auctions are indeed a very viable approach for select state government bidding opportunities."

The state government also closed four warehouses, reducing rent by over $800,000 annually. Furthermore, during the consolidation, excess furniture from various departments was consolidated into one central warehouse. A catalog of this used furniture was developed so that departments have the ability to view available items to avoid needless spending. According to the Department of Treasury, this initiative has produced savings of $2.2 million.

Another recommendation of the subcommittee was for the state government to review using an online auction approach more extensively when purchasing commodities. The subcommittee noted that many businesses have experienced significant savings when online bidding was applied to purchasing commodity items, as well as energy. One member company experienced average savings of 30% when using online reverse auctions to purchase items and on several occasions saved significantly more. The subcommittee found that online auction tools can reduce bidding and price negotiation times from one month to 30 minutes.

This recommendation generated a great deal of interest from Treasury officials, and the Chamber held several meetings regarding this tool. At one such meeting, representatives of Lockheed Martin met with a dozen managers in the Treasury Department to educate them on how to leverage this tool to achieve maximum cost savings. The session provided independent, unbiased, hands-on experience and lessons learned for the state government team researching and preparing for the automated reverse auction for aggregate electricity. The meeting confirmed for the government representatives that automated reverse auctions are indeed a very viable approach for select state government bidding opportunities. A few months later, the state government participated in a reverse auction for electricity that was reported to have been successful in achieving substantial cost savings.

PUBLIC EMPLOYEE BENEFITS

In the summer of 2006, Governor Corzine called the legislature into special session and urged members of the Senate and Assembly to craft legislative proposals which would achieve "real property tax reform." The legislature worked for several months, and on November 15, 2006, four joint legislative committees responsible for providing suggestions issued reports containing a series of 98 recommendations for property tax relief. One of the joint committees focused on Public Employee Benefits Reform, co-chaired by Senator Nicholas P. Scutari and Assemblywoman Nellie Pou, with Senators Rice and Gormley and Assemblymen Giblin and O'Toole serving as members.

The Chamber testified before this committee on two occasions. In those meetings, the Chamber presented the findings of the Board Council on Responsible Government Spending's Phase I and Phase II reports, highlighting the lopsided nature of the generous benefits received by public employees, versus those received by their counterparts in the private sector. The joint committee released a report containing 41 recommendations that the Chamber supported, as they addressed head-on the issue of public employee benefits and did so in a way that preserved the benefits of current public employees. In fact, a vast majority of the joint committee's recommendations applied only to those hired after the effective date of enabling legislation. The joint committee's recommendations included real reforms that would ultimately have led to lower employee related expenses.

> "The Chamber presented the results...highlighting the lopsided nature of the generous benefits received by public employees, versus those received by their counterparts in the private sector."

Among the joint committee's 41 recommendations were the following: increasing the retirement age to 62; reducing the benefit formula for new members of the retirement systems from n/55 to n/60; capping pensionable salaries to the Social Security wage contribution limit; basing retirement benefits on five highest paid years, versus three highest paid years; limiting participation in the State Health Benefits Plan to those who work at least 35 hours per week; reducing the number of holidays for public employees; requiring state government employees and future retirees to contribute toward their health insurance; addressing abuses of the pension system; limiting defined benefit pension plans to full time employees and allowing employees to choose to enroll in a defined contribution plan; requiring employees to designate one job for one pension; and imposing a moratorium on any legislation that would enhance retirement benefits, including early retirement incentives.

Ultimately, the work of the joint committee was put aside by the Governor, who indicated his intention to address these issues during contract negotiations, rather than through the legislative process. The contract negotiated by the Corzine administration and ratified by the membership of the CWA required state employees to contribute 1.5% of their salaries toward the cost of health insurance premiums, including retirees; increased employee contribution to their pension from 5.0% to 5.5%; provided salary increases of 13% over four years (in addition to annual longevity increases); and increased the retirement age from 55 to 60, with a 1% reduction in benefits per year for every year prior to the age of 60.

Legislation passed in the final hours of negotiations over the Fiscal Year 2007 budget, ensures that retirees continue to receive free medical benefits if they enroll in a wellness program. The legislation also set in statute health insurance copays, deductibles, and maximum out of pocket expenditures, which raises serious questions and concerns over the state government's ability to negotiate these items upon the expiration of the CWA contract in June 2011.

Although we have had success in the adoption of best business practices by state government, still more needs to be done to ensure that the public interest is being served by an efficiently run, cost effective state government operation. We will continue our efforts to convince our leaders to make needed changes in state government employee benefits, and to adopt best private sector business practices to reduce expenses and, therefore, save taxpayer dollars.

THE CAMDEN COUNTY STORY: REDUCING EXPENSES & SAVING TAXPAYER DOLLARS



In 2004, the Camden County Board of Chosen Freeholders undertook its most comprehensive review ever of the operations of county government. The Freeholder Board was acutely aware of the spiraling cost of government and the immediate need to get costs under control. The Freeholders recognized that their government delivered outstanding services to their residents; but, their challenge was to continue those services while at the same time dramatically reducing the cost of government.

The Freeholders quickly determined that, because government is a "people-intensive business," and because personnel costs were growing at an unsustainable rate, property taxes could be lowered only if personnel costs could be reduced.

> "...because personnel costs were growing at an unsustainable rate, property taxes could be lowered only if personnel costs could be reduced."

In projecting costs three years into the future, the Freeholders realized that the county budget simply could not sustain the growing pension, benefits and salary costs of the 4,800 employees on the payroll of the county and its affiliated agencies, including the college, the library system, the Board of Social Services, the Health Services Center and other agencies. The Freeholders' concern was for property taxpayers who could not continue to absorb increases in their county taxes on top of large annual municipal and school tax increases. For many families in the county, increases in property taxes were becoming a burden they could no longer afford. The Freeholders recognized that taking no action to reduce employee-related costs today would inevitably result in massive layoffs in a few years. Neither the Freeholders nor the county employees wanted that to happen. So, the county government embarked on an effort to introduce technology and other efficiencies to deliver high quality services with fewer employees.

The Freeholders also recognized that any successful effort to reduce personnel costs would need to be accomplished in concert with employees and union representatives. They committed to a partnership with employees, the cornerstone of which was an open communication plan. This plan was to educate managers and rank and file workers on the consequences of not getting this spending under control immediately. In January 2005, the county government instituted a "separation plan" for those employees with 15 or more years of service who wished to leave county employment. The understanding was that the county would not replace the employees who left, thereby reducing the workforce through attrition. The voluntary plan reduced the workforce by 190 employees, many of whom were in management positions.

From there, the Freeholder Board committed to a disciplined plan taking advantage of natural employee attrition. Through retirement and other factors, up to 100 employees leave county service every year. Now, every vacated position is carefully evaluated, and only those deemed absolutely essential are filled, and nearly all of those are filled from within the current workforce.

This policy of promoting from within generated the start of a culture change among county workers who now see that, while reducing the workforce does indeed require that everyone work smarter, it also means increased opportunities for upward career mobility within the county government. Because of this disciplined approach to budget and personnel, Camden County government reduced its workforce by 653 employees between 2004 and 2007 - almost 14% of its total workforce - without layoffs. The county payroll has shrunk from $111 million in 2005 to $100 million in 2007.

In reviewing overall employee costs, the Freeholders recognized that approximately 45% of employee-related costs were associated with benefits, including health insurance, pension contributions, FICA, social security, unemployment insurance and workers' compensation insurance. Legislative changes also added significantly to employee-related costs for all government employees in the state retirement system, including changing the state pension retirement age from 60 to 55, which immediately increased pension costs by 9%.

In order to reduce these employee-related costs, county government leaders worked closely with union leaders to build an understanding of the consequences of not getting these employee costs under control. By bringing employee-related costs under control, county employees could look forward to increased job security, as layoffs would not be necessary to balance the budget.

The realities of the situation were not lost on the union leaders. As a result, the county has already negotiated with several of its unions to eliminate sick time "buyback" for current and future employees, saving the government and taxpayers up to $23,000 per employee. Sick time buyback has already been eliminated for management employees.

Employees also started to contribute toward the cost of health care premiums. These concessions were important steps in the County's ability to continue to offer remaining employees reasonable salary increases and reasonable fringe benefits.

Reviewing the county's operations and procedures was also integral to its efforts to reduce expenses. By consolidating rental properties, Camden County has saved taxpayers approximately $650,000 per year. Significant dollars have also been saved through the consolidation of phone systems, information technology, payroll, purchasing, and personnel offices within the county government. The Freeholder Board also took proactive steps to invest in technology that would help current employees streamline their operations and increase efficiency. This effort was made with the clear objective to give the employees the tools they needed to get the job done. The county even utilized an online reverse auction to secure energy services at reduced rates.

"...the county government embarked on an effort to introduce technology and other efficiencies to deliver high quality services with fewer employees."

Camden County's efforts have proven to be extremely successful. The Freeholders continue to seek workforce reductions through attrition and paying close attention to filling from within only those "front line" positions absolutely necessary for the delivery of quality services to the public. Further, in 2007, the county reduced its tax rate by 10 cents/$100, and reduced by $5 million the amount of taxes it collected from residents. The goal of producing similar results in future budgets, however, remains a daily challenge.

The Camden County Board of Chosen Freeholders has shown that government can cost less. But, employees must be engaged in the process and understand that they, too, have a stake in efforts to reduce expenses. The county achieved its results by putting the interests of taxpayers first, partnering with employees and unions, investing in employee education, promoting culture change, and exerting strong, courageous leadership necessary to reach its goal of reducing the cost of government. Through these efforts, the Camden County Board of Chosen Freeholders and their employees are truly "Making It Better, Together" for taxpayers in Camden County.

CCSNJ BOARD OF DIRECTORS

Chamber of Commerce Southern New Jersey

Where Business Grows

The Chamber of Commerce Southern New Jersey's mission is to provide its members with: opportunities to meet each other and do business; resources to enhance their position in the marketplace; and a collective voice on public policy issues impacting operations and profitability.

Named the Best Chamber in New Jersey by NJBIZ, the Chamber of Commerce Southern New Jersey is the region's largest business organization, representing a diverse group of member companies. The Chamber consists of a 15-member professional staff; a strong volunteer Board of Directors comprised of 68 of the region's top business executives; and an ideal membership mix of small, medium and large businesses.

In January 2006, the Chamber of Commerce Southern New Jersey became the first and only chamber in the United States to earn ISO 9001:2000 certification. The service excellence standard requires that we continually evaluate how effectively we meet the needs of our members and to continually improve the operations of our organization.

Quality System
Quality Endorsed Company
QEC15861
ISO 9001:2000

6014 Main Street
Voorhees, NJ 08043
(856) 424-7776
www.chambersnj.com