MEETING THE CHALLENGE:

SAVING TAXPAYER DOLLARS BY ADOPTING BEST BUSINESS PRACTICES PHASE II

presented by

Chamber of Commerce Southern New Jersey
Where Business Grows

Board Council on Responsible Government Spending

INTRODUCTION

This is the second annual publication of the Chamber of Commerce Southern New Jersey's Board Council on Responsible Government Spending. The Council's charge is to offer specific recommendations to policymakers on how to reduce or control New Jersey State government expenditures by using approaches that have been developed in the private sector. The Board Council is a five year commitment of the Chamber.

The ideas on the following pages have been developed through the leadership of the Chamber's Board of Directors. Drawn from experts at Chamber member companies, three subcommittees were formed to identify and discuss specific cost control ideas. The disciplines, techniques, knowledge, and insights that these private sector experts utilize every day to keep their companies competitive have been applied to specific areas of State government operations and cost centers.

It is important that the purpose of our Board Council's work be understood. The State government budget has been structurally unbalanced for many years, meaning that recurring expenditures have been greater than recurring revenues. Policymakers need to be vigilant in identifying and implementing cost reduction strategies, both short term and long term. This publication is intended to help them. Our ideas are advanced in a spirit of cooperation with those who are responsible for righting the State government's fiscal affairs. We are not interested in assigning blame for the deterioration of State government finances. We are very interested in advancing some solutions. Of course, we recognize that the ideas on the following pages cannot, of themselves, plug the budget gap. However, if implemented, they will have an appreciable impact over time.

In the following pages we offer proposals to improve State government purchasing, to reduce costs associated with the State government's fleet of vehicles, to build upon recent successes in the procurement of energy, and to adopt more rigorous approaches to energy conservation. We also present the results of a survey that we conducted comparing the compensation of private sector workers with State government employees for selected jobs that are common to both sectors. Our survey results are striking in a number of respects, and they form the basis for several recommendations advanced here proposing revising the State government's provision of employee benefits. State government employee and retiree benefit costs continue to rise at alarming rates and need to be managed better. Also, there are equity issues involved, as taxpayers are supporting an array of benefits for State government employees that are greater than those provided to them, as workers in the private sector.

We look forward to a productive dialogue with State government officials regarding these proposals, as well as the proposals that we made in our Phase I report issued in 2005. The Chamber remains committed to assisting public officials in the responsible resolution of the State government's fiscal problems.

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METHODOLOGY

The State Employee Benefits subcommittee undertook a survey of targeted Chamber member companies. These 11 New Jersey companies are larger ones, employing a total of 147,233 people. The companies responding to the survey employ a range of 112 to 24,000 employees, with an average number of 13,384 employees. We chose these larger member companies for comparison because they are more apt to provide comprehensive benefits to their employees than their smaller company counterparts; therefore, the comparison of benefits to the public sector would be more balanced.

The survey focused on the most basic aspects of employee compensation: base salary, salary increases, paid time off, health insurance, and retirement benefits. The analysis of the survey results are a compilation of the survey data we received from our member companies. Summary tables are included in this report.

The information on State employee benefits was gleaned from language in the collective bargaining agreements between the State and the Communication Workers of America (CWA), the contract term of which is July 1, 2003 through June 30, 2007. We chose these contracts for comparison as the New Jersey Department of Personnel's "Workforce Profile 2004" shows that the CWA represents 47.7% of all State government workers, and 53.8% of all unionized State workers. The next largest union in terms of percentage of employees represented is the American Federation of State, County & Municipal Employees (AFSCME), which represents 13.6% of State employees.

Salary information was obtained from the State Department of Personnel's website. For each job title and levels of that title, both the salary steps and range was gathered. For example, the position "Accountant" includes three levels of accountant - 1, 2, and 3 with four salary ranges (P 18, P 21, R 24 and R 26). The average for each of these salary ranges was calculated and the average of those four figures was utilized in the salary table. This method provides the most accurate picture of the average salary for each of the eight job titles used in the survey.

The job titles selected for our salary analysis were chosen based on two criteria: first, they were titles widely found in the private sector where duties and requisite requirements have a high degree of commonality with their public sector counterparts; and second, they are titles that are represented by the CWA.

We believe it is important to recognize that the State employee benefits outlined in the following pages are not applicable to all State employees. There is a significant population of middle management, non-union State employees who have not received the salary increases and other benefits provided to the State's union employees.

SALARY

Our analysis showed that, for the eight job titles surveyed, all but two of the State government salaries were virtually equal to or greater than the average salary in the private sector. The salaries associated with two job titles found the average State employee pay to be considerably higher than the private sector. Administrative Assistants who work for the State are paid on average $52,691, which is about one third higher than the private sector, which pays, on average, $39,225. The other job title that is somewhat out of synch with the private sector is a Network Administrator, which in the private sector is paid on average $53,904, but in State government earns on average $69,162, some 28% higher than the private sector counterpart.

Two positions in State government pay notably less than those in the private sector: purchasing agents and receptionists. Purchasing agents' average pay in the private sector is about 26% greater than the State's, at $50,114 versus $39,779. The State pays receptionists on average $26,557 compared to their private sector counterparts, who earn $30,528, some 15% higher.

Our analysis also showed some significant differences in pay practices related to salary increases. There are two types of salary increases for employees covered in the CWA contract: one is an across-the-board base salary increase that is granted to all employees on a given date as provided by the collective bargaining agreement, and the other is an incremental step increase.

The current CWA contract provides for across-the-board increases applied to every employee's base salary, which can be characterized as a "cost of living" increase. The first increase in this contract became effective on July 1, 2004 in the amount of 2.9%. In July 2005, a 2.0% cost of living increase was applied to employees' salaries, which was followed by two additional increases: the first in January 2006 (2.0%), and the second in July 2006 (2.25%). Therefore, employees covered in this contract received three cost of living increases in six-month intervals over a 12-month period between July 2005 and July 2006. (In January 2007, employees covered under this contract will receive a 2.35% increase). The increases provided to these State employees within the period covered by our survey - 2005 and 2006 - will total 6.25%. On a compounded basis, this represents a 6.38% increase over 2004 salary levels.

Parallel to this schedule of increases are the "incremental step" increases to which State employees are eligible. These "step" increases are granted to State employees on the anniversary date of receiving their

Salaries for Positions

Company	*Accountant*	*Admin. Assistant*	*Computer Operator*	*Customer Service Rep.*	*Network Admininstrator*	*Purchasing Agent*	*Receptionist*	*Secretary*
A	*	$39,365	$54,912	*	*	*	$36,030	$50,303
B	$46,000	$38,200	*	$30,500	$57,000	$44,000	$27,000	$61,900
C	$50,425	*	*	$47,248	$57,381	*	$38,875	$41,626
D	$44,114	$35,000	*	*	*	*	$25,480	*
E	$51,905	$37,440	*	*	$58,000	*	$33,000	$46,000
F	$36,926	$39,984	$30,035	$28,080	$40,000	$37,000	*	$31,200
G	$55,000	$33,696	$35,360	$29,120	$49,000	$60,000	$20,800	*
H	$74,000	$45,000	$53,000	*	*	$39,000	*	*
I	$44,761	$38,355	$31,990	*	$62,046	*	$26,083	$29,182
J	$51,612	$45,985	*	*	*	$70,571	$36,961	$41,617
Average Pay	**$50,527**	**$39,225**	**$41,059**	**$33,737**	**$53,904**	**$50,114**	**$30,528**	**$43,118**
Average Pay-State	**$53,423**	**$52,691**	**$40,170**	**$37,703**	**$69,162**	**$39,779**	**$26,557**	**$42,434**

* Note: Not every company surveyed had all positions listed in the survey in their workforce. For example, Company C does not have the titles Administrative Assistant, Computer Operator or Purchasing Agent as part of their workforce.

** The methodology for calculating the average salary for each of the titles in State government involved the following: determining the average salary for all of the pay ranges for that title, and then averaging those salaries to arrive at one overall average. For example, in State government, there is Accountant 1, Accountant 2 and Accountant 3. For each of these titles, there is a salary range (for example, R26). Within that salary range are nine salary "steps". The average of those salary steps for each of the salary ranges for the job title(s), were calculated and then each of the average salaries for all of the ranges were averaged to arrive at one number.

The private sector may or may not utilize salary grades. The salaries provided by the companies responding to our survey were averages.

title (for example, their date of hire or the date on which they were promoted). These annual step increases are automatically given to State employees, except for those who receive a poor performance appraisal.

The value of a step increase is a specified dollar amount. This dollar amount is adjusted up to reflect the same percentage cost of living increase on the same schedule as per the contract. For example, the step increase for an Accountant 1 in the R 24 range was $2,207.77 starting June 25, 2005. This step increase was adjusted on January 1, 2006 by 2% (the cost of living increase contained in the collective bargaining agreement) to $2,251.92.

The salary range for State job titles contains nine steps. While most employees receive these step increases on an annual basis, language in the collective bargaining agreement specifies that employees who are at the eighth step of a salary range must remain at that step for 39 pay periods, or 18 months, before they are eligible to move to the ninth step.

Because a step increase is a set dollar amount, the percentage value of a step increase actually decreases, the higher one is on the salary scale. For example, on the first step of a salary scale, the increase to the second step carries a value of 4.5%, but on the ninth step the percentage increase equates to 3.3%.

The percentage value of step increases for the eight job titles contained in our analysis range from 3.2% to 5.4%. The average value of the step increase in our analysis is 4.2%, the median is 3.6%, and the mode is 3.4%. Therefore, the lowest percentage increase a State employee covered by the CWA contract would receive in 2006 is 7.45% (4.25% in two COLA increases, plus a 3.2% step merit increase) and the highest possible increase is 9.65%.

Our survey demonstrated a different practice by companies within the private sector. One hundred percent of those surveyed provide just one increase per year based upon merit (one company also provided a cost of living adjustment to their bargaining unit employees on an annual basis and another combined their cost of living and merit increases). The annual increases in our survey averaged 3.66% in 2005, and 3.52% in 2006. The compounded value of these two salary adjustments will increase the average private sector employee's salary by 7.3% over their 2004 salary level.

By contrast, State employees will receive five salary adjustments in years 2005 and 2006 (three cost of living increases and two incremental step increases). Depending upon the employee's anniversary date, the compounded value of a State employee's salary would increase by 15.5% over their 2004 salary levels, assuming two step increases at the average value of 4.2%.

Salary Increases

Company	Average Percentage Increase - 2005	Average Percentage Increase - 2006	Frequency of Increase	Type of Increase
A	4.00%	4.00%	Annual	Merit
B	3.50%	3.00%	Annual	Merit
C	3.60%	3.40%	Annual	Merit
D	3.50%	Unknown	Annual	Merit
E	5.00%	5.00%	Annual	Merit & COLA*
F	4.00%	4.00%	Annual	Merit
G	2.50%	2.50%	Annual	Merit
H	3.75%	Unknown	Annual	Merit**
I	3.40%	Unknown	Annual	Merit
J	3.80%	3.00%	Annual	Merit
K	3.25%	3.25%	Annual	Merit

*Company E provides a combined COLA and Merit increase equal to 5%.
**Company H provided a 4% increase in 2005 and a 3.5% hourly increase for Union employees.

Average Increase Total	**3.66%**	**3.52%**	**Annual**	**Merit**
State Government	**July - 2% 3.2% - 5.4%**	**Jan. - 2%; July 2.25% 3.2% - 5.4%**	**6 months Annual**	**COLA Incremental Step**

When compounded, the private sector salary adjustments increase the 2004 salary levels by 7.3%.

When compounded, State government cost of living salary adjustments increase 2004 salary levels by 6.38%. State government employees are also eligible to receive an annual incremental step increase, which occurs unless the employee's performance appraisal is "poor." The value of the increase varies depending upon where the employee is on the salary scale within their job code. For the job titles studied, the range of the percentage step increase was 3.2% to 5.4%.

PAID TIME OFF

Paid time off is another benefit that was included in our compensation survey, including sick time, vacation time, paid holidays, and personal days. We also surveyed companies on their policy of carrying over unused days.

We chose to specify the leave time benefit for a six year employee, as these employees have invested more time with the employer. We found that the average paid time off provided by private sector companies ranges from 30 to 31 days. Six companies surveyed did allow for unused time to be carried forward, with limits.

STATE EMPLOYEES WITH SIX YEARS OF SERVICE ARE ELIGIBLE TO RECEIVE A TOTAL OF 47 DAYS OF PAID TIME OFF...NINE AND ONE-HALF WEEKS.

By contrast, State employees with six years of service are eligible to receive a total of 47 days of paid time off per year. In terms of sick leave, employees covered under CWA's contract accrue one sick day for every month of service during their first year of employment, and 15 days for each full calendar year thereafter. These sick days may be accumulated and "cashed out" at retirement. Unused sick time "cash out" is computed at ½ of the average daily rate of pay in the last year of the employee's service, not to exceed $15,000. In addition to vacation and sick time, State employees receive three personal days, and 14 paid holidays (including the day after Thanksgiving, which is usually granted by the Governor's Executive Order).

The State has taken steps to limit the carry-forward of vacation time, now requiring supervisory authorization to carry-forward any such time into the following year. In fact, the CWA contract requires supervisors to meet with their employees on October 1 of each year to determine how and when unused vacation time for that year will be taken.

Therefore, a six year State employee is eligible to nine and one-half weeks of paid time off each year, compared to his or her private sector counterpart who, on average, is eligible for six weeks of paid time off.

Paid Time Off - Six year employee

Company	*Sick time*	*Vacation time (6 year emp.)*	*Paid Holidays*	*Personal Days*	*Carryover policies*	*Total PTO/Year*
A	7 days	20 days	9 days	0 days	25 Vacation; 120 Sick	36 days
B	6 days	15 days	9 days	4 days	0 vacation; all sick; 0 personal	34 days
C	5 days	10 days	11days	1 days	25 sick days	27 days
D	10 days	15 days	7 days	6 days	None allowed	38 days
E	8 days	15 days	10 days	0 days	Allowed to carryover all	33 days
F	6 days	15 days	8 days	1 day	120 hours of sick time	30 days
G		20 - 30 days	6 days	4 days	None specified	30 - 40 days
H		15 days	10 days	1 day	5 vacation	26 days
I	9.23 hours per month accrued					13.85 days
J	0 days	15 days	11 days	1-5 depending on years of service	None allowed	27 - 31 days
Average PTO private	**7 days**	**15.5 - 16.6 days**	**9**	**2 - 2.4**		**30 - 31 days***
State Employees	**15 days**	**15 days**	**14****	**3**	**Sick time carryover upon retirement at 1/2 daily pay, up to $15,000**	**47 days**

*Rounded up to provide full day values.
**Takes into account day following Thanksgiving, as the Governor generally issues an Executive Order closing State offices.

Company H offers a unique program that combines disability leave with sick time.
Company I bundles all paid time off with no specificity to sick, vacation, holidays or personal time.
Company J provides 10-25 days of vacation depending upon position and years of service. For purposes of an average, we used the most typical time of 15 days.

HEALTH BENEFITS

State employees are entitled to health benefits under the State Health Benefits Plan (SHBP). More than 800,000 State and local employees, retirees, spouses and dependents are covered under this plan. The average premium cost increase for the insured plans in 2005 was 7.5% for active employees and 8.5% for retirees. As a result of legislation passed in 2003, part time employees may now obtain NJ PLUS coverage through the SHBP. Three types of health insurance plans are offered by the State: an HMO, NJ PLUS (a point of service plan - POS), and a traditional indemnity plan.

State employees make no contribution to their health premium if they enroll in the NJ PLUS plan, a 5% contribution if they enroll in one of the HMO plans, and contribute 25% toward the cost of the premium if they choose the traditional indemnity plan. In an effort to help control the cost of health care, and to its credit, the State prohibits employees from newly enrolling in the more expensive traditional plan as of July 1, 2003.

Coverage for hospitalization in the NJ PLUS plan (in-network) is 100% and 70% for out of network, after paying a $200 deductible. Doctor visits carry a $10 copayment. The Aetna HMO plan provides 100% coverage for hospitalization, with no deductible, and also has a $10 copay for doctor visits.

The State's Prescription Drug Program requires a $5 copay for Federal legend drugs, a $10 copay for brand name prescriptions, and a $3 copay for generic drugs.

Private employer health insurance plans present a more balanced burden between the employer and employee than is found in the public sector. Since health care costs represent a growing and significant expense to companies, employers are mitigating the impact of these costs by requiring employees both to contribute toward the premium costs and to assume higher copayments.

Health Insurance: HMO

HMO Plan Offered by Companies A, B, E, F, G, H, I, J & K

Employer/Employee Share	*Single Coverage*	*Husband/wife*	*Adult/child*	*Family*
A	91/9	63/37	63/37	54/46
B	74/26	74/26	74/26	74/26
E	90/10	75/25*	75/25*	75/25*
F	81/19	82/18	82/18	81/19
G	67/33	66/34	67/33	64/36
H	85/15	58/42	76/24	67/33
I	88/12	88/12	88/12	88/12
J	86/14	86/14	86/14	86/14
K	61/39	61/39	59/41	58/42
State Government	**95/5**	**95/5**	**95/5**	**95/5**

*Company E requires employees with less than five years of service to pay 75% of benefits.

Copays Offered by Companies A, B, E, F, G, H, I, J & K

Company	*Doctor Visits*	***Prescription*** (Generic/formulary/ non-formulary)	*Hospitalization*	*Annual Deductible*
A	$10	$10/$30/$50	None	None
B	$10	$10/$25/$50	Information not provided	Information not provided
E	$20	$10/$20/$35	$250 per day	$1,000 ind./$3,000 family
F	$10 primary/$15 specialist	$10/$20/$40	$200 copay	None
G	$20 primary/$25 specialist	$10/$20/$35	$250 copay	None
H	$15	$10/$15/$30	$0	None
I	$10 primary/$20 specialist	$20/$40/$60	None	None
J	$15	$10/$15/$30	$100	None
K	$20 primary/$25 specialist	$10/$25/$50	$100 per admission	None
State HMO Plan - Aetna	**$10**	**$5/$10/$20 (Generic/preferred/ brand name)**	**100%**	**None**

Though the State offers multiple HMO plans, we chose Aetna's plan for comparison, as the greatest number of enrollees are in this plan.

All of the companies we surveyed provide health insurance to their employees, with the most prevalent plans offered being HMOs (offered by nine companies) and PPOs (offered by all surveyed companies). Only two companies offer a traditional indemnity plan, with one company requiring a 24% employee premium contribution, and one company paying 100% of the premium. Three companies surveyed offered a point of service plan, with an employee copay of 11%, 25% and 26%.

Nine companies provide an HMO Plan, with employee premium contributions varying depending upon the type of coverage (single, husband/wife, adult/child, or family). The lowest employee contribution toward the health insurance premium was 9% for an HMO plan with single coverage, and 12% associated with family coverage. Doctor visit copays under the HMO plans ranged from $10 to $20, with $10 being the most typical.

The prescription drug program within the HMO plans most frequently includes a three tier copayment structure with a $10 copay for generics, $15 to $40 for formularies, and $30 to $60 for non-formulary drugs. Most plans carry some deductible for hospitalization.

PPO plans were also widely offered by responding companies. Once again, all companies required an employee contribution toward premiums, depending upon the type of coverage. The most substantial contribution toward the premium was Company H, which paid 92% of the premium costs, regardless of the coverage elected by the employee. Other companies' contributions ranged from 90% to 46%. Doctor visits and prescription copays generally mirrored those in the HMO plan. Many PPO plans do require an annual deductible. Only two companies offered a traditional indemnity plan.

Health Insurance: PPO

PPO Plan

Employer/Employee Share	*Single Coverage*	*Husband/wife*	*Adult/child*	*Family*
A	80/20	49/51	53/47	46/54
B	74/26	74/26	74/26	74/26
C	81/19	81/19	81/19	81/19
D	85/15	85/15	85/15	85/15
E	90/10	75/25*	75/25*	75/25*
F	80/20	83/17	80/20	74/26
G	60/40	59/41	59/41	58/42
H	92/8	92/8	92/8	92/8
I	88/12	88/12	88/12	88/12
J	88/12	88/12	88/12	88/12
K	67/33	67/33	65/35	66/34

*Company E requires employees with less than five years of service to pay 75% of benefits; employees with more than 5 years of service pay 25%.

Copays

	Doctor Visits	*Prescription*	*Hospitalization*	*Annual Deductible*
A	$10	$10/$30/$50	None	$250/$500 Out of network
B	$10	$10/$25/$50	Information not provided	Information not provided
C	$5	$5/$15/$20	100% up to 365 days in network; 80% coverage out of network	None
D	$15/$25	10%/20%*	$300	
E	$20	$10/$20/$35	$250 per day	$500/$1,500
F	$30/30%	$10/$30/$50	$200 in network/$400 out of network	$300 single/$600 family in network; $600 ind./ $1,200 family out of network
G	$10	$15/$25/$50	deductible + 90% co-insurance	$300 individual/$600 family in network; $750 individual/ $1,500 family out of network
H	$15	$10/$15/$30	20% up to $2500 deductible individual; $5,000 family	None
I	$10	$10/$20/$40	$50 for ER visit	0/$300/$900
J	10%/20%25%	$10/$15/$30	None	$200/$250/$500
K	$20	$10/$25/$30	80% after deductible	$300 single/$600 family

*Company D requires employees to pay a percentage of the prescription costs with the following minimums:
$7 for generic; $15 for preferred drugs; $35 for non-preferred drugs.

Health Insurance: POS

POS Plan Offered by Companies B, C & E

Employer/Employee Share	*Single Coverage*	*Husband/wife*	*Adult/child*	*Family*
B	74/26	74/26	74/26	74/26
C	89/11	89/11	89/11	89/11
E	90/10	75/25*	75/25*	75/25*

*Company E requires employees with less than five years of service to pay 75% of benefits; over five years, employee pays 25%.

Copays Offered by Companies B, C & E

Company	*Doctor Visits*	*Prescription*	*Hospitalization*	*Annual Deductible*
B	$10	$10/$25/$50	Information not provided	Information not provided
C	$5	$5/$15/$20	100% in network; 80% out of network	None in network; $200 per individual
E	$20	$10/$20/$35	$300/day;$1,200 max	$1,500/$3,000
NJ PLUS Plan	**$10.00 copay per visit**	**$3/$10**	**100% in network; 70% out of network after $200 deductible per hospital stay**	**None**

Health Insurance: Traditional Plan

Traditional Plan Offered by Companies H & K

Employer/Employee Share	*Single Coverage*	*Husband/wife*	*Adult/child*	*Family*
H	100%	100%	100%	100%
K	76/24	76/24	73/27	74/26
State Government	**75/25**	**75/25**	**75/25**	**75/25**

Copays Offered by Companies H & K

	Doctor Visits	*Prescription*	*Hospitalization*	*Annual Deductible*
H	$600 ded. + 10% copay for in network/30% out of network	$10/$15/$30	10% in network; /30% out of network up to $2300 on individual/ $4600 on family deductible	$600/person
State Government	**$100 deductible individual and $400 for coinsurance; eligible expenses paid 80% of reasonable and customary**	**$8/$16/$33 (generic/ preferred brands/other brands)**	**100% up to 365 days; days 366+ at 80% after deductible.**	**$250 per employee; $250 each additional family member**

*Company K has numerous plans for traditional coverage, therefore could not offer information on copays.

RETIREMENT BENEFITS

Once vested, State government employees are eligible to receive a formula based defined pension benefit. Employees enrolled in the Public Employees Retirement System (PERS) are eligible for retirement benefits when they reach age 60. Employees contribute five percent of their base pay during each year of service toward that benefit.

The State retirement calculation is as follows: (years of service/55) X final average salary = maximum annual allowance. For example, a member with 22 years of service would receive 40% (22/55) of their final average salary. An employee with 30 years of service would receive 54.5% of final average salary. An employee's final average salary is defined as the three years immediately preceding retirement. If these are not the highest years of salary, the allowance may be calculated using the three highest fiscal years. Retirees are eligible for annual cost of living adjustments in the 25th month after their retirement, and a COLA adjustment is made annually thereafter.

Early retirement is available to State employees who have 25 or more years of service before reaching the age of 60. An employee with 25 or more years of service can retire at age 55 with no reduction in benefits. Employees under the age of 55 may retire, however with reduced pension benefits.

A STATE EMPLOYEE WITH 25 OR MORE YEARS OF SERVICE CAN RETIRE AT AGE 55 WITH NO REDUCTION IN BENEFITS.

The normal vesting schedule for State employees is ten years, versus the private sector vesting schedule of five years of service. There is a significant population of State employees who work for less than 10 years in State government service. In 2003, 48.6% of all full-time employees who were separated from State government service had less than 10 years of service. These employees separated from service with no accrued employer contribution to their retirement investment.

The defined benefit retirement plan provided to State employees, coupled with free medical benefits, is out of synch with the private sector. The survey results of CCSNJ member companies show these private companies following a sweeping national trend that is moving away from defined benefit retirement plans to defined contribution plans. Of the companies still offering a defined benefit plan, one is in the process of phasing it out, and another is freezing its plan and accruing no additional benefits. Ten of the companies responding to our survey offer 401(k) plans with varied company contributions.

RETIREE MEDICAL BENEFITS

Only two companies in the survey group provide post retirement medical benefits, and both require retirees to share the premium cost.

In sharp contrast, State employees with 25 or more years of service can retire with full medical benefits for themselves and their dependents (until the death of the State retiree). The level of these benefits is dictated both by date of hire and date of retirement. For example, the State assumes all costs of health insurance, regardless of choice of plan, for those eligible employees who retired prior to July 1, 1997. Employees with 25 years of credit who retire after July 1, 1997, and choose to enroll in the traditional indemnity plan will contribute anywhere from 1% to 25% to the premium cost. Eligible retirees provide no contribution if they are enrolled in either the NJ PLUS (Point of Service plan), or one of the State's HMO plans. Further, the State reimburses $46.10 per month toward the cost of Medicare Part B premium for State retirees and their eligible spouses for all employees hired prior to July 1, 1995.

A majority of State retirees - close to 55% - are enrolled in the more expensive traditional indemnity plan. This plan covers more than 28,000 State retirees and their dependents. It is noteworthy that the percentage of retirees covered under the traditional plan is declining, while the percentage of retirees covered by the NJ PLUS plan is increasing, presumably due to language in the CWA contract that requires State employees retiring after June 30, 2003 to contribute 25% toward the traditional plan premium.

State government retirees are also entitled to prescription drug benefits. Retirees enrolled in the Traditional Plan or NJPLUS plans have prescription benefits that carry copays of $8/$16/$33 (generic/preferred brand drugs/all other brands). Retirees enrolled in one of the HMO plans have prescription drug benefits with copays of $5/$10/$20 (generic/preferred/other brand names).

Retirement Benefits

Company	*401 (k) plan*	*Defined Benefit Pension Plan*	*Post Retirement Medical*
A	Employer matches $.50/$1 of employee's contribution up to 6% of salary	None offered	None offered
B	Contribution of 6% of employee's salary	None offered	None offered
C	Non-union: Final avg. earnings (highest 3 years of last six X 1% X years of service PLUS final avg earnings in excess of covered comp X .35% X years of service Union: 2.1% of total straight time earnings per year accumulated annually.		
D	Company matches $.50/$1 of employee contribution up to 6% of salary	Not applicable	None offered
E	No employer match	Company contributes 3% of salary; vested at 20% per year.	None offered
F	Company matches 2% if employee contributes 4%	None offered	None offered
G	Company matches 50% of first 6% of employee's contribution	None offered	None offered
H	Company matchers $.75/$1 of employee's contribution up to 8% of salary; vested at 20% per year.	Vested at 5 years. Formula is 1.6% X years of service X final average pay.	Cost of benefit is discounted 3% per year X years of service (up to a maximum of 90% discount). Retiree absorbs all premium increases above 2.5%.
I	None offered	Pension is frozen; no additional benefits being accrued.	None offered
J	Company matches $.60/$1 of employee contribution up to 5% of salary; vested at 20% per year.	Pay credits earned at a percentage of pay each year based upon age (ranges from 4.5% to 9%) PLUS Interest credits on account balance at the rate of a 30-year Treasury note. Vested at 5 years.	Retirees between 55 & 65 with 10 or more years of service, a monthly credit of $16 X years of service; this is reduced at age 65 to $3 a month X years of service.
K	Company matches 100% employee's contribution up to 6% of salary; vested after 5 yrs.	Defined pension plan moving to a cash balance plan in 1/08	None offered
Public Employees		**Includes retirement, death, disability and medical benefits. Vesting is 10 years except for medical benefits, which is 25 years. Retirement at 60 with 1/55 of final average salary* X years of service. Employees contribute 5% of base salary.**	**100% State paid for HMO and NJ PLUS plans; $46.10 per month for Medicare reimbursement; 25% contribution toward Traditional Plan premium plus $46.10 Medicare reimbursement.**

* Final three years, or highest three years of salary.

SUMMARY & RECOMMENDATIONS

In the past, it was a typical practice to provide State employees with benefits superior to those commonly offered to their private sector counterparts. The rationale behind this approach was rooted in the belief that State government employees' salaries were far lower than those in the private sector. While in the past, this practice likely helped to close the gap in the total employee compensation costs between the private and public sectors, the job titles contained in this analysis show, in many cases, that salary disparity may no longer exist.

It would appear that while State government salaries have over time, gained significant ground on their private sector counterparts, the State government has failed to take steps to contain employee benefit costs consistent with the private sector. The fiscal consequences are exacerbated by a medical inflation rate that shows no signs of softening in the near-term (which affects costs for both active and retired employees), and a defined benefit pension plan which has offered early retirees not only an enhanced monthly benefit, but also essentially free health care for a greater number of retirement years (ability to retire earlier and longer life expectancies).

TOTAL COMPENSATION COSTS FOR STATE GOVERNMENT EMPLOYEES SHOULD BE THOROUGHLY REVIEWED BY OUR POLICYMAKERS.

These factors indicate that the "total compensation costs" for State government employees should be thoroughly reviewed by our policymakers. That review should analyze the real costs per year of expected service, which would include the cost liability presently incurred by the State for pension and retiree health care costs. We believe that this life-cycle cost analysis will reveal a marked disparity between today's State and private sector employees. We further believe that a plan to balance this disparity should be defined prior to the next cycle of labor negotiations, so that a pattern of activities designed to control both current and future costs can be set.

Members of the subcommittee also reviewed the State Benefits Review Task Force report that was issued on December 1, 2005. This Task Force, before which the Chamber of Commerce Southern New Jersey testified, was created in recognition of the growing concern over the affordability of providing benefits to public employees and the impact on the State budget and, therefore, taxpayers. This Task Force researched the issue of State and local employee benefits and sought input during five public meetings. We applaud the work of the Task Force, and agree with the many of its recommendations, including:

- Ending pension boosting and tacking by: restricting end of career salary hikes; requiring employees to designate a single job for pension purposes; basing pension calculations on the five highest salary years; requiring elected and appointed officials to participate in a defined contribution plan; providing no pensions for convicted officials; and limiting sick day payouts.

- Making structural reforms to pension benefits. Increase the retirement age to 60, and impose benefit reductions for retirement prior to that age; no pension credits for jobs that pay less than $5,000 (versus the current $1,500 threshold); impose a permanent moratorium on early retirement plans; and impose a moratorium on any benefit enhancements. Additionally, our subcommittee submits that State employees hired July 1, 2007 and after be required to enroll in a defined contribution plan, eliminating the defined benefit plan for all new hires after that date; however, all current employees would still be enrolled in the defined benefit plan.

- Making structural reforms to health care benefits. Require all State employees and retirees to contribute to their health insurance benefits.

The time to make reasonable changes to State employee benefits is now. The next contract negotiation cycle presents the opportunity to bring these benefits more in line with the benefits offered by the private sector. If changes are not made, our State's elected leaders will continue to struggle to find the dollars needed to feed these growing expenses, which ultimately are funded with taxpayer dollars. In other words, if these expenses are not brought under control, taxes will necessarily increase.

State Government Energy Utilization

Chair: Charles A. Wimberg, Atlantic City Electric

Joseph W. Barton, PSE&G
Ronald B. Johnson, New Jersey Technology Council
Dr. Robert Messina, Burlington County College
Thomas A. Mueller, BP/Crown Landing LNG
Michael Renna, South Jersey Industries, Inc.
Leeanna Roman, Providence Pediatric Medical Daycare, Inc.
Liz Thomas, Thomas/Boyd Communications
Lee Wasman, Atlantic City Electric

BACKGROUND

In time, energy deregulation may prove to be the most significant step in addressing the rising cost of energy. The "Electric Discount and Energy Competition Act," enacted in February 1999, (P.L. 1999, c. 23) with an effective date of August 1 of that year, was intended to allow New Jersey residential, commercial, and industrial consumers to benefit from the dynamism and pricing of the competitive marketplace. Specifically, policymakers intended energy deregulation to help New Jersey businesses compete more effectively by shopping for lower priced power. Various transition mechanisms were employed to avoid the sort of market destabilization that followed deregulation in California, and some transitional elements have not yet been phased out completely.

Since 2000, electricity prices have increased 2.5% annually. This is slightly higher than the 1.99% consumer inflation rate. Several economic factors have caused electric and natural gas prices to escalate. Based on research and long range forecast, it does not appear that this trend will reverse itself anytime soon. For a variety of reasons, including international political events, rising worldwide demand, and natural disasters, energy prices have a measure of volatility.

Energy costs are a significant expenditure for the State government. In Fiscal Year 2007 it is estimated that $125 million will be spent for electricity and $39 million for natural gas. Therefore, it is critical that State government begin to examine how and where State level energy policies are aligned, while also ensuring that it is utilizing best business practices in the procurement and use of energy. State government must also undertake a thorough review of energy use and conservation policies for its own facilities.

Many New Jersey large businesses have adopted sophisticated strategies to drive down energy costs through the competitive markets and by utilizing financial mechanisms to hedge against commodity price spikes. As a result, most large private sector entities operating in markets in which energy has been deregulated have either in-house specialists and/or specialized consultants managing purchases. To its significant advantage, the New Jersey State government has, for the past several years, utilized the services of an outside consultant to assist in reaping the benefits of deregulation. The consultant's performance has been outstanding, with savings of about $30 million realized over the past three years in the purchase of electricity and natural gas, combined, for a specific subset of the State government's facilities.

Oil price volatility also has implications for another area of State government operation: its vehicle fleet. According to a recent press release issued by the New Jersey Treasury Department, the State government has over 10,500 passenger automobiles in its fleet. The fleet includes a vast array of special purpose vehicles, as well. State government must update its current fleet vehicle management plan to incorporate policies that focus on fuel procurement, consolidation, improved efficiencies and reduced maintenance and operating costs for its vehicle fleet.

RECOMMENDATIONS

1. Analyze the cost savings potential of increasing the number of facilities participating in the New Jersey Consolidated Energy Savings Program, and include in the program any entities whose participation would result in a financial benefit. The program is the State government's aggregation vehicle, but not all facilities, agencies, or institutions participate. In some cases, participation in the program would not yield any financial benefit, but the State government should be rigorous in insuring that it has an enrollment strategy to maximize cost savings from the program.

2. State government should pay its energy invoices more promptly, which would result in lower prices. Energy billing is complex for an entity as large and as multifaceted as the State government, usually resulting in a relatively lengthy period elapsing until both parties in the sales transaction agree on the final billing amount. As a result, the time value of money is often priced into the energy purchase contract. The State government could realize lower prices if it paid within net 45 days of being invoiced and used a quarterly true-up mechanism to adjust bills with suppliers to the point of total accuracy. To provide fairness in the true-up process, it could include interest payment provisions for either party, to provide a disincentive for inaccuracies.

THE FACT THAT THE INTERIORS OF MANY OF THE STATE GOVERNMENT'S TRENTON OFFICE BUILDINGS ARE ILLUMINATED AT NIGHT IS A GLOWING SYMBOL OF THE NEED FOR MUCH GREATER CONSERVATION.

3. The State government should obtain the assistance of a consultant to analyze the risk of its present strategy of purchasing 100% of the load for a specified period of time. The present purchasing strategy has the advantage of price certainty for the duration of the contract, but it risks forgoing the possibility of buying a part of the load at those times when the market prices dip. As prices are variable, the State government pays a premium for price certainty in its contracts. Risk analysis would determine how much of a premium the State government has been paying. Based on such findings, the State government might determine that the premium being paid for price certainty is minimal and continue to execute its present purchasing strategy. If, however, the analysis finds that the price certainty premium is costly, alternative purchasing strategies abound to minimize the risk of missing buying opportunities when market prices dip. These may include contracts of varying durations for segments of the load, or allowing a small portion of the load to be purchased separately, with the timing of such a purchase triggered by a downward movement in market prices.

4. State government should explore financial strategies for minimizing its risk of paying too costly a premium for price certainty in its energy contracts. Several financial institutions have become strategic participants in the energy markets, and New Jersey Treasury officials should systematically review any available financial mechanism that might permit the hedging of energy costs. It is possible that an appropriate hedging mechanism is available for the State government's purposes.

5. State government should explore the reverse auction process to procure energy. The reverse auction process typically has two stages: in the first stage, the qualifications of the bidders are reviewed, and, in the second stage, the qualified bidders respond in real time to stipulated bidding criteria. Because of the manner in which energy deregulation transitional elements are structured, only a small pool of energy suppliers now bid to supply the State government's energy needs. As the transitional elements phase out, however, a larger pool of suppliers is likely to bid, and a reverse auction approach should be considered.

6. The State government should implement a comprehensive energy conservation plan for its facilities. According to a recent survey, a number of Chamber member companies have aggressive, ongoing energy conservation programs in place. While several germane initiatives have been launched by the State government, a great deal more needs to be done. The fact that the interiors of many of the State government's Trenton office buildings are illuminated at night is a glowing symbol of the need for much greater conservation. We recommend that an expedited schedule be developed for evaluation of the energy efficiency of all of the State government's owned and leased premises and that the State develop an action plan for each facility.

In order to optimize the effectiveness of energy conservation, the State should look at both short and long term solutions. Short term fixes provide benefits from quick low-cost/no-cost energy efficient solutions, and include actions such as installing central thermostat controls, utilizing energy efficient light bulbs and dimmers triggered by energy price spikes, prohibiting the use of space heaters, and turning off lights and personal computers at the end of the work day. For instance, the typical desktop computer workstation (computer, monitor and printer) uses about 200 watts per day of electricity. If left on overnight and weekends this wasted energy could add up to $30.00 or more per workstation every year. Additionally, replacing office lighting from T12 florescent lamps to modern T8 lamps and electronic ballasts can reduce lighting cost by almost 35%.

Longer term solutions should also be considered, which can dramatically increase the efficiency of a facility without compromising the working environment. For example, comprehensive facility audits can identify areas and equipment that would benefit from retrofitting and/or replacement. Data suggests that reductions of 10 to 15 percent in annual energy bills are achievable when a building's energy systems are monitored continuously. For the typical 50,000 square foot office building, that's equal to about $9,900 in savings per year. In existing buildings, renovations that replace older systems with more efficient technology can produce savings of up to 30% with the same positive impact on building comfort. Energy smart behavior along with automated controls like occupancy sensors and programmable thermostats ensure reduced energy use and equals real energy savings.

In the case of leased premises in which the State government wishes to remain a long term tenant, leases should be renegotiated with terms of occupancy extended. In exchange for these extensions, landlords should be required to implement energy efficient retrofits to reduce the State government's occupancy costs.

7. The size of the State government's vehicle fleet should be reduced, and energy efficiency should be a prime objective in future vehicle procurements. A number of Chamber member companies have reported sharp reductions in the allocation of company-owned automobiles to specific employees. The State government owns over 10,500 passenger cars, and there is reason for concern about the cost-effectiveness of the deployment of these vehicles. For example, on April 26, 2006, State Senator Fred Madden (4th District), was quoted in an article in *The Express Times* speaking about the allocation of State government owned automobiles to specific employees: "…over time there has been a transition to people receiving perks at taxpayer expense in the form of vehicles, whereby these vehicles are not being used as tools by employees to help them do their job. They're being used just for commuting [to and from work]." We recommend that the allocation of every automobile to a specific State government employee be suspended, except in any instances in which the provision of an automobile is required by contract, by regulation, or by statute.

WE RECOMMEND THAT THE ALLOCATION OF EVERY AUTOMOBILE TO A SPECIFIC STATE GOVERNMENT EMPLOYEE BE SUSPENDED, EXCEPT IN ANY INSTANCES IN WHICH THE PROVISION OF AN AUTOMOBILE IS REQUIRED BY CONTRACT, BY REGULATION, OR BY STATUTE.

Subsequently, an automobile would be allocated to an employee only following the approval of a statement of justification by the head of the employee's agency. Contained in the statement of justification would be the employee's declaration of his or her intent with respect to the use of the vehicle for commutation. In such instances where the employee has declared an intent to use the publicly owned automobile for his or her personal benefit to commute to and from work, the agency head must provide, in the statement of justification, express approval of such use and the specific reason for granting that approval. In addition, the State should assess a personal use fee based on generally accepted accounting standards.

8. The State should establish an overall vehicle fleet management plan to apply best business practices. This plan should include: a) third party procurement of fuel on the spot market to ensure the lowest possible price; b) use of procurement cards which allow for the improved efficiency in offsite fuel purchases, while allowing for real time reporting; c) implementation of a "Balanced Scorecard" to measure performance against assigned goals and provide a clear prescription as to what the State should measure in order to "balance" its fleet's financial and operational performance; d) establish a "Standard Vehicle Requirements" document that will create uniform practices for the purchase, maintenance, disposal, and allocation of the State's fleet vehicles, as well as the coordination and management of fuel and defensive driver training.

Distribution Logistics & Enhanced Cooperative Purchasing

Chair: Kenneth B. Ross, Lockheed Martin Maritime Systems & Sensors

Nancy Churchwell, Virtua Health
Thomas J. Heitzman, Whitesell Construction Co., Inc.
William R. Jusko, CVS/pharmacy
Charles E. Klein, The Richard Stockton College of NJ
William P. Lloyd, Campbell Soup Company
George D. Sowa, Brandywine Realty Trust
Dr. Mark VanKooy, Virtua Health
John Mitchell, Valero Refining Company - NJ
Marc Policarpo, Binswanger
Leon Roth, Virtua Health
Dr. Edward Schoen, Rowan University

Warehousing & Distribution

The State of New Jersey has made several improvements regarding space reduction and consolidation plans with respect to warehousing of goods. In Governor Corzine's proposed Fiscal Year 2007 Budget, it was noted that the first phase of the consolidation of warehouse/records space had been initiated and completed. These efforts produced a savings of approximately $800,000. The document notes that these efforts consisted of the consolidation of all excess furniture stored by individual departments from separate locations. We applaud such initiatives and attempt to build on these successes by offering suggestions for additional opportunities for future savings.

Our committee recognizes the unique government interest in certain aspects of its warehousing efforts, such as (i) storage of evidence/seizures in criminal, quasi-criminal and, perhaps, some regulatory matters (where the chain of evidence custody is important); (ii) storage of museum artifacts (although an argument could be made that a private "bonded" warehousing operation could also handle museum artifacts, perhaps more efficiently); and, possibly, (iii) storage of government/court records.

While our subcommittee believes that outsourcing warehousing operations to a third party would be more efficient and cost effective, we understand that State government may have a need to maintain its own warehousing operations and offer the following recommendations.

Recommendations

1. Determine what materials are critical and needed immediately and stock only those items. Such items include emergency, stay in business-type goods/materials. These are items for which the government cannot wait or depend upon someone else to control.

2. Determine what materials can be purchased through next day delivery from vendors. As for supplies, virtually all are easily available within 24 hours, if not the same day.

3. Purchase items from a vendor new, rather than storing and warehousing items. For example, when reviewing the furniture that the State stores, the information provided shows that in a six-month period only 664 furniture items were distributed through the warehouse to State departments and agencies. That is approximately 110 a month, or about five a day (assuming an average 22 business days per month). This volume suggests that there is not sufficient "critical mass" to warrant maintaining a system of warehousing/distributing for these items. Also, the "cost as new" indicates that the furniture items generally have a nominal value (most are $200 or less, and only three items are worth more than $400), and typically the real value of these items drops considerably once they have been used. This suggests that it may be more cost effective to stop warehousing and handling furniture items and simply purchase new items as needed.

4. Review inventory on a regular basis to determine materials that have become obsolete. Equipment such as computers, televisions, and consumer electronics are all prone to rapid obsolescence due to technological advances. As with supplies, and even furniture, most computer and electronic equipment can be delivered direct from the seller or manufacturer in short order. Direct purchases of these items as needed would also maximize the "bang" for the State's technology dollar by having the most current (or at least reasonably current) technology placed into immediate service. Warehousing not only accelerates the expenditure on equipment, but also causes items inventoried to become more technologically obsolete, lose monetary value, or become damaged or misplaced while in storage.

5. Obsolete items should be removed from inventory, sold as scrap, trashed, or recycled. This will reduce inventory dollars on hand, handling and inventory counts.

6. Consolidate goods that are currently warehoused at multiple locations. If the same materials are stored at different locations, explore whether or not these items can be stored at one location at reduced quantities.

7. Research vendor stocking programs. In this scenario, the State would store items at its location and pay only for materials when used. The vendor would store materials at the State's site at no cost to the State, and the State would pay the vendor only after materials are withdrawn or used. The vendor would also be responsible for stock, inventory, and replenishing goods.

8. Review the option of paying a stocking fee to a vendor who would store materials for the State. This is another option where the State would only pay for items as used. The State would provide the vendor with a list of materials, and the vendor would be responsible for supplying the materials. Delivery would occur either immediately or be shipped the next day, at the latest. The vendor would also guarantee that it will have the items needed in stock. This option is suitable for items that are used occasionally. Typically, there is a monthly fee associated with this type of service. The costs would include a monthly stocking fee, plus the cost, when material is withdrawn for use.

9. Review maximum/minimum stocking levels on a regular basis, to lower stocking levels to "Just in Time" replenishment. Using historical usage data and replenishment lead times lower stocking levels. Just in Time relies on the notion that items are replaced just before they are needed again. This approach produces significant savings because it lowers inventory levels and materials on hand.

10. Review the option of allowing State departments to make direct purchases per a pre-negotiated schedule. Warehousing rent, shipping and labor expenses would be eliminated, and supply expenditures would be deferred until the point that supply items are actually needed (maintaining an inventory accelerates the expense). Inventory "shrinkage" (damage, obsolescence) should be reduced by eliminating the warehousing/handling function.

11. Eliminate warehousing and storing of periodicals and forms. In an age of computers and technology, warehousing space and operations should not be devoted to such items. Forms should be developed and stored electronically (existing forms can be scanned), so that they can simply be printed as needed from a desktop or network printer. Periodicals and other published materials that are current or timely in nature, should not be warehoused, but rather distributed directly to State departments / agencies. Anything that is in print can be reduced to electronic form to eliminate warehouse storage needs.

WHEN ONE MEMBER COMPANY EXPLORED THE OPTION OF OUTSOURCING WAREHOUSE OPERATIONS TO A THIRD PARTY ANNUAL COST SAVINGS TOTALED 28%, A SAVINGS OF $5.6 MILLION.

EXPLORE OUTSOURCING WAREHOUSE OPERATIONS TO A THIRD PARTY

Many private sector businesses recognize that they are not "experts" in warehousing and distributing items; therefore, some have employed the method of outsourcing their warehousing operations to a third party.

When one member company explored the option of outsourcing warehouse operations to a third party, annual cost savings totaled 28%, a savings of $5.6 million. A similar approach may be used with State operations, with comparable savings; however, recent increases in operating costs, such as energy prices, could slightly decrease savings.

Other than unique areas mentioned previously in this report, this subcommittee recommends that the State cease conducting any warehousing activities itself. It is apparent that other warehoused items consist of furniture, equipment, supplies, forms, and periodicals and records. Of these, records are the one item that the State arguably has an interest in warehousing itself. This begs the question of whether the State can manage records retention more efficiently and cost-effectively than a private provider. The subcommittee recommends that this option be studied and evaluated by the State.

OTHER THAN UNIQUE AREAS PREVIOUSLY MENTIONED IN THIS REPORT, THIS SUBCOMMITTEE RECOMMENDS THAT THE STATE CEASE CONDUCTING ANY WAREHOUSING ACTIVITIES ITSELF.

If the State determines that it will cease operating its own distribution facilities, the subcommittee recommends that the State should relocate those employees to other State jobs.

RECOMMENDATIONS FOR IMPLEMENTING OUTSOURCING

When looking to drive efficiency in third party warehousing operations, the State should apply standard Strategic Sourcing Techniques to the opportunity.

The State should:

- Define requirements
- Issue Requests for Information (RFIs) to a broad list of suppliers
- Issue Requests for Proposals (RFPs) to those

PURCHASING

The private sector has successfully used several different approaches in the development and negotiation of contracts. Companies may structure their negotiation process differently depending upon the types of products or services that are being purchased. Typically in the private sector, negotiations with suppliers are dependent on the relationship, product being purchased and position to increase the competitiveness of the commodity.

TWO BEST BUSINESS PRACTICES

Scenario 1: When buying commodities Company X uses a centralized approach with a master agreement. Through this approach, the company can manage the risk for all the units and have a single point of contact; therefore, fewer individuals are required to manage and monitor markets. A pitfall of this approach is that individual units may believe that they can do a better job of purchasing items.

Company X uses cross functional team negotiations. A contact person is established to conduct negotiation training for large and small corporations, as well as the federal government. The company's point person is highly regarded nationally and brings a great deal to instruction; therefore, the corporation is confident that their needs are being met.

Company X uses electronic auctions as much as possible in the contract negotiation process. This company does so to ensure that the information is public, but remains confidential (everyone is able to see the lowest price but doesn't know who the bidder is). The bids are then reviewed and options explored regarding which bid should be selected. The low price bid is just the entree to further negotiations on price as well as quality, delivery, innovation, etc. The lowest bidder is not always selected because choice depends upon the bidder's ability to responsibly deliver the other elements needed for the project. Typically, when Company X is exploring contracts for commodities, the process is usually a single stage process; whereas, contracts for services may entail several rounds of negotiation.

Scenario 2: Company Y has a centralized procurement department which allows it to standardize and bid products in addition to securing price protection, along with payment terms and Freight on Board (FOB). According to Company Y, this system works well for the three way match for processing invoices and ensuring pricing is accurate. In addition, this company has a central distribution center for stock items and non-stock purchases. These items are directed through their central procurement department and are shipped directly to the ordering location. In terms of bidding, Company Y bids directly to the manufacturers using an RFP process, as well as benchmarking data that allows them to compare pricing. Prior to obtaining sealed bids, products are pre-qualified and once pre-qualified, Company Y typically accepts the lowest bid; however, they do a review to determine if there are any added value services that may be included in the bid to determine the total overall costs.

ONLINE AUCTION TOOLS CAN REDUCE BIDDING AND PRICE NEGOTIATION TIMES FROM ONE MONTH TO 30 MINUTES.

RECOMMENDATIONS

The State should review using the online auction approach more extensively when purchasing commodities. While State government may already purchase through online bidding, it may not be used often enough to experience significant cost savings. Many businesses have experienced significant savings when online bidding was applied to purchasing commodity items as well as energy.

One member company expressed that when online reverse auctions were used to purchase items, it experienced average savings of 30%, and several occasions with significantly more savings.

Advantages to Using Online Auctions

1. Transparency: This process allows all suppliers to view what the competition is quoting; however, the vendors' names remain anonymous while prices are displayed. Therefore, those bidding can view prices but not who is attached to the bid.

2. Increased Speed and Efficiency: Online auction tools can reduce bidding and price negotiation times from one month to 30 minutes.

3. Price Compression: An online auction tool assists in driving prices to their lowest possible levels. Price compression also occurs because incumbent vendors do not want to lose bids; therefore, they keep their bids competitive. This tool generally results in a high degree of confidence that the best price is being obtained.

4. Simplifies the Bidding Process: When using an online bidding tool, it is not necessary to generate an RFP for every potential vendor; therefore, it increases efficiency while simplifying the bidding process.

5. Enhances Bidder Selection: By using an online auction, the purchaser is able to reach many more potential vendors in a shorter timeframe.

Disadvantages

In order to effectively use the online auction approach, a minimum of three to four buyers are necessary to ensure that desired results are achieved. Further, some vendors may be reluctant to participate, which would limit the vendor pool. These potential disadvantages illustrate why the online auction process generally works well with commodities and basic goods, but is less effective with complicated services.

Requirements when Using an Online Auction Tool

1. Specifications must be detailed, precise, and expressed with clarity. If the specifications are not explicitly expressed, vendors may not meet the needs of the buyer.

2. Vendors must be truly capable of supplying the State. In an effort to ensure legitimacy, the vendors need to be qualified to some minimum. Therefore, a buyer should determine criteria to safeguard against awarding business to a supplier that has a great price but cannot perform the work required.

PROMOTING AND FACILITATING CULTURE CHANGE

In the first phase of the Board Council on Responsible Government Spending in the section pertaining to State Government Procurement Practices, four of the six recommendations focused on culture change. It was asserted that culture change was necessary to redeploy employees from "clerical supply tasks" to "managing the supply chain" and understanding the supply chain. Those recommendations are equally relevant in this case.

Proven process tools, such as Lean Six Sigma, which is a process that helps focus on developing and delivering near-perfect products and services, provide a methodical, data-driven approach in defining existing processes, identifying value added work and waste, and determining process improvements. A critical element of the success of this approach is the involvement of the employees engaged in the supply chain, thus the need for culture change.

TWO BEST BUSINESS PRACTICES

Scenario 1: A large healthcare provider in Southern New Jersey adopted Lean Six Sigma and additional process tools in 2000 as part of a comprehensive strategy to improve customer service and create an outstanding consumer experience. The CEO recognized that while the company was providing quality care to patients, it was imperative to strive for excellence in several areas, including meeting key operational targets.

The CEO encouraged the staff to strive for excellence by implementing the STAR Initiative within the organization. The STAR Initiative is a framework that focuses on creating an outstanding patient experience by working on five key areas: Best People, Caring Culture, Service Excellence, Clinical Quality and Safety and Resource Stewardship. The STAR Initiative serves as an effective tool to make improvement to internal processes.

The company also used Lean Six Sigma, as well as General Electric's Change Acceleration Process and WorkOut to, "create a vision and provide a platform for communication around which managerial resistance could be identified, understood, discussed and addressed." WorkOut is the company's approach to problem solving.

Now in the sixth year of using these tools, the company has had outstanding success in several key areas of operations, including financial, clinical, quality, and non-clinical business processes. Implementation of these tools led to one of their hospitals being ranked No. 1 in New Jersey, and all of its facilities being ranked in the top 10%. With nine individuals undertaking these efforts and an annual cost of approximately $1 million, this company sees an annual benefit of approximately $3 million to $4 million per year.

The company's success in implementing and maintaining these tools is credited to the commitment displayed from top management. Top management is active, supportive, and visible at meetings regarding how the organization is meeting its goals. This culture change has been adopted as "the way that they do business," and management's display of commitment to the process infuses excitement among staff.

Scenario 2: A large international company in Southern New Jersey began using process improvement tools in the early 90s, and began transitioning to Lean Six Sigma in the late 90s in its Southern New Jersey facilities.

At this company, more than 500 professionals are trained in the use of Lean Six Sigma techniques. These trained employees work with and facilitate multifunctional teams in the use and application of such tools as brainstorming, Kaizen, Value Stream Mapping and Quality Function Deployment events. In 2005, this company used Lean Six Sigma tools in more than 70 projects to generate nearly $40 million in validated cost savings/avoidance in such areas as procurement, finance, program management and manufacturing.

RECOMMENDATIONS

The subcommittee recommends that the State implement tools such as Lean Six Sigma to encourage and facilitate culture change. By encouraging this shift in behavior, employees will not only take added ownership over their work, but also this technique will increase efficiency and deliver cost savings. However, it is imperative that guidance, direction, and support flow from the top down, so that employees understand the importance of, and buy into, this paradigm shift.

BOARD COUNCIL ON RESPONSIBLE SPENDING
PHASE I RECOMMENDATIONS

We at the Chamber of Commerce Southern New Jersey have been consistent in urging policymakers to look to the private sector for ideas on how to economize while still fulfilling public needs in a responsible fashion. Our focus was on efficiency, not on cutting or eliminating operating programs, offering 43 recommendations in five operational areas.

Overview of PHASE I recommendations:

PUBLIC EMPLOYEE HEALTH BENEFITS

1. Create a five year strategic plan for the State Benefits Health Plan.
2. Review and update employee contribution strategies.
3. Adopt cost control techniques, including requiring employees to pay increased deductibles, co-payments or paying a larger share of premiums.
4. Offer a PPO benefit plan and eliminate the indemnity option. Further, the State should drive new employees to more efficient plans, including HSAs and HMOs.
5. Utilize population based care management techniques to manage costs.
6. Implement a three tier drug option, including drug formularies.
7. Implement consumer driven health plan (CDHP) options in order to reduce plan costs and provide efficient options to employees.
8. Maximize new medicare drug program for eligible retirees.
9. Create new options for new employees and new retirees, similar to Pennsylvania's plan.

Potential Savings

A modest savings of just two percent would decrease costs by $42 million, and a five percent decrease would save $105 million annually.

FLEET MANAGEMENT

1. Analyze the job functions that require a State supplied vehicle.
2. Bring the "customer facing employee" to vehicle ratio in line with average daily attendance.
3. Approach the issue of employees who commute to work in their assigned vehicle as a benefit.

Potential Savings

The cost of purchasing, insuring, maintaining and putting fuel into a single vehicle represents at least $3,000 per year. This represents the potential for significant savings for the State for every vehicle that is eliminated.

STATE GOVERNMENT PROCUREMENT PRACTICES

1. Execute strategic sourcing in a phased approach that focuses first on areas where implementation can yield substantial results.
2. Utilize a consultant who can assist in the orchestration of strategic sourcing to win employee buy-in.
3. The culture change must address redeploying employees from "clerical supply tasks" to "managing the supply chain."
4. The State should routinely practice price negotiation with vendors following the submission of sealed bids, to ensure that the State government gets the best value that it can. Further, the State should provide training to the purchasing staff in negotiation skills.
5. Identify strategic sourcing targets, i.e., goods and services, that have produced significant savings in the private sector.
6. Use proven process improvement tools, such as Lean Six Sigma, to build the new mindset.

Projected Savings

The State spends approximately $1.5 billion every year on the purchase of myriad goods. A very conservative estimate of potential savings for the State is 10 percent, or $150 million.

PROPERTY MANAGEMENT & SPACE UTILIZATION

The following specific steps should be undertaken in order to assess current practices and implement changes in order to achieve potential savings as quickly as possible.

1. Review prior year's actual costs versus budget - overall and by department - to identify and understand deviations from budget to control costs and manage recurring space and operating overruns.

2. Review existing internal real estate policies - statewide vs. departmental - to create consistent policies and space standards that will save departmental and Treasury staff time and prevent negotiating space requirements on a case by case basis.
3. Reach out for "Best Practices" to leverage the experience gained by other states and government entities.
4. Review and update standards based on standards employed by private sector for specific uses and functions. Reduced overall space requirements will result in occupancy cost savings. More uniform office types reduce time, cost and impact of moves, adds & changes.
5. Assess legislative and political restrictions, including existing statutes that prolong the process of selling State property. This will increase the State's ability to maximize market opportunities resulting in occupancy cost savings and improved turnaround of occupancy requirements.
6. Develop a strategic plan based on current and projected requirements for leased and owned facilities.
7. Identify opportunities for consolidation, disposition or restructuring leased and owned real estate. This will improve the quality of the State's real estate portfolio while creating measurable occupancy cost savings.
8. Utilize the services of qualified consultants with demonstrated experience.
9. Leverage the size and value of the State's ongoing real estate requirement. Longer term, larger deals with the State's low risk profile will provide reduced costs and operating flexibility.

Projected Savings

Without access to consolidated historical information for the State's real estate expenditures, specific savings are difficult to project. However, the following case studies are enlightening. 1) A Southeastern state that secured the services of an independent real estate provider reduced occupancy costs by $82 million. 2) Through the efforts of a third party real estate consultant, a Northeastern state reduced delivery time of new space by 20 pecent while saving between 15 pecent and 20 pecent on their annual real estate expenditure of $100 million.

INFORMATION TECHNOLOGY COMPATIBILITY

Infrastructure

1. Centrally manage and contract for infrastructure components such as network, security & e-mail; and network operating systems, helpdesk, server administration and virtual storage (SAN) within a long-term strategic plan.
2. Inventory the infrastructure of all business units to assess their needs, identify opportunities for consolidation, and gain consensus for required changes.
3. Establish standards for infrastructure components with the flexibility to address unique needs.

Service contracts

1. Inventory the contracts of all business units to assess needs and identify opportunities for consolidation.
2. Centrally manage and contract telephony components such as mobile services, switching, call routing, and scripting, as well as Disaster Recovery services.
3. Consolidate service (maintenance) contracts by minimizing vendors, platforms and infrastructure components.

Software

1. Inventory the software of all business units to identify opportunities for consolidation.
2. Implement a standard methodology for all stages of project delivery including evaluation, requirements, implementation, testing and recurring upgrades/maintenance.
3. Avoid custom development and use Custom Off the Shelf Software (COTS) application packages.
4. Use a portfolio management approach to applications to prioritize resources.
5. Evaluate new applications for security, scalability, and the ability to web-enable.

Governance

1. Centralize IT policy in the Office of Information Technology and strengthen the authority of the Central Information Officer (CIO).
2. Create support structure to assist CIO in removing barriers and accomplishing change.

Strategy

1. Establish a consistent long-term technology strategic plan.
2. Attempt to segregate daily support from project delivery teams.
3. Identify outsourced opportunities to allow focus on vital projects.

Projected Savings

Industry experience suggests that implementation of best practices as outlined above can realize returns of 10 - 20 percent in a given budget year. Assuming a $300,000,000 State IT budget, realized savings would be $30 - $60 million per year, with additional savings resulting from increased productivity.

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 in the region. The Chamber consists of a 13-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 was the first 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 to improve the operations of our organization.

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