
Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON GOVERNMENT CONSOLIDATION AND SHARED SERVICES

*"Testimony focusing on best practices in the delivery
of local services on a regional basis. Specifically, invited testimony
will be provided by Dr. John Baillie, David Grubb, and David W. Gruber"*

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

DATE: September 13, 2006
10:00 a.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

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



ALSO PRESENT:

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

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

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

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

Good morning.

Welcome to the fourth installment of the Legislative Committee on Government Consolidation and Shared Services.

If everyone would please take their seats. If you have a cell phone on, if you would, put it to silent, or vibrate, or turn it off.

I'd like to welcome the members.

We're going to start today. We have three witnesses who are going to testify. We're going to start today with David Gruber, who is the Senior Assistant Commissioner of Health Infrastructure Preparedness and Emergency Response, for the New Jersey Department of Health and Senior Services.

Mr. Gruber.

SENIOR ASST. COMM. DAVID W. GRUBER:
Good morning, Chairman Smith, Chairman Wisniewski, and members of the Committee.

Thank you for the opportunity to speak to you today about opportunities to provide the best public health service to the citizens of New Jersey.

My name is David Gruber, and I am the Senior Assistant Commissioner for Health Infrastructure Preparedness and Emergency Response, in the Department of Health and Senior Services.

The Office of Health Infrastructure, that office responsible for our state's local and regional health departments, falls within my purview. I'm representing Dr. Jacobs, Commissioner of Health, to address any issues you may have regarding New Jersey's public health system. I've been asked

to describe our current public health infrastructure, its administrative responsibilities and services, and how consolidation has, or is, able to impact the administration of these responsibilities and provision of services.

I will state up front that consolidation can be beneficial to both providing and provided for municipalities, but only if managed correctly. I'd also like to note that through creation of our 22 emergency preparedness-focused health agencies, our LINCS agencies, DHSS has started implementation of a regional and consolidated approach to the emergency preparedness aspect of our health system. And in January of this year, our Office of Public Health Infrastructure initiated a study of how to improve our public health system, a study that does include examination of core infrastructure.

As recommended by a joint national committee on public health practices, and as adopted by our State Public Health Practice Standards of Performance for local boards of health in New Jersey, all health departments, whether local, State, and/or Federal are expected to provide 10 essential public health services. These are: monitor of community health status, protect people from health problems and health hazards, giving people the information they need to make healthy choices, engaging the community to identify and solve health problems, develop public health polices and plans, enforce public health laws and regulations, help people receive health services, maintain a competent public health workforce, evaluate and improve programs, and contribute to and apply the existing body of knowledge regarding public health.

Included in these services are the core responsibilities of communicable disease investigation, inspection, and emergency response. A

municipality may meet these requirements by maintaining a public health department; contracting with the health department of another municipality; participating in a regional health commission; or contracting with, or agreeing to, come under the jurisdiction of a county health department.

Overall, there is a great variety in the type and means by which individual health departments provide service. Every local health department is required to assure that essential services are available to the community. However, not every local health department performs these services.

County health departments can be considered a special category of local health departments. Some provide limited services under the County Environmental Health Act, CEHA Act, such as environmental health hazard investigations and enforcement. Other county health departments are full-service health departments. These provide CEHA and the core services described earlier. These definitions do not, however, imply provision of services throughout the county.

For example, in Cape May, Camden, and Hunterdon counties, full-service county health departments provide service to the entire county jurisdiction. However, the Atlantic County Health Department, a full-service health department, provides services for the entirety of Atlantic County, with the exception of Atlantic City.

All county health departments are LINCS agencies. LINCS agencies are responsible for developing regional emergency response plans, training and exercising those plans, maintaining an electronic communication system for rapid transmission of critical health information,

and maintaining a capacity for providing critical information to the public in health emergencies. I should note that Newark and Paterson cities are also designated as LINCS agencies.

County-level services are provided in one form or another in all but two counties. Essex and Hudson counties rely on regional health commissions to provide for CEHA and LINCS services. Every municipality in Essex and Hudson either has its own health department or contracts with other municipalities to obtain basic local health services.

In summary, our New Jersey Public Health infrastructure is comprised of 115 county, regional, and locally based health agencies described as follows: We have 89 municipal health departments, seven regional health commissions, and 19 county health departments. Within this system, 140 municipalities participate in inter-local agreements to share local public health services of a municipal health department. Fifty-one municipalities receive local health services from a regional health commission. And 328 municipalities receive local health services from a county health department.

Within the past two years, two municipalities that closed their health departments and signed inter-local agreements -- have signed inter-local agreements with other municipalities to obtain services. Two municipalities have withdrawn from inter-local agreements and created stand-alone health departments. And three municipalities have switched their local health departments.

Every municipality is required to have a local board of health. There are two types of boards: an autonomous board with the ability to develop local ordinances, and an advisory board that provides the

municipality's governing body advice on public health issues. Local boards of health vary in size and activity, depending on the municipality. Needless to say, this is a very complicated system, and I've provided the fact sheet, that you see up on the screens right now, to give you an overview of this data.

I'd now like to provide four examples of how local health services have consolidated, and how services are being shared among local health departments.

In the year 2000, the counties of Salem and Cumberland County entered into an inter-local health service agreement, executed between the Salem County Board of Chosen Freeholders and the Cumberland County Board of Health. As a result, Salem County assumed the responsibilities for the provision of health -- public health services to Cumberland County -- with the exception of Vineland, which has retained its own health department -- and formed the joint Cumberland/Salem County Health Department.

While both counties have retained staff and a local health office is maintained within each county, all public health programs are under the direction of a single health officer. According to that health officer, incentives that attributed to Cumberland County's decision included the retirement of their former health officer, the recognition that quality health services were available from Salem County, and an overall cost savings. The Cumberland/Salem health officer estimates savings of approximately \$170,000 per year, largely a result of 14 positions -- including the health officer -- now being shared between the two counties. It is our further understanding that the governing bodies of both counties set forth an

agreement with an understanding that no employees would lose their jobs, and apparently they were able to achieve this goal.

In 2004, four municipalities formerly under the jurisdiction of the Matawan Regional Health Department entered into local health agreements with two other local health departments, Monmouth Regional Health Commission and the Monmouth County Health Department. Matawan decided to dissolve its local health department shortly after the retirement of their health officer. The decision to consolidate was based on an opportunity for the Matawan Regional Health Department to relinquish administrative and operational responsibilities. The Matawan Regional Health Department staff was employed by the individual municipalities, precluding the need for the Monmouth Regional Health Commission to absorb these positions. The Monmouth Regional Health Commission health officer estimates a cost savings to participating municipalities of approximately 10 to 20 percent.

Throughout the late 1970s and early 1980s, the Middlesex County Health Department worked closely with other municipalities, their health departments, and health officers to explore opportunities for shared provision of local health services. During this period, several individual municipal health departments opted to join the Middlesex County Health Department through inter-local health service agreements. According to the county health officer, many of these municipalities realized that they did not have sufficient capacity to provide the required public health programs or to meet the needs of their residents.

Cost savings also factored into this consolidation. Middlesex County estimates cost savings from \$50,000 to multiple hundreds of

thousands of dollars to joining municipalities. In accordance with State law, the county was, however, obligated to transfer and employ the municipal health officers and other staff. While the Middlesex County health officer indicated that this obligation presents a significant burden in cost, salaries -- in costs, salaries in some cases were greater than what was paid current employees. Placement within the organization is commensurate with their former responsibilities. However, Middlesex has been successful in integrating the former municipal health functions and staff into the County health structure.

Middlesex County has also been successful in maintaining a local public health presence in most contracted municipalities. At least one professional staff position is assigned to each municipality and serves as the community's in-house public health official.

The last example is the Bergen County Department of Health Services, which provides an example of polymorphic health services. The County health department provides a full array of health services to 28 of the 70 municipalities, and offers 22 programs to other municipalities and their respective health jurisdictions. These programs include animal control, food safety, environmental health, health education and promotion, occupational health, disease prevention and control, nursing, and employee training. Services are provided by inter-local agreement, the largest number of which is for animal control services, which is currently provided to more than 30 municipalities under the jurisdiction of other local health departments. The slides that I have on the screen show that complicated health structure in Bergen County.

These examples demonstrate the great variation in how local health services have been consolidated or are being shared. The most common factor that seems to prompt the consideration of change in the structure of local health departments today is the retirement of health officers. As this occurs, municipalities are forced with the choice of joining other local health departments or hiring a new health officer.

The environment for consolidation is not completely obstacle-free. Although State statute permits consolidation of local health departments into county health departments and regional health commissions, or through contracting with other municipalities, county, or local health departments, the statute also requires that the absorbing agency must offer employment to all of the current employees of the absorbed health department at the current salaries. There have been numerous cases where the provision has been the factor that ended discussions among municipalities and counties looking to consolidate health departments. Additionally, there is understandable fear of local health officers and local health department employees that mergers may result in loss of employment.

Finally, I must also emphasize to all who discuss public health consideration (*sic*) that, in most cases, public health administrators are public health providers. The same local health officer responsible for budgetary and administrative duties may also conduct inspections, run flu clinics, and respond hands-on to public health emergencies. Therefore, when discussing consolidation of public health -- the system -- we must ensure that this does not result in a decrease of a public health workforce

responsible for providing the essential services necessary for community health and emergency response.

The concept of a public health system with shared public health administration and services is worth exploring. DHSS will work with the Governor, Legislature, and other county and local health partners to do whatever is necessary to ensure the citizens and visitors of New Jersey are assured a quality public health system responsive to everyday needs and public health emergency response.

This completes my prepared statement. And, of course, I'd be happy to respond to any of your questions.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assistant Commissioner Gruber.

Do any members of the Committee have any questions?

Co-Chairman Smith.

SENATOR BOB SMITH, (Co-Chair): Commissioner, there are a couple of things that stood out in your testimony. The one that I thought was fascinating was the comment that consolidation seemed to occur when the health officer retires. Why do you believe that to be the case?

SENIOR ASSISTANT COMMISSIONER GRUBER: For numerous reasons.

SENATOR SMITH: I've got to turn this off so you can speak. (referring to PA microphone)

SENIOR ASSISTANT COMMISSIONER GRUBER: For a few reasons. First of all, when you look at the core of a health department, it

usually is the health officer. Right now, we're suffering from a limited public health workforce. And the ability to replace that health officer is very difficult. So, consequently, the municipality has the challenge of finding someone to fill that position, which is a position requiring many qualifications; and therefore has to decide, is somebody who fills that position worth the money, or can money be saved if there is consolidation? And can they find someone? So it's almost a forced decision for consolidation at that point.

SENATOR SMITH: Wouldn't it also be true on the -- when you're looking at it from the municipal side, in terms of the consolidation with either a regional health commission or with a county -- in light of this law that requires absorption of the staff, doesn't that provide a disincentive for the absorbing agency to absorb the health function?

SENIOR ASSISTANT COMMISSIONER GRUBER: When there is a--

SENATOR SMITH: When there is an existing top executive.

SENIOR ASSISTANT COMMISSIONER GRUBER: Yes, and that has been a decision-- That has been a deciding factor for some of the municipalities, as to whether there would be absorption.

SENATOR SMITH: Do you know when that law was passed that required the absorption of the combined department staff?

SENIOR ASSISTANT COMMISSIONER GRUBER: I can find that out.

SENATOR SMITH: Can you tell me--

SENIOR ASSISTANT COMMISSIONER GRUBER: It was very-- It was quite a long time ago, but we can find that out for you, sir.

SENATOR SMITH: Okay. Is there any public policy reason why that law should be in effect? It seems to me this is the only position in the government of -- in all the governments of New Jersey where there is a mandate that, if you decide to consolidate services, you must continue to utilize the same staff at the same salary. I haven't seen an example like that in any other area of the government.

SENIOR ASSISTANT COMMISSIONER GRUBER: The Department has had no recent policy decisions that would either support or result in the removal of that. We have not discussed it.

SENATOR SMITH: There's no particular justification that you're aware of?

SENIOR ASSISTANT COMMISSIONER GRUBER: Not that I'm aware of, sir.

SENATOR SMITH: Okay. You have experience with county health departments around the state. Do they provide services in an efficient manner, effective manner?

SENIOR ASSISTANT COMMISSIONER GRUBER: We just completed a tour of all 22 counties earlier this year. And the services vary. And it varies based on what the -- the reason that the health departments set up the county health department, and what those services are. Many provide excellent service. And I think that what you're finding is that, in general, you're not getting complaints about the service that's provided by health departments. I think it is more an administrative function as to are there too many or too few, not are you getting the service or not getting the service.

SENATOR SMITH: Would it be fair to say that for county health departments -- or for any of these health departments -- they need, as their chief executive, a certified health officer? Is that correct?

SENIOR ASSISTANT COMMISSIONER GRUBER: We require that any health officer is a certified health officer -- licensed health officer by the Department.

SENATOR SMITH: In order to have a department.

SENIOR ASSISTANT COMMISSIONER GRUBER: In order to be health officer, yes. And we require that.

SENATOR SMITH: All right. For the county health departments, you need one health officer in charge -- one certified health officer in charge to run the department. If you have a municipal health department, you still need that same -- you need a certified health officer, correct?

SENIOR ASSISTANT COMMISSIONER GRUBER: Correct.

SENATOR SMITH: So one of the benefits of county-based delivery of health services would be that instead of having multiple health officers -- who I assume would be paid a premium -- you would have one directing the sanitarians that work under them. Is that correct?

SENIOR ASSISTANT COMMISSIONER GRUBER: That is correct. You could have a single health officer that was in charge of all the jurisdictions that fell under the purview of that county health officer.

SENATOR SMITH: As I understand the information that we received in our package of information about your testimony, there's currently 327 municipalities in the state that participate within county

health departments, using either shared services or they're directly under their control.

SENIOR ASSISTANT COMMISSIONER GRUBER: If that was the number there, yes, sir.

SENATOR SMITH: Okay. So there has been a tendency for consolidation.

SENIOR ASSISTANT COMMISSIONER GRUBER: In general, there has been. But again, there are limitations that all of us are aware of that include the money costs, the home rule issues, all the things that are obvious and have been experienced by other agencies.

SENATOR SMITH: All right. But it would be fair to say that one of the bigger hurdles is this requirement in the law that whatever -- whenever a consolidation occurs, the staff must be hired at no less than the salary that they had before.

SENIOR ASSISTANT COMMISSIONER GRUBER: That's correct.

SENATOR SMITH: Thank you very much.

Thank you, Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you, Co-Chairman Smith.

Dr. Gruber -- Commissioner Gruber, I have a question.

In part of your presentation, you went through the numbers of municipalities that are part of county health departments, that are part of inter-local agreements, that are part of regional health commissions. But then you singled out Essex and Hudson counties. The statement in your presentation was, "County level services are provided, in one form or

another, in all but two counties,” and you single out Essex and Hudson. Why is that? What makes those two counties unique?

SENIOR ASSISTANT COMMISSIONER GRUBER: They have a regional health commission, as opposed to county health departments. So that’s-- And it’s just the decision on how they’re going to provide the services and the supervisory aspect of that.

ASSEMBLYMAN WISNIEWSKI: But that requires them each to have their own health department, or at least that’s what I understood from your testimony -- that they either have their own health department, or they have a contract with--

SENIOR ASSISTANT COMMISSIONER GRUBER: Correct. Each municipality in Essex and Hudson either has its own health department or is contracted out with others.

ASSEMBLYMAN WISNIEWSKI: So would you make an observation that the health commission form is not as effective, in terms of saving money, because it’s requiring them to either have their own health department--

SENIOR ASSISTANT COMMISSIONER GRUBER: I wouldn’t be able to make that statement, because I don’t know, individually, what it costs for them to do that. It could go either way. For all I know, the way they have it set up, they are experiencing cost savings, or it could cost more. Again, since we’re not involved in the county -- in the local budgets, we don’t have access directly to that type of information.

ASSEMBLYMAN WISNIEWSKI: They’re not required to submit that data to the Department of Health?

SENIOR ASSISTANT COMMISSIONER GRUBER: If you could hold on one second, I'll just get a head nod, yes or no.

They are required to submit the data. We would have that financial information on that.

ASSEMBLYMAN WISNIEWSKI: I would like to, if you could -- have you submit, to the Committee, that financial information, only because in preparing for today's hearing, in talking to my colleagues -- and your testimony, essentially, corroborated it -- is that those two counties stand out as being unique in how they treat the provision of health services, and that a lot of them have their own health departments. And, therefore, the type of efficiencies you would like to see are not necessarily being achieved. I'd be curious about what those costs are -- to have each of those municipal health departments, and potentially, personnel associated with those health departments -- at the same time they're participating with a countywide health commission. It seems to me that that might be the antithesis of saving money. And I'd like to find out more about that.

SENIOR ASSISTANT COMMISSIONER GRUBER: We would be happy to do that.

And I just want to clarify that as we conduct our internal study, we are looking at issues as to the efficacy of the different setups. So I think it's premature, right now, for me to state that one might be better than the other.

ASSEMBLYMAN WISNIEWSKI: Understood. And it would just be based on what you've told me today, and what we've talked about before this meeting. It certainly seems to be an area to inquire as to whether this is a model that works, or something we need to look at for

finding further efficiencies. And I'm not prepared to make any prejudgments on it either.

Other questions?

Assemblyman Gordon.

ASSEMBLYMAN GORDON: Thank you, Mr. Chairman.

Commissioner, thanks for being here.

In thinking about the kinds of services that are being offered by my own municipal health department in Fairlawn, I know there is a lot of-- They have a lot of business -- lot of walk-in business: dog licenses, cat licenses. There is an inspection program of eating establishments. There's a health educator, which, as I recall, is a mandated position -- at least for -- I thought for a community like Fairlawn.

Are there certain activities of a local health department that really need to be on the -- at the local level? And are there some that can be moved up to a higher level of government, either regional or county level of government? Either be some kind of local presence in each community-- And I guess the broader question I have is, you've described a patchwork of systems. Is there a model approach to delivering public health services at the local level in New Jersey?

SENIOR ASSISTANT COMMISSIONER GRUBER: I think I'll start with your last statement. I don't think there is a true model approach. And I think that's one of the things we're looking at. As you look across the country, the way health departments are set up throughout the country varies tremendously. And there is constant discussion as to the best way to do things. And, truthfully, it does come back to, in essence, the state and what the environment of the state is.

But getting to your specific question, obviously it's the interest of -- we feel, in public health -- to have some sort of ability to reach out and touch at the very local level. Now, how you do that-- There's many ways to do that. If you had unlimited funds and unlimited people, obviously, you'd love to have a health person in every community. But that obviously is unrealistic. So the question is: What are those services which can be consolidated and provided to everybody at a higher up level; and which should be down at the basic level -- which is what you're asking. And I think that's something that we're asking -- that same question now -- as we look at the best way to do business. And I think it's a valid question. And I don't have a true answer for you today.

ASSEMBLYMAN GORDON: Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Other questions?

Assemblyman Malone.

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

In looking at a county-run health department system-- I mean, is it your belief that the county system would be the best system, or do we need fragmented health departments in a variety of communities? Which way do you believe is the best system?

SENIOR ASSISTANT COMMISSIONER GRUBER: It's a difficult question, because when you talk about a county system, again, you're looking at different models of a county system. For example, in Florida, a county system is run by the state, not by the county proper. So when you talk about a county system, I believe that there is an overall

tendency to go to regional approaches. But the actual implementation of a regional approach -- whether it be all services provided by that region with -- or all services coordinated by that county, that's up in the air. And, again, we-- I feel uncomfortable in that we're in the middle of our study of how to do this. And I would love to be able to talk to this group again in three or four months.

ASSEMBLYMAN MALONE: Let me ask you this question: If you were king, what would you do? (laughter) I mean, we have to come up with recommendations on really making significant tax changes. And we've heard a lot of people come forward with really, like, suggestions. I think it's getting to the point where I think we need some assertive kinds of answers as to where we go and what we need to do.

And you're in a better position than I am. I'm not a health expert. What would you do if your word was law tomorrow? And how could you save money in delivering health services to people in the State of New Jersey?

SENIOR ASSISTANT COMMISSIONER GRUBER: Well, the first thing I'd do is order the end of this hearing so I could walk out without answering the question. (laughter)

I think there has been a definite trend to consolidation, in one way or the other. And I think that if I were king I would have some sort of consolidation, but ensuring that we had the appropriate workforce. Because, again, the biggest argument in New Jersey, and at the national level, is ensuring that when you consolidate -- since the people that you are consolidating are also the ones that provide direct services -- the consolidation must ensure that you continually provide those services. And

since public health doesn't have the glitzy guns, trucks, all those kinds of things, the assets are people. So there is a very difficult route of how to maintain public health workforce, but save money. And I think that if we look at it, I think some of the things where -- when the health officer leaves -- as brought up earlier-- If you can maintain the public health workforce, but get rid of an administrative level of some sort, then you're saving money, but not reducing health services.

So if I were king, I would say maintain the worker bees, and look at the savings in the administrative overhead.

ASSEMBLYMAN MALONE: This is my last question.

Given the fact that most health issues are-- A disease in one town isn't significantly different than a disease or a condition in another town, be it a housing condition, or be it a health risk.

It just seems like the expertise of individuals on a regional basis would be much more efficiently utilized in analyzing problems. I mean, if you have separate departments in locales, they aren't going to have the expertise of some other areas, I would think. And it just seems rational and reasonable that we could probably get a more professionalized service.

You may not get Mrs. Jones sitting at a desk and saying, "Hello, Sally. What's the problem today?" that everybody wants, but nobody wants to pay for; and come up with a centralized system that probably would, in the long run, benefit us both from a health standpoint. And as we, again, go past -- what? -- the fifth anniversary of 9/11, and the criticisms continue to be that we don't have interconnectivity, we don't have good communications, and we don't have a good structure to deal with -- I don't even want to say *global* -- but I'll just say area-wide problems-- Everybody

seems to want to do their own thing. And it ends up being not, maybe at times, the best thing.

So I would just urge that somebody stands up and say, "Look, here is the model here in New Jersey, and the best model we use." Boom. And let's move on to getting an answer, because just shuffling the cards all the time doesn't necessarily get the right answer.

Thank you very much, Mr. Chairman.

SENIOR ASSISTANT COMMISSIONER GRUBER: If I could just say--

ASSEMBLYMAN MALONE: Sure.

SENIOR ASSISTANT COMMISSIONER GRUBER: The Department supports your position, which is why we created the LINC agencies which -- when we looked at emergency preparedness response, we felt it necessary to ensure that there was an overarching regional approach, as opposed to down at the local level. The ability to expand that to other services is what we're investigating right now. And we will work with all to make sure that we do the most efficient thing.

ASSEMBLYMAN WISNIEWSKI: Mr. Gruber, just to follow up to something that Assemblyman Malone had asked you, that you responded to, in talking about the efficiencies of joining departments, and the statement you had made about making sure that you had the right level of worker bees. Perhaps the administration is where the efficiencies can be saved. Who determines what the proper level of worker bees is?

SENIOR ASSISTANT COMMISSIONER GRUBER: I think there's two areas to that. One is what I brought up before, which was our essential services. If you work from services up, you find that if you have to

do these essential services, you need certain people to perform those services. So you would be able to define your workforce in responding to the performance of those services.

Now, once you have that determined, then the ability to administer that program is where you look at whether the administrative overhead has to be large or small. But I think the core goods and services are what drives the decision of what your workforce should be.

ASSEMBLYMAN WISNIEWSKI: But are those services delivered on a municipal-by-municipal basis, or are they better delivered on a countywide basis, the same personnel covering more towns? I mean, how does that cut get made?

SENIOR ASSISTANT COMMISSIONER GRUBER: It's been done effectively in different ways. And I think the problem we have here is, again, we're not seeing a failure of provision of services. So I can't come in and say to you, "It's not working. We're not getting the goods and services out. And that's why we're going to do this large-scale change." The problem isn't the fact that the services are being provided. The question is, at what cost and how many people? And I think that assessment, again, is not an easy answer. And, truthfully, I feel handcuffed in not being able to give you that answer right now.

ASSEMBLYMAN WISNIEWSKI: Is that something that is reducible to an equation or an answer at some point in the future?

SENIOR ASSISTANT COMMISSIONER GRUBER: I think it is answerable in the future. And I think that's one of our initiatives right now, in working in the Department and with our partners -- is to find out

how to either come up with the equation, or come up with how to come up with that answer. But it is answerable.

ASSEMBLYMAN WISNIEWSKI: We'd be interested in hearing that answer when and if it comes.

SENIOR ASSISTANT COMMISSIONER GRUBER: Understood.

ASSEMBLYMAN WISNIEWSKI: Senator Kyrillos, you had some questions.

SENATOR KYRILLOS: Thank you, Mr. Chairman.

I think you've flushed things out a little bit by saying that if you were king, you would go to a county-based model. I think that's what we've heard today. And I would urge you and the Department, if you're conducting the study that you mentioned at the outset in your remarks and then repeated, to accelerate the timetable. This Committee and the Legislature has significant responsibilities. And you and your Department are quite right -- is quite right to go forward with this investigation to come up with the answers we seek. And I think you just said, in response to Chairman Wisniewski, that his question was answerable. So I know it takes time, but this is the particular moment in time where we really need the answers.

So I think if this exercise was not coordinated with the Governor's address to us a month or more ago, and this Legislative Committee, we need to better coordinate the timing to come up with these specific answers.

So I would urge you, as best you can, to get to it.

SENIOR ASSISTANT COMMISSIONER GRUBER: If I could just clarify one thing: I believe that the county-based system is appropriate as long as it supports the local needs. And we would have to discuss that with our local health departments.

I am pleased to say that our study was conducted before any of the discussion took place at your level, or the Governor's level. So we at least had a few months ahead of you.

SENATOR KYRILLOS: That's good.

SENIOR ASSISTANT COMMISSIONER GRUBER: We are looking. We recognize the need to do things better. And it's the Department's will and our desire. And I can honestly say that it is the communities' desire to make that happen.

SENATOR KYRILLOS: Well, you were on the ball. And now there's more of a sense of urgency--

SENIOR ASSISTANT COMMISSIONER GRUBER: Understood.

SENATOR KYRILLOS: --then, perhaps, you thought at the outset.

You seem to convey a sense that we need to preserve the numbers of personnel -- the worker bees as you put it. Is it your impression that there are just the right amount?

SENIOR ASSISTANT COMMISSIONER GRUBER: No, I think--

SENATOR KYRILLOS: Do you know for certain that there are not too many, for example?

SENIOR ASSISTANT COMMISSIONER GRUBER: I would say, at the worker bee level, there are not enough. If you look-- And this is not only New Jersey, this is national. If you look at our ability to respond to an emergency, to get pills into people, to handle pandemic influenza -- when you look at the chance of 30 percent of the people being infected, up to 50 percent of the workforce not being able to come to work. And if you look at the first line of defense being the public health community, we're starting with an undermanned community, which will be amplified during an event. So we do need to make sure that, again, as we consolidate -- there are opportunities at the administrative overhead level; but it can't be at the expense of the people who either give you pills, shots, or provide your inspection services.

SENATOR KYRILLOS: If there is consolidation-- You know that every municipality is required to have a local board of health. Is that necessary? Does every single one of these small towns need to have their own local board of health, in your judgement?

SENIOR ASSISTANT COMMISSIONER GRUBER: Again, there are statutes which have set up the system the way we have it right now. We at the Department are open to anything, be it changes in statutes, changes in structure to make the system work better. So we're not here stating that we believe that we have to work within the statutes. If we think the statutes need to be adjusted, we would be more than happy to recommend those changes.

SENATOR KYRILLOS: Well, you're looking at that, right?

SENIOR ASSISTANT COMMISSIONER GRUBER: Correct.

SENATOR KYRILLOS: That's part of your ongoing investigation.

SENIOR ASSISTANT COMMISSIONER GRUBER: Yes.

SENATOR KYRILLOS: And if it's a hundred-year-old statute that ought to be changed, we need to hear from you that that's the recommendation. It seems to me that it ought to be. But you're there and looking at this stuff in a very substantive way.

And, finally, just a point of curiosity, with regard to these health officers that retire. And you said it's difficult to replace them because of the skill set or the requirements of the office. That's surprising to me. Quickly, what are the requirements? And why aren't there people that can fill these jobs?

SENIOR ASSISTANT COMMISSIONER GRUBER: Well, first of all, there is a tremendous amount of experience that is required in order to run the office efficiently. And as I mentioned, these health officers, many times, perform duties. So you can't just say you need an administrator, who has no health background, to be able to administer a health department. That person needs to have either experienced or know what's going on there and may, again, be called to perform that service. So you're looking at a specific skill set. And it's much like -- and I'm reaching right here -- but perhaps a head of a nursing department. Your goal is to bring up a nurse who knows what's going on in nursing, and put that person in charge, as opposed to bringing someone in charge who may not understand the environment as fully as others, and also who will not be able to step into the field, and up to the plate, when something occurs.

Additionally, we give a test to all health officers to make sure that they're certified and licensed. And that does require experience, and to be able to understand the test, and to be able to understand the factors that go into being a good health officer.

SENATOR KYRILLOS: In your judgement, are the requirements adequate, set at the right benchmark?

SENIOR ASSISTANT COMMISSIONER GRUBER: I believe they're appropriate to ensure that we provide good public health service.

SENATOR KYRILLOS: Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator.

Assemblyman Gordon.

ASSEMBLYMAN GORDON: Thank you, Mr. Chairman.

Commissioner, a number of us are interested in benchmarking these services. Are you familiar with any data compiled by, perhaps, a health officers association of America, or some kind of organization that has -- is able to show a number of sanitarians, for example, per thousand population; or dollars spent on health care at the local level -- some way of being able to compare what's going on in New Jersey with other states? We heard some very striking numbers at our last hearing on administrative costs per pupil in education. Are there other-- Are there comparable sources of such data for the public health arena?

SENIOR ASSISTANT COMMISSIONER GRUBER: Truthfully, I don't believe we have standards on that. And the reason I say that is due to a statement I made earlier. Every state has a different setup. And consequently, some may have significantly higher overhead, some may have very low overhead. But again, because the administrators most

frequently provide the service, it's not necessarily as easy to break out the administrative overhead from the provision of services. But it is a very diverse field throughout the country. And the questions that are being asked here are asked at the national level because of that diversity, including what the metric should be to measure the best health department. There is talk about national accreditation of health departments. So it is a national-level discussion, not only a New Jersey discussion, right now.

ASSEMBLYMAN GORDON: And just to follow up: Does the Department collect data from which perhaps these metrics could be developed just for New Jersey? Are we able to compare what's going on, in terms of cost and number of personnel by municipality?

SENIOR ASSISTANT COMMISSIONER GRUBER: Again, we connect-- We collect financials. And we'd be able to say, "There are X amount of environmentalists, and the overall cost is such." But to actually put that against a metric right now, I don't think we're sophisticated enough to say the cost to provide animal control for a population of so-and-so is equal to that. I don't think we have that type of formula.

ASSEMBLYMAN GORDON: Thank you.

ASSEMBLYMAN WISNIEWSKI: Any other members with questions? (no response)

Thank you very much for your testimony. We appreciate it very much.

SENIOR ASSISTANT COMMISSIONER GRUBER: Thank you.

ASSEMBLYMAN WISNIEWSKI: I would next like to invite David Grubb to come up and testify. Mr. Grubb is the Executive Director of the Municipal Excess Liability Joint Insurance Fund.

Mr. Grubb, welcome.

DAVID GRUBB: Thank you.

ASSEMBLYMAN WISNIEWSKI: Please make sure your red light is on when you speak. (referring to PA microphone)

MR. GRUBB: Okay.

I should say up front that there is no relationship between Assistant Commissioner David Gruber and myself, although we're only a couple letters apart in our names.

First of all, I'd like to thank the Co-Chairmen and the members of the Committee for inviting us before the Committee. I will be talking a little bit about how joint insurance funds work. But then, at the end of my presentation, I'm going to focus specifically on a number of things that I believe can be done to further reduce the costs -- in, really, response to what I heard earlier. I'm prepared to be very specific with respect to that.

Over the last 20 years, joint insurance funds have modernized municipal risk management. And under New Jersey law, there are really three types of joint insurance funds: Property/casualty joint insurance funds, which we call JIFs -- and they insure workers compensation, liability, and property. You have environmental funds, which are called E-JIFs, which, obviously, insure environmental issues. And then, finally, there are health insurance funds, which have developed the letters HIF. To date, joint insurance funds have saved New Jersey taxpayers at least \$1 billion.

Prior to the formation of joint insurance funds, municipalities had two choices for their property/casualty programs. They could either purchase commercial insurance, or they could individually self-insure. As a general principle, commercial insurance is the most expensive way to finance a risk, because insurance company overhead adds about \$76 to the cost of every \$100 in claims. Overhead for self-insurance is about \$25 per \$100 in claims. Furthermore, self-insurers receive the benefit of investment income on their reserves. Therefore, the total savings for self-insurance over time averages about 40 percent.

Now, the problem with individual self-insurance is the entity must be large enough to retain a substantial portion of the risk. And that's generally about \$100,000 per occurrence. Claims above this retention are insured by excess insurance. The minimum size requirement for self-insurance effectively eliminates most towns in New Jersey. Even communities that are large enough often lack the managerial resources to properly administer their programs. And, unfortunately, there have been many horror stories where large governmental entities have experienced considerable difficulties with their individual self-insurance claims.

The idea behind joint insurance is to bring together a number of municipalities to, first of all, create the critical mass needed for self-insurance; then to jointly purchase the excess insurance needed to cover the large claims; and three, to create the specialized administration needed to effectively manage the program.

In 1981, the 10 northern Bergen County communities in the Pascack Mayor's Association researched the idea of forming a joint insurance fund. And we were told by our attorney that we could legally

establish a JIF under existing law, but the State ruled otherwise. Therefore, we jointly bid our insurance programs while the League of Municipalities pushed legislation to permit joint insurance funds. I've got to add that the League, over the last 20 years, has been really exceptionally supportive. And it's been an important factor in this success story.

The legislation was adopted for school boards in 1982 and for municipalities in late 1983. We immediately went to work to establish the first municipal JIF, which became operational with 14 towns at the beginning of 1985.

Exactly six months later, the insurance market in the United States crashed, and it became very difficult and expensive for municipalities to secure commercial insurance. Therefore, interest in joint insurance funds mushroomed. It became especially difficult for governmental units here in New Jersey, including the first JIFs, to secure excess insurance to cover large claims. Therefore, we proposed legislation to establish an excess insurance fund that would cover the large claims for all governmental units in the state, including State government, counties, municipalities, schools, and authorities. Senator Raymond Lesniak sponsored the bill known as Senate 99 (*sic*). That passed unanimously in the Senate, but it was blocked by special interests in the Assembly.

Because Senate 99 was blocked, several of the early JIFs used the existing joint insurance fund legislation to create an excess insurance fund that was, in effect, a smaller version of the program proposed in Senate 99. Since the beginning of 1987, the Municipal Excess Liability Joint Insurance Fund -- which is more commonly known as the MEL -- has

provided excess insurance to most of the local joint insurance funds in the state.

The way it works is, the local JIFs self-insure the first \$200,000. The MEL self-insures the next \$800,000 excess of the local JIF's \$200,000, and the amount that any claim exceeds \$1 million is paid by excess insurance purchased by the MEL. If the insurance market crashes again, as it did in the mid-'80s, the MEL has sufficient mass and resources to self-insure at least \$5 million per claim. So we're never again going to be in the situation where we can't secure excess insurance.

Since its beginning, the MEL has grown to 18 JIFs that collectively cover 372 municipalities, 73 utility authorities, and 81 housing authorities. With an annual budget of \$150 million, and a statutory surplus of \$100 million, the MEL system is now one of the three largest municipal self-insurance pools in the country. Incidentally, there are approximately 400 JIFs around the United States. Further, there are a number of joint insurance funds in New Jersey that are not affiliated with the MEL, so that, today, 90 percent of all New Jersey municipalities are members of JIFs.

Since its inception, the MEL and the local JIFs have saved the taxpayers at least \$725 million, including premium savings of \$400 million, dividends of \$228 million, retained surplus of \$96 million. In fact, the actual savings are much higher, because even the municipalities that are not members of the MEL have saved because the rest of the market has adopted the concepts that we pioneered.

Just as importantly, the MEL has been exceptionally successful in improving safety records. In 1991, the employee accident frequency for

the municipalities that were members of the MEL was 5.7 lost-time accidents per 100 employees, or approximately the national average for municipal government. Today, our accident rate is about 55 percent lower, or about 2.5 accidents per 100 employees. To put this figure into perspective, the average for New Jersey State employees is 4.3. We placed a high priority on our safety program, and it pays off in thousands of municipal workers who are not being injured today, who otherwise would have suffered accidents at the old accident rates.

Some of the things that we've been able to innovate: Managed care. A decade ago, we were among the first governmental entities to adopt this concept for workers' compensation.

We created something called the MEL Safety Institute to provide the PEOSHA required safety training to municipal employees. Last year, we trained over 25,000 workers. We even offer a discount to members whose elected officials complete risk management training. Last year, we trained over 1,200 mayors and council members.

Employment practices loss control: We've developed a model policies and procedures manual. We even distributed it on disc so that members could easily take this model and update their policies and procedures without having to spend the large sum of money necessary to reinvent their own program. To date, somewhere roughly in the vicinity of 300 towns now use this model. So the savings -- long-term savings, of course, are much -- dramatic, very high relative to improved employment practices. But in the short-term, a lot of money has been saved in legal fees by the fact that the towns haven't had to write their own policies.

But even on a smaller rate-- Statutory bonds: Legislation was just signed into law that was introduced by Senator Adler and Assemblyman Neil Cohen that allows us to do the statutory bonds for court clerks and town treasurers. It's going to save \$500,000 next year. It's not a lot of money, but every little bit helps.

We have remained successful because the MEL system has remained under the control of the member municipalities and authorities. By law, a joint insurance fund is a local governmental entity, not an insurance company. Every member appoints a commissioner, and each month, over 250 mayors, council members, municipal managers, and authority executive directors come together at the 18 local JIF meetings to make the decisions.

JIFs are subject to all the laws covering local government. And because the members retain control and have a strong sense of ownership, they apply considerable peer pressure on each other to prevent accidents and to reduce costs. I'm firmly convinced that the reason why our accident rate has dropped as dramatically as it has is because of that consistent involvement of the senior management and municipal officials.

The MEL itself is controlled by a board of fund commissioner that includes a member from each of the JIFs. JIFs have no employees, and all services are outsourced. This means that the commissioners can focus on risk management issues and are not distracted by all of the employment questions that consume much of the time of the typical mayor and council. Any vendor that doesn't perform is easily replaced. Furthermore, joint insurance funds are closely monitored by the New Jersey Department of Banking and Insurance and the New Jersey Department of Community

Affairs. And I've got to add that both of these Departments have done an excellent job over the last 20 years. And I needed to publicly say that.

We have been able to innovate in a number of other areas. For example, since the mid-1980s, it's been very difficult to get environmental insurance, and that insurance that is available is very limited. The problem is adverse selection -- People only buy environmental policies if they believe they have a problem.

In 1995, we had-- By that point, we had grown sufficiently to tackle the problem for our members. We formed the New Jersey Municipal Environmental Risk Management Fund, which is known as the E-JIF, pursuant to legislation that was sponsored by Senator John Lynch. Today there is, incidentally, only two environmental funds in the United States, one in Maryland -- which is very much limited -- and our own program. To avoid adverse selection, the E-JIF only considers an entire JIF for membership, not individual towns. And our membership today consists of 13 JIFs, 279 municipalities, and 73 utility authorities.

We do a number of things to control costs. First of all, there's a strong emphasis on loss prevention. All members receive periodic engineering inspections and training. Several years ago, the Department of Environmental Protection promulgated a regulation that requires all municipal and authority operational employees to receive stormwater management training. Unfortunately, the DEP lacked the resources to put this training together. So we have volunteered to fill this void for them by developing the program. And we'll make this program available early next year.

We have a quick-response hotline. Any time there is an environmental incident, and any of our members -- they call an 800 number, and within 90 minutes we'll have an environmental engineer there to take command of the situation. That makes a dramatic difference in the ultimate size of the spill and the ultimate size of the claim.

And we've even managed Superfund cleanup liabilities. For example, in the Combe Fill South litigation, 20 of the 60 towns named in that litigation are members of the E-JIF. We were able to save millions in legal bills by putting one attorney in there to represent all 20 towns, instead of 20 attorneys. And there's a number of other areas that we do to control the costs of this otherwise very expensive litigation.

Another area where we have put considerable emphasis on is health insurance. The four health insurance funds that are affiliated by the MEL system currently provide benefits to 74 municipalities, with a combined total of a little over 5,000 employees. And together, these HIFs, to date, have saved the taxpayers approximately \$70 million.

The State Health Benefits Program is, itself, a large self-insurance pool. If a local unit is just looking for the State's plan design, realistically they should probably remain with the State. However, the advantage of a municipal health insurance fund is that they give members the flexibility to negotiate alternative plan designs that are not possible with the State. Unfortunately, various laws severely limit the ability of local units in the State Benefits Program to negotiate plan design. The members of municipal health insurance funds are not hampered by these restrictions and have the flexibility to develop more cost-effective plans that often provide even better benefits to the employees, as well.

We believe that additional savings can be achieved by better coordinating the risk management and emergency management programs between the State and local levels of government. In 2005, we were asked by the State Treasurer to review the State's risk management program. We volunteered to do so pro bono, because this was an opportunity to identify ways to improve State/local cooperation and coordination. This year, the Governor's message -- budget message referred to our study, and we have volunteered to assist the State in the implementation of the program, again pro bono. If we improve State/local cooperation, each year government here in New Jersey can save the taxpayers millions, prevent thousands of needless accidents, and significantly improve its ability to respond to emergency situations.

Specifically, excess insurance: Today, government in New Jersey is purchasing excess insurance that we wouldn't need if we resurrected and updated the Senate 99 proposal of 20 years ago. In many cases, we are buying policies to cover things that would be paid for by FEMA if we had a platform such as Senate 99 to coordinate the insurance programs. In other words, we're spending money to protect the Federal government, instead of New Jersey taxpayers.

Safety: Last year, when we studied the State's risk management program, we found that New Jersey has one of the three highest accident rates among all state governments in the country. New Jersey's accident rate is 45 percent higher than the national average for state government, and workers compensation now costs the State \$70 million, plus another \$35 million for the Sick Leave Injury benefit. For any safety

program to work, senior management must communicate the priority and establish a structure to consistently monitor and follow up on results.

While the State has had some success, notably with the State Police and the Department of Transportation, overall the State lacks the management structure for a successful safety program. We also found that the State already has sufficient personnel who want to implement a sound program. But nothing will happen until the State's senior management acts. It has to start at the top. There is a tremendous opportunity to improve safety at all levels if we coordinate our programs.

Sick Leave Injury program: The State Auditor has found widespread abuse in the SLI program. And our report last year proposed changes that will save State government about \$7 million per year. Actually, the savings to New Jersey taxpayers will be at least triple that figure, because the other levels of government in New Jersey also have SLI programs based on the State's outdated design. Governor Corzine proposed to reform SLI in his budget, but unfortunately the proposal was dropped when the budget was finally adopted. Realistically, local government cannot negotiate a change until the State reforms its program.

Tort reform: Another area where there needs to be a State/local cooperation and coordination is tort reform. Millions of tax dollars are being wasted each year on frivolous litigation. For example, attorney fee-shifting under New Jersey's Law Against Discrimination, the Conscious Employer Protection Act, and similar laws has made it very difficult to defend governments at all levels against employment liability claims. As a result, the cost of employment litigation has increased 500 percent over the past decade, and 70 percent of these costs are legal fees.

Every little employment squabble is now an expensive lawsuit. Employment-related litigation also makes it very difficult to consolidate services, because any employee who is unhappy with the change will find some excuse to sue the State. I cannot emphasize this too much. One of the classic examples of consolidation was the fire departments in Hudson County. The amount of litigation that that generated was phenomenal. Any time you consolidate anything, it's massive lawsuits. If you're going to consolidate, you have to do something about the employment practices issue.

The problem is that attorney fee-shifting creates an incentive for plaintiff's attorneys to make unreasonable demands, thus increasing the number of hours they spend on a case. Under the current law, there is no relationship between the fee awarded to the attorney by the court and the damages awarded to the plaintiff by a jury. Unlimited fee-shifting is inappropriate in employment cases against governmental entities, because public employees have numerous other protections. Laws involving fee-shifting against public entities should be amended to cap the fee awarded to the plaintiff's attorney in a manner similar to other litigation. This will facilitate the mediation process so that cases can be resolved earlier.

Emergency management: New Jersey has come a long way improving emergency management since 9/11, and is making even more progress now that the State has returned to the all-risks approach. The most glaring weakness in the current system is the difference between the capabilities of municipalities.

Some communities have excellent emergency management programs, while others are seriously deficient. As the insurer for 65 percent

of the communities in the state, we are concerned that many towns are simply too small to fulfill their responsibilities. However, it would be a mistake to simply turn emergency management over to another level of government. Mayors, council members, and senior municipal managers must remain as a key part of the decision-making process. We believe that communities should be encouraged to join together and establish inter-local emergency management agencies with adequate size and resources, but still accountable to local officials.

Training programs: Every year, training mandates from Trenton increase without any coordination between the State agencies promulgating these requirements and the local governments, on how to conduct these programs. In some cases, we are over-training, and in other cases, we are not training enough. Furthermore, the agencies promulgating these mandates often lack the resources to provide the training, or even provide a course outline. As a result, much of the required training never takes place. We need to establish a State/local committee to review all training mandates and determine how to more effectively conduct these programs. This has really become a problem at the local level. And it's something that we really need to get a handle on.

Finally, emergency management: In 1999, the South Bergen JIF -- which just celebrated its 20th anniversary -- established the possibility -- looked into the possibility of forming an aggregation group to jointly purchase electric power and energy management services. At the time, the idea was not successful because the program ultimately adopted by the BPU made it unlikely that a local aggregation group could negotiate a lower price. However, long-term, municipalities must implement sound energy

management programs, not just seek lower rates. The State itself just released a comprehensive RFP for energy management services. Realistically, it would be impossible for all but a few municipalities to match this program on their own. We believe that the South Bergen idea of creating joint energy management programs on a JIF model makes sense, and urge legislation to facilitate this approach.

In conclusion, the JIF/MEL model has been successful because local officials remain actively involved in the program. We cannot emphasize too strongly the importance of this principle. Because they control the program's governance, municipal officials are able to monitor and follow up on the results. The best single indicator of the program's success is the improvement of the safety record. As indicated earlier, over the last 15 years the accident frequency has been reduced 55 percent, and it is continuing to improve. That only occurs when there is the consistent involvement of senior management.

We believe that substantial additional savings can be achieved through improved State/local cooperation and coordination in risk management and emergency management matters. The MEL has defied its critics of 20 years ago and has demonstrated that inter-local risk management can be successful.

We stand ready to enter into dialogue with the other levels of government to extend these concepts further.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Grubb.

Thank you for your testimony.

I couldn't help but think, as you went through your testimony, about the savings, about-- And everyone I speak to talks about how the JIF/MEL model saves municipalities money. We heard testimony when we first started this series of hearings that there were some 1,300 units of local government. And yet, by your testimony, some 450 of those 1,300 units of local government are involved in a JIF.

My question is: What happened to the rest of them? Do they not see the benefit? Is there some impediment to them getting involved?

MR. GRUBB: Well, a couple of things. First of all, there is some number of municipalities that are not members of MEL-affiliated JIFs, but are members of nonaffiliated JIFs. So our total is not the total universe.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. GRUBB: Second of all, there are a lot of inter-local agencies that are probably in that 1,300 title, that are actually insured by JIFs, but not with direct membership, but rather through their sponsoring local unit. For example, there are a number of communities that have joint dispatch. And the dispatch units would not be separate members of JIFs, but rather would be covered by the JIF through their sponsoring municipalities.

The way it works now is, there are very few entities left buying commercial insurance. About 90 percent, at least at the local -- municipal level, are members of JIFs. The other 10 percent, for the most part, are large individual self-insurers, with just a handful still in the commercial insurance market. The revolution over the last 20 years has now been virtually (indiscernible).

ASSEMBLYMAN WISNIEWSKI: So you say there is about 90 percent in all forms.

MR. GRUBB: Ninety percent of municipal entities.

ASSEMBLYMAN WISNIEWSKI: And again, I'm just curious as to why-- If there are 10 percent of municipalities out there, and there's this opportunity to save money-- Do you have any-- Can you tell us why they wouldn't take advantage of that opportunity to save money?

MR. GRUBB: Most of that 10 percent -- at least in terms of size -- are very large entities that are individually self-insured, that have the resources to do that. For example, the city of Newark, or the city of Camden -- entities that large. So long as they can maintain the management resources, they're doing very well on their own as individual self-insurers.

The other entities that are in that 10 percent are very, very small, for the most part. We've got some municipalities in the state that are either tax (indiscernible) or golf clubs. We even insure a couple of the golf clubs.

You've got to be very careful with the numbers. But at least at the municipal level, virtually everything is in JIFs or individually self-insured.

ASSEMBLYMAN WISNIEWSKI: And when you say the municipal level, you're making a deliberate distinction between school boards and municipal.

MR. GRUBB: That's correct. However, most school boards now are members of joint insurance funds that are specifically for schools. The State Board of Ed association, for example, operates a very large

program. There are a number of other school board JIFs, as well. So I would say, at this point, that-- I don't have the precise numbers, but my guess is that it would be well north of 75 percent of the members are JIFs.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Other members?

Senator Smith.

SENATOR SMITH: Mr. Grubb, are there any statutory barriers that would prevent or hinder the use of these joint insurance ventures for either the municipal, county, or school boards in the state?

MR. GRUBB: Yes, statutory limitations-- Well, if you're talking about just simply restrictions to risk management matters, the existing legislation is pretty broad. We've been-- There's been a number of amendments over the years that have broadened our ability to get into these things.

The limitations are when you start to use the platform to get into other areas, for example electrical aggregation or something of that nature. The existing statute, with respect to joint purchasing, for example, does not create a very good platform for electrical aggregation, particularly if you want to get into energy management services and things of that nature.

SENATOR SMITH: But with regard to insurance, do you think it's pretty free and open?

MR. GRUBB: It's free and open at this point. That's correct. There's been a lot of changes over the last 20 years. So end result, we've been able to do quite well.

SENATOR SMITH: I thought I heard in your comments a comment about the local health insurance systems, and I think a suggestion that the State Health Benefits Program limits what the local governments can do. Would you go a little bit further into that?

MR. GRUBB: Yes. I mean, very simply, what the State does for its own employees, where you have the New Jersey Plus plan as your base program, and then if you want anything above that you have to pay a contribution to the premium. If you are with the State, you can't do that. You cannot adopt the plan that the State adopts for its own employees.

SENATOR SMITH: So are you saying there's money to be saved if we allowed local governments to adopt other models?

MR. GRUBB: Absolutely. I mean, you've got an existing law that requires to go through an employee contribution. That has to apply to everyone. All bargaining units have to agree. That effectively means that one bargaining unit can veto the ability of the town to do that if they are with the State plan. Now, if they go to a municipal health insurance plan, we don't have these restrictions.

SENATOR SMITH: Right. And is the problem that once they join the State Health Benefits Plan that there are some restrictions on getting out?

MR. GRUBB: Yes. Well, there are restrictions, in terms of -- depending upon whether the community took a premium holiday or something of that nature. They could find themselves with a substantial bill.

But the big difference between the health insurance HIFs and the State plan is flexibility. It's all sorts of other issues -- flexibility issues

that the State plan has, that the HIFs do not. But in saying that, unless you're willing to negotiate with your bargaining units -- if all you're looking for is the State design, you should probably be with the State. And that's the reason why health insurance funds do not have the same market share that joint insurance funds do.

SENATOR SMITH: If you were king, how would you change the legislation to provide for this potential savings?

MR. GRUBB: Well, the first thing I would do, if I was king, is say I would outlaw guillotines. (laughter)

SENATOR SMITH: All right, second.

MR. GRUBB: I would go through the laws and the regulations, with respect to flexibility, particularly with respect to the ability to negotiate co-pays and contributions to premiums. And I would basically give municipalities the flexibility to negotiate with their bargaining units and not restrict them to whatever model the Legislature demands.

SENATOR SMITH: All right. Can you send us a letter with a little more detailed proposal?

MR. GRUBB: I'd be happy to do that.

SENATOR SMITH: We'd appreciate that.

The other comment that I thought was very interesting in your testimony was the comment -- and even though it's not quite local property taxes, in terms of our mission here -- but the comment that New Jersey's accident rates are 45 percent higher than other states.

MR. GRUBB: Every year New Jersey vies for one of the three worst safety records among state government in the United States. We have a very poor safety record.

SENATOR SMITH: And you believe that's because we don't have enough safety education and risk management programs?

MR. GRUBB: Well, we have enough people. We were able to find what we-- We couldn't get the exact number, because it's not tracked, like a lot of other numbers aren't tracked. But it appears that the State has somewhere in the order of magnitude of 100 safety professionals -- full-time safety professionals employed by--

The problem isn't the lack of people. The problem is that there is no overall structure, and management, and monitoring. In other words, individual units have safety programs, but you don't have an overall safety program. Furthermore, the State doesn't even monitor its safety record. The only reason why I was able to find this out is because we went digging further into the data.

There's a basic principle in safety management and risk management. Anything not monitored is probably out of control. If you don't monitor something, it's probably bad. And the State did not monitor its accident-- One of the things that we do in the joint insurance funds, one of the reasons why we've been so successful -- and this is what I use--

I started out as a safety engineer in the private industry, and a risk manager. The first thing you do is you compute the accident rates of every one of your operations on a monthly basis. And you give everyone charts that go to the senior management, listing operations from the best safety record to the worst safety record. And so, needless to say, nobody wants to be at the bottom. And over time, what happens is, that ratchets an improvement in the overall record. And everybody who does this ends up with the kinds of results that we've been able to achieve.

SENATOR SMITH: Have you looked at other state governments -- how they handle it?

MR. GRUBB: I haven't closely looked at. I know some do this kind of thing, others do not. The problem here in New Jersey is that we don't have any mechanism to monitor our safety records on an ongoing basis. And we don't have a clear communication of the priority from senior management, nor do we have consistent coordination between the various departments at the senior management level. It's got to start at the top.

SENATOR SMITH: I'd appreciate a second letter where you might detail those statistics, and what you think is necessary to improve it.

MR. GRUBB: It's actually in the packet that I passed out. I passed out a copy of our final report to the State Treasurer in the last year.

SENATOR SMITH: Great. Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator Smith.
Assemblyman Gordon.

ASSEMBLYMAN GORDON: Thank you, Mr. Chairman.

Mr. Grubb, you mentioned, towards the end of your testimony, a number of future cost savings opportunities. Again, assuming you became the king, could you give us some sense of what you think the priorities should be? How can we save the most, in the most timely fashion?

MR. GRUBB: The first thing I would do -- and it could be done very quickly -- is I would start getting the State program together. And it would be-- You could start your program within 30, 60, 90 days so that the State-- That's probably the lowest hanging fruit right now. I would also proceed with the proposal with respect to the old Senate 99. We're wasting a lot of money right now on excess insurance that we don't

need. And then we really do have a problem with the coordination of the training programs. And, finally, we have to do something about employment practices; we have to do something about the employee fee-shifting.

It is almost impossible for people at any level of government to take a disciplinary action, with respect to their employees, without getting sued. That's the reality of what's going on right now. And as the net result, people are just letting things ride. The employment practice situation is just totally out--

ASSEMBLYMAN GORDON: Thank you.

ASSEMBLYMAN WISNIEWSKI: Senator Kyrillos.

SENATOR KYRILLOS: Thank you very much.

The lines of insurance that are offered are property, casualty, and what else?

MR. GRUBB: If you're talking about the MEL, it's workers compensation, general liability, auto liability, bonds, fire, property, flood.

SENATOR KYRILLOS: Not health benefits?

MR. GRUBB: Health benefits are separate funds. They are health insurance funds. And there are 74 communities that are members of health insurance funds.

SENATOR KYRILLOS: And is there not as much aggregation of purchasing that kind of insurance as the other lines? That's my impression.

MR. GRUBB: The difference is that in the property casualty funds, there is a very distinct cost advantage of a pool, as opposed to commercial insurance, simply because the overhead cost of the pool is about

\$25 per \$100 worth of claims, whereas in commercial insurance it's about \$75 per \$100 worth of claims. So when you have that kind of underlying cost differential, the entire marketplace is going to move to the more efficient mechanism. And that's what's happened over the last 20 years.

In the health insurance funds, the main competitor is not commercial, but it's rather the State Health Benefits Program, which is, itself, a large self-insurance pool.

SENATOR KYRILLOS: I see.

MR. GRUBB: So the-- And I might add, efficiently run. It's a good-- It's a well-managed program.

SENATOR KYRILLOS: Okay. So that's why you're not as much in that business. And you said that. And you had some specific recommendations to us--

MR. GRUBB: Yes, exactly.

SENATOR KYRILLOS: --with regard to--

MR. GRUBB: To make that program even better. Although, frankly, that would make them a more effective competitor against us. But, still, it should be done.

SENATOR KYRILLOS: Right. And somebody's recorded that.

Have we recorded that? Our staff?

You mentioned Senator Lesniak's bill of -- oh, I don't know how many years ago it was at this point -- Senate Bill 99. You refer to it. And that allowed for other governmental units to aggregate school boards, authorities, and the like.

MR. GRUBB: Yes.

SENATOR KYRILLOS: School boards don't do this now?

MR. GRUBB: Well, no. School boards have their own programs. What this is talking about is the high-level excess. And everyone is experiencing some difficulties in the high-level excess right now. The Senate 99 approach was that we were going to put all governmental entities in the State into a pool for excess insurance.

SENATOR KYRILLOS: In one big thing, right.

MR. GRUBB: And the Senate liked the idea and passed it unanimously. In the Assembly, you had a lot of entities saying, "No, we don't want to join with the municipalities, because they're--"

SENATOR KYRILLOS: This is 1987? Is that what we're talking about?

MR. GRUBB: 1987, exactly. We don't want to-- Like the State of New Jersey said, "We don't want to be a part of a municipal program, because the municipalities are high-risk, and we're not." I would point out that we have a much better safety record than the State does right now. So maybe that judgement was wrong.

SENATOR KYRILLOS: But you think there's cost savings there.

MR. GRUBB: There's a lot of cost savings there, yes.

SENATOR KYRILLOS: And it hasn't been tried in 20 years.

MR. GRUBB: It hasn't been talked about in 20 years. That's right.

SENATOR KYRILLOS: And school boards-- Just so I'm clear. When I hear about JIFs, I hear about them only in the municipal government context, not school district context.

MR. GRUBB: Most school boards are members of special school board joint insurance funds.

SENATOR KYRILLOS: They are?

MR. GRUBB: Yes.

SENATOR KYRILLOS: But that's separate and apart from what you're overseeing.

MR. GRUBB: I think all levels of government need to talk about coordinating our programs together at the high-level excess. We're not talking about the basic program. We're talking about claims maybe in excess of \$5 million, or \$10 million, or something of that nature. We're experiencing some difficulties now, for example, because of the concern of underwriters at the high level for terrorism. It's becoming very difficult, for example, to get statutory excess workers' compensation. Again, because underwriters are concerned about high concentrations of New Jersey employees, and the exposure to a terrorism event.

We're also buying a lot of excess insurance to cover property risk at a level that in-- The only way the property could be effected to that extent is if we had a large natural catastrophe that would be a FEMA event. So we're effectively spending money to insure things that, under normal circumstances, FEMA would pay.

SENATOR KYRILLOS: Too much insurance.

MR. GRUBB: Exactly.

SENATOR KYRILLOS: You called for legislation in your remarks. I missed that remark. Was that concerning energy aggregation?

MR. GRUBB: Yes, energy management. This is another area where there is, I think, a lot of savings here, not just in terms of negotiating lower rates, but also improving energy management.

SENATOR KYRILLOS: This is not an insurance issue, this is a purchase of energy issue.

MR. GRUBB: That's not an insurance-- We have been gradually getting into a lot of other areas. The electrical aggregation goes through -- it would actually be separate entities. But when you get a whole group of mayors and councilmen together on a monthly basis to talk about consolidation of insurance, it's a natural tendency to start moving into other areas. And this is an example.

SENATOR KYRILLOS: The utility reform, regulatory reform, we did a few years ago. It doesn't allow enough of a framework to access the market in a way you think is efficient?

MR. GRUBB: No, because everyone who spoke, at that point, was negotiating lower rates. That's only a small piece of the picture. If we're going to get a hold of our energy costs, we're going to have to come up with structures to encourage greater efficiency in energy use. And also, quite frankly, there's some opportunities to tap some renewable resources so that we reduce the emissions of greenhouse gases and things of that nature. The existing platforms do not give us the ability to get into that kind of thing.

SENATOR KYRILLOS: Well, Mr. Chairman, I would say that our staff should really hone in on some of these ideas for us to consider, because it's -- these are the kinds of suggestions, assuming they're sensible and the right kinds of suggestions, that I think can be achieved without the

angst out there that some of the other suggestions that we want to pursue may create. And as we come to terms with what we want to propose, and try to navigate through the process, and initiate into law, these are, I think, some very useful points.

ASSEMBLYMAN WISNIEWSKI: I would agree with you Senator. And I think we're probably all in agreement that the solution to what we're looking at is not necessarily one large item. It's probably a basket of a lot of little items that, when you add them up, make a big difference.

Some of the things, Mr. Grubb, that you have talked about -- the accident rate on the State level versus the municipal level -- that can be addressed, that is a savings for the State. Energy aggregation -- again, these are all items that we can look at.

Clearly, Senate 99 is something that needs to be looked at once again to see how we can implement that -- if it is possible, and whether that is going to achieve savings for the State.

ASSEMBLYMAN MALONE: Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Malone. Sure.

ASSEMBLYMAN MALONE: Just one quick question.

In joining the JIFs, do you have problems with the experience factors of some of the constituent municipalities that want to get into JIF? Does that give you a little bit of angst when you are looking at potential new entrants into the JIFs?

MR. GRUBER: One of the-- One of the advantages of the Joint Insurance Fund structure is that the final decisions to allow somebody

to join are not just mine. They are made by the mayors and councilmen of -- and managers of the contiguous communities to the applicant. So they pretty well know whether the community is decently managed or not and what the community needs to do to improve.

Some of the difference can be accounted for by differences in the rates. We don't use a uniform rating structure. It is an experience-rated structure. Communities with good safety records pay less than communities with bad safety records.

But one of the things we really look for is the quality of management, and often times we have been able to work closely together with communities -- actually help them match -- help them improve their management, not only in risk management areas but in other areas as well.

It is not that common for a community to be rejected. But frankly, when you-- Right now, when you are up at 373 towns, there aren't a whole lot of new applicants. There isn't a whole lot of people moving around right now. The marketplace is pretty well at equilibrium.

ASSEMBLYMAN MALONE: Okay. Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Are there any other questions?

Senator Kyrillos, then Senator Karcher.

SENATOR KYRILLOS: I'm sorry. I just have a quick one.

SENATOR KARCHER: Okay.

SENATOR KYRILLOS: I don't mean to--

I didn't understand this point you made about-- Well, I didn't understand the explanation that we have 45 percent more accidents in New Jersey than the national average, is that what you said?

MR. GRUBER: That is correct.

SENATOR KYRILLOS: But I didn't understand your explanation as to why that is.

MR. GRUBER: The reason is--

SENATOR KYRILLOS: Either you didn't say it or I didn't get it.

MR. GRUBER: The reason for it -- and again, in your packet is our complete report from last year. The reason for it is New Jersey doesn't have a safety program. We have individual--

SENATOR KYRILLOS: I don't understand what you mean by that. What does that mean?

MR. GRUBER: In other words, when I talk about a safety program -- as being a corporate risk management professional, that is where I started -- I think of a program where you set up a management structure, where senior management clearly communicates up and down the line what the priority is, sets up a mechanism to monitor the accident results. I think Assemblyman Gordon used the word *benchmark*. That is literally what you do within a corporation, is you benchmark your various different operations, and when those operations that you see are having difficulty, you follow up on it.

When I was at Lipton and then at A&P, if any of our operations had difficulties or they showed up at the bottom of that list, you were going to get a call from the chairman or the president. When I went out and did safety training at the A&P stores, every once in a while the president of the company would accompany me to the back rooms of these stores to conduct these; to send a clear priority.

The State of New Jersey does not have a similar structure. We don't have a similar communication of the commitment, of the priority. We certainly don't have a structure, on a regular basis, to monitor and follow up on results. I mean, the only one person in the State who had any idea of how bad our safety record was, was a statistician somewhere deep within the Department of Labor.

I remember when I was talking to a couple of departments, and they were challenging me, "well, where did you get these numbers?" I pointed out, "on your own Web site." We just don't have a program to monitor and follow up.

SENATOR KYRILLOS: We don't teach people how to avoid errors or mistakes?

MR. GRUBB: We do some of that, but not entirely consistent--

SENATOR KYRILLOS: Is that what a safety program does?

MR. GRUBB: --not totally consistently, but we don't have-- It is more than just simply education. The critical part about safety is the fact that it is a management responsibility, and management has to be held responsible and accountable for the results. And if you don't have a program which monitors results and follows up with management where the results are not in line, then you don't have a safety program. That is a--

You show me an operation that has this, I'll show you an operation that probably has a good safety record. You show me an operation that doesn't have this, I'll show you an operation that is probably horrible.

SENATOR KYRILLOS: But New Jersey's corporate community -- A&P, Johnson and Johnson, whatever -- their records are better--

MR. GRUBB: Dramatically.

SENATOR KYRILLOS: --than the public context.

MR. GRUBB: Dramatically. Dramatically.

SENATOR KYRILLOS: And none of this has anything to do with litigation or any other reason? It just seems-- If you don't have a safety program maybe things would be 10 percent worse or 20 percent, but 45 percent worse seems like a lot.

MR. GRUBB: And that is not surprising.

And again, we have some individual success stories. There are some individual departments that have -- on their own -- have done something significant -- the State Police, the Department of Transportation, their records are a lot better now than what they were a few years ago. But overall, we do not have a program that covers the entire State.

ASSEMBLYMAN WISNIEWSKI: Senator Karcher.

SENATOR KARCHER: Thank you, Mr. Chairman.

Thank you, Mr. Grubb.

I have two questions. First, I'm just trying to understand -- if the MEL program, basically, has been raised to the level that it can insulate us from market crashes and outside market forces -- which is, as you have given your testimony, up to \$5 million per claim -- at what level would we be able to reduce that so that we are still insulated from market -- outside market forces, but not be as liable for the excess damages we have that, as

you have testified, that FEMA really should be picking up -- for those other types of things?

I mean, I'm looking at this as-- We have this operating on the market, the market operating on the market, and then we have the disasters that could befall us; and where do we get that balance so that we would not have to-- Can we reduce that below the \$5 million?

MR. GRUBB: Well, I wouldn't focus on the \$5 million figure.

SENATOR KARCHER: Okay.

MR. GRUBB: Where the FEMA opportunities are -- and there are a lot of opportunities in that program, but where the FEMA opportunities are is in excess of maybe \$50 million or \$100 million.

SENATOR KARCHER: Okay.

MR. GRUBB: For example, the State is spending \$0.5 million a year for property insurance of \$400 million x \$100 million. I cannot imagine how you can have an event that would damage \$100 million worth of State -- more than \$100 million worth of State property without it being a FEMA event.

When you get into the issue of statutory -- in other words, unlimited excess workers' compensation, that is becoming very difficult here in New Jersey to secure it, because of the terrorism risk. Underwriters are concerned -- what happens if you get a concentration of 500 police officers who are coming together in response to, let's say, a New York incident, and then all of a sudden a bomb or something goes off in the midst of these 500 police officers? What kind of exposure do they have? And at that point, they start saying, "Okay, well, we don't want to insure workers'

compensation anymore, excess of a certain level.” It becomes very expensive to do that.

If we coordinate our programs, maybe we don’t have to go out and buy that kind of insurance. There are those kinds of technical opportunities that the Senate 99 platform would give us. Senate 99 would also give us a platform to deal with some of the other risk management issues.

SENATOR KARCHER: And my other question is: You report here that the savings back to taxpayers have been \$725 million in the last -- what is that -- 20 years?

MR. GRUBB: Twenty years, that is correct.

SENATOR KARCHER: And it has been in premium savings of \$401 million, dividends \$228 million, and then you have a statutory surplus of about \$100 million. How has that been savings to taxpayers when that goes-- How does that get returned back to municipalities? Do they generally have that in their general funds? Does this go back to taxpayers in -- what kind of savings exactly?

MR. GRUBB: Okay. In the case of the \$400 million, that is an up-front savings. In other words, that is premiums--

SENATOR KARCHER: Off their premiums, okay.

MR. GRUBB: --that they are not paying that otherwise they would have paid. So that is an up-front reduction in budget. The dividends of \$228 million, that comes back at a rate of maybe about \$20 million to \$25 million a year depending upon the year. Communities either use that to reduce their following year’s insurance premiums or put it right into their general fund and use it to offset property taxes.

The retained surplus of \$96 million, that is the surplus that we are holding in our accounts, and the way to look at it is that that is effectively future dividends.

SENATOR KARCHER: Okay.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Are there any other questions? (no response)

Mr. Grubb, I just had one follow-up. And just, I guess, following what Senator Kyrillos had said, talking about the safety record of the State. And I believe your testimony was that the State has something like 100 individuals whose responsibility is looking at this type of issue.

MR. GRUBB: As close as I can tell.

ASSEMBLYMAN WISNIEWSKI: What are they doing now?

MR. GRUBB: They are very frustrated.

ASSEMBLYMAN WISNIEWSKI: Explain that.

MR. GRUBB: In other words--

ASSEMBLYMAN WISNIEWSKI: They are not given the ability to implement safety programs? They are overwhelmed? They need more?

MR. GRUBB: No, they don't need more. Just to put this in perspective, when I was the risk manager for A&P, I had five safety engineers to cover a company that had 110,000 employees. So when we're talking about 100 safety professionals, that is a huge number.

The frustration is that they do not have -- because of the lack of the overall management structure and the follow-up, they really do not have-- They don't-- They really don't have the support they need to do

what they need to do. Everything right now is just compartmentalized within various different departments. Some departments have taken this seriously, other departments haven't, and as a net result we have a lot of people who are not being utilized to the extent that they should be.

ASSEMBLYMAN WISNIEWSKI: They are not being given the authority to make changes? They are not-- Superiors are not interested in what they have to say?

MR. GRUBB: It is all of that. Again, the bottom line here is that safety programs work when you have the consistent involvement of senior management. They don't work when you don't.

ASSEMBLYMAN WISNIEWSKI: So it has to be top-down if it's going to work.

MR. GRUBB: It has to be top-down. It has to start at the top. If it doesn't start at the top, you have a lot of people spinning wheels.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Anybody else?

ASSEMBLYMAN MALONE: Yes. Just one.

Is it any different than the way the State bureaucracy operates as we know it?

MR. GRUBB: Yes.

ASSEMBLYMAN MALONE: As far as the safety is concerned: Is the way that the safety is handled operated any differently than the typical bureaucracy within the State of New Jersey?

MR. GRUBB: Well, it can-- I'll get back to my comment earlier about wanting to outlaw guillotines.

ASSEMBLYMAN MALONE: Well it has to be-- You have danced around the whole thing, and if it is-- If what you said about Lipton is true, and the way you handled it with five people for a hundred and some thousand employees, it's obvious that the bureaucracy doesn't function to allow these individuals to be very proactive in safety management throughout the State departments.

MR. GRUBB: That is a very accurate statement.

ASSEMBLYMAN MALONE: Okay.

Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Mr. Grubb, thank you. We appreciate your testimony.

MR. GRUBB: Okay. Thank you.

ASSEMBLYMAN WISNIEWSKI: Okay, and our final witness this morning -- it is still morning -- is from Chester County, Pennsylvania. Dr. John Baillie.

Dr. Baillie, welcome.

J O H N K. B A I L L I E, Ed.D.

Thank you.

Good morning, and thank you for inviting me.

I would like to describe how regional education service agencies in Pennsylvania, which are called *intermediate units* -- and I'll call IUs throughout my remarks -- work to save taxpayers money.

I'll give a short thumbnail sketch of education -- the education structure in Pennsylvania -- and describe how intermediate units fit into that structure, and then I'll describe how intermediate units work. And then I'll be happy to answer any questions you might have.

In Pennsylvania, there are 501 school districts. Each district has grades kindergarten through 12. Each has a superintendent and a nine-member board of directors. Those directors are elected by the people. All of the boards set tax rates, collect, and have the authority to spend that money. All are members of an intermediate unit.

In 1970, when intermediate units were formed, they were deliberately designed as service agencies. Pennsylvania is very big on local control, and there are several mechanisms built into the law assuring that intermediate units won't become powerful. Our mission is to save money by providing services to school districts, the Department of Education, municipalities, and many others.

Each IU has, by law, a minimum of one employee -- an executive director -- and they also have, by law, a board of directors. The board is made up of a school board member from each district in the intermediate unit, to a maximum of 22 members. The board members are nominated to the IU board by their local school board and elected to a three-year term by all the school directors in the intermediate unit.

I meet with my board monthly, where they approve budgets and other financial arrangements, set salaries -- including mine -- and approve policies that govern the intermediate unit.

Intermediate units are free to offer any program in nine educational-related areas. They can also provide services to any organization or individual. So for example, a consortium of three or four school districts might want a service, and agree to come up with the money on a break-even basis. Or the intermediate staff could dream up a program

and offer it for sale on a tuition basis, and if enough customers choose to buy it, it could be run.

Or the Department of Education could ask the intermediate unit to run one of their programs and provide money through a contract. There are literally hundreds of different arrangements that can be made. Some IUs run just a few services that all their districts want, while others at the other end of the continuum provide a host of services for sale to anyone who wants to buy them. Each intermediate unit operates in a different way, and each offers a different array of services tailored to meet their region.

In the Chester County intermediate unit, we tilt very heavily towards selling of services to whoever wants to buy them, but we have all the other types of arrangements as well.

The next slide lists just a few of our 345 different services.
(indicating PowerPoint presentation)

How do intermediate units work financially? Because if you understand how they work financially, you will understand how regionalization can work for you in New Jersey. In Pennsylvania, the state provides about \$5 million in state subsidy for all 29 IUs, to ensure that there is an intermediate unit in every part of Pennsylvania. Our share of that \$5 million is \$161,000. We do not have taxing power.

We divide our budget into three sections. The first is the core budget. That includes the administration and board costs, building maintenance, and four services that all the school districts believe are essential. We charge those -- our member districts -- a total of \$600,000 for their free use of those four services. The fee for each district is assessed

based on a per-pupil charge to districts, with the wealthier districts paying more per pupil than poor districts. It is very much like a membership dues.

The budget for our core-- The total for our core budget is \$11 million. Each year, this budget must be approved by a referendum of the 108 school directors in the intermediate unit. If it fails, the core budget has to be redone and voted on again, and the whole intermediate unit is decapitated while that goes on.

From my perspective, as executive director, that is local control with teeth.

The second area of our budget we call categorical budgets. We have eight of these budgets that we get simply because we are an intermediate unit, and the state or Federal government provides the money without competition, because these are priority areas for them. Its total is \$22 million.

The third and most important part of our budget we call *marketplace budgets*. These are programs that we sell to anyone or any institution, including school districts, municipalities, individuals, day-care centers, nursing homes -- more than 100 different customers -- and where we try to make a profit. We have 92 different programs, each has a budget. We have 345 different services, each with a price tag. Our total sales last year were just under \$89 million.

How do these work together? We charge 8 percent on each of the categorical or marketplace services as a fee for administration. That goes to the core budget to run those budgets. If the IU makes a profit overall, our board must decide what to do with it, and they have three choices. They can put it in a capital reserve account to pay for new

buildings or the maintenance of old buildings; they can put it into a new initiatives reserve that provides seed money for new programs or special support for existing programs; or they can pay a dividend to the school districts. And we have done all three of those options over the years. Lately, however, most of our profits have gone into new or renovated buildings.

If you step back and analyze the financial support and governance of an intermediate unit from a who-has-the-power point of view, it is obvious that school districts are in the driver's seat, because they elect the intermediate unit board. The intermediate board sets my salary and the salaries of other staff members of the IU. They approve the core budget, they have the ability to decapitate the IU, and they decide to buy or not to buy our services.

From my perspective that means that I and my staff had better treat school district people very nicely. Customer service in an intermediate unit is a very big thing. All of my staff are trained when they are employed. We practice it among ourselves. I model it. We reward it. We live or die by how good it is. We need to be creative, knowledgeable, and up-to-date so that our programs meet our customers' needs and so they won't buy from someone else; because that is when intermediate unit people lose their jobs.

Our budgets have to be tight in order to keep our prices low and attractive to our customers, and we need to be viewed by municipal and school officials, Legislators, and school directors as a positive community asset.

How does that work? Pretty well, as it turns out. We believe that our members vote with their dollars. In other words, we believe that

satisfied customers keep buying from us if we satisfy their needs. Since we installed the marketplace programs in 1983, our budget has grown from \$13 million then to \$135 million now. That is 5.12 times the inflation rate during that same period. On the basis of return and growing sales, I think it's safe to say that our customers like our services and like shared services at an intermediate unit level.

I would be happy to try to answer any questions you might have.

ASSEMBLYMAN WISNIEWSKI: Thank you very much, Dr. Baillie.

Are there any questions?

SENATOR SMITH: Sure.

ASSEMBLYMAN WISNIEWSKI: Senator Smith.

SENATOR SMITH: When did Pennsylvania begin this program?

DR. BAILLIE: Thirty-five years ago -- 1971 was the first year.

SENATOR SMITH: Tell me what it is that the local school districts do, as opposed to the IU.

DR. BAILLIE: Local school district?

SENATOR SMITH: Yes.

DR. BAILLIE: They provide the basic kindergarten through 12th-grade instruction. They are basically responsible for even vocational education or special education. They can provide it themselves or they can subcontract with an intermediate unit, or a private school, or anyone else who is providing that.

SENATOR SMITH: Okay. Does the local district have a superintendent?

DR. BAILLIE: Yes, all of them.

SENATOR SMITH: Does the local district have a business administrator?

DR. BAILLIE: Generally, yes.

SENATOR SMITH: When you're doing the purchasing -- when the IU is doing the purchasing, does the local school district still have a person who is at least sending in the purchase orders to the IU and then you follow up with it?

DR. BAILLIE: Yes. We do joint purchasing for 1,500 -- 1,200 or 1,500 different products for our school districts in our county. We have the biggest joint purchasing operation in Pennsylvania in a region. What we do is, our business managers from the county meet with my business manager and my purchasing agent--

SENATOR SMITH: Right.

DR. BAILLIE: --they write the specs together. They bid the-- It is a legal authority -- Joint Purchasing Board -- and they then-- Every school district says, "I want X cartons of milk," or whatever it is.

SENATOR SMITH: But they have a person locally who sends in the order and checks that--

DR. BAILLIE: Absolutely.

SENATOR SMITH: --the order comes in, and so on?

DR. BAILLIE: Yes. They have their own business office.

SENATOR SMITH: Do the local school districts still have attorneys?

DR. BAILLIE: Yes.

SENATOR SMITH: When you-- But I understand you really do provide all the transportation. Is that true?

DR. BAILLIE: No.

SENATOR SMITH: No. What are you finding as your experience with the intermediate units with regard to transportation costs, when you do have the transportation? Do you find a savings compared to what the local districts used to pay?

DR. BAILLIE: In most cases-- In fact, I believe I'm accurate in saying 28 of 29 intermediate units provide special ed transportation -- for the special ed kids-- One intermediate unit -- Berks County IU -- has basically set up an operation where they compete with local bus contractors. So if a contract comes up for K-12 transportation to the local school districts, they put a bid in alongside of the contractors, and they very frequently beat the local contractors. That has created a real controversy in Pennsylvania, and it is isolated to that one county where the local contractors have put up quite a stink, because they are being beaten by intermediate units.

SENATOR SMITH: And what is their complaint?

DR. BAILLIE: The essence of their complaint is that intermediate units don't have to pay Federal income taxes so they have an unfair advantage. That is the essence of their complaint. The opposite side to that is the taxpayers are the beneficiary of the intermediate units bidding against -- or that intermediate unit bidding against the local contractor.

SENATOR SMITH: Okay. So it is pretty hard to come up with a quantifiable savings associated with the IU providing the transportation services?

DR. BAILLIE: Oh, sure. Yes, you could come up with that. In fact, in 1992 my intermediate unit won an award for the best customer service in Eastern Pennsylvania from the Better Business Bureau. And the essence -- or the reason for the award was that we did a year-long study where we compared all of our services with the next lowest-priced competitor, to compute the savings to our school districts from buying from us instead of the next lowest-priced competitor. And at that point -- this is 1992 -- we were saving \$9.8 million. Our school districts were saving \$9.8 million. So that is 14 years ago. We're renewing that study. We going to do it again this year to see what the savings are now.

SENATOR SMITH: Okay. And the starting point in Pennsylvania is -- you have how many school districts?

DR. BAILLIE: We have 501.

SENATOR SMITH: Okay. So these intermediate units have to be more efficient than the -- having 501 doing some of these functions. Just by the nature--

DR. BAILLIE: Just by eliminating normal redundancy you would have to be more efficient.

SENATOR SMITH: Yes. Have you looked at the Maryland model for school districts? Maryland--

DR. BAILLIE: It is countywide based.

SENATOR SMITH: They have county based. The county does all of the administrative stuff: the transportation, the purchasing,

curriculum, human resources, etc. And then at the local level there are principals who administer high schools. Have you had a chance to look at that?

DR. BAILLIE: During my career I have looked at it. I haven't looked at it lately.

SENATOR SMITH: Can you give me some advantages, disadvantages between the two models?

DR. BAILLIE: I think the big disadvantage -- and I suspect-- I know Pennsylvania would see this as a disadvantage, and I suspect New Jersey would, as well: you basically give up local control in that case. The local school boards would not be elected. You would have one school board for a county, and everything would flow -- you would have a large bureaucracy, and the people would be separated by a great distance from their officials who can make decisions.

In Pennsylvania, that would be a real, real tough sell. In fact, I don't think it could be done with our tradition of local control.

SENATOR SMITH: When the intermediate districts were set up, was that done with the consent of the people or was that done by a legislative act?

DR. BAILLIE: It was done by a legislative act. A committee, not unlike this Committee, convened in the late 1960s and looked at consolidation and-- To that point, from 1854 through 1971, there were county superintendents of schools in Pennsylvania -- 67 of them. And essentially, the state outgrew the usefulness of those county superintendents, and it created intermediate units as service agencies. That

was a very, very conscious decision -- that they would be service agencies and not political powers or regulatory agencies.

SENATOR SMITH: What is the-- Just for the record, what is the average cost of educating a Pennsylvania student -- if you know it?

DR. BAILLIE: I can give you a ballpark. You have to keep-- In Chester County -- it is the wealthiest county in Pennsylvania, it is suburban Philadelphia, the Main Line -- the average would be something like \$12,000 to \$15,000 per pupil. Now, throughout the rest of the state it is going to be significantly lower, probably \$8,000 to \$10,000, I would guess.

SENATOR SMITH: Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Dr. Baillie, I have a question. You said something that we hear quite a bit as we look at consolidation and shared services, and it is the phrase *local control*.

In an educational setting, when curriculum standards and a lot of the fundamentals of how a school district provides an educational service to its constituents -- those are, would you agree, not decisions that are generally made locally? They are top-down decisions.

DR. BAILLIE: They certainly have been since the No Child Left Behind law.

ASSEMBLYMAN WISNIEWSKI: What local control then would be lost? I'm trying -- and I think a lot of the members are trying to get their hands around-- A lot of the issues we deal with in education are clearly not issues that are generated locally. There are state standards. There are state requirements. So what is the local control that would be given up?

DR. BAILLIE: The truth is, in terms of decision making, not much. The political -- small p, I'm not a large P politician-- The feeling of ownership that parents and community members have for their school, or their football team, or their basketball team, or marching band, or whatever it is -- that is the real root of the need for local control, and that is a very, very difficult issue to overcome.

When I was approximately 26 years old -- and this is a long, long time ago -- one of my first administrative jobs was being a bodyguard -- literally, I was a college football player so I was a big guy -- for the county superintendent as he reorganized the last school district in Pennsylvania. (laughter) And he needed me. So local control is huge in Pennsylvania.

ASSEMBLYMAN WISNIEWSKI: So the local control -- and I'm not saying it is any different here in New Jersey -- but the local control is really more about the intangibles than about the core education mission of any school district or any county. It is about the football team. It is about those types of issues as opposed to anything else, would you agree?

DR. BAILLIE: Yes, primarily. And secondarily, if you have a countywide bureaucracy or organization, there are certain inefficiencies to that level of size, especially when it is a customer service agency; and that is what education basically is. You are dealing with customers on a regular basis -- not just the kids, but their parents -- so people can get lost in a large organization. And so secondarily, I would say that that could become an issue as well.

ASSEMBLYMAN WISNIEWSKI: People getting lost because there is not sufficient attention to detail?

DR. BAILLIE: Or they don't know the-- I would hate to be a kindergarten mother in Montgomery County, Maryland, and have my kid not picked up the first day of school -- to try to find out who I can call to get the kid picked up. That is what I'm talking about. A bureaucracy is just too big. It needs to be-- Education as an-- I think a county-run school district is too big. I don't think a 10,000-pupil school district is too big, with a superintendent and the departments and various things, and a service agency to serve them, but I do think a county district is too big.

ASSEMBLYMAN WISNIEWSKI: And just one last question; and I know other members are interested in asking you questions.

You said Pennsylvania has approximately 500 school districts?

DR. BAILLIE: Yes.

ASSEMBLYMAN WISNIEWSKI: And your statewide population is how big?

DR. BAILLIE: I don't know.

ASSEMBLYMAN WISNIEWSKI: And your school district -- the average size is how big?

DR. BAILLIE: Well, in Chester County, probably the smallest one is about 3,500 and the largest is pushing 15,000.

ASSEMBLYMAN WISNIEWSKI: I just-- It is an interesting statistic in terms of the 500 number. Geographically, Pennsylvania is probably something like three times the size of New Jersey, and we've got you beat. We have 611 districts, and you only have 500. I was just trying to get a size of the demographics there.

Other members -- for questions?

Assemblyman Gordon.

ASSEMBLYMAN GORDON: Thank you, Mr. Chairman.

Several months ago in Bergen County, I had the opportunity to hear Dr. Baillie's presentation to a shared services conference, and I was very impressed with it. It struck me as, perhaps, a model that might be appropriate for New Jersey, and particularly in light of some of the things we have been hearing in some of our recent meetings.

We heard about the Maryland model, and I think there have been some concerns that that might be a little too big. I, for example, heard from a constituent recently who has an autistic child and she said, "I moved from California, because I didn't want to deal with the Los Angeles unified school district. I wanted to be able to deal with my particular hometown school district."

It strikes me that perhaps this Pennsylvania model of the intermediate unit is a way where we can find some compromise between an impersonal large organization, like a county school district, and the system we have now.

Your system, it strikes me, is able to maintain that local control -- the local touch -- the involvement of the parents and the things they hold dear in their district, and yet we can achieve some economies through these 300-some odd services that you provide. I think we really ought to take a serious look at this.

I'm wondering, would something -- would a model like this work for municipalities?

DR. BAILLIE: There is no reason why it couldn't. I've gone to the Internet, and there are existing organizations like intermediate units for municipalities elsewhere in the country. We allow our municipalities to

participate in our services, as well, and they do participate. They have to pay a fee in the joint purchasing part of it.

ASSEMBLYMAN GORDON: Have you done any kind of analysis -- I know this is probably a difficult fact to uncover -- can you estimate the kind of savings you might have achieved over time through the use of these IUs as opposed to the district model?

DR. BAILLIE: There was a study done -- this is terrible, because I'm admitting that I don't remember the number. But one of my staff members actually did the study, about 10 years ago, that attempted to compile the savings statewide. My recollection is that at that point it was over \$200 million a year. Now, that was at least 10 years ago, and there was testimony given at a -- I think it was a House Committee up in Harrisburg. But it is a very substantial savings.

There is no doubt that as soon as intermediates get into offering a service, you eliminate redundancy immediately, and you pick up savings. So it is an ideal model. Really, 35 -- I think it is 35 states throughout the country have intermediate units. They don't necessarily call them intermediate units, and New Jersey is one of the few that really doesn't have that.

ASSEMBLYMAN GORDON: In response to Senator Smith's questions, you said that the districts still have their lawyers and their business administrators. Was there a reduction in administrative head count when the IUs came into being?

DR. BAILLIE: I don't think so. In 1971, when intermediate units-- No, there was a reduction in county superintendent head count.

There were 67 county superintendents consolidated to 29 intermediate units; and staff, at that level, certainly lost their jobs.

At the local level, I don't believe that did occur. I think over time the existence of intermediate units has kept the growth of administrative staff at the school district level lower. For example, they don't need to have special ed directors. They can have a supervisor, and they don't have to have a hierarchy of special ed people.

We get quite a lot of business from local school districts in special education, because we have the expertise at our level. We can avoid the legal cost. And we have lawyers who can handle their due process cases; and supervisors who meet with the parents and do the IEPs, and that nature. So districts can easily delegate that to us, and the price is low.

ASSEMBLYMAN GORDON: Well, in light of the fact-- I seem to recall the figures are that the greatest increase in public employees has been at the local school level in New Jersey. I think that is an important factor to consider.

Thank you very much.

DR. BAILLIE: Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Senator Karcher.

SENATOR KARCHER: Thank you, Mr. Chairman.

Thank you, doctor.

I have a question about capital projects. Do you oversee building projects and -- other than routine maintenance you do?

DR. BAILLIE: Yes. We are building right now. We will break ground on October 5 for a \$46 million technical college/high school -- a

brand-new building. It is about 150,000 square feet. We have a special education center that is probably 90,000 to 100,000 square feet.

Am I answering your question?

SENATOR KARCHER: And in a construction project like that, is it safe to say that the buck would stop with you? That you are fully responsible for -- or the IU -- that is the entity that is fully responsible for the construction and dealing with the contracts?

I'm asking, because we have had a bit of a crisis in my own district. I don't know if everyone is aware-- Last Thursday, parents of 1,400 students were sent a letter telling them that they would not have school starting on Tuesday, at a scheduled opening of a middle school. The local superintendent knew. The county superintendent learned about it in the newspaper, and yesterday the State Commissioner learned about it when we started making phone calls.

So there was such a serious breakdown in communication because of the layers of bureaucracy, and this is a very specific concern. The building-- Having this building on line, ready to service their customers -- which are these 1,400 children -- provide this product. A full day of school for these children is not going to occur because of that.

And if there are any answers, as we move forward, as to how we can avoid these types of situations, having someone-- Because the money is coming from multiple sources, and there really should be a chain of command, I believe, in making sure that these schools are on line, on time for these children.

So you have how many projects in a year-long stretch that you would be doing -- a capital project; or five years?

DR. BAILLIE: Well, let me clarify. If a local school district is building a high school, for example, they are running that.

SENATOR KARCHER: Okay.

DR. BAILLIE: The intermediate unit has nothing to do with that unless they ask us. Then if they ask us, we will set a price, and we will oversee the project. That has not happened during my tenure at that--

SENATOR KARCHER: Okay.

DR. BAILLIE: But we have our own buildings. We have three vocational schools, a special ed center, an alternative behaviorally challenged kid center. And we built those, and we renovate those. And we are fully responsible for those. That was the \$46 million technical college--

SENATOR KARCHER: But if the school district is building one on their own, it is just done entirely--

DR. BAILLIE: It sounds like it is done the same way in New Jersey.

SENATOR KARCHER: Heaven forbid.

Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator.

Senator Kyrillos.

SENATOR KYRILLOS: Thank you.

Thank you for coming across the river and helping us out with our problems.

How did you get this name, intermediate unit? How did that evolve?

DR. BAILLIE: Well, it happened 37 years ago, and I was -- I would love to say I was still in college, but I was out. I believe it came

about because it was between school districts and the state department, and so they said, “intermediate.”

SENATOR KYRILLOS: Is that how you are formally known as? Is that a statutory name?

DR. BAILLIE: Yes. It’s a terrible name. I absolutely would not advise-- I have been accused of being a crisis doctor in an intensive care unit. I mean, I have had all kinds-- The question I most frequently answer is, “What’s an intermediate unit?” It is a regional education service agency, shared service agency.

SENATOR KYRILLOS: And just a couple of questions about your organizational structure.

You are not county based, per se?

DR. BAILLIE: Right, we are not.

SENATOR KYRILLOS: These are ad hoc consortiums of school districts that have evolved over time?

DR. BAILLIE: No, no. In 1971, in the law that established intermediate units, they established specifically what school districts were in each intermediate unit. They had a guideline that no intermediate unit would have less than school districts whose total pupil population comprised at least 25,000.

Now, in Chester County’s case, we have about 75,000 kids in -- public school kids.

SENATOR KYRILLOS: So it is fixed then? It is a fixed coalition?

DR. BAILLIE: It is fixed. You can -- a school district can switch intermediate units, but it takes a unanimous vote of the school districts in the home district, as well as the receiving intermediate unit.

SENATOR KYRILLOS: And not all intermediate units do the same things, is that what I heard from your testimony?

DR. BAILLIE: Yes, that is absolutely true.

SENATOR KYRILLOS: They don't all-- Some do two things, and some do ten things.

DR. BAILLIE: Right. Seneca Highlands intermediate unit, which is on the northern tier of Pennsylvania -- toward Erie, where there are probably more deer than there are human beings -- they don't sell services at all. All their districts have to agree that they are going to have a service--

SENATOR KYRILLOS: School districts can't be involved in more than one intermediate unit?

DR. BAILLIE: Yes.

SENATOR KYRILLOS: They can?

DR. BAILLIE: Yes. School districts can buy from other intermediate units, and that very frequently happens.

SENATOR KYRILLOS: So you have your member districts in your unit, but if you don't have a product or a service that they want, they can shop somewhere else for it?

DR. BAILLIE: That's right. Our menu of service has 350 different services and two set prices: my member district price, and a price 10 percent higher for districts -- customers who are not in my districts.

SENATOR KYRILLOS: What happens if a school district says, "I really want to be in this other unit, not yours?" Does that happen?

DR. BAILLIE: Yes. It happened to me this last year, where a neighbor-- A school district -- in fact, the school district where I was superintendent 25 years ago -- wanted to join my intermediate unit, and I went to their-- I met with their school board and superintendent in private and told them the advantages and disadvantages of switching. And frankly, the disadvantages outweighed the advantages, and I advised them not to do it.

SENATOR KYRILLOS: How were they originally cut up?

DR. BAILLIE: The Legislature did it when the bill was formed. There was a blue-ribbon committee of leading citizens, professors from universities, and legislators -- on this blue-ribbon committee -- who drafted the law, basically, and they cut it up.

SENATOR KYRILLOS: They tried to find like districts geographically, contiguous school districts?

DR. BAILLIE: Yes. It would be two counties or four counties.

SENATOR KYRILLOS: I see.

DR. BAILLIE: But very rarely did a district in a county not go along with the whole county. It would be very unusual.

SENATOR KYRILLOS: And it has been this way since the late 1960s?

DR. BAILLIE: Yes, and it has been that way-- There have been many instances where school districts wanted to change, but the barrier that was set is so high -- a unanimous vote from sending and receiving is real tough to overcome.

SENATOR KYRILLOS: Are there any-- I'm sure you said this, so I apologize, but-- There are business services that school districts are doing on their own--

DR. BAILLIE: Oh, absolutely.

SENATOR KYRILLOS: --rather than through you?

DR. BAILLIE: Absolutely.

SENATOR KYRILLOS: Like?

DR. BAILLIE: Like busing, like food service.

SENATOR KYRILLOS: Yes, I noticed that you didn't put busing in your -- you don't do busing.

DR. BAILLIE: We do special ed busing. We don't do regular student busing. Food service -- they run their own food service programs. We'll coordinate purchasing of the food.

SENATOR KYRILLOS: Insurance?

DR. BAILLIE: We have an insurance consortium, and we have a self-insured health consortium as well. Some of the districts participate and some don't.

SENATOR KYRILLOS: Nothing compels them to buy into what you do?

DR. BAILLIE: It is absolutely optional on their part. And I frankly like it that way. I say to superintendents all the time, "If you like our service, buy it; if you don't that is fine, too. We'll still be friends."

SENATOR KYRILLOS: But you don't do busing or food -- why? You just never did it? Too complicated?

DR. BAILLIE: We've never-- The busing issue is so politically fraught with danger that I've steered away from that. Food service strikes me as better done at the local level than at the county.

SENATOR KYRILLOS: The districts that choose not to use an individual menu item that you offer -- in your judgment, are they usually correct in that decision that they can do it better or cheaper on their own than through you? What percentage of the time are they making the wrong call, from your point of view? And does that become a public issue out there?

DR. BAILLIE: It doesn't become a public issue, to answer that part of your question. Sometimes they make the right decision and sometimes they make the wrong decision. When they make the wrong decision, typically it is because they are preserving their own bureaucracy. I can say that here. I won't say that in Pennsylvania, but that is-- (laughter)

SENATOR SMITH: And it's being broadcasted in Pennsylvania. (laughter)

SENATOR KYRILLOS: And it doesn't drive-- The political process isn't driven by the-- You know, our school districts don't always have the opportunity to aggregate with other districts. We want to provide that opportunity now, that is what this is all about.

You don't see skirmishes out there amongst school board members or in the community when somebody decides to do it more expensively for parochial reasons? You haven't gotten to that point yet?

DR. BAILLIE: What classically happens is a local school board member becomes an intermediate unit board member. He becomes their -- he or she becomes their representative to my board. And they are on my

board for a year or two, and they really become sold on regional services. They see the efficiencies. They see the expertise. And then they go back to their local school board meeting, and they say, “we ought to be buying this service out there,” and somebody else on the board has a reason for not wanting us to do it. So they might skirmish, but it never has reached the point where it becomes a real controversy in -- either in that district, or in the county or intermediate unit, at large.

I have a staff member at every school board meeting in the county. We pay a supplemental contract to staff members, and they attend every single meeting. And if an intermediate issue comes up at a meeting where they need customer service, I get an e-mail by 9:00 the next morning, and I’m on the phone with the superintendent to try to settle whatever the controversy or issue is. So a discussion or skirmish about that would come up, I would be on the phone saying, “What’s going on here?” and try to smooth things over.

SENATOR KYRILLOS: So there is a big variance amongst Pennsylvania school districts. Some are farming out all of their business services and needs, some a little bit, some not at all, I suspect?

DR. BAILLIE: Yes. I would agree with that except for the statement that some are farming out all of their services. I don’t think anybody is farming out all of their services.

SENATOR KYRILLOS: Some are doing it more than others.

DR. BAILLIE: Yes.

SENATOR KYRILLOS: Okay.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator.

Are there any other members with questions? (no response)

Let me just ask one, perhaps, concluding question. Maybe it will generate others, but--

This was instituted 37 years ago, I believe you said. And in that time, has there been a measure of savings? Are there any statistics available that say, had this not taken place, had these intermediate districts not been created, we would be spending X -plus, and today we're only spending X ?

DR. BAILLIE: There was that one study that I referred to, about 10 years ago where the intermediate units calculated the savings based -- compared to the lowest-priced competitor, and presented that to the state legislature.

ASSEMBLYMAN WISNIEWSKI: But nothing since then? That was just--

DR. BAILLIE: Nothing since then.

ASSEMBLYMAN WISNIEWSKI: So in the 37 years there has been one -- one snapshot.

DR. BAILLIE: That is right.

ASSEMBLYMAN WISNIEWSKI: Thank you.

I don't think there are any other questions.

Assemblyman Gordon.

ASSEMBLYMAN GORDON: Just to follow up on that. Your question did generate another thought.

I'm just thinking it might be very interesting to compare administrative cost per pupil in Chester County with a comparable county -- similar demographics -- in New Jersey. And I can think of a few. It

would be an interesting exercise just to see if there are, in fact, some savings -- assuming that we are comparing similar things.

ASSEMBLYMAN WISNIEWSKI: Let's see how we can create that.

Thank you very much for your testimony. I appreciate you being here, on behalf of all the members of the Committee.

DR. BAILLIE: Thank you.

ASSEMBLYMAN WISNIEWSKI: I would just, as a housekeeping note, let everybody know that the Committee will not meet next Wednesday. We will resume on Wednesday, September 27.

We are adjourned. Thank you.

MEETING CONCLUDED