
Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON GOVERNMENT CONSOLIDATION AND SHARED SERVICES

"The Committee will be considering the question of cost savings associated with consolidation and what constitutes efficiency in municipal service delivery"

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

DATE: August 30, 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 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
Brigid Farrell
*Assembly Republican
Committee Aides*

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

Good morning.

Would everyone kindly take your seats?

If you have a cell phone or a pager, if you would, please put it on vibrate or silent so as not to interrupt the testimony or the questions from the members of the Committee.

Good morning.

My name is John Wisniewski. I'm Co-Chair with Senator Bob Smith, from Piscataway, of the Joint Legislative Committee on Government Consolidation and Shared Services.

Today we have several witnesses who will be testifying, some live, some by teleconference. And some of them have very interesting presentations. And we'd like to give them our full attention. And after they're done making their presentations -- to open it up to questions from members of the Committee.

With that being said, I would also like to welcome Senator Karcher, from Monmouth County, who was away on a long-deserved family vacation when we had our initial meeting and did not have an opportunity to make any initial comments. I would like to turn it over to Senator Karcher to make her introductory comments.

SENATOR KARCHER: Good morning.

Thank you, Chairman.

I appreciate your understanding of my absence a few weeks ago. I was on a family vacation. And when I got back, and I received our binder -- our very thick binder -- I was happy to see that there's a tab in there that

says “Karcher’s *Multiple Municipal Madness*.” And it just brought back some memories of about 10 years ago.

My father was diagnosed -- he was the Speaker of the New Jersey Assembly, and worked here most of his adult life -- and when he was in his mid-50s, he was diagnosed with lung cancer. And the doctors at Sloan-Kettering told him, “You have six months to live.” And that was pretty devastating news. But my father took it and said, “I need more than six months. I have to write a book. I have to write a book about New Jersey and tell everybody how we got into this mess, and how we’re going to get back out of it.”

So for the remainder of his life -- he went on and lived 18 more months -- he worked on this book, *Multiple Municipal Madness*, to tell the story of how New Jersey developed into this Byzantine system of municipalities -- these lines drawn by spiders on LSD, I think, was the wording he used. It became a family affair. My mother and my aunts would take dictation from him. And I actually helped do a lot of the editing work. And we had some of our more vocal arguments over the language he was using.

But he produced this book. And it went on, it was edited -- we edited it, and it was published. And he went on a mini book tour. And by the time he was doing his book signing tour, he was really, really quite ill. And he was-- One day, at the Nassau Inn, in Princeton, about 60 people came to meet him and to talk about the book. And somebody came up to him and said, “Alan, it’s a good thing you’re dying, because there are hundreds of people who want to kill you.” (laughter) The hundreds of people being mayors, business administrators, township attorneys, auditors,

people who, if this vision of his book comes to fruition, would really no longer exist.

So on that note, I know that this is the kind of work -- this is the sentiment that we have. I don't think there's people out there ready to kill us. But this is going to be something that's difficult to do, and maybe uncomfortable. But we really are at a point where we can't afford the government we have. And that was the driving force behind him needing to get this book written and put forward.

I was a little dismayed. The tab is there that says "Karcher's *Municipal Madness*," but it's empty. There's nothing there. And I don't know if that was an oversight. But I just want to assure you, if you do go out and buy the book, my mother receives the royalties. And she donates all the royalties to New Jersey Future. So you have to-- In the spirit of full disclosure, the Karcher family is not going to be headed to the bank on royalties from Karcher's *Municipal Madness*.

And I do appreciate the opportunity to serve here, with my colleagues. And I would just like to thank you for giving me the opportunity to be here and to speak.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator.

We are joined by Assemblyman Gordon.

I'd like to get right into our testimony, with my Co-Chair's permission. And by agreement, Senator Smith and I have decided to alternate chairing and having the gavel at each meeting. So this meeting is my turn. And at the next meeting it will be Senator Smith's turn.

Our first presenter this morning is Professor Marc Holzer, Board of Governors Professor of Public Administration, and Chair of the Graduate Department of Public Administration at Rutgers Newark.

Dr. Holzer has directed the National Center for Public Productivity since 1975. And that serves as a vehicle for the study, the dissemination, and recognition of performance measurement initiatives in government. The National Center has undertaken an initiative to facilitate the use of performance measurement in municipal governments in New Jersey, through the development of a Measurement Consortium. And to this end, the National Center is collaborating with a small group of municipalities to identify useful performance measures, analyze and graphically display the results, providing online training, and developing a database for trend analysis and benchmarking.

Professor, thank you for being with us today. You have the floor.

M A R C H O L Z E R, Ph.D.: Thank you very much.

Is this live? (referring to PA microphone)

ASSEMBLYMAN WISNIEWSKI: Make sure your red light is on.

DR. HOLZER: Assemblyman Wisniewski, and Senator Smith, members of the Senate and the Assembly, and the staff, I appreciate the opportunity to testify this morning.

At the outset, let me say that at Rutgers-Newark, and Rutgers as a whole, we are more and more committed to municipal efficiencies. And our latest step has been actually to convert our Graduate Department of Public Administration into a School of Public Affairs and Administration,

with more emphasis on these issues. So just a small correction that we no longer have a graduate department. But now I'm Dean of this Graduate School of Public Affairs and Administration, which we hope will be able to serve New Jersey's needs even more effectively.

We've been looking at shared services and performance measurement for several years. And let me just emphasize what we've seen in the literature for several decades. Because the issues that we face at this time are really not new. We've heard phrases such as *doing more with less*, *how resources are decreasing or remaining stagnant*, *we need to achieve efficiency and effectiveness with limited resources*. In New Jersey, we've heard about small, inefficient municipalities, some with less than 500 residents. There's a dozen of those or so. Some are less than half a square mile. Some are embedded in other entities. And you're all familiar with those problems. And also, the number of governmental units in New Jersey -- local governments, school districts, special districts, authorities, counties -- some 1,300. So we know that there's a potential for substantial inefficiencies.

In 2003, we concluded a study that was funded by DCA. And we looked at shared services, interlocal agreements that have been experimented with in New Jersey. Some examples were: sharing of staff, such as a tax assessor or municipal court personnel; sharing equipment, digging ditches with that equipment for example; sharing internal services, such as an animal shelter; on-site service delivery, sharing health services; and sharing non-site based services, such as emergency services dispatching. And you've heard about that in previous testimony as well. But we're just confirming that that's the range of things that we've looked at.

We found that officials in local government view those arrangements positively. But the savings are hard to document. When we go and talk to people, there are virtually no records that indicate what the possible savings might be. So there are a lot of guestimates. There's a lot of good will. And there are a lot of perceived benefits to communities, which are cited when we talk to decision makers. But the accounting records aren't really there. So, overall, there's a lack of good information about the sharing of services.

We also know that there are many obstacles. And DCA summarized those in 2001: opposition of unions, management; residents' concerns; fear of loss of municipal identity, especially ignorance as to benefits of interlocal agreements; lack of documentation of real savings. And a key obstacle is the desire to protect specific employees. And multiple, conflicting personnel policies are another barrier, as well.

We know that informal contacts by municipal administrators and open communication are key to progress though. So we think there is substantial opportunity for progress.

Now, we had looked at strategies for municipal efficiencies in a multidimensional way for a long time, particularly performance measurement, which the Chairman mentioned.

Now, in terms of performance measurement, we think it can drive efficiencies if you are benchmarking your progress. For example, by benchmarking we mean: you set a starting point and then you see which direction you're going in. And, basically, does the line go up or line go down, depending on what you're trying to do. Let's say the service -- the number of services delivered might go up. That's what you want. The cost

per service might go down. That's what you want. So these are trend lines that we're looking at.

You can develop those trend lines, or benchmarks, over time, against the municipality's own accomplishments first; secondly, against comparable municipalities in the state, if you want to do that; and third, against national data. So all of that data is potentially available. And we can see how well we're doing in New Jersey.

We have been developing a measurement collection system, as a project funded by Rutgers and DCA. And we think that this data collection system will provide an easy mode or easy way of collecting key indicators of government performance. We base this on the Governmental Accounting Standards Board performance measurement recommendations, and also the experience of various municipalities across the country. And we build flexibility into this system, as well.

So we think that we'll come up with a simple system by the end of the year that will allow users the possibility of directly inputting data, either from their existing records or item by item. And the data can easily be transferred into graphs or charts, allowing all the stakeholders really to understand what's happening. And by that we mean not just the municipal managers, but the employees, the members of the councils or boards, the press, the interest groups that are out there, the property taxpayers, whatever. We think that all this data should be widely published. And that will create pressure for efficiencies, once people are able to question what's happening.

This is one example of a performance measurement form: We're just dealing here with waste removal. And this is probably a little too complicated to take a look at. But, essentially, we're saying what--

ASSEMBLYMAN WISNIEWSKI: It's a little small, too.

DR. HOLZER: It's a little small, I know.

But I'll just summarize it for you. We're essentially saying that you collect the data quarter-by-quarter. And then, at the bottom, it translates into trend lines. And once you have those trend lines, people can start asking questions about what's happening. We also include a space for comments by, let's say, the town manager or the department.

This one deals with police. You could track the number of indexed crimes in a municipality. And then you could look at the percent of indexed crimes cleared, or those that are resolved, let's say. But the important point is you start tracking it. And you then have these graphs, that are the blue bars, that show you whether things are moving in the right direction. In this case, they are moving in the right direction. This is just a hypothetical example. But you then start a discussion about, "What are you doing to do this?" and "Can you do it any better?"

Now, that's just one strategy for bringing about municipal efficiencies. And we think that that's the foundation strategy, because it then leads to questions about how you can do things better.

Now, where do you get the answers for how to do things better, because there are hundreds and hundreds of possibilities out there? So our thoughts are that the people running all of these 1,300-plus units of government need to tap into the knowledge that's out there -- the best practices that are out there across the country and around the world. They

can look at the International City Management Association database; the American Society for Public Administration, which has a chapter in Trenton. They can look at the League of Municipalities; they can look at service-specific networks that deal with police, or fire, or sanitation, or public health, or whatever. They can look at award-winning programs, such as those published by the Kennedy School every year, or the ones we've done through our exemplary State and local awards program.

But they don't. The people running government generally don't have access to this knowledge or don't know where to look, and don't look for help getting that knowledge. So there's a great untapped potential here.

For example, we know that there are many lessons learned, guidelines you can find in magazines, news articles, journal articles, the Web, networks. Just doing a very cursory search on this the other day, we came up with hundreds of possibilities.

One way to find those is to ask the state librarians to help find them. They're well-equipped to search the Web. They're in every municipality. And I doubt that there's a -- there are very many municipal managers who've actually thought of asking the librarians for help. They're the ones who can actually produce a lot of good ideas. You can go to the various branches of the universities. Universities are almost all State-funded in this state. They all have research institutes, schools such as ours, centers such as ours, which are more than willing to help and, very often, would do it on a pro bono basis -- to identify these good ideas.

And some of the examples we've come up with: Shared Municipal Services Incentive Program, in New York state; a report on the

Shared Services Summit in Broome County there; or in the Albemarle County Efficiency Report. We found reports in Chapel Hill, North Carolina; in Ithaca, New York; Manitoba, Canada. The ideas are out there for the picking, if anybody bothers to look. And these are all the ideas that can infuse local government. Because, remember, we're looking for a long-term solution here, not just a one-shot opportunity to lower property taxes -- but a long-term solution, which is going to reduce the level of funding government needs, and control that over time, indefinitely. So you need capacity building, long-term.

Another way to do this is through professional education. We offer some certificates. One that we're going to offer throughout the state is in conjunction with this performance measurement system -- is a Certificate in Public Performance Measurement, which will be five online courses that anybody can take. They could be elected officials, they could be citizens, they could be managers.

Another would be a certificate in business improvement district management. And I know, at your last hearing, you had some discussion of the contributions those districts might make. We think they provide a great opportunity for bringing other resources into government, particularly non-tax resources. So we want to improve the professionalization of those groups throughout this state.

And then, of course, there's master's degree education. We offer the Master of Public Administration, or the MPA, in Trenton and in Newark. Other universities offer those degrees. The Master of Public Policy, and many, many other degrees -- depending on what the particular

area is -- so that we can improve the decision-making competencies of the people who run government.

Regionalization is another opportunity to establish efficiencies. One of the things we're doing is the study to develop the 311 statewide system for New Jersey. This is something that we think we'd be able to recommend by the end of year. Governor Codey was very interested in it, when he was in office. We think that that will relieve the burden from the municipalities, by making non-emergency calls centralized in some ways. There are many county models in effect, developing efficiencies. So that's, you know, an established entity, and one thing that I would hope you would look at.

There is also limited regionalization -- let's say the -- and I point to the Meadowlands Commission there. The Meadowlands Commission works with 14 municipalities. They have a separate funding stream. They provide services to those municipalities ranging from equipment, to help with zoning, and such. So I think they're relieving those municipalities of many otherwise direct expenditures.

The special improvement districts, I referred to, with the separate streams-- They often provide basic services. And you can, I think, look to shifting some of the basic services to them. And they can go after sources of funding that the municipalities simply do not have.

Something else we're doing is establishing a performance measurement and reporting network, nationally, which we want to give New Jersey priority, in terms of memberships. Now, this is funded by the Alfred P. Sloan Foundation. And we're going to bring together all types of resources for government performance measurement so that they'll be able

to find whatever measures, whatever discussion of measures, they want there. And they'll also be able to look at examples of how to report these measures. Because it's just as important to report it as to add it up, let's say. We don't want the data to be hidden. And there are lots of examples across government of that. So we'll have lists of measures, we'll have publications, case studies, handbooks, manuals. We'll hold a conference along those lines. And we'll do it at no cost to New Jersey.

Looking at this as a whole, I would say our conclusions are, first, that municipalities will resist forced sharing of services, which I think we all know. But, second, substantial efficiencies are possible if we look at pervasive improvements in every service area. And those efficiencies, or productivity improvements, if you will -- or cost avoidances -- are likely to be in the 3 to 5 percent range. So it's not anything that's going to, let's say, slash 20 percent off local government to start with. But if you start accumulating these over several years, then there will be noticeable and dramatic differences. And the property tax will not then be outstripping the other taxes by two to one.

We think performance measurement will drive down costs and improve service delivery, because citizens and decision makers are going to want to see those cost lines going down. Once you start illustrating that to them, putting the data in front of them, they will ask the questions and put pressure on their units of government to reduce those costs.

But, fourth, performance data must be publicly available in order to do that. You can't just have data that's used behind the scenes. It must be available to everybody who is a stakeholder, shall we say.

And then, finally, decision makers and stakeholders need continuous access to best practices. And those are best practices that are offered by their neighbors in New Jersey, and that are documented nationally, and even internationally -- all of which are on the Web or in print publications, and all of which can help provide those sort of piece-by-piece solutions that we need.

So, overall, I'd say there's no one magic bullet, but there are hundreds of possibilities if we find them and we apply them. And it's all pushed by performance measurement.

So, on that, I'll conclude. And if you have any questions--

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Professor Holzer. We really do appreciate your testimony.

I wanted to start off, and I'm sure other members of the Committee have questions.

But one of the things that you said in your concluding remarks, and was on the slide, was that municipalities will resist forced consolidation, or forced sharing of services, which really states the history of how New Jersey municipalities have essentially reacted to consolidation or shared services. It's largely the exception, not the rule. There are many legislative enactments to encourage shared services. There are statutory enactments to allow for consolidation. It doesn't happen.

So if that's the experience, how do we get beyond that? Because if we accept that as the norm going forward, then all we're going to be doing is talking about the 3 to 5 percent efficiency that you mentioned

each year, which is really not going to address, in my opinion, the larger issue of property tax relief that the state needs.

DR. HOLZER: Well, I mean, that's the hard question. It may take several years to get any acceptance of some sort of consolidation. If you're willing to take, let's say, the political flack for it and do what I think New Zealand has done -- reduce, dramatically, the number of local governments -- fine. I think there are efficiencies there. But that's something that needs to come from Trenton.

ASSEMBLYMAN WISNIEWSKI: Was that a mandate? When you referenced New Zealand -- they consolidated municipal government?

DR. HOLZER: Yes.

ASSEMBLYMAN WISNIEWSKI: And it was a top-down mandate?

DR. HOLZER: Yes.

ASSEMBLYMAN WISNIEWSKI: And what was the result?

DR. HOLZER: Well, I think it's resulted in efficiencies. It takes a while to figure that out.

One of the problems is, when you start putting different governments together, you're putting different salary levels together. And you've got to figure out how to do that fairly, and within the law. So I'm not sure that there are short-term savings that way.

ASSEMBLYMAN WISNIEWSKI: So you're suggesting that this is a long-term project that's not going to result in an immediate, significant savings in year one.

DR. HOLZER: It's long-term either way. There's only--

There's three options here. One is, the State could replace local property taxes. But the State doesn't have the financial wherewithal to do that. The second is, you consolidate, and then, after several years, you expect to achieve certain efficiencies. And that's under the assumption that bigger is better, in some ways. And it often is, in terms of local government, but not necessarily in terms of school systems, which are half the problem. Because the trend in school systems go to smaller high schools, for example, across the country. The third is that you put pressure on all of these systems to solve the problems themselves, which is really what I'm suggesting -- that you equip them, empower them, to solve problems in each of their couple of dozen areas. And then you'll begin to see some real, continuing savings over time. That one, I know, can be done. Because that's a combination of competency, and informed decision making, an informed public, and performance measurement, and such. So that is sort of a formula for it. The other two-- And then you run into questions of political feasibility, and such. So I'm definitely advocating the third.

ASSEMBLYMAN WISNIEWSKI: Thank you.

SENATOR SMITH: I have a couple questions.

ASSEMBLYMAN WISNIEWSKI: Senator Smith.

SENATOR SMITH: Dr. Holzer, one of your slides mentioned the county model.

DR. HOLZER: Which model was that?

SENATOR SMITH: A lot of the states in the United States of America, the county model is the model for the delivery of all kinds of governmental services. Would you describe how that occurs, and the efficiency of that system compared to our system?

DR. HOLZER: Which model were you saying?

SENATOR SMITH: The county model.

DR. HOLZER: The county model.

SENATOR SMITH: Yes.

DR. HOLZER: Well, for example--

We're green, and we want to be red? (referring to PA microphone)

SENATOR SMITH: Red means go. In Trenton, red means go.

DR. HOLZER: Right.

The county model works, very often, in terms of school districts. In Maryland, for example, you have county school districts. And I'm not sure the level of achievement there is what you want. But there is an assumption that a countywide system -- which you'll see in Maryland, or you'll see in Virginia, and places -- provides certain efficiencies. Let's say Fairfax County, Virginia, has a countywide school system -- 120,000 students or so. So they can offer a lot of services, centrally, that others can't.

SENATOR SMITH: How about what are thought of as traditional municipal services? Do you have a county model for that?

DR. HOLZER: Yes, you have county police, let's say. Westchester County, Nassau County have county police. The problem there is that you also have many municipalities trying to establish their own police force. And in Nassau County, for example, one of the municipalities recently decided that county police weren't sufficient. And they wanted to go to the expense of establishing their own. So they're going in the wrong direction, in terms of property tax. But it shows you how much pressure

there is, at the local level, for local control, particularly of something like policing.

In the western part of the country, you have a lot of very large counties with very small populations, where countywide services make sense, of course. And in places like Arizona, you have countywide services.

So, often, the countywide services will work if you're doing something of value, across the board, to municipalities. But when you get to the point of local control--

SENATOR SMITH: That's where the rubber meets the road.

DR. HOLZER: That's exactly it, particularly with something as expensive as policing.

SENATOR SMITH: All right, well, let's talk about New Jersey. If you look at local government services, what is it that's essential for a municipality to have home rule, and what's not essential for it to have home rule? For example, is tax collection something that could be done at the county level--

DR. HOLZER: Absolutely.

SENATOR SMITH: --without losing "home rule?"

DR. HOLZER: That's right.

SENATOR SMITH: How about tax assessment?

DR. HOLZER: Absolutely.

SENATOR SMITH: How about health services?

DR. HOLZER: Yes.

SENATOR SMITH: How about animal control?

DR. HOLZER: Yes.

SENATOR SMITH: All right. But when you get to things like planning and zoning -- mayors, and councils, and local residents would probably say they want to keep those -- that control at the local level, so that they, in effect, guide their own destiny, correct?

DR. HOLZER: Yes, but let's separate control of planning and zoning from the more technical side of developing -- let's say, the zoning map and such -- which is what the Meadowlands Commission does for those 14 municipalities.

SENATOR SMITH: Well, the theory is that, in New Jersey, we have a cross-acceptance process, where the local zoning map is integrated with the county, and it's integrated with the State development plan. You can argue the degree to which it's successful. But there is a process where land use is supposed to be integrated and looked at from the global point of view.

But if you look at the services provided by local government, besides the four that I listed, are there any others that you think are not the essence of home rule or of local control?

DR. HOLZER: Certainly, if you're dealing with equipment maintenance, I don't see why you need home rule or local control. There are lots of examples of sharing equipment informally. And equipment is a very expensive part of the budget.

If you're dealing with computer systems, you don't really need local control.

SENATOR SMITH: Do you think New Jersey has taken advantage of the potential of the Internet to -- or, for that matter, of

information technology -- at the local level, or the county level, which might result in significant savings to our citizens?

DR. HOLZER: No, New Jersey has done probably very little along those lines.

SENATOR SMITH: What do you think we should be doing?

DR. HOLZER: If the State or the counties offered more direct services to the municipalities, I think that could develop great savings.

The 311 system I referred to, for example--

SENATOR SMITH: Yes, tell us about that a little bit.

DR. HOLZER: That could be a statewide system, which could take about 90 percent of the burden off the municipalities, in terms of non-emergency calls.

SENATOR SMITH: Like what? What are non-emergency calls?

DR. HOLZER: Somebody wants to know where to vote, what the voting hours are. They want to know when the office is open. They want to know the library hours. They want to know where to get a form, for example. They want to file noise complaints. Or they want to know where to get their passport renewed. There are hundreds and hundreds of questions that they might ask. Most of these have standard answers. They can be answered centrally. There's no reason that they need to burden the local offices with it, or 911.

SENATOR SMITH: Where did you say this was adopted, the 311 system?

DR. HOLZER: Well, essentially, you have a very good model in New York City.

SENATOR SMITH: And has it resulted in any cost savings to New York City?

DR. HOLZER: I think so. I can't tell you how much that is. But New York has hundreds of thousands of 311 responses -- a very large database of their responses, which takes the burden off 911. So I think you could safely say that New York has saved tens of millions of dollars by a 311 system.

We're looking at other examples around the country, ranging from Maine to California, as well. But 311 is one example where you could alleviate the burden from the localities now or in the future.

SENATOR SMITH: It would be a help, I think, to all of us if, perhaps, you could do a little follow-up work for us, and specifically on that question of what services at the local level could be done by a county-based model, and which could result in significant savings to our taxpayers. If you do a little follow-up on that, I'd appreciate it.

DR. HOLZER: Sure.

SENATOR SMITH: And that leads to a follow-up question. You're doing research and assessment of municipal performance. Is there an ideal size associated with efficient local government operation?

DR. HOLZER: No, you really can't say there's an ideal size. There's no sort of one-size-fits-all. There are-- There's a range, and you can certainly look at the range of the ratio of population to cost, or to staffing, and then you can start questioning the ones that are at the very high side of the range, for example. But there's no simple formula that works.

SENATOR SMITH: Okay.

The last question and last request: We've seen, on the private sector side, some very significant gains in productivity associated with going paperless, greater use of information technology. Would it be possible for you and your group to give us some suggestions on how, with regard to local government -- municipal government, school government, and State government -- how we might be able to achieve savings with paperless information technology systems, and some guess -- and we understand it's only a guess -- of what the potential savings might be?

DR. HOLZER: Yes.

SENATOR SMITH: That would be very helpful.

DR. HOLZER: Yes, we'd be happy to do that. And I think we'll get back to you within a few weeks.

SENATOR SMITH: Thank you very much.

Thank you, Chairman.

ASSEMBLYMAN WISNIEWSKI: Senator, thank you for those questions.

Assemblyman Malone.

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

Mr. Holzer, I know you tried to be candid today, but also tried to be tiptoeing through the tulips -- kind of thing.

In your professional opinion, is government spending too much to provide the services that we're providing today, across the State of New Jersey?

DR. HOLZER: I'd say yes.

ASSEMBLYMAN MALONE: Forget the politics. We have to do something.

DR. HOLZER: Right.

ASSEMBLYMAN MALONE: And what Senator Smith has to say-- And I hear his angst in his comments.

The thing is, I think what we're looking at is, we need people who have the strength of conviction, both in the public sector and in the private sector, to come to us and say, "Look, here is how you do it." We'll worry about the politics side of it. I think you probably, at times, were a little too cautious in trying to tell us everything that we already knew about the pitfalls of this. I mean, I've been through it personally with a number of regionalizations and consolidation efforts that I have made in my political career.

I just think we're beyond that now. I think we're beyond saying, "Well, there's going to be pain, and there's going to be angst, and there's going to be opposition." The cost that we're paying, in the average community, for the services that we render, I think, has gone well beyond the ability of many people to pay, both at the local level, the county level, and the State level. And if we don't come up with some kind of coherent plan to come up with alternatives for people, I don't know what they're going to do. But they're surely not very happy with the performance of the Legislature in coming up with solutions.

We may have to do mandating of certain issues -- some of the things that I think the Senator was getting at.

I mean, look, I live in a town of about 5,000 -- Bordentown. Bordentown Township has about 8,000 or 9,000. We share a school, we

share a sewer authority, we share a water utility, we share a number of other issues. There are some other things. We could probably share a court, we could-- We have about 14,000 people, and we have 40 police officers.

I don't know. Is there a per capita basis of coming up with rough formulas on what services, and the amount of services that you need in a given population, in a given area? Given areas that are demographically and topographically -- and all the other -- that are similar. I mean, you can't say -- you know, combining a farm community with an urban community -- there are distinct differences and different needs.

But if you had demographically and topographically similar communities-- We should be able to come up with some reasonable formulas as to what is needed in those types of areas, to have regionalized services. Is that something that you and your department have looked at, over -- on this topic?

DR. HOLZER: Yes. We've looked at studies along those lines. I mean, if you hold those factors constant -- as you suggested -- you find that the cost of specific services might vary as much as 200 percent.

ASSEMBLYMAN MALONE: Down? I'm assuming down.

DR. HOLZER: Well, what I'm saying is that some municipalities spend two or three times as much for the same service as others.

ASSEMBLYMAN MALONE: Because if you have to reach-- If you have a small population, you have to reach a certain minimal level.

DR. HOLZER: Right. But when you control, for those same services-- Let's say you control for the size of the population and the type of community. There were studies done-- And, actually, this goes back to

the 1970s -- the National Center for Productivity and Quality of Working Life, at that time -- which showed tremendous variations in cost -- similar communities. I would think that if you were to do that study today -- or we were to do it -- we'd find some very dramatic differences in costs.

ASSEMBLYMAN MALONE: I think we all understand that.

DR. HOLZER: Okay.

ASSEMBLYMAN MALONE: That's a fact.

Have you had the opportunity to, maybe, do a couple of areas in the state -- a couple studies in New Jersey -- since, I think, you are from Rutgers.

DR. HOLZER: Yes.

ASSEMBLYMAN MALONE: Why don't we take a couple sample communities of similar consistency, and do a model -- and do a study? There must be a national norm, or an area norm, or a regional norm for the number of police officers that are necessary on a per capita basis. There must be other kinds of factors that can be factored into a formula. So if you're department, maybe as a project, would say, "Okay. Let's take communities X, Y, and Z. They are similar. They have the same demographics. Everything is basically the same. They just have four different governments, four different police departments, four different fire and rescue, and all the other-- And, basically, the number of people is 25,000. And we have duplicate services for 25,000 people, which really -- that may service, in other areas, 100,000 people." I mean, is there a possibility of you conducting some kind of study?

DR. HOLZER: That kind of survey can be done. It needs to be carefully constructed, because it has to be very defensible. But that can be done.

ASSEMBLYMAN MALONE: Well, in-- But that's something the academic world would do.

DR. HOLZER: Yes, we know how to do that. Correct.

ASSEMBLYMAN MALONE: Okay. And if you could come up with a model-- Because I really think, in talking to John and Bob earlier today, I think we're going to have to maybe get something onto the ballot quickly, and ask people their opinions about combining some of these services in common locales, to come up with definitive answers. Because, really, I think all of us know what we have to do. It's just a matter of having the political conviction to do that.

I appreciate you coming. And I appreciate your comments. But I don't think you have to be as diplomatic and as polite in telling us we better get some legislation in place that does what is necessary to lower costs. And it's not just always about raising taxes, it's about being efficient and effective. And God knows we have never been accused of being that in State government or, in many cases, in some local governments. We've never been accused of being effective and efficient. And we've never been corporate models for the corporate world -- for them to emulate how municipalities and how the State runs its operations. I think the Governor has said it quite often: If this were a business, we'd be bankrupt.

So I think we need to think about how we effectively deal with the issues that, in many cases, we've created ourselves.

DR. HOLZER: I agree with you entirely. I think we need to do that. We just need to do it carefully.

By the way, the business model is not necessarily the best model. Great percentages of new businesses go out of business in the first year. Business is not necessarily--

ASSEMBLYMAN MALONE: Yes, but if we couldn't raise taxes, we would be out of business, too.

DR. HOLZER: That's right.

ASSEMBLYMAN MALONE: So I bet you there would be more municipal failures if we had to-- If we didn't have the ability to raise our prices every year, we'd be out of business, too. And many of them, within the first year. So I think the percentages of businesses would fail -- probably be less than the municipalities that would fail if you didn't have the ability to raise taxes the way we do.

DR. HOLZER: Well, let me be very clear. I think that there's no need to raise taxes as much as we've been raising them. I think there are great possible efficiencies out there that we're not paying any attention to.

ASSEMBLYMAN MALONE: And I would appreciate if you really hone in on those, and come here, and say, "Guys and gals, these are the things you should be doing now, effectively dealing with these issues. And there's no reason for raising taxes the way we do, just to go out and spend more." And I just don't want to see this whole process of these four Committees come up with a recommendation that all we have to do is raise taxes, and it will solve the problem. Because we'll never be able to raise enough taxes to satisfy the beast that's been created.

DR. HOLZER: Oh, you're absolutely right. And I think we've hit the limit on property taxes -- probably beyond the limits. What we need to do is change the nature of government so that there is an impetus for performance, and productivity, and efficiency, and effectiveness. We don't have enough of that pressure.

What I'm suggesting is that performance measurement can provide the pressure. And then, finding out what best practices are, is -- on the lines of what you're suggesting -- can help provide these solutions. We're not doing either one at this point.

We'll provide a performance measurement system in the near future. And we can also help direct people to these best practices. But I think we need an organized way of putting that in front of people. And we need a continuous stream of ideas so we don't let up on that pressure.

ASSEMBLYMAN MALONE: Thank you very much.

Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Senator Kyrillos.

SENATOR KYRILLOS: Thank you, Mr. Chairman.

Thank you very much.

Dr. Holzer, perhaps you said this in your very first opening remarks. But you run, at Rutgers, the National Center for Public Productivity. Can you just briefly describe it? Did you already?

DR. HOLZER: Let me give you a capsule.

SENATOR KYRILLOS: Give me a capsule of what school it's in at Rutgers, how many people work there, and what the mission is.

DR. HOLZER: Okay. The National Center for Public Productivity was something I established about 30 years ago, and I brought to Rutgers. It's within our School of Public Affairs and Administration. I also directed-- We have a number of projects which -- we have about 25 people working on those projects at any one time -- our students and staff.

Some examples of those projects are the performance measurement system we're developing for New Jersey; the performance measurement and reporting network we're developing, nationally, with the Sloan Foundation; online training to back up these performance measurement efforts; online training to develop more professionalization in the business improvement districts, for example. We're doing a study with the Meadowlands Commission, in terms of strategic planning. For example, we've done studies with the city of Newark on how you can install a computerized permit processing system to replace all the paper that floats around city hall, for example. We hold conferences. We publish journals, books, etc.

SENATOR KYRILLOS: I see. I get it.

So you have about 25 people at any one moment in time working on all these projects. And it's hard to segment the portion of your work out that you would define as -- the mission of this Committee -- consolidation, sharing of services, economies of scale, efficiencies. Perhaps all of it is that. But if you had to look at what we're trying to achieve here, how much of your work, traditionally now, is devoted to what we're all about, for the purpose of this meeting, and this Committee?

DR. HOLZER: About 100 percent.

SENATOR KYRILLOS: One hundred percent. So here's what we--

DR. HOLZER: It's all relevant to this.

SENATOR KYRILLOS: This is what we need from the Center. And I think Assemblyman Malone spelled it out very well. We need to know the best practices.

DR. HOLZER: Right.

SENATOR KYRILLOS: I think all of us, intuitively, understand efficiencies and economies of scale are lacking out there and can reduce costs. We're not sure how much. You said 3 to 5 percent. I'd like to know how you came up with that number. I would suspect, over time, it would be greater than that.

We know we have a problem. I think that most of the members of this Committee have gotten beyond the courage point of view. Many of us have been there. And people in the body politic -- and increasingly in the public, are gotten -- have gotten to the point where we know that this is a component of our tax problem that we must address. How do we do it?

So what we need to hear -- whether it's from your Center of Productivity, or somewhere else -- are the best practices. We need to hear, with specificity, what localities around America, counties around America, are doing things in a way that we would be comfortable with and can do it for less money.

And one thing I think that we're lacking at this hearing and, perhaps, at the future hearings -- and I want to talk to my colleagues about it -- is that national perspective, that learning from experience that's out

there, to put in context the school district situation that we have, the 560-plus municipalities that we have.

And so I want to ask you: Can you help us with that, if we can't do it internally? I'm not sure our Office of Legislative Services can come to us and say, "This is what we can be doing. You go out and sell it to the public. And try to get it done out there in the public arena." Is that something that your shop can do? Because we need to hone in, very quickly, on specific examples, specific targets of opportunity to lower costs and make things better.

DR. HOLZER: Yes, that's something we can do, and that we want to do. I think that there's two parts to this. One is to look at the benchmarks. In other words, what are some comparable efficiencies and ratios out there? And we can find that data, I think, fairly soon. The second is, where are the best examples of cost-cutting, and efficiency, and municipal administration out there? We can find some of those, and put those in front of you.

I think what we'd also like to do, long-term, is establish some sort of newsletter that goes out to everybody in the state, that continuously puts these ideas in front of them. Because it's not something that we're just going to solve at this point in time. But it's something-- What's going to happen in 2007, and 2008, and 2009? We don't want backsliding. So we want to put those ideas in front of them continuously and keep the pressure on them.

So, yes-- The answer to your questions is basically yes, and yes.

SENATOR KYRILLOS: We need to educate the public. We need to get them through this myth of so-called home rule that supposedly

makes their life better; convince them that they can have a community feeling, and a charming neighborhood, and still do what the American private sector has done very well. And that is to do things as cost-efficiently as possible. It's not perfect, as you've said.

DR. HOLZER: Right.

SENATOR KYRILLOS: But if they're not the model, I don't know what the model is. Because, in the main, it's doing very well. Obviously, there's some mistakes, and there's some human tragedy that we want to work to alleviate along the way. But we can learn a lot from it.

So I would say, Chairmen Smith and Wisniewski, I'd like to see the Director come back and talk to us about New Zealand.

You said they did things well in New Zealand.

DR. HOLZER: Yes.

SENATOR KYRILLOS: Well, let's talk about it for an hour.

I understand that Toronto, Canada, has done something significant.

Okay. We've got to do something significant. And we need some very specific direction. We need to provide it. But you can advise us. And if 100 percent of your work -- of the 25 people that work at the Center -- is devoted to this subject, this is your moment in time. This is why you exist and are built as an arm of the State University of New Jersey -- to help us get through this difficult moment in time and make things better for the people.

So I look forward to talking with you privately, if we should, and in concert with my colleagues here, to come up with some specific recommendations that we can bring to the people.

DR. HOLZER: Well, thank you very much for that invitation. I'll follow up on all of those -- those parts of your question. And, hopefully, in about a month, we might have some of those answers.

SENATOR KYRILLOS: Well, I think-- I appreciate that. And I don't want to make this request as a lone ranger, so to speak, up here.

I think we should all talk about how we can specifically task Rutgers, Princeton University, the Office of Legislative Services, the National Conference of State Legislatures -- to which we pay, or contribute, a substantial amount of money from our budget each year -- on various aspects of this problem so we can help lead the way down the line. Because pretty soon we're going to need to come up with some answers.

Thank you, sir.

DR. HOLZER: Okay.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator, for those questions and comments.

I know for our next hearing we have someone from the University of Toronto coming to testify, as well as somebody from the Canadian government to talk about their experience.

I don't know that we've made any arrangements -- because I think the first time we heard about New Zealand was today. And, certainly, we have the ability to teleconference. So, potentially, we could find someone who could give us their experience and expertise from there, as well.

Assemblyman Gordon, you have some questions.

ASSEMBLYMAN GORDON: Thank you, Mr. Chairman.

Dr. Holzer, thank you very much for your thought-provoking presentation.

I'd like to turn to the issue of benchmarking, because I think this State really has been remiss in not doing much of this at all. And, therefore, we can't see the direction we're going in with any objectivity. And, of course, we're unable to compare ourselves to best practices elsewhere in the country.

It's been my experience, as a consultant to municipalities -- before I was elected to the Legislature, I should add -- that there aren't many incentives for municipalities to do any kind of this -- any of this performance evaluation. And when you do it for them, the municipal officials will tell you why their community is different than anyone else. "We're a resort community." "We're next to the George Washington Bridge." Whatever.

And I'm wondering whether this is something the State of New Jersey should be doing on an annual basis. DCA, perhaps, collect the kind of data required -- in a centralized way -- and release, perhaps, a dozen or more performance measures of each community, and can get it out in the public so that the media can delve into this.

I know that, just in the last month or so, when the *Bergen Record* did a story on the salaries of police officers and teachers, that generated an awful lot of discussion in the community.

Is this something that your organization can do? Do you think the State should be doing this? And do you think there's any merit to the embarrassment factor as a way of motivating municipalities to find less expensive ways of doing things?

The other thing I would just like to add is, you mentioned that the cost savings are relatively small -- the 3 to 5 percent range. What we haven't talked about is the quality factor. I know, just from my own experience, that when municipalities try to do something on a very small scale, they often can't find the expertise, they don't have the technical ability to do some things.

For example, in a study of emergency management I did in Bergen County, you often find a patrolman being delegated the task of being the emergency manager in his or her off-hours. Someone mentioned that their emergency management program consists of just a file drawer.

Could you comment on -- first, on whether there is any merit in trying to do this benchmarking on a large scale; and, secondly, the quality issues, the potential benefits of service improvements through consolidation?

DR. HOLZER: Sure.

First of all, in terms of benchmarking, I think the embarrassment factor is very important. One of the projects we run is called Citizen-Driven Government Performance. And I often use that term. If you let all the data hang out, you might then embarrass people into improving what they're doing. So the sunshine laws are very important, freedom of information is very important, open government is very important. Because you can then, I think, get people to pay attention to what they're doing. They don't want to be in the press with some sort of mark of inefficiency -- it's called -- or some sort of charge that they ignored good advice, or that they spent money they didn't need to, etc., etc.

So I think that embarrassment is very important. Keeping a magnifying on government -- very important. And I think if we were to start comparing municipalities in this state-- If we had the political will to do that, that could achieve tremendous efficiencies.

I think, secondly, in terms of the cost savings that I was estimating -- the 3 to 5 percent range -- is more substantial than you might think. The average productivity improvement rate in this country has been something like 2.5 percent. That's just measured on the private sector side. I know that there are studies showing that the public sector has about the same rate. Now, that's cumulative over time. It really does add up to something substantial. But I was estimating at something almost twice that rate. Because I think that once we really put pressure on local government -- embarrass them, if you will, with the data -- that that would result in substantial efficiencies. But if you're looking at 5 percent the first year, and then 5, plus 5, plus 5, compounded, etc., we'll get a noticeable impact in a few years.

In terms of the quality issues on consolidation-- I think, given the example you have there-- We could actually improve the quality of service delivery, and the people devoted to that in terms of specialization, with consolidation. There are too many municipalities out there to support all the services they need to support. So, you're right, people are often tasked with jobs that they don't have the training to do, or the expertise to do. And that's where economies of scale come in.

So let's say-- If we had maybe 166 municipalities, instead of 566, we might begin to get some of that. Or maybe the right number is -- for that type of efficacy -- of effectiveness -- is 300, or 400, or something. I

don't know which number is right. But I do know our municipalities are too small to support everything that's being asked of them, particularly in the environment we're in these days. I mean, terrorism, alone, puts a burden on them that they are not equipped to deal with in, let's say, the small police departments, in a sense.

So there's tremendous potential there, if we really were to have some sort of mergers.

SENATOR SMITH: Thank you, Assemblyman.

Our next witness will be Professor John Yinger.

And thank you for your very, very interesting remarks and, hopefully, on the follow-up work you'll be doing for us.

DR. HOLZER: Yes. And we will follow up.

SENATOR SMITH: We do appreciate that.

DR. HOLZER: You can hold us to that.

SENATOR SMITH: All right.

Professor John Yinger is a Trustee Professor of Public Administration and Economics, and Director of the Education Finance and Accountability Program in the Center for Policy Research at the Maxwell School, Syracuse University.

Dr. Yinger has examined the impacts of school and school district enrollment size on the efficiency and effectiveness of public schools. His research has approached the issue of consolidation from the perspective of maximizing economies of size and education.

Dr. Yinger co-authored a paper entitled "Does School District Consolidation Cut Costs?" with William Duncombe, Center for Policy

Research, Syracuse University, in November of 2005. And this paper was included in our briefing materials, which we do very much appreciate.

Professor Yinger, are you here?

JOHN M. YINGER, Ph.D.: I'm here. Can you hear me?

SENATOR SMITH: Yes. How are you, sir?

Thank you for being with us today.

Would you like to present some information to us before we ask you any questions?

DR. YINGER: Yes, I would.

SENATOR SMITH: Please go ahead.

DR. YINGER: Okay.

I'd like to say, to begin, that I appreciate this opportunity very much. I'd like to talk to you about some research I've done on school district consolidation, and also make some general comments on consolidation, based on my work in this area over a long time.

I should say, to begin, that I was a resident of New Jersey for three years in the early 1970s, when I went to graduate school at Princeton. But I am in no sense an expert on New Jersey. And so I bring you some information on a more general level. And the study of school district consolidation uses data from New York.

Now, to begin, I want to emphasize that understanding economies of scale is an incredibly difficult problem. Any time that districts or any governments come together, many, many different things change. And isolating the impact of the scale change on the cost of providing public services is enormously difficult. And I will come back to this when I talk about some general comments.

But we had an unusual opportunity, in the case of school district consolidation, to provide some very precise estimates of the extent to which consolidation influences costs, in particular, whether there are economies or diseconomies of scale.

The situation in New York is that, as in many places, consolidation continues to go on. As probably many of you know, school district consolidation is one of the most dramatic phenomenon we've ever witnessed in state and local government. The number of school districts in this country has dropped by 90 percent since the 1930s. And consolidation continues to go on.

In New York, and -- throughout the 1980s and 1990s, there continued to be consolidations. And we have a data set that spans the 1980s and 1990s, and observes about 24 districts that underwent consolidation during that period. So what we're able to do is to investigate whether the costs of a district change when their enrollment scale changes; controlling for the performance level, which is incredibly important; controlling for the cost environment, which is very important; and controlling for a variety of other things.

The role of performance is particularly critical. If you have two districts that come together, and their performance level changes a great deal, then it's very difficult to isolate the impact of the economies of scale. But in the case of New York, we have data on a variety of test scores -- third grade, sixth grade test scores, and high school test scores. And we also have drop-out rates. So we're able to statistically control for that and see if the cost, per pupil, changes when the enrollment scale of the district changes.

Now, just looking ahead for a minute, the great challenge in studying economies of scale is that performance measures are usually not available. The test scores in education are, of course, controversial. But they're widely accepted as legitimate measures of school district performance. So schools give you one case where you're able to use a widely accepted performance measure to account for changes in performance when you look at economies of scale.

Now, what we found were some very striking results. We found large economies of scale, when you bring together two very small districts. But we found that these economies of scale are much, much smaller when you get to larger districts. I'll give you some specifics.

If you were to take two districts that had 300 pupils and put them together, you'd save about 24 percent of cost, which is an enormous savings. That's 24 percent per pupil. Your per-pupil cost drops by 24 percent. If you take two 900-pupil districts and put them together, your savings is 10 percent. Again, a pretty substantial savings. If you take two 1,500-pupil districts and put them together to make a 3,000-pupil district, the overall savings are about 4 percent. And the savings then continue to decline. So if you are putting two 3,000-pupil districts together, you wouldn't get any savings at all.

These savings operate across the board. They appear in operating expenses; they appear in capital expenses; they appear in instruction, and classroom instruction, cost of teachers; they occur in non-instructional expenses, including -- somewhat surprisingly -- transportation. Many people have argued that consolidation is likely to raise transportation costs, because generally it means bringing students farther distances to get

to a smaller number of schools. But, apparently, there are savings that have to do with more flexibility in scheduling, and in maintenance, and things like that, that actually cause quite substantial savings in the provision of transportation services.

So in the case of New York, we find that there are very strong economic reasons to consolidate, just to save money if you have very small districts. But the cost advantages decline so that if you have a very large district, you don't have a very large savings.

Now, in some other work which doesn't give quite such precise estimates of economies of scale, but which is consistent with this, we find that the minimum cost -- size for a school district -- that is the minimum cost per pupil -- is somewhere between 3,000 and 4,000 pupils in New York. If you have a larger district than that, you actually have diseconomies of scale. And the problems of management and organization become quite severe. And it costs more per pupil in larger districts. So we don't have economies of scale continuing throughout the pupil range.

Now, let me then say a few things about consolidation and service sharing in general. I was struck by one thing that Professor Holzer said at the beginning of his testimony. He said that there is a lack of good information about the benefits of sharing services. And I would certainly agree with that statement. It is an enormously difficult topic to study.

After he said that, however, he went on to suggest that there are some enormous savings and gave particular numbers. I was quite surprised by that, because I don't think there's any research that you can point to that gives you a very clear estimate of economies of scale, and the savings that can occur with consolidation or sharing of services. The research that's

available to us is much less formal than the school district consolidation study. And I think we need to be incredibly careful.

Now, I'm sure there are some savings from consolidation and service sharing, but they're extremely hard to identify. And the costs that go with them are very difficult to pin down. So instead of trying to be precise about it, let me, for a minute, say a couple of the general principles that I work with, that may help you to think through what the issues are.

The first thing to say is that there are really two issues involved, that have to do with efficiency, when you talk about consolidation. The first one is what many economists call *technical* or *productive* efficiency issues. And those have to do with economies of scale. And the definition is very important. What an economy of scale in that setting is: it's a drop in the cost, per capita or per pupil, when you raise the scale of a district or of a jurisdiction, holding constant the level of service provision. And we don't have good estimates of that in very many cases. And, of course, we'd love to be able to take advantage of those cost savings. Those are just pure gain from society's point of view. If you can generate cost savings like that, we ought to figure out how to do it.

There's another kind of efficiency, however, which is called *allocative efficiency*. And this relates to the issue of local control, which was addressed in many of the questions. It turns out that there is efficiency advantage to allowing people to select the level of public services that they prefer. That's one of the great innovations in the American Federal system. We allow people to choose levels of service that they prefer. Some people want very high-quality services. Some people want low-quality services. And the ability to move to a jurisdiction where the service level is the one

that you prefer is a great efficiency advantage. It uses society's resources in a more effective way. We generate more benefit for the level of resources that we're using when we allow that.

Now, many times issues of allocative efficiency must trade off against issues of fairness. So sometimes you allow great divergence in the quality of services across jurisdictions. And other times, as in education finance in New Jersey, there is a principle of fairness -- in this case, that the courts have emphasized -- that says you can't have as much variation as people would have on their own. You have an equity principle that comes in.

And the issue of scale, both in sharing services and consolidation, must balance these three issues: The benefits of economies of scale in a technical sense, if there are any; the benefits of variation in local services, if people care about variation, which they don't always; and the issues of fairness that come up when you do allow great divergence in the quality of public services. And that framework is a very widely accepted framework among analysts. And I think it's one that would be helpful to you to keep in mind as you're debating this.

Now, let me give some examples of how that works. Take one example where we actually have some good information that came up earlier, and that's the example of assessing. In many states, assessing is given at a very local level. So in New York, for example, the towns tend to do the assessing -- which is a fairly small level of government -- not the counties. But there is some very good evidence that there are economies of scale in assessing. If you control for the accuracy of the assessments, which presumably is the performance indicator that you care about, the cost per

parcel of providing high-quality assessments goes down as the number of parcels goes up. There is no reason at all why people should care about the variation assessment quality. In fact, you shouldn't have variation assessment quality. Everybody should have high-quality assessments. So you have a very strong argument for providing assessing at the county level. A lot of places don't do that, but there's a very strong -- for whatever political reasons -- but there is a very strong intellectual argument for doing assessing at the county level that would save money. The quality of the services probably would go up. And there's no reason that any local voter should care about having a county do it instead of their town.

Now, in other cases, there are some guidelines that might be helpful. One is, I think there is some reason to think that economies of scale, in the technical sense, are more likely when you have a service that has very large capital spending. Because, when you have a large capital investment, the cost of that investment can be spread out over a larger population. If it can be spread over a larger population, you have economies of scale. So there often might be economies of scale, for example, in a water system, or a sewer system, or a highway system, where you have a large capital investment.

Another principle that can sometimes be helpful -- which relates back -- including the assessing -- is when you have some kind of service where there is no reason that people should care about variation in service quality. So if you have assessing -- no reason for people to care -- well, put that at a larger scale. You might get some advantages. And you certainly have no losses there.

Another case where you might have some advantages of going to a larger scale, in an allocative sense, is if you have services where the benefits spill over across communities. One example of that would be parks. If one jurisdiction -- one city puts up a park, presuming people in other places can use it, or if you have one township put up a park, other people can use it -- that's a spill-over benefit. And in a case of spill-over benefits, individual jurisdictions tend to make poor decisions, because they don't count the benefits that go to people in other jurisdictions. Well, there is a very good argument for providing that kind of service at a higher level of government.

So I think, at this point, you cannot find research -- in my opinion -- that documents, in a very careful, precise way, that you will get savings from this kind of consolidation, or this kind of service sharing. Maybe if we continue to collect performance measures, like Professor Holzer is collecting, we will be able to do that kind of research in the future. Instead, we have to look for cases where there is a strong intellectual argument that savings are likely to occur, and see if there is a good case to make for certain kinds of consolidation or sharing.

Now, one final point is, I think, because the formal evidence is not available, it's entirely appropriate to look at informal evidence and to use that in a deliberation. For example, many people search for best practices. The notion of a best practice is actually, from my point of view, kind of a slippery notion because, many times, practices are identified as best practices without very good evidence. Many practices for such a service sharing are identified as best practices, even though there isn't research to establish that those practices save money.

But in the judgement of people who are in the field, judgement of people who look at services, they think that the evidence leans in that direction. And they're willing to label that a best practice. Well, that may be the best information that you have. But I would urge you to recognize that when something is labeled a best practice, it doesn't mean that the evidence, in a formal way, has been provided to establish that it actually saves money.

So I think if you're looking for a magic bullet that says if New Jersey just did X, Y, and Z, it would save a lot of money, I don't think we have evidence to point to such a magic bullet. But I think it's entirely appropriate for your Committee to look for examples like school district consolidation, or like moving assessing up to a higher level, or making sure that you have appropriate investigation of consolidation when there are large capital expenditures, or there are just interjurisdiction spillovers, or where variations in service quality is not important. If you look for things like that, I think you might identify several steps that, in the long run, would save the State some money. Exactly how much, I don't know. But I think it's certainly worth pursuing.

With that, I'd be happy to take your questions.

ASSEMBLYMAN WISNIEWSKI: Thank you very much, Professor Yinger, for your testimony.

And I'm sure the Committee has a lot of questions. I'm going to start off by asking the lead-off question. Your work on school consolidation seems to indicate that there is less cost savings for consolidating large districts, as opposed to smaller districts.

I wanted you to address that. But I wanted you to address that in the context of what seems to be a trend in New Jersey of deregionalization. We've had experiences where regional school districts have actually decided to disband and go their separate ways.

DR. YINGER: Well, it's an interesting question. Around the country, states have an incredible mix of policies for addressing the issue of consolidation. And many states have contradictory policies. They reward districts for being small in their aid formulas, but they also have incentives for districts to consolidate.

My own judgement is that if you're looking at regular school districts that provide K-12 education, there is clear evidence that encouraging consolidation of small districts will save money. There is not clear evidence beyond that. If anything, the evidence suggests that you would probably save money by breaking up the largest districts. I know, politically, that runs into some very difficult problems. But as a technical matter, you might well save money. The evidence is not quite as good on that. It's not as sharp. But I think that's consistent with the evidence.

Now, I don't know exactly what has happened in New Jersey. If you're talking about large school districts, maybe with 15,000 or 20,000 pupils, that decided to split in two, that might well save a little money. I doubt if it has enormous impact on cost per pupil. If you're talking about certain components, like high schools breaking up, I think the evidence on that is much less clear. Whether you save money by having two smaller high schools instead of one large high school, I think, is not so clear.

There is a movement in education that supports the idea that smaller high schools are more effective. My own judgement is that the

evidence on that is not very clear. I think that will continue to be an experiment. But I certainly haven't seen evidence that convinced me that changing to smaller high schools is likely to have a large cost savings or a large performance impact.

ASSEMBLYMAN WISNIEWSKI: One of the distinctions you're making is large districts and small districts. What's the break point? Where do you draw the line between what's considered small and what's considered large?

DR. YINGER: Well, in our study in New York, the savings from consolidation probably disappeared by the time a district was about 2,000 or 3,000 pupils. So consolidating two districts that were more than 3,000 pupils would not, in our -- according to our study -- save a significant amount of money.

ASSEMBLYMAN WISNIEWSKI: So then if you have existing school districts -- just to follow the logic. You're saying if you have two existing school districts of, say, 6,000 or 9,000 pupils, your study shows that there is not necessarily savings from that.

DR. YINGER: That's correct, from consolidating those districts. That's correct.

And our study really doesn't have districts -- very many districts of that size. So I wouldn't want to say we can shed light on what happens if you broke up those districts either.

ASSEMBLYMAN WISNIEWSKI: So the data is not necessarily there, one way or another.

DR. YINGER: Right. In a different study, which does not have as sharp a methodology, we do find diseconomies of scale starting at about

4,000 pupils. But they wouldn't be very large. You wouldn't have a very large cost savings from going from 12,000 to 6,000 pupils.

ASSEMBLYMAN WISNIEWSKI: So you don't find the savings from -- if you have two school districts -- even if they're 9,000 or 10,000 each -- and your superintendents, and assistant superintendents, and transportation coordinators -- those administrative costs don't amount to savings?

DR. YINGER: Absolutely not, not above-- Well, actually, let me look at the administrative results specifically. And I can tell you if that comes out about the same here. I do have a breakdown by type of spending. So central administration--

Well, actually, central administration is different. The central administration component has across-the-board savings of quite a lot. So doubling the pupil size throughout our range would save administrative costs of about 40 percent.

ASSEMBLYMAN WISNIEWSKI: So you--

DR. YINGER: Now, administrative costs are a fairly small share. So that cost savings is swamped by a lack of -- what happens in other parts of the budget. But in a central administration budget, doubling the size saves about 40 percent.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Senator Smith, do you have any questions?

SENATOR SMITH: Yes.

Professor, your comment about the larger districts may not -- providing the same savings as the smaller district consolidation, was very interesting to me.

First of all, what was your sample size for your study, with respect to larger districts consolidating?

DR. YINGER: We do not have large districts consolidating. So I do not have a formal estimate of what would happen if two 9,000 districts consolidated. Instead, what I observe--

I'll tell you the sizes of the districts in our study. I do have a table. The largest districts were around 3,000, in our study.

SENATOR SMITH: --for your study with respect to larger districts consolidated?

DR. YINGER: The-- We do not have larger districts consolidated. So I do not have a formal estimate of what would happen if two 9,000 districts consolidated. Instead, what I observed-- I'll tell you the sizes of the districts in our study. I do have a table; it's--

The largest districts were around 3,000 in our study.

SENATOR SMITH: Okay, and how many of those district consolidations did you study?

DR. YINGER: There were just a few that were that large -- just a couple that consolidated.

SENATOR SMITH: All right. So the--

DR. YINGER: We did not observe, in New York, any consolidations with districts of that size. And so, in that case, the way you get evidence about economies of scale is by, you know, with a less precise methodology -- it's still a good methodology, but not as precise -- where you look at how the cost per pupil varies with enrollment -- controlling for other things.

SENATOR SMITH: Right. So that--

DR. YINGER: That's where we find that the minimum cost is about at 3,000 or 4,000 pupils

SENATOR SMITH: All right. For the measurement tool that we might use, would it be appropriate to look at administrative cost per student before or after consolidation -- using that as the comparison?

DR. YINGER: Well, administrative costs are one of the elements of cost -- and they're an interesting element, but they're a fairly small share of educational costs.

SENATOR SMITH: Well, in New Jersey, that may not be the case. In New Jersey, we have -- unfortunately, in some of our budgetary deliberations -- found fairly -- salaries for top administrators that are kind of out of line with the rest of the universe, and benefits, as well. And it's not just limited to the very top administrators, it spreads throughout the system. There is some feeling that there is a need to control those kinds of costs, and in New Jersey, the administrative costs may be a much more significant portion than they are in other states.

We're planning, just so you -- for-- FYI, we're planning to have representatives of other states appear -- just as you are in this teleconferencing -- to describe how their systems work, and to look at the costs of administration per pupil.

But in this state -- and you mentioned in your testimony, which I thought was just amazing, the comment that in the rest of the world -- in the rest of America, there is this huge consolidation effort.

The person who is going to speak after you is Dr. Ernie Reock, and in his study of New Jersey, he gives the following statistic: He says that between 1957 and 1992, the number of school systems in New Jersey

increased from 563 to 626, while the number in the United States declined from 52,913 districts to 15,834. So in the rest of the country you had, roughly, a 75 percent decrease in the number of school systems, and in New Jersey, we increased the number of school systems.

We're different, all right, and our administrative costs are a lot different. Our transportation costs are a lot different. We have a different system. So that's why I was very interested in seeing the number of samples -- the number of actual examples that you used on that bigger system analogy.

In our state, we're the most densely populated state in America, and we're trying to evaluate what those cost savings might be. So it might be a little different than your experience in New York. I certainly think the rural example is absolutely true, and we have some districts in New Jersey that are similar to that. And I think your documented savings are very interesting there.

But, for example, what would you think about a Maryland-like system? Where you have county-based delivery of services; you have one transportation system; you have one purchasing system; you have one curriculum development system; you have one human resources system. In other words, all the hiring and firing is done by a central authority, rather than every one of these 616 school districts providing the separate services.

Do you think that there is the possibility that we might have more significant savings than you saw in your study?

DR. YINGER: Well, like I said before, I'm not an expert on New Jersey, and I don't know the differences between New York and New Jersey. And it's quite possible that your system is very different.

On the basis of our study, I would say there is a possibility of large administrative cost savings from going to county-level school districts, but that the overall savings would be very small. And that's because those administrative cost savings would be offset by diseconomies in other areas, and a lack of large economies in other areas. Again, based on our New York data, which may -- absolutely may not apply to the case of New Jersey.

Now, it is possible to do a study in New Jersey, with New Jersey data, that looks at economies of scale. The method-- Not this particular study, but the study that we've done using -- again, not quite as precise a methodology, but a good methodology -- that looks at the determinants of spending per pupil, could be applied to New Jersey data. I don't-- I have never seen a study that does that, but it certainly would be possible. And you could then estimate the size of district, using data from New Jersey, that gave you the minimum cost per pupil.

SENATOR SMITH: Can you give us some idea of the effect of consolidation on student performance? What's been your experience in New York?

DR. YINGER: The effect in New York -- the effect on student performance tends to be very small. What has to happen in New York is that districts -- both districts have to agree to the consolidation, and they have to go through a fairly elaborate process of consulting with the state government before the consolidation occurs. And so you don't get a case

where school districts consolidate when one of them is really terrible and the other is really good.

You also do get cost savings, but those cost savings tend to be put toward lower taxes than they do toward greatly boosting student performance. Now, there are small increases in performance on average, but they're not very dramatic.

SENATOR SMITH: Okay. And the historical context -- where the rest of America has reduced the number of its school systems by 75 percent -- was that done consensually? Namely, like the New York model where two districts say, "Let's get together;" or was that mandated by their state governments in trying to achieve efficiencies?

DR. YINGER: I think you'll probably find examples of both. I think, in a lot of places the -- just the nature of providing schools was the main impetus. When the middle of the country was settled, little school districts were established. A little schoolhouse was put in every village, and as the population expanded, that really wasn't the model people wanted. They wanted services that were more general, and I think that kind of model just disappeared. So some of the Midwestern states just had tens of thousands of school districts, which -- nobody really wanted that once the state was more settled.

Also, as I mentioned before, a lot of states have incentives to encourage people to consolidate. One of the crazy things that New York does is that it provides very generous incentives for capital construction to go with consolidation. In fact, they're way too generous, and they cause a lot of capital spending that probably shouldn't take place. And many states have done it through that route of trying to set up consolidation incentives

in their aid programs. But, as I said, sometimes they are confused about that, and they send mixed signals.

But I think most of the time it's been a voluntary process; but there may have been some states that have tried to force this, as well.

SENATOR SMITH: Thank you, professor.

I'll turn it back to Chairman Wisniewski.

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

ASSEMBLYMAN GORDON: Yes. Thank you, Mr. Chairman.

Professor Yinger, you were just talking about New York's incentive system for promoting consolidation. My understanding is in New York there -- the state offers an additional 40 percent in formula aid for districts that consolidate.

Has this worked, and are you familiar with other incentive systems that other states might be using that have been an effective approach in promoting consolidation?

DR. YINGER: It's a really good question, and I wish I could answer it better. I haven't really looked at the impact of incentives on decisions to consolidate. That would be-- It's a great question, and I think it's a very hard one to study, because the incentives are often very confusing and hard to pin down.

What has happened in New York is -- the incentives are so generous, I think that's part of why consolidation has continued. The districts can really get a lot of money for building projects when they -- particularly for building projects -- when they consolidate, and you can see a

lot of that in the data here. There's an awful lot of capital spending that goes on when districts consolidate.

I also know that a lot of other districts -- a lot of other states have various provisions, but I haven't done a systematic look at those provisions and tried to untangle which ones are effective and which ones aren't.

ASSEMBLYMAN GORDON: Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Senator Kyrillos, and then Assemblyman Malone.

SENATOR KYRILLOS: Thank you, Mr. Chairman.

It seems like there has been quite a lot of consolidation going on in New York State, Dr. Yinger. Can you just recap that number for us for a second?

And then I just want to ask our staff -- our internal staff -- to identify, to the degree they can, the reasons and the motivations for it, because I know that you had said that you're not certain what the incentives were. There obviously were capital construction incentives. We missed that boat. We should have had this hearing half a dozen years ago, I guess.

But what was the percentage or the number--

DR. YINGER: Well, in the period--

SENATOR KYRILLOS: --from what size to what size?

DR. YINGER: In the period that we were looking at in our study, which is mid-80s to the end of the 1990s, there were 12 consolidations. There have been a few more since then. In the period before that, there were even more. So consolidation has been ongoing in

New York for a very long time. I don't have at my fingertips the precise number, but in New York it was more like the nation than like New Jersey, and the number of school districts has dropped very dramatically in New York over, say, 50 years.

SENATOR KYRILLOS: And most of the situations that you have studied have been for school districts of 3,000 students and less, is that correct?

DR. YINGER: That's correct. That's correct. And most of the consolidation in the country has been small school districts consolidating. And the main reason that people give is to save money -- so that you can share services, you can share libraries, you can share administrators. And that's a very powerful incentive that has certainly characterized most of the discussion -- the public discussion of why consolidation should be encouraged.

SENATOR KYRILLOS: And the very small school district situations-- I think you used the example of 300 schoolhouse -- 300-student schoolhouse; and you gave a percentage saving-- You gave a couple -- savings-- I just wanted you to state them again, if you could?

DR. YINGER: Sure. Going from 300 to 600 saves 24 percent, going from 900 to 1,800 saves 10 percent, and going from 1,500 to 3,000 saves 4 percent.

SENATOR KYRILLOS: And after that, you just don't have data for school districts of a larger size?

DR. YINGER: In this study we don't, that's correct. But from other evidence it seems-- The other evidence is very consistent with this. It

finds a minimum cost at around 3,000 or 4,000 pupils, and then increasing costs after that.

SENATOR KYRILLOS: You did find large administrative savings throughout. And what were the reasons for the diseconomies of scale for the larger situations in your study?

DR. YINGER: So that's a-- So the administrative cost saving--

SENATOR KYRILLOS: Why would the savings go down with districts -- as district size goes up?

DR. YINGER: Okay. It's a really good question, and I think I probably can't give a very satisfactory answer. In our method, what we're doing is observing spending outcomes, not program decisions. So we don't, for example, have evidence on the number of administrators per pupil. We don't have evidence on the number of teachers per pupil. We just have the budget information on spending in a particular category.

And what we observed is that if you double the number of pupils -- within our sample -- you would save about 40 percent on the category of administrative costs. Now, that one seems pretty straight forward: You don't need as many administrators, because you can spread out their job over more pupils.

But in other categories, you have large savings only at the very early stages. I know with two small districts, those savings disappear or even reverse when you get up to consolidating two 900 districts. So that on net -- when you go from 1,500 to 3,000, on net the savings are only 4 percent. Even though you still have 40 percent administrative cost savings, you have much lower savings in other parts of the budget, or even cost increases in other parts of the budget, so that the total adds up to 4 percent.

SENATOR KYRILLOS: And you've identified, in your work, those cost drivers -- the cost increases that-- You don't have to-- We can research it. You don't have to give us the answer right now.

DR. YINGER: I have a table -- if I could just put my fingers on the right table here, that has the cost savings by spending category. I was looking at it a minute ago.

SENATOR KYRILLOS: We can follow up with you.

DR. YINGER: Okay. But it does have-- One of the tables in our study does have the savings by expenditure category, and-- Here-- Oh, that's not it. Here it is. No, no, I'm sorry. I can't put my hands on it.

SENATOR KYRILLOS: That's all right. We can-- Our staff can follow up with you, and perhaps we have that information.

And just one final question, Mr. Chairman, if I could.

You said -- and I think the previous -- The Director of the Rutgers Institute said the same thing -- "little data to conclude economies of scales." You made a general statement along those lines. There is little data that would help us to come to conclusions beyond studies like yours, is that what you're trying to tell us?

DR. YINGER: That's correct. There are a few examples. We have school district consolidation information from our study and from other studies, and there is good evidence on assessing, but, you know, that's not a very large share of what local governments do.

And I know there have been discussions of consolidation in the Syracuse metropolitan area, and some people come from a community where there has been consolidation and they say it's been great, but they really can't establish that there have been cost savings.

SENATOR KYRILLOS: Right.

DR. YINGER: You can't really establish that there are cost savings until you can control for performance and other characteristics that might influence the spending numbers that you observe.

SENATOR KYRILLOS: Your overarching point, however, is that there is little data in general -- not necessarily -- and therefore, it follows, little data to support that there are cost savings.

DR. YINGER: That's correct. That's correct.

SENATOR KYRILLOS: There is not a lot of work that has been done in this regard.

DR. YINGER: That's right.

SENATOR KYRILLOS: Thank you for coming on with us today.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator.

Professor, I just want to inject a question before I go to Assemblyman Malone.

How many school districts are there in New York State, and what's their average size?

DR. YINGER: So there are something like 900 school districts in New York, and the range-- There is one school district of a little more than 1 million pupils, and the next one is 50,000, which is Buffalo, and then the typical district is in the 5,000 to 10,000 pupil range. There are quite a few small rural districts, as well. So there are some districts with several hundred pupils, but most of those have been consolidated. So I

think, you know, a typical district would be a few thousand pupils, except in the cities where it might be 10,000.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman Malone.

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

Professor Yinger-- Let me turn the button on here. (referring to microphone) Do you have any data that tells us what the effective size of a school is population-wise?

DR. YINGER: Again, what we find is that the size of a school district with minimum cost is about 3,000 pupils. We don't have a study that tells you the same information for an individual school.

ASSEMBLYMAN MALONE: See, because there is a difference between the size of the school-- People are associating the size of the school with the size of the district. I mean, we have -- we have actually 20-plus school districts that have no schools at all. I mean, as ridiculous as that may sound, we have-- In my own Legislative District, I have seven or eight K-to-6 school districts, which really have just one school. And I have school districts with a population of 80.

So in trying to look at those kinds of numbers, I don't know if you have anything that is similar, in New York, to those kinds of situations. Do you have K-to-6 districts in New York?

DR. YINGER: We have a few -- a few of those, but mostly the districts are K-12, and I don't know of any districts that don't have schools. Maybe I've missed that one.

ASSEMBLYMAN MALONE: We're New Jersey. (laughter)

DR. YINGER: It is pretty unusual.

I have to say that the question of size of school is a very good question, but it's both a very different set of challenges to study and a very different set of institutions to address. Because, of course, the size of the school is controlled by the school district and the decisions they make; whereas, the size of the school district is determined by state policy. And the State may want to try and influence the size of schools, but the mechanisms for doing that are very different.

ASSEMBLYMAN MALONE: Do you know what the average household pays in New York State for their school taxes?

DR. YINGER: I don't have that number at my fingertips, but taxes in -- property taxes in New York are very high, as they are in New Jersey.

ASSEMBLYMAN MALONE: Do you know what the pupil cost range is per student in New York? In New Jersey, it ranges from \$6,000 to close to \$20,000 a student, depending on the school district.

DR. YINGER: I think you would have a pretty similar range in New York -- a very similar range.

ASSEMBLYMAN MALONE: Do you know, offhand, what the total amount of State aid is that's provided by the state of New York to all school districts?

DR. YINGER: Yes, well the state aid in New York is usually just short of 40 percent of the cost of schools -- the lower-than-typical state.

ASSEMBLYMAN MALONE: Pardon?

DR. YINGER: Which is lower than the amount-- A typical state -- the average state's about 50 percent. So in New York it's about 40 or 39 percent, something like that.

ASSEMBLYMAN MALONE: Is there some way of getting a definitive answer as to how much the state of New York puts into state aid for their school districts? Who might have that answer? The treasurer in New York, or--

DR. YINGER: Well, if you go to the census you can get information on the breakdown of who pays how much. Now, that might be lagged a year.

ASSEMBLYMAN MALONE: Because we-- Basically, in our--

DR. YINGER: If you would send me a specific question, I might be able to provide the data for you from AEFA (phonetic spelling), because we do have the latest data here at Syracuse. And I could give you an exact number if you would like to see it.

ASSEMBLYMAN MALONE: Yes, because the State portion in New Jersey is about \$10 billion, that we give to our school districts in State aid, and that's not including capital aid. So I would think that New York might have a similar kind of statistic or number.

DR. YINGER: Yes, it's more like \$15 billion or \$16 billion in New York.

ASSEMBLYMAN MALONE: Okay. Thanks.

And what's the total school population in New York? Do you know that offhand?

DR. YINGER: Let's see, it's something like 2.5 million pupils, maybe 3 million, somewhere in that range.

ASSEMBLYMAN MALONE: Okay.

Mr. Chairman, thank you very much.

Professor Yinger, thank you very much.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Malone, thank you very much.

Do any other members of the Committee have any other follow-up questions? (no response) Okay, seeing none--

Professor, thank you for your testimony very much. We appreciate you taking the time today to be with us. There were some questions asked by members, and you said that you would potentially get some follow-up information. If you could supply that through our staff, we would be very appreciative.

DR. YINGER: Okay. Well, thank you.

ASSEMBLYMAN WISNIEWSKI: Okay, our next and final presenter this morning will be Professor -- Dr. Ernest Reock, Professor Emeritus from Rutgers University. The Professor has done quite a bit of study on the cost impact of school district creation and consolidation in New Jersey.

Professor, we welcome your presentation this morning. Thank you.

ERNEST C. REOCK JR. Ph.D.: Thank you, Mr. Chairman, members of the Committee. And thank you, generally, for asking me to appear before you.

I think the major reason I was asked to testify is that a little over 10 years ago I did some studies on the potential cost savings from school district consolidation in New Jersey. There were three research

papers that were prepared. One was called, "The Cost Impact of School District Creation and Consolidation in New Jersey." That was published in March 1995.

In July 1995, I used the data from that first paper to put together what was called, "A Plan for School District Consolidation in New Jersey." Both of those were published by the Center for Government Services at Rutgers, and they are both reproduced on your Committee Web site.

Then in 2003, I was asked to update the second of those papers, which I did, and I think that it has not been put on the Web site yet. I have brought about 10 copies of it for you this morning. And I understand that it probably will be put on the Web site in the near future.

Let me give you just a little bit about the origin of those papers. I retired in 1992 from the University faculty, where I was the Director of the Center for Government Services, and I was doing some voluntary research work for the Education Funding and Review Commission at that time -- a State Commission that was examining State aid formulas.

And one day at that Commission, I went to lunch with one of the Commission members and he said, if we could just reduce the number of school districts in New Jersey, we could save millions and millions and millions of dollars. My off-the-cuff reaction was, I don't think so, but then I realized I didn't have any data at all to come to a conclusion. So after that work with the Funding Commission was completed, I decided to try to look into the subject a little bit, and that is where these papers have come from.

The research I did is considerably less sophisticated than the work that you have heard about at Syracuse. On the other hand, it has the advantage of using New Jersey data. It aims strictly at the cost per pupil in school districts. I did not give any attention to school -- to student performance in that paper.

What I did was to identify all of the changes in a school district's organization between 1957 and 1992 that either increased the total number of school districts, which I called "school district creation," or decreased the number of school districts in the state, which I generally called, "school district consolidation."

In each of these changes-- I found about 50 cases in that period between 1957 and 1992. In each case where a change was made, I calculated the expenditures per pupil for all of the districts involved, in the fourth year before the change was made, relative to the rest of the state. In other words, what were those districts, as a group, spending per pupil compared with what the rest of the districts in the state were spending. And then I looked at the same data four years after the change was made -- compared the expenditures per pupil relative to the rest of the state.

The findings that I came up with-- There were 43 cases where the number of districts -- the number of school districts -- actually increased. That was usually through the creation of a limited-purpose high school or regional district. If you left the K-6 districts or K-8 districts where they were, you created a third -- another layered district -- a regional high school district which encompassed the students from these elementary school districts.

Of those 43 cases where we created an additional school district, I found that in 41 there were increases in the expenditures per pupil compared with the rest of the state. As a whole, for those 43 cases where we increased the number of school districts, the cost per pupil rose by an average of about 15 percent.

Then I looked at what, unfortunately, was a very few cases where we have consolidated school districts during this period from 1957 to 1992. I found, really, only six cases that I could use -- only six cases where I could get the financial data to make an analysis.

In those six cases, three of -- they broke, really, three and three. Three of those cases where we consolidated school districts were very wealthy districts. And when I looked at what happened in those places, I found that in the case of wealthy districts, the cost actually increased after they consolidated.

In the three moderate-wealth districts, expenditures per pupil declined by an average of about 8.3 percent. And I have to say that I was encouraged by finding this morning that that 8.3 percent fits pretty well within the range of what Professor Yinger found in the Syracuse study. I found that in moderate-wealth districts the expenditures in New Jersey declined by an average of 8.3 percent.

As a whole, those six district -- six districts reduced their expenditures relative to the rest of the state by 1.5 percent. Now, the unfortunate part about this, which underlies almost everything I'm going to say, is that there were only six districts, and only three of them that were moderate-wealth districts. I felt that I could use that result for the moderate-wealth districts to make, at least, a rough estimate of what might

happen in the rest of the state, because most of our districts are moderate wealth. There are only--

The three districts that were high wealth were Princeton -- Princeton Regional; Chatham Regional; and Morristown -- Morris Township which -- or the Morris School District. Those are very unusual districts within the context of New Jersey regional schools. That was what I found in the first paper -- Paper No. 1.

Then I decided, maybe I can use this -- these results to get some rough idea of what we might possibly say in dollars if I applied this to a plan of a regionalization throughout the state. The plan that I tried it on, it was an attempt to keep disruption to a minimum. In other words, school -- existing school districts have sorted themselves out in terms of being members of regionals or in terms of sending their pupils-- If they're not large enough to run a high school, they send their pupils somewhere and pay tuition for them; so that there are patterns of geographic association which districts have developed over the years.

And I said to myself, why not try to make use of that so there would be the least possible disruption of students and of teachers through a plan of statewide consolidation? The plan then, following from that, followed these lines: For each-- Wherever there is a limited-purpose high school region -- a 7-12 or a 9-12 regional -- the proposal is that would be expanded to become a full K-12 regional, and the existing K-6 and the K-8 districts would be eliminated.

Secondly, where we had the situation of a K-12 district which runs a high school and is now the principal receiving district for K-6 or K-8 districts who send their pupils there to the high school on a tuition basis,

that K-12 high school would become the nucleus of a new regional district. And the existing K-6 and K-8 districts would be eliminated.

See, you've got a typo here in the outline. (referring to paper) It would be the K-6 and the K-8 districts that would be eliminated.

The result would be a plan for the entire state, in which no teachers or pupils would be moved, at least initially; in which the plan would only consolidate the school district offices. In other words, it's a plan of school district consolidation, not school consolidation. Any further consolidation of schools or classes would be up to the regional board -- the regional board of education that would be formed.

Applying the cost saving percentages, that I found in the first paper, to this plan in the second paper, you get these results. First of all, all districts in the state would offer full K-12 programs in the future. The number of school districts would drop from 574 to 264. The average size of a district would rise from 2,066 pupils to 4,106 pupils. That would be compared with a national average of 3,120.

I'm quoting figures from Paper No. 3, which is an update of Paper No. 2.

In terms of the estimated cost savings -- and I've approached this in two different ways. One, is the cost in terms of administrative expenditures. And here, I used data from two separate analyses that were made -- that have been made of expenditures for administrative costs from other sources. One, was--

When I did Paper No. 2, the only thing I had available was a 1994 Eagleton Institute paper, which provided information on the expenditure per pupil for school districts at various population sizes --

population of students. When I got to the 2003 paper, I then had data from the Department of Education *Comparative Spending Guide*, and I used that data.

But when I put that into the pattern -- the new pattern of districts that I suggested, I found an estimated cost savings on administrative expenditures -- and this is in 2002/2003 dollars -- an estimated savings of about \$65 million a year, statewide.

I think that is a fairly good guess, really, at what we might save in terms of administrative cost savings if we did follow this pattern of reducing the number of school districts from 574 to 264.

In terms of any overall expenditures, say -- an overall expenditure saving-- In other words, going beyond the administrative cost, here I went back to my 8.3 percent savings that I found in overall costs in those three moderate-wealth K regionals that I reported on in Paper No. 1. And there, applying it to the pattern in 2003, I came up with a very imprecise and very speculative figure of \$365 million a year, including the administrative cost savings. That is my guess as to what we might be able to save if we did reduce the number of school districts into the pattern that I have suggested.

This savings would almost certainly -- most of it would be realized only through the consolidation of schools and classes at some time in the future, after we have this pattern of districts in existence. And it could most easily take place during a period of enrollment decline. Actually, we had enrollment decline in New Jersey for about 17 years, between 1972 and 1989. That was the time when we could have made some real savings with larger school districts, I think.

Further caveat: There may well be some unexpected costs of consolidation, and the most obvious one that pops out is salary scales. When you put two school districts together, you're going to have to do something to integrate the salary scales. And you almost inevitably will integrate them upward to the higher salary scale, rather than making people take salary cuts or take salary freezes.

I think there is some nonbudget advantages of consolidation. First of all, a consolidation of this size would create school districts with broader, more stable local property tax bases, and there would be some equalization of tax rates in the two.

In Papers No. 2 and 3, I tried to make some estimate of what that would do in terms of equalizing tax rates. There is the possibility that by giving local school districts a broader tax base, it might be possible to provide -- to make some reduction in the demand for State school aid. That's-- I was also pretty speculative, but I think the possibility is there.

Secondly, in terms of a nonbudget advantage -- a nonfiscal advantage -- we would create a full K-12 system. And in my conversations with people who are in elementary and secondary education, a number of them endorsed the idea that having students in a full K-12 system has some educational advantages in terms of integrating curriculum for students through their full career in school.

There are obvious downsides of consolidation. There will be some winners and there will some losers, financially. That is probably the reason why we've had so few consolidations in the past. And there will be some perceived threat to local control. The way I express it is: While the

fish might remain the same size, the ponds are going to become bigger if you consolidate into larger school districts.

The bottom line of what I've done, in my opinion, is that it appears that there are some potential cost savings that could be made through the consolidation of school districts, especially in administrative costs. Whether this is large enough to justify the turmoil and disruption involved is open to some serious question.

Now, those last couple of remarks may be considered a little too negative. Let me just wind up with a little bit of history. In 1893, the State Superintendent of the Public Instruction -- this is 1893 -- he reported to the Legislature that there were 1,395 school districts in New Jersey. Three years later, in 1896, he reported that there were only 376 school districts in New Jersey. That was all done -- it was all mandated through one piece of legislation: Chapter 335 of the Laws of 1894, cut the number of school districts from 1,395 to 376.

Now, there is a little bit of a downside to that. That law had a loophole in it that said, if you are a school district -- your existing school district serves an incorporated municipality, has boundary lines the same as the incorporated municipality -- you can keep that school district that you had, if it was one of the 1,395. With a result that, between 1893 and 1896, we had 61 new municipalities created in New Jersey. (laughter)

I hope that gives you a little historical context to it. It does say that consolidation is possible. There is precedent for it. It has happened, but a lot of people are disturbed by it, and they will go to any lengths they can to avoid it.

Thank you. I'd be happy to try to answer questions.

ASSEMBLYMAN WISNIEWSKI: Thank you, Professor. Thank you for your testimony.

One of the issues that is recurring in the testimony that we heard today is the idea of local control. And you just concluded your remarks by saying that in terms of forced consolidation or regionalization -- that there is opposition to it.

In your studies -- in your research, what is it about local control? First of all, is it a real concept or is it a perception that our constituents have about what they are able to control? Many of the items that school districts address are addressed by edicts that come out of this Legislature, not decisions that are made locally. So if you could just explain that a little bit?

DR. REOCK: I think it's a perception, but I think you can say that perception is reality. If they think that they have something now that will be reduced in the future, their tendency will be to oppose a change.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Senator Smith.

SENATOR SMITH: No. Yes. (laughter)

First, let me sing your praises if I might, Professor. Not only have you made a contribution on this issue of school consolidation or district -- rather school district consolidation -- and you made the distinction very aptly -- but also your book, *Unfinished Business*, is a pleasure to read. It's about the formation of the 1947 Constitution, and for those people who are into Constitutional Conventions, it is absolutely must-reading. It is a very, very interesting book about New Jersey politics.

With regard to school district consolidation, I have had a chance to review both your earlier work and the update in 2003. The 8.3 percent savings that you described with regard to what would be most of the districts in the state -- moderate, moderate districts -- not those of great wealth or those that would be considered poor -- that 8.3 percent is across the board on educational expenditures? It wasn't just the administrative side?

DR. REOCK: That's right. That includes the administrative savings.

SENATOR SMITH: That included the administrative savings.

DR. REOCK: Yes.

SENATOR SMITH: All right. Just a question about the -- our mathematics here. We're spending about \$20 billion a year on primary and secondary education in New Jersey. If we did the consolidation-- If I multiply 8.3 percent times \$20 billion, I get roughly about \$1.6 billion, as opposed to \$365 million. Where is my math in jeopardy?

DR. REOCK: No, the 8.3 would only be applied to the districts that were consolidated.

SENATOR SMITH: I see.

DR. REOCK: See, there would be -- I forget the number now, but of the 270-some districts that would result--

SENATOR SMITH: From--

DR. REOCK: --about half of them already exist as K-12 districts.

SENATOR SMITH: Right.

DR. REOCK: They would not be effected at all.

SENATOR SMITH: Right. And your study was based on that assumption. That is, the incorporation of each limited-purpose high school district into an all-purpose regional high school district, incorporating each elementary sending district into a receiving school district. So that was the basic assumption of your school district consolidation.

DR. REOCK: That's right.

SENATOR SMITH: Would it be fair to say that the savings or efficiencies associated with school consolidation really comes down to the details of the consolidation? In other words, how it's done? And what I'm saying is -- I'm not challenging your figures, but it's based on the assumption of how you did the school district consolidation?

DR. REOCK: Oh, yes. Yes, it's based on the plan that I used to try to come up with a dollar figure statewide.

SENATOR SMITH: Absolutely.

DR. REOCK: And if we were to consolidate, let's say, down to 100 districts or down to 21 county districts, you would get different dollar figures.

SENATOR SMITH: Exactly. And that-- I think both of these studies that you did move the ball forward in terms of understanding the problem, but at the end of the day if we're going to do something with school systems, it's going to be a function of what we do -- the amount of the savings will be a function of what we do.

Let me throw at you one of the ideas that is being discussed. And we have, hopefully, people from Maryland coming in, in the near future -- Toronto, Pennsylvania -- to talk about their systems. And many systems in this country are substantially different.

I think it is 11 or 12 states that have county-based delivery of educational services, and probably the one that is most analogous to New Jersey is Maryland. There they have 24 -- I think they have a total of 24 districts, of which 21 are county districts, and then there are 3 urban districts that are rather large districts.

But what happens with these county-based districts in those states is that they have consolidated purchasing -- the county is the purchasing department; they have consolidated curriculum development; they have consolidated human resources.

In other words, instead of New Jersey having 600 districts hiring and firing, the 21 counties would do all the hiring and firing. Instead of having 600 lawyers or 600 law firms representing the school systems, there would be 21. Instead of having 600-plus superintendents, 600-plus business administrators, there would be the 21 -- or whatever the number was.

So is it conceivable that the potential efficiencies in that kind of a system could be greater than the savings associated with the model that you used in the 1990s and in 2003?

DR. REOCK: I would think so, yes.

SENATOR SMITH: Okay. Transportation, as well, just another example--

DR. REOCK: Transportation, maybe yes, maybe no. You still have to go from point to point--

SENATOR SMITH: Right.

DR. REOCK: --with a student, and that would probably only change if-- That would only get a cost savings if you were able to

consolidate schools. You might -- you might have some transportation savings.

SENATOR SMITH: Right. To be determined.

DR. REOCK: Yes.

SENATOR SMITH: And that is something we're going to take a look at.

Do you think if we did something as -- a significant school district consolidation, that there may be a way to retain the identity of the existing school district?

For example, Dunellen, New Jersey -- I think it has a population of 6,000 people, and it probably has maybe 1,000 students in the district. But I'm sure there is a lot of pride in the Dunellen football team, all right? Would it be possible in a -- in some form of countywide administrative consolidation to perhaps take the administrative functions and centralize them -- like purchasing, like transportation, like human services, like legal -- but yet have the Dunellen schools be separate, but with a significantly reduced administrative structure? Do you think there is a way to do that?

DR. REOCK: I think that is feasible.

SENATOR SMITH: All right. And do you think that might satisfy some of the home rule concerns of the people at the local level?

DR. REOCK: It would ameliorate them to some extent, yes.

SENATOR SMITH: I appreciate so much the work that you have done for New Jersey in your two prior studies, and I hope we can count on you if we need some information or any analysis.

DR. REOCK: Certainly.

SENATOR SMITH: Thank you.

Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator Smith.

Assemblyman Malone.

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

And Dr. Reock, I had the privilege of working with you when we did a study back in 1999 on this very same topic.

In your comments that you made -- we talked about the -- do you have any idea of how many or what the list is of the new schools that were created over the last 25 years? And if you don't, where I might be able to get that list?

DR. REOCK: You mean the new school districts?

ASSEMBLYMAN MALONE: New school districts, right.

DR. REOCK: Yes. In Paper No. 1, I think I list all of the districts that I looked at -- all of the ones -- both the new districts that were created and the ones that were consolidated.

ASSEMBLYMAN MALONE: Were they primarily just a consolidation of the sending districts, sending into an established school, rather than just something that just popped up? They were generally constituent--

DR. REOCK: Generally, they followed the existing relationships -- the existing lines, yes.

ASSEMBLYMAN MALONE: So they went from--

DR. REOCK: And in many-- Well, remember, there were only six consolidations in this whole period.

ASSEMBLYMAN MALONE: Okay, because an example--

DR. REOCK: There were 43 creations of new school districts.

ASSEMBLYMAN MALONE: For example, I can give you my own example of Bordentown. Bordentown had its own high school, and they had-- Then they consolidated into Bordentown Regional, and they took in Bordentown Township, Bordentown City, and Fieldsboro. And that was, basically, a new school district that was formed within this time frame. And I don't think we have new-- It's actually a shrinking, in some ways, of schools, because you-- What you did was, you split up people who were having K-12 -- but a sending relationship -- into just a 9-12 regional system.

DR. REOCK: Yes, that's right, and Bordentown was one of those moderate-wealth districts that I used in the study.

ASSEMBLYMAN MALONE: The cost shifting that you talked about in some cases -- really, did the K-12 district, with no high school, that had the sending relationship-- Actually, some of the costs were actually shifted over to that new regional, I would assume?

DR. REOCK: Oh, yes, they would be.

ASSEMBLYMAN MALONE: Okay. So, in essence, if a regional was in existence and they took in a sending district -- by its very nature, would increase its costs, of that--

DR. REOCK: Well, it would, but not in my analysis, because I considered what the costs were for the multiple districts that existed before that, versus what the cost was for the new regional district four years after.

ASSEMBLYMAN MALONE: Yes, but did you take into account the cost decrease to the old district, because they went from a--

DR. REOCK: Well, the old district disappeared.

ASSEMBLYMAN MALONE: No, no. Well, in some cases -- where they just formed a regional high school.

DR. REOCK: Oh.

ASSEMBLYMAN MALONE: If you went from a K-12 with no high school, and then they went to a K-6, they, in essence, lopped off a basic part of the K-6 budget.

DR. REOCK: Yes, well the expense would be over in the high school district--

ASSEMBLYMAN MALONE: Right.

DR. REOCK: --rather than the elementary district.

ASSEMBLYMAN MALONE: I just think that-- Following up on the Senator's comments, I think that we really have to look at what you have done, and really give some people some opportunities to think about this. One of the major reasons I think that Union County split up their regional had to do with the football team.

DR. REOCK: Right.

ASSEMBLYMAN MALONE: And I think that some of the proprietary nature of communities and other issues -- if we can keep people's community sense whole, but yet offer them an opportunity to regionalize without disrupting the community nature of their schools, I think we can go a long way in dispelling some of the resistance to regionalization or consolidation. Because it really is -- it is a perception that has turned perception into reality.

And I just think that just some of costs are so staggering, as you well know, in what we're now spending for school districts. There has to be

something done, and I would appreciate your continued assistance and your advice and your counsel, and just tell it like it is.

DR. REOCK: Thank you.

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

Thank you, Dr. Reock.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman. Senator Kyrillos.

SENATOR KYRILLOS: Thank you very much.

You know, I find myself encouraged and agreeing with the lines of questioning I've heard from both Senator Smith and Assemblyman Malone.

I want to thank you for your contributions to the State over a long, long period of time, and for your work that you described today; which I think, at one point, you tried to couch -- or apologize for some words of, perhaps, discouragement or conservatism in terms of your optimism as to what can be achieved. But I think there is a lot of reason for encouragement.

You point out, I think, about \$365 million in savings, which -- which was a few years back, and really came from tinkering -- and tinkering is the wrong word, because it's more than tinkering -- dealing with half of the school districts in the state.

We should be clear to everybody who is listening and people who will read about today's hearing that, in your study, those districts that were already K-12 school districts weren't looked at.

And as I look at the lists of school districts around the state, and especially the ones I'm familiar with, Dr. Reock -- relatively small school districts in Monmouth County, in Middlesex County, and I'm sure there are examples across the state -- there are-- There is further room for work for potential consolidation if we were going to try to move things into a better or perfect world. We know how difficult that is, but how essential it is today. And we would see your numbers swell.

Moreover, Senator Smith rightly points out the opportunities for administrative savings if we can pool together those nonacademic costs, and purchases, and missions that can rightly be done in a more efficient way.

So I think we're getting there, and-- Any comments you would care to make now? I appreciate your work.

DR. REOCK: Just one point of clarification. If a district was a K-12 district now, that did not eliminate them from the possibility of becoming a new -- the center of a new K-12 regional, if they were the receiving district for a lot of other districts who sent their pupils on a tuition basis.

SENATOR KYRILLOS: That is an important -- it's an important point. But there are, nevertheless, and I'm sure you would agree, many examples of existing K-12 districts that are isolated--

DR. REOCK: Yes.

SENATOR KYRILLOS: --in and of themselves, that are relatively small.

DR. REOCK: Oh, yes.

SENATOR KYRILLOS: Sometimes very small.

DR. REOCK: There are, that's right.

SENATOR KYRILLOS: Sometimes very small, with neighboring districts that are also very small.

DR. REOCK: We have small school districts, and we also have small high schools in New Jersey.

SENATOR KYRILLOS: Right, very good.

Thank you, sir, very much.

ASSEMBLYMAN WISNIEWSKI: Thank you, Senator.

Professor Reock, I just have one final question. In your paper, you make a correlation that wealthier districts tend to have a resistance to consolidation, because of the fact that their wealth and their property taxes are going to pay a more significant share in a consolidation.

Can you address that?

DR. REOCK: That is a significant issue, really. In the paper, I assumed that the cost of the regional districts would be apportioned among the communities on the basis of rateables. In other words, property tax values.

If we move to a -- and there is some argument going on in the State now, as to whether costs should be apportioned on the basis of tax rateables or pupils. If we were to do it on the basis of pupils, then many of these advantages that I see in this plan in terms of equal -- of larger tax bases would not be realized. Because small -- in most cases, wealthy communities with very few school pupils would remain out -- would pay only in proportion to the number of pupils they send. This is an analysis that is going on in a number of places as the rationale for breaking up some of the existing regional high school districts.

An editorial that appeared in *The Star-Ledger*, for example, about two weeks ago, where it was pointed out that one small district in Ocean County was paying \$51,000 per pupil in order to be a member of a high school regional district there. I think it's Southern Regional.

ASSEMBLYMAN WISNIEWSKI: That was a calculation that was done based on their--

DR. REOCK: On the cost -- on their tax levy divided by the number of pupils that they send. I think that is a completely fallacious method of analysis.

Actually, in that community, I checked, and their tax rate was about \$.42 compared to a state average rate of \$1. That \$51,000 per pupil was not hurting that community at all. But if they were able to break loose from that regional, or were able to have it placed on a per-pupil basis, their tax rate would go way down from \$.42 to something even lower.

And we have a lot of little enclaves like this which, under this plan, would be brought into a regional, and their tax base would be used and shared with the other communities in that region.

ASSEMBLYMAN WISNIEWSKI: Is part of the difficulty in this that we have each municipality addressing their property assessments individually, so there is not necessarily consistency between Town A and Town B?

DR. REOCK: Well--

ASSEMBLYMAN WISNIEWSKI: And Town A and Town B grow at different rates, have different ratables?

DR. REOCK: No, no, it's not that. It's just that some towns have a lot of rateables and not very many kids, and when they put it on a

per-pupil basis, then really you're subverting the entire idea of a public school system. Public education is in the public interest. It's something we all need, something we all want, something we should all share in as individuals, as our resources make it possible for us to share in.

Just carrying the analogy of the people who argue this \$51,000 idea further, if you really carried it to its full extent, I wouldn't be paying any school taxes right now, because I don't have any kids in school. But when I did have kids in school, somebody else paid the taxes for me, and I'm very happy right now to pay taxes in proportion to my resources, which in this case is my property. And I think that should apply to communities just as well to individuals.

ASSEMBLYMAN WISNIEWSKI: It's a shared benefit. But I think what this underscores is that, in addition to the notion of home rule that we discussed earlier, how you measure what you're paying is also another landmine that has to be carefully addressed.

DR. REOCK: It certainly is.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Does anyone else have any other questions? (no response)

Professor, thank you for your testimony.

This will conclude the testimony of the Committee today. We have a meeting scheduled for next Wednesday at 10:00 a.m. And we look forward to seeing you at that time.

Thank you.

(MEETING CONCLUDED)