

SCC APPEARS BEFORE JOINT COMMITTEE

(May 25, 2006) - Transitional CEO Scott Weiner and Chairman Barry Zubrow testified before the Joint Cor yesterday. Among the topics discussed were school construction reform efforts and the recent report of the To read their prepared remarks, please click on the following links:

[Barry Zubrow's Remarks](#)

[Scott Weiner's Remarks](#)

CHAIRMAN BARRY L. ZUBROW
JOINT COMMITTEE ON THE PUBLIC SCHOOLS
THURSDAY, MAY 25, 2006

Mr. Chairman, I want to thank you and the other Committee members for inviting us here today to share with you our initial efforts to bring much needed reform to the schools construction program.

I am Barry Zubrow, Chairman of the Board of Directors of the Schools Construction Corporation. I will focus my remarks on the important steps that we have taken to improve the corporate governance, management, accountability and transparency of the Corporation. I will then turn it over to my colleague, Scott Weiner, who is serving as Special Counsel to Governor Corzine and Chairman of the Interagency Working Group examining all aspects of the schools construction program, as well as serving as Transitional CEO of the SCC. Scott will talk about the Working Group's most recent report and the numerous efforts underway to work more closely with the school districts in order to prioritize existing and needed projects, as well as the management efforts to deliver those much needed schools to our children.

By way of background, I've spent most of my career at Goldman Sachs, working with companies to solve their strategic problems, as well as serving as the Firm's chief credit officer, chief administrative officer, and chairman or co-chairman of many important committees, including the risk committee, the credit committee and the property committee. I currently serve on a number of public and private corporate boards, as well as Chairman of the Board of Managers of Haverford College. I was honored when Governor Corzine asked me to serve as Chairman of the Schools Construction Corporation, accepting his charge to focus on cleaning up the mess that had been created at the Corporation. The Governor has made it clear that this is a critical priority of his administration, and I intend to utilize my prior experiences to bring the type of management accountability and program execution that all of us have a right to expect of a public works program of this size.

Since becoming Chairman in early February, I have been surprised by the depth of the problems at the SCC. Simply stated, the execution of much of the work by the SCC, going back a number of years, has been plagued by a lack of strategy, poor management and failure to put in place basic controls and reporting systems that would allow it to properly execute its responsibilities. I am not going to dwell upon what went wrong. Others have studied and documented different aspects of the problems that we inherited. Rather, let me outline some of the initial steps we have been putting into place to stabilize the situation and create a foundation for proper execution in the future.

First and foremost, the SCC has been drastically in need of strong management, with clear lines of accountability and transparency. There has not been the requisite leadership across the organization to effectively manage the complexity of projects and issues that the Corporation faces on a daily basis. We are extremely fortunate that Scott Weiner has agreed to serve as Transitional CEO, bringing his considerable executive background and skills to the Corporation. The Board has engaged the services of an outside executive search firm to seek a permanent CEO who will have the breadth of management skills, experiences and talents to run this enterprise. We are at the very early stages of the search, but I remain optimistic that we will identify candidates who can help us continue down the path of reform that we are on. Out of this process, we are also hopeful of identifying qualified candidates to

fill the role of Chief Financial Officer.

We have worked to immediately improve a number of other critical senior management functions. We have hired a senior counsel to serve as the Corporation's chief legal officer. He comes to us with many years of excellent, practical experience in construction and land acquisition law. His oversight and review of these critical areas for the Corporation will be extremely important to allowing us to clean up many of the messes that have been created in the past. Abuses and missteps in land acquisition, contract administration and contract claims is something that we immediately recognized as a priority to be cleaned up. And we are aggressively working to do that.

In addition, we are working hard to re-organize the core operating functions of the Corporation in the area of design and construction. A number of important personnel changes have and are continuing to occur in this area, and I am hopeful that we will be able to re-build this group into a much more effective management team for our projects.

We are in the process of institutionalizing a capital planning function. The objective of this group will be to provide a comprehensive review, tracking and oversight of each of the projects being worked on and planned. A by-product of this organizational design will be to break down the "silos" between the different functional areas of the SCC. Among the root causes of many of the missteps and misjudgments in the past at the SCC has been a total lack of internal communication and coordination. The left hand didn't know what the right hand was doing. An effective organization cannot operate that way, and we are committed to changing the culture at the SCC, as well as the culture of how the SCC interacts with local school districts and the Department of Education.

Although the SCC is obviously a governmental entity and an independent "authority," it is also organized as a corporation with its own governing board of directors. The Governor is committed to making sure that we bring the very best corporate governance practices to this board, so that it can effectively carry out its oversight responsibilities. To that end, by Executive Order, the Governor changed the composition of the membership of the Board so that the Attorney General no longer serves as an ex-officio member. Her role, and that of her department, is to advise the Corporation on legal issues, but also to be independent and able to investigate if necessary. Her investigatory responsibilities could obviously come in conflict with her role as a board member. We are pleased that the Governor filled her vacancy with a person with extensive criminal law experiences, Matt Boxer.

Most of the day to day oversight of the Corporation is provided thru two committees of the Board: The Schools Review Committee and the Audit Committee. These committees are chaired by able and experienced board members, and function extremely well. They are also working hard. We have increased the number of meetings that the committees have, as well as the board itself, so as to make sure that we can timely and effectively address the backlog of business that needs to come before the board.

We are also working to increase the transparency of the board activities. We intend to post all board meeting agendas on our website, as well as minutes of our meetings. This type of information, as well as basic financial data about the Corporation, is important to providing the public with a clear understanding of what the Corporation is doing and why.

As I have tried to indicate, we are seeking to create clear lines of management accountability and board oversight. To that end, both management and our audit committee are regularly reviewing the Corporation's actions which have been taken to address the recommendations made by the Inspector General, the Office of Government Integrity and the State Auditor. In addition, we have engaged the nationally recognized firm of KPMG to create the function and serve as our internal auditors. They regularly report to the Audit Committee on their work plan and progress. We are finalizing a relationship with the Inspector General, so that office will have staff directly on site at the SCC. In addition, we are holding others equally accountable by aggressively asserting the Corporation's rights through errors and omissions claims.

The core of the SCC's business needs to be effectively and efficiently executing building and construction projects for schools. Essentially, the SCC needs to be a premier construction management organization. In order to achieve that end, it is clear that we need to expand the organizational accountabilities so that there is a single point person for each project. Someone who knows the complexities, the issues, and the requirements which will make for a successful project. Heretofore there has been too much of a silo mentality within the organization. We are attempting to break that down and make sure that good cross communications occur between departments, and with the many constituencies that have a stake in the successful building of our schools. Much of this is also data driven. To that end, the SCC is working on establishing a project budget tracking system that will detail project-level budgets and provide monthly updates. Without better information about the progress of projects and the issues being encountered, neither the Corporation, nor the districts that are our customers, can be properly served.

Finally, it is worth noting that although this schools construction program has been plagued by problems, there has still been a significant amount accomplished. In spite of the mismanagement of the past, there are a lot of good people at the SCC who have done good work. In Abbott Districts, the Corporation has completed 600 school facilities projects, of which 354 were for needed health and safety improvements, 20 were new construction and 37 were substantial renovations or building additions. In the non-Abbott districts, the Corporation has executed 2,500 grants worth \$2.19 billion. These grants helped to support an additional investment of \$7 billion in construction in 1,414 school projects in 467 districts throughout the State. Approximately 80% of non-Abbott districts have received grants.

While no one of the steps and approaches that I have outlined this morning represents a "silver bullet" which will change the way everything operates at the SCC, taken together, I do believe that they form a mosaic of managerial accountability and transparency, which, when fully functioning, will put the Corporation on a path towards success.

I will be happy to answer questions. Allow me to suggest that my colleague Scott Weiner provide his perspectives, and then we will together answer questions.

**SCOTT WEINER, TRANSITIONAL CEO, SCC
JOINT COMMITTEE ON THE PUBLIC SCHOOLS
THURSDAY, MAY 25, 2006**

Thank you Barry for that introduction and thank you Mr. Chairman and members of the Committee for inviting us here today to discuss the school construction program. I am Scott Weiner, appointed by Governor Corzine as his Special Counsel on School Construction and as Chair of the Interagency Working Group on School Construction. Currently, I am also serving as the transitional Chief Executive Officer of the NJ Schools Construction Corporation. I am honored that Governor Corzine has entrusted me with these responsibilities.

Since this is my first time before this committee, I thought I would provide you with a quick summary of my background and experience – although many of us have worked together in my previous lives.

Those previous lives include serving as the Commissioner of the then NJ Department of Environmental Protection and Energy, President of the Board of Public Utilities, Chief Counsel to Gov. Florio, Vice Chair of the Executive Commission on Ethical Standards and Executive Director of the NJ Election Law Enforcement Commission. I've also held senior management positions at several international energy corporations. Before Governor Corzine asked me to serve as his Special Counsel, I was a Faculty Fellow and the Director of the Center for Energy, Economic and Environmental Policy at the Bloustein School of Planning and Public Policy at Rutgers.

My opening remarks today will focus on my role as Transitional CEO and Chairman of the Governor's Interagency Working Group. First, I will summarize the findings of the Interagency Working Group presented in its latest report, which included statutory recommendations and a prioritization methodology. Then, I will explain and clarify the different lists of projects currently pending at the SCC, and then last, I will address future funding needs.

INTERAGENCY WORKING GROUP

Governor Corzine signed Executive Order 3 in February creating the Interagency Working Group on School Construction. The Working Group includes DOE, SCC, Treasury, DCA and a Citizens Advisory Panel. Its purpose is to give a full review of the SCC, provide recommendations on the future of the school construction program, and to facilitate effective interagency collaboration. As you may know, our work is ongoing, but to date, we've released two reports – one in March and one last week. Both reports articulate the critical finding that there are a significant number of school facility projects that require funding in Abbott and non-Abbott districts. The Working Group is focusing its efforts to develop a reasonable estimate to quantify that need.

The May report provided a summary of accomplishments since the initial report in March. Chairman Zubrow has already detailed many of these for you. It also discussed the initiatives of the Working Group in two critical areas: proposed statutory amendments and prioritization of school construction projects including the development of strategic and capital plans.

POSSIBLE STATUTORY/ LEGISLATIVE AMENDMENTS

In our initial report in March, the Working Group stated that amendments to the current statutory framework would be necessary to provide the school construction program with the tools it needs to be effective and efficient. In our report released last week, we identified four specific topics for possible legislative or statutory changes. We are continuing to develop specific proposals, but I would like to briefly highlight some of them for you.

1. Corporate Governance – The Working Group recommended that a new school construction authority should be created to enhance governance and to focus solely on the design and construction of schools approved by the DOE. The school construction program would benefit from an improved governance structure by replacing the existing SCC corporate structure with an organization similar to other major state authorities and establishing a new governance board. In making this recommendation, the Working Group concluded that improved management at the SCC can provide effective oversight and leadership of school construction activities. However, the program would be strengthened by enhancements to the governance structure.

2. Site Acquisition – It was evident to the Working Group that land acquisition is one of the greatest challenges of the school construction program, for a host of reasons (scarcity, real estate costs, competing interests, etc.) not addressed in the current legislation. The Working Group proposed several approaches to streamlining and improving the land acquisition process including: a moratorium on municipal approvals and variances for proposed school sites, similar to those statutes governing DOT land acquisitions and greater collaboration between the SCC, districts and municipalities in identifying school sites. The Working Group is considering several possible approaches including having the districts and municipalities agree on the location of a school facility and requiring them to inventory all municipal/ district owned land to determine if any would be appropriate for a school.

3. Long Range Facility Plans (LRFPs) –The Working Group acknowledged that a stronger prioritization of projects is needed in the districts’ LRFPs. Currently, the DOE uses a four-tier system to prioritize these projects. However, this four-tier system is insufficient when trying to establish which projects can be undertaken during a five-year period because districts are not currently required to prioritize their projects. Therefore, the LRFP process should require districts to designate a list of projects – based on educational factors and construction realities – to be undertaken in a five-year period; the DOE would then prioritize these priorities across districts. Additionally, the Legislature should consider statutory changes that would ensure valid enrollment projections used in LRFPs. Lastly, the Educational Facilities Construction and Financing Act should be amended to limit the LRFP amendment process. Currently, there are no limitations and districts can change their plans anytime.

4. Procurement and Project Management Options – Lastly, the Working Group recognized that the school construction program was hampered by a lack of flexibility in the mechanisms available to construct school facilities. The Working Group proposes providing a “suite” of project management options – aside from the use of Project Management Firms – to build schools, including low-bid awards, “design-build,” and “at-risk construction manager” project delivery systems. By so doing, the SCC can determine the best delivery option for each specific project.

We look forward to collaborating with the Legislature on these proposals as they, and possibly others, are developed further.

PROJECTS PENDING

Before I discuss the Working Group's approach to prioritization, I want to clarify the basis and use of the different "lists of projects" you may have heard about.

As you may know, in July 2005, the SCC determined that limited resources remained for the Abbott program. It identified 69 Abbott projects then under construction and a Special Committee of the Board recommended another 59 Abbott for completion with the remaining Abbott funding. The projects reflected on the List of 69 and List of 59 were included as part of the 2005 SCC capital plan. That left approximately 315 Abbott projects outside the 2005 capital plan and are presently unfunded.

The SCC and others continue to refer to the list of Abbott projects in construction as the "List of 69," although some of these projects have now been completed. No project on this list would be impacted by a prioritization methodology since they're all in construction.

The 2005 Capital Plan created by the SCC Board included 59 Abbott projects to be constructed with the SCC's remaining, uncommitted Abbott funding. Some of these projects are now in construction. However, in its March report, the Working Group identified an estimated \$400 million shortfall for these projects. The SCC is currently re-forecasting these projects. This re-forecasting is a top priority, and we expect to minimize the shortfall by cost reduction and sequencing of projects.

There are 315 projects that cannot progress at the present time. Those projects were identified and discussed in the February 2006 DOE report. The 315 projects include 97 projects for which the design work had been suspended once the agency allocated its remaining funds, 84 projects with preliminary pre-development work, and 134 projects awaiting pre-development. It is anticipated that if additional funding is provided by the Legislature, the list of 97 suspended projects would be the primary source for the next projects to move forward.

PRIORITIZATION

Following its March 2006 report to the Governor, the Working Group created a Project Prioritization Task Force to develop a methodology for prioritization of projects based upon educational program priorities established by the Supreme Court and in statute, and thereafter to reflect cost and schedule of each project. This information will provide a basis to address the management and sequencing of the projects included in the 2005 Capital Plan that are proceeding to construction.

Clearly, this approach differs greatly from that of the past as Governor Corzine has made it clear that school construction projects must proceed based on these educational criteria. This methodology recognizes that emergent health and safety projects are the first and most immediate priority, followed by projects that help meet the State's pre-k enrollment needs, and those that help to address overcrowding in elementary schools. Then, once projects are

prioritized based on educational need, construction practicalities, such as whether land has been acquired and construction start dates are to be considered.

The Task Force established by the Working Group conducted an initial analysis using the aforementioned criteria on the 59 projects in the Capital Plan and to the 97 projects whose designs were suspended. The preliminary review resulted in the observation that at least 25% of the 97 suspended projects would have received a higher priority than those currently in the Capital Plan. The determination of the precise number of priority projects must await the completion of an analysis by the DOE of the impact of recently filed LRFPs upon the projects.

Also, the financial and timing implications of the prioritization process must await completion of a reforecast of the projects by the SCC over the next few weeks. However, initial analysis indicates that some projects in the 2005 Capital Plan may not begin construction for more than a year. Understanding the impact of educational priorities, cost and timing will provide a basis to manage the projected funding shortfall and identify future program needs. The Working group has noted that the sequencing of projects to reflect actual development schedules introduces the possibility of sequencing projects in a manner that permits priority projects, not currently included in the 2005 Capital Plan, to be addressed without delaying the completion of projects currently funded by the Capital Plan.

As noted in its May report, the Working Group found that the analysis “underscores the need to address the next round of funding at the earliest possible time so that additional much needed projects can be incorporated and sequenced within a capital plan so as to achieve maximum educational and construction efficiencies. When additional funding can be anticipated as part of the planning process, projects can be sequenced to reflect educational priorities and development schedules. Without that ability, the SCC must manage the remaining resources by limiting the number of projects that can be actively pursued so as to absorb the result of increasing costs.”

Again, as previously mentioned, our work is still ongoing. During June, July and August, the Working Group will focus its efforts on developing a strategic plan for the school construction program. We’ll also be developing a new capital plan that will allocate available funding to the strategic plan. In July, the SCC and DOE will host symposiums to provide an opportunity for the Abbott and non-Abbott districts and other stakeholders to learn about and provide comment upon the development of the prioritization methodology.

FUNDING:

Without question, there remains a significant number of school facility projects to be built that require additional funding in both Abbott and non-Abbott districts. However, at this time, the Working Group was unable to quantify an amount for how much more funding should be provided to address the next stage of the school construction program. The upcoming work of reviewing LRFPs, and the development of a strategic plan and new capital plan will provide the basis for a recommendation to the Governor in August.

That concludes my opening remarks. Thank you again for this opportunity, and I am happy to address any questions that you may have.