

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.