

ZUBROW ADDRESSES EDUCATION COMMUNITY

(March 3, 2006) – At the New Jersey Principals and Supervisors Association Annual Legislative Conference today, SCC Chairman Barry Zubrow addressed the 150 person crowd with remarks focused on school construction reforms. His prepared remarks can be viewed below.

REMARKS BY CHAIRMAN BARRY ZUBROW

Thank you for inviting me here to your annual legislative conference. Your organization is a great advocate for excellence in education and I am grateful for the opportunity to share some time with you this morning.

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, co-chairman of the risk committee and chief administrative officer. Over 25 years ago, I met and began working with a young government bond trader by the name of Jon Corzine. We've been good friends for a long time; however, I'm not quite sure what I did that lead him to ask me to become the head of the Schools Construction Corporation. Somehow, I'm beginning to feel like I've taken on the labor of Sisyphus, condemned to roll a giant rock up the hill, only to have it roll back again, over and over ...

Seriously, why is a former investment banker serving as Chairman of the SCC? It boils down to putting my skills and experience to work to help solve one of the Governor's highest priorities: sorting out the difficulties of the SCC, getting real reforms in place, and figuring out how we can effectively and efficiently build the schools our State's children need. In addition, the Governor feels strongly that we must progress this program in a manner that contributes to the economic vitality of our state's communities. Our children, school administrators, teachers and, of course, the taxpayers deserve to get their money's worth from the billion dollars now being invested in our public education infrastructure. This administration is committed to achieving that.

After three weeks on the job, what are my impressions?

First, I appreciate that the State, both by mandate, legislation and in order to secure our children's future, has an important job to do in ensuring efficient and effective facilities for our schools. But this cannot be Trenton's responsibility alone. Rather, it is a shared function between the state and the local municipalities and school districts. The function of building schools is a critical function and collectively we will be working at this well into the next decade.

Second, many of the underlying principles on which the schools construction program was designed, although well intentioned, were misconceived and flawed from the beginning; and

Third, 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.

Allow me to briefly elaborate on each of these impressions, not for the purpose of chastising past participants, but rather as a springboard for all of us to begin conceptualizing what the program needs to look like in the future.

Before I do, it is worth emphasizing that notwithstanding the "embattled" moniker attached to the agency, a lot of good work has been accomplished by many good people. While I am new to the SCC, I know that the agency has successfully funded school construction projects in both Abbott and non-Abbott school districts. The SCC has managed 587 school facilities projects, including 354 health and safety projects in Abbott districts. Many of you here today are from the non-Abbott districts --75% of which received a school construction grant from the SCC.

Looking back at the original funding for the Abbott districts, when \$6 billion was authorized, there was no realistic attempt to size the solution to the problem. Unrealistic estimates were used for what it would cost to construct or renovate facilities; legitimate, necessary and real costs—such as land acquisition, environmental remediation, relocation and swing space, design fees and other soft costs -- were

ignored; the SCC was not given the same power as local school boards to prevent property owners from seeking zoning approvals to increase the value of sought after sites; local municipalities and schools boards were not made true partners in the prioritization, design or construction responsibilities for schools; and, since the funding was inadequate from the beginning, there was no methodology for how that limited amount of funding would be prioritized and parceled out.

When the program initially started to roll out in too slow and controlled a manner, decisions were made at the highest levels of government to mandate a dramatic speed up of the construction program. There was a desire to “get shovels into the ground.” Without sufficient staff to manage the construction projects themselves, much of the responsibility was shifted to outside project management firms, but with ill-defined accountability, tracking and reporting. The result was much frenetic activity to acquire land, get buildings designed, and to start construction. The only problem was that planning, prioritization and process controls seem to have been largely left out of the picture.

Reforms began to be put in place in July of last year. Governor Codey correctly mandated new board leadership under Al Koepp as Chairman of the Board and Larry Downes as Chairman of the Audit Committee, and they sought to institute corrective actions. Under the leadership of then CFO Pete Maricondo, now Acting CEO, a financial control organization was established, where one had not previously existed. Any objective assessment of the work of the last 8 months in enhancing financial controls would show that a lot has been accomplished. But we recognize more work needs to be done.

At that same time, the practice of acquiring land for schools for which no funding was remotely possible was halted; a capital plan was developed to allocate the then remaining funding for schools projects; and design and other work on those projects which did not come within the capital plan was halted.

A lot of good work has been accomplished since last summer. But the reality is that there is still an enormous amount of work to be done to develop the type of robust reporting and process controls that are needed to operate a multi-billion dollar public works program. There are lots of well-intentioned people working at the SCC. Unfortunately, they don't have the systems to be able to most effectively execute their responsibilities. The good news is that creating these systems, processes and lines of accountability is not rocket science. We do not need to invent something new. The bad news is that it will not happen overnight. It will take time, and lots of effort, to create the type of effective construction management firm that should have been created 4 years ago.

I use the term "construction management firm" purposefully. SCC's focus should be on the construction, renovation and improvement of school buildings. The educational priorities that are reflected in those facilities are not the expertise of the SCC. Rather, that must come from the districts themselves, working in close coordination with the Department of Education.

Today, we face an interesting challenge. Some might describe it as a dilemma. On the one hand, we are in mid-stream of a \$6 billion construction program which has gone off track. We need to fix it, and make sure that the schools that are within the capital program get built in a timely and efficient manner. But, as I said this will take time. On the other hand, we know that billions of dollars more are needed to fulfill our obligation to build the infrastructure for our schools to provide an efficient and effective education to all of the children of NJ. The longer we wait, the more it will cost. But it doesn't make sense to begin down the road of new funding until we can be certain we have an effectively organized program which addresses the historical issues I've articulated.

So while we work hard to fix what is broken, we also have to work hard to build a new vision for providing the functions of constructing school facilities. The Governor has tasked an Inter-Agency Working Group to make recommendations about how we move forward. In addition to myself, the working group consists of the Governor's Special Counsel, the Acting Commissioner of Education and her deputy for Abbott Districts; the

Treasurer; and the Commissioner for Community Affairs. We are at the beginning stages of our discussions, but I think I can share with you some important strategies for future directions:

1. While the state has an important role in overseeing the function of getting school facilities constructed, there has to be a greater sharing of the responsibilities and authorities for these activities. Local school boards, and local municipalities, cannot be mere takers of the facility. Greater responsibility for actual design, construction and siting needs to be placed in the hands of the very people who will be using the schools and responsible for how they integrate into their educational models.
2. When we are collectively investing billions and billions of dollars in our neighborhoods, we need to strategically think about the implications of that investment from an urban planning standpoint. How do we use these investments as agents of change and economic growth and improvement for our neighborhoods? How do we prioritize not only where facilities are built, but also how they interact with the other urban strategies local municipalities are putting in place for their towns.
3. School siting is the critical first step in the process. This is really a local responsibility, reflecting both educational needs and urban planning needs. As such, perhaps the responsibility going forward should be shifted back to local governments to provide such sites for the schools, rather than viewing this as a state function.
4. The model of paying project management firms to oversee the construction has not worked; we need to develop greater flexibility and options for how projects will be managed, perhaps bringing some of that responsibility in-house, but also embracing approaches that allow construction management responsibility to be shifted to those local districts that have the capabilities to

manage their own projects.

5. We need to work with leading authorities to develop design strategies to ensure that the schools that we build are high quality and can serve our needs for decades to come. While one design will not fit all situations, it is clear that there are many common elements that underlie a successful school. It is unacceptable not to get the benefit of state-of-the-art thinking and work by leading experts such as Dean Evans from NJIT.

6. The entirety of the program needs to be approached as the multi-billion dollar business that it is. We need governance, management and strategic plans that reflect that. The business systems of accountability need to be put in place, tracked and followed. A strategic plan needs to be developed, and project budgets adopted which are realistic and credible.

In summary, let me share with you advice I received from David Sciarra of the Educational Law Center:

“The school construction program is a once-in-a-generation opportunity to rebuild our pre-K to 12 schools, and improve the health and economic competitiveness of our cities and their metro regions. Our kids are depending on us to get the program fixed and running again.”

I couldn't agree more. I am confident that by working together – with the DOE, the Legislature, and most importantly, all of you in the education community – we will provide New Jersey's children with the quality school buildings they deserve.

Thank you for your time today, and if time permits, I would be happy to entertain questions.