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PUBLIC HEARING

before

ASSEMBLY OVERSIGHT COMMITTEE

on

"Motor Vehicle Agency Leases"

Held:

June 20, 1983

Assembly Majority Conference Room

State House

Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman William E. Flynn (Chairman)
Assemblyman Anthony S. Marsella
Assemblyman D. Bennett Mazur
Assemblyman Edward K. Gill
Assemblyman John T. Hendrickson, Jr.
Assemblyman Walter J. Kavanaugh
Assemblyman Richard A. Zimmer

New Jersey State Library

ALSO PRESENT:

Steven B. Frakt, Senior Research Associate
Office of Legislative Services
Aide, Assembly Oversight Committee

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I N D E X

	<u>Page</u>
Clifford Snedeker Director of Motor Vehicles State of New Jersey	2
Earl Josephson Special Assistant in Charge Division of Purchase and Property	40
Caesar Iacovone Real Estate Bureau Chief Division of Purchase and Property	64

ASSEMBLYMAN WILLIAM E. FLYNN (Chairman): This is the continuation of the Assembly Oversight Committee hearing on State Leasing Policies, with a particular emphasis on motor vehicle agency leasing policies.

Before we start, I received a letter from one of the witnesses that testified last Thursday. He wanted to put something on the record. This is a letter from the attorney, Steven C. Levitt, who is with the firm of Hannoch-Weisman. In his letter he indicates that by way of some representation of state, his firm is involved in a case called May vs. Cooperman, in which the firm is representing both houses of the Legislature. So, he wanted to point that out as some indication of his affiliation with the Legislature. I will give this to the committee staff and ask to have that made a part of the record.

ASSEMBLYMAN KAVANAUGH: Which one was that?

ASSEMBLYMAN FLYNN: That was Mr. Levitt, the tax expert.

ASSEMBLYMAN KAVANAUGH: He was the fellow from--?

ASSEMBLYMAN FLYNN: Hannoch-Weisman.

ASSEMBLYMAN KAVANAUGH: And who hired him?

ASSEMBLYMAN FLYNN: Apparently the Legislature. He represents both houses of the Legislature in the case of May vs. Cooperman.

ASSEMBLYMAN KAVANAUGH: Do you know what that case involves?

ASSEMBLYMAN FLYNN: I'm not sure.

ASSEMBLYMAN KAVANAUGH: So, when I asked him the question, "was he being reimbursed -- either he or his firm -- for being there--

ASSEMBLYMAN FLYNN: Well, that stands true.

ASSEMBLYMAN KAVANAUGH: But, indirectly he is involved. In other words, there are fees being paid to his firm for participation in legislative matters.

ASSEMBLYMAN FLYNN: Well--

ASSEMBLYMAN KAVANAUGH: So, it would be in his best interest to appear if the Speaker-- He said the Speaker asked him to come. He was probably hired by the Speaker.

ASSEMBLYMAN FLYNN: Well, I don't know if we can say he was probably hired by the speaker because--

ASSEMBLYMAN KAVANAUGH: Well, who would do the hiring?

ASSEMBLYMAN FLYNN: It could have been the Senate. They are representing both houses, the Senate and the Assembly.

ASSEMBLYMAN KAVANAUGH: He probably slept on my question and thought it best to send the letter.

ASSEMBLYMAN FLYNN: I don't even know if he himself-- The letter doesn't indicate that he himself is representing someone.

ASSEMBLYMAN KAVANAUGH: That's okay. Let's move on to bigger and better things.

ASSEMBLYMAN FLYNN: It says the law firm, and there are at least forty lawyers in his law firm.

All right, now at this point I would like to take Cliff Snedeker, The Director of Motor Vehicles, and Mr. Tournalini.

MR. SNEDEKER: This is Mr. Kline.

ASSEMBLYMAN FLYNN: Before we ask questions, would you want to make any statements?

CLIFFORD SNEDEKER: Yes, Mr. Chairman. First of all, thank you for inviting us to the meeting. I would just like to cover, very briefly, the past procedure in leases and the procedure now in use, and maybe answer some of the questions you may have. I will then be open to any questions I don't cover in my presentation.

ASSEMBLYMAN FLYNN: Before you start, I would like to swear you in.

WITNESS, BEING DULY SWORN, TESTIFIED AS FOLLOWS:

MR. SNEDEKER: In the past, Mr. Chairman, the agents were appointed by the Director of the Division of Motor Vehicles, and at that time if an individual was appointed an agent, he or she also went out and leased the location. Motor Vehicle did not get involved in leases. The appointment was made. That individual would lease a building. The Division of Motor Vehicles would reimburse that individual directly. It could be his own building. It could be her own building. It could be a family building. It could be any private building -- any type. So, we did not get involved with all the specifications we have now, such as the handicapped and so on. The State did not have to do all those things because it was privately leased and we just make the reimbursement.

ASSEMBLYMAN FLYNN: When was that? You said in the past. How much in the past?

MR. SNEDEKER: I can only guess. It was much before my time. I think in the past ten years. It has been about ten years since that practice was in effect. It was in effect up until about 1980, I guess -- '80 or '81. I think it changed in that period of time.

There were no requirements as far as parking. To my knowledge, that was entirely up to the agent. They didn't contact local officials to see if the site was okay so that there wouldn't be any problems with any of the other businesses or stores in the area.

The problem with that system was, if an agent, for any reason, were relieved, the building was in the agent's name and we were, in many instances in the past, not given the opportunity to continue in that location. So, that meant Motor Vehicle had to close up in any given town if it was in the agent's name and then immediately try and find another building, which was not easy. Or, a new agent could be appointed and then he or she could be asked to find a new location, and possibly have that area closed for a period of time.

Motor Vehicle does pick locations now, through the Assistant Division Director, Mr. Tourlini, who is available here today. We do pick locations, such as towns, and we ask real estate to find a building for us. If they are unable to, we give them two or three sites. First of all, after picking two or three sites we check with the local authorities to find out if there is any problem with conflict of traffic in particular areas. We check with police. We check with the local officials. We also make sure now -- we require it -- that there is some sort of parking. Naturally, people are coming there for their licenses and registration and we want to make sure that there are parking facilities.

There are a number of leases that are out now that do not have that requirement. This was prior to my time. We are bound into leases now for several years because the parking requirement wasn't there, and we are having some problems in some towns, where they really don't want us in certain locations. However, we do have a lease with the owner of the building and until that lease is up, we can't get out.

ASSEMBLYMAN FLYNN: Do you require off-street parking, or on-street?

MR. SNEDEKER: Not in all cases. Sometimes if it is available-- When you get into some of the urban cities, it is almost impossible to find off-street parking. So, it is very difficult to say that that is a standard. We would like to have off-street parking, if at all possible. We say, "a reasonable distance." A reasonable distance is within walking distance of that building. We certainly think a block or two is reasonable, if there is a community parking center. And, even if the individual has to pay for it, it is certainly suitable parking for us, because in many urban towns there is just nothing else at all available.

We now have fifty motor vehicle agencies. Of these fifty agencies, twenty-three of them are computerized at this time. We have a great problem with getting these agencies computerized. It does take time. Once we pick a site, once real estate comes up with an agreement with that landlord, once it is signed by both houses, then it comes back to Motor Vehicle, and we then have to have the landlord prepare the building so that we can get into it -- such as additional wiring that is not in there, the counters that we put into the building have to be put in, air conditioning has to be put in, etc. So, once a lease is signed, our immediate move-in is not that quick.

We have twenty-seven agencies that are not computerized. And, what that really means to us is, we are going to have a problem come this October. We will be starting with photo driver's licenses in October. We really should be into that program right now, today. That is what the law says. However, not being computerized, it makes it a little difficult for us to do it, in that when someone comes into an agency they will get a photo driver's license, and they will sit down and have their picture taken. It will take a few minutes -- about ten minutes, we estimate -- to have that processed.

The other problem is, come January of 1984 we will have to go into the new insurance bill, in which we will have to bill the individual for not only their eight dollar driver's license, but also for the points that he or she has on their record. Which means that if you go into a non-computerized agency, there will be no way to check your record. If you come in and say, "I didn't get a renewal of my license," we would give you a temporary license today. That is good

for one hundred and twenty days. Once we go into the Adubato bill in about October, we can't give out licenses because it will run into January and someone could be driving illegally because he or she should have paid their eight dollar fee, plus maybe another one hundred dollars. What that individual will probably say is, "I didn't get my license in the mail, can you give me a temporary?" If we give them a temporary, that is good for one hundred twenty days, and they will be driving with that. They can then go to another agency when that runs out and say, "Give me another temporary because I didn't get my renewal yet, which I ordered three months ago." Without the computer there, without the lookup to look up your driver's license number under your name and address, we won't know that you have a bill due to the State of New Jersey for both your driver's license and the points on your license. So, that will also delay the implementation of that in any non-computerized agency.

What we will have to do is, we will have to require individuals who are required to get a photo driver's license, come in to get their license renewed, and owe the State of New Jersey money -- or if we do not know whether they do or do not owe the State of New Jersey money -- to go to a computerized agency. Instead of putting all of the people in fifty agencies, we will be putting them into twenty-three agencies at this time, which will mean a tremendous backlog in trying to get people through the system.

ASSEMBLYMAN FLYNN: Will the computerized agency be able to do the things that people now have to go to Trenton to have handled -- foul-ups in their licenses, etc.?

MR. SNEDEKER: No, not in all cases, because if you lost your license for reason of drinking, or "under the influence", you have to go to Trenton to straighten it out. If your license does not appear on the screen for some reason, there is a hold on that license then you have to go to Trenton to get it straightened out.

Once the Division is completely computerized, yes, we will have areas so that you won't have to come to the City of Trenton from Cape May or from High Point; you will be able to go to some sub-branch and we can pump out your complete record from the computer, and then you can sit down and discuss what the problem is -- whether it is

driving under the influence, whether it is not paying a fine in a particular town where you lost your license, etc. We can do that in the sub-branches once we are fully computerized. And, that looks like it is four years away.

ASSEMBLYMAN KAVANAUGH: I have a question on that temporary. Is there anything in the Adubato bill, if someone were to do what you said, as far as the one hundred and twenty days, and then went for another one hundred and twenty day extension, that would impose a fine for that type of action?

MR. SNEDEKER: I don't believe there is anything in there, no.

ASSEMBLYMAN KAVANAUGH: So, there is a flaw that should be rectified.

MR. SNEDEKER: That's why we won't give you that temporary unless you go to a computerized agency. If you go to a computerized agency, and we pump up your record and find that there is nothing on there except that you didn't get your license -- there are no points and there is no surcharge -- we can give you a temporary at a computerized agency.

ASSEMBLYMAN KAVANAUGH: When does this come into effect? When does that bill go into effect?

MR. FLYNN: It goes into effect in January.

ASSEMBLYMAN KAVANAUGH: So, after January there will be no temporary licenses issued?

MR. SNEDEKER: After October, because it will be for three months. So, it will be October, November, and December. So, as of the end of the first of October you won't be able to get a temporary in any non-computerized agency.

ASSEMBLYMAN KAVANAUGH: So, that won't be a problem?

MR. SNEDEKER: It will be a problem.

ASSEMBLYMAN KAVANAUGH: It will be a problem because of the load, but it won't be a problem where they can circumvent the law?

MR. SNEDEKER: No, not in a computerized agency they can't circumvent the law. But, if they went to one that was not computerized--

ASSEMBLYMAN KAVANAUGH: But, you said you are not going to issue from there.

MR. SNEDEKER: That's right.

ASSEMBLYMAN KAVANAUGH: Okay.

MR. SNEDEKER: That is why we are not going to issue, just for that reason.

There were some questions brought up earlier, and I might be able to answer some of them now for you. One was with regard to the Woodbridge agency -- you know, the problems that are there and the lease, and so on. Those sites -- all the sites are in question at this point, to my knowledge -- were picked out before I became the Director of the Division of Motor Vehicle. These sites were picked out by the previous Director, in Woodbridge and Mattawan. The negotiations were started before I became the Director of the Division of Motor Vehicle. I don't go out and look at sites. I, frankly, have not looked at any sites at all. Mr. Turlini, who is the Assistant Division Director, is in charge of agencies, and that is the procedure -- all the sites are picked out by his people, referred to real estate, and they then go into negotiations.

If you have any questions, I would be happy to try and answer them.

ASSEMBLYMAN FLYNN: Okay. One question that strikes me on all the leases I have seen is, why is it that the State doesn't suggest an option after the five year lease is up, an option to renew, since the State is putting so much money up front by way of renovations?

MR. SNEDEKER: Mr. Chairman, you will have to ask that of real estate, who does the leases. I really don't do leases. I think they will cover that for you.

ASSEMBLYMAN FLYNN: Does the State have any specifications that they consider to be mandatory with respect to size in motor vehicle agencies?

MR. SNEDEKER: Yes, we have a requirement. Rudy, do we have a set of those requirements here? I will be glad to give the Chairman a copy of that for the members of the Committee. There are specifications that we establish that real estate works with. These are our "specs".

ASSEMBLYMAN KAVANAUGH: Cliff, I have a question while Bill is looking that over. There has been a lot of talk now about the

additional dollars -- it has had floor debate -- about the money you have directed to the motor vehicle agents, rather than to the employees in the motor vehicle inspection stations. I wonder if you could give us some insight on that, a clear picture without the political rhetoric.

MR. SNEDEKER: Sure. Let me have the Deputy Director -- Bob, do you want to cover that?

MR. KLINE: Yes. Under Title 39, Assemblyman, the Director, for the last fifty years, I guess, since the statute was written, has the power to establish the fees that are paid to the agents, besides the fact that he can appoint the agents. The Director determined in the early part of the year that a new compensation plan was in order, based upon numerous changes made in the motor vehicle agency system, those being that for the increase, agents now have to sign a contract. There were no contracts before. There were just letters stating that "John Smith was appointed agent of a particular agency" and that was it.

We have an extensive contract with performance standards embodied in that contract now. Those standards must be met. If not, the agent can be terminated and certainly won't get the commission as established.

That increase called for those performance standards to be met. The most significant performance standard is, the agent must be full time. That was never required.

Secondly, the number of employees had to be met. In other words, if you are at an agency, based upon your volume, the configuration of an automated agency, the number of terminals you have, you had to have a certain number of employees manning those terminals. This was never required.

Essentially, this money that was given to the agents, in terms of increased commission, goes for additional employees, because if you look at the breakdown you will see that new employees had to be hired and, accordingly, it wasn't total profit for the agencies.

This also did not go into effect as of January. What happened is, it went into effect in March. So, basically, this really won't have an effect until next year.

We also have a standard as far as the waiting times too -- an elimination of backlogs, and things of this sort. So, there is definitely an improvement that should be noticed by the public in exchange for the increase in the consideration paid to the agents.

ASSEMBLYMAN KAVANAUGH: All right. In the past, how did you become qualified as an employee in a motor vehicle inspection station?

MR. KLINE: In the inspection system?

ASSEMBLYMAN KAVANAUGH: In the agency.

MR. KLINE: I didn't answer the other part of your question, I'm sorry. As far as using this money -- you asked a question about the money that has been used for commission to be used for motor vehicle agents. That money is dedicated. All monies that come into those agencies -- that come in for licenses, registrations, titles, whatever -- are dedicated to be used for the agency system. Therefore, the Director does not have the discretion under the law to say, "Okay, we are going to take those fees -- or those fees for titles, registrations, and licenses -- and use them elsewhere for vehicle inspection." He is limited by the statute. The only place that they can be applied is to the agencies and for processing those documents. That is it.

ASSEMBLYMAN KAVANAUGH: So, any increased fee dollars would have to go back into the agency, not the inspection station?

MR. KLINE: That's right.

ASSEMBLYMAN KAVANAUGH: What were the qualifications, or how, in the past, did they hire employees in the agencies?

MR. KLINE: Well, there were no qualifications, per se. When we came into office there were no guidelines; there was no direction; there was nothing set out, officially, formally, or informally, as to the agents. The Director, for the first time, conducted extensive interviews. That was never done before. In other words, anyone who submitted an application-- And anyone could submit an application. It was a formal application. Questions were asked concerning the individual's background, his business ability, why he felt he was capable of being an agent, what he felt should be done to the agency that he is applying for, for whatever reason: improvements, things he thought had to be changed, etc. Interviews were held over a period of

months, and based upon those interviews and the applications, the individuals were chosen. But, again, concerning agencies, when Director Snedeker came in everything that was done had never been done before. So, it was a totally new ball game in that regard.

ASSEMBLYMAN FLYNN: Bob, you are not trying to tell me that the agency system is now out of the patronage system, are you?

MR. SNEDEKER: No, I'm not trying to tell you that, that it is out of any system.

ASSEMBLYMAN FLYNN: I don't want to get into that issue because, you know, every party has done it from time immemorial.

MR. SNEDEKER: Qualifications--

ASSEMBLYMAN FLYNN: I don't want to get into that, but I don't want to leave the public with the impression that we now do this on some kind of Civil Service basis.

MR. SNEDEKER: But, we did reappoint some of the agents who were there, on an interview basis. There were some of the agents who were reappointed.

ASSEMBLYMAN FLYNN: You are selecting competent people.

MR. KLINE: Some head clerks were appointed who were agents.

MR. SNEDEKER: And, we do several other things right now. We have an internal audit system, which we never had before. The internal audit system goes out, unannounced, to agents and audits their records, audits how they take care of license plates and registrations. That information is sent to Mr. Tourlini, and if there is any problem he has called agents in, regardless of what their political affiliation is. Now, I have said before and I will say it again, if those agents don't shape up to what we feel they should shape up to, we are going to fire them.

ASSEMBLYMAN FLYNN: Agents were fired in the past also, were they not?

MR. SNEDEKER: Yes. I believe so.

ASSEMBLYMAN FLYNN: I think that was your justification for going to the new system: agents in the past were fired or relieved and they wouldn't turn over their operation.

MR. SNEDEKER: I think they were relieved more than anything. I think many of them were relieved.

Our concern with this new lease basis was if we did this and the lease was in your name, we wouldn't be able to renew the lease. We ran into this, frankly, Assemblyman, when we replaced many of the agents. Again, where the lease was in their name, they wouldn't lease that building to us. The phone was in their name and they wouldn't turn the phone over to us. We did have a problem when I appointed some new agents.

ASSEMBLYMAN FLYNN: All right. Now, I have looked over some of the "specs" that you have established. Apparently, you have parking requirements based on the number of terminals at an agency.

MR. SNEDEKER: Yes.

ASSEMBLYMAN FLYNN: That seems to be the criteria for parking. Maybe you can tell us, what is a three-to-four versus a five-to-six terminal agency mean?

MR. SNEDEKER: Mr. Kline?

MR. KLINE: The lead number usually identifies the number of CRT's that are in the agency. They are the input machines that are used to produce a document. The second number is the number of printers; the machine that produces the final document. You will find that you many have a five and four configuration, which means you have five CRT's and four printers. You may have less printers because some of them are shared by input stations. That's all it identifies.

ASSEMBLYMAN FLYNN: So, for example, it says, "minimum requirements, three-four terminal agency, twenty cars." So, your ideal would be to have twenty off-site parking spaces, if possible, but at least twenty on-site?

MR. KLINE: That was a number we developed when we produced this document. We would like unlimited parking. That is our goal. When you look at twenty parking or thirty parking, that is really not sufficient. That is just a guideline we have used.

Under the old concept, there were no requirements for parking.

MR. SNEDEKER: We came up with a minimum, Assemblyman, because the problem, again, is that people procrastinate and wait until the end of the month or when it is raining out. License fees, registration fees, are in the fifty dollar figure and people who are

unemployed have a tendency not to send that fifty dollars in thirty days in advance to Trenton. You can do all this by mail if you want to. You don't have to go to an agency at all if you do it by mail. The problem is, when the economy gets bad, people wait until the last minute to do this. They know if they send it into Trenton in the last two or three days they will not get it back, so they run over to an agency. And, they tend to do this around the end of the month, or the first of the month if they are too late on it. That is when our parking gets overburdened. But, to say minimum parking of fifty, would mean that during the middle of the month we would have twenty or thirty parking spaces vacant that we will be paying for. So, we came up with a minimum figure as our best "guesstimate" at this point.

ASSEMBLYMAN FLYNN: Okay. Not to change the subject, but would there be some advantage to changing the way people have to register? Instead of on a monthly basis, could you do it on a two-week basis, so that every two weeks there would be a group of people who would actually be due to reregister?

MR. SNEDEKER: Again, if they wouldn't procrastinate it would be fine. The problem would be "my car is down in Florida with my daughter and wife. The car is under repair," or, "I'm sick. My wife is in the hospital. We can't get over there." We would probably have to have a staff bigger than we have in the agencies for rearranging appointments to come in and have your things done. Again, people will just procrastinate if we do that.

ASSEMBLYMAN KAVANAUGH: Cliff, is there any advantage, or any consideration given to, say, increasing the fee? What are they paying now, \$8.00 for two years for a license?

MR. SNEDEKER: For a license.

ASSEMBLYMAN KAVANAUGH: All right, use that as an example. What is your major problem with the end of the month, licensing or registrations?

MR. SNEDEKER: Both.

ASSEMBLYMAN KAVANAUGH: Okay. Let's assume we raise the fee for the license to \$10.00, but give an incentive discount -- drop it back if you register early. Could you do that?

MR. SNEDEKER: You would run into an awful bookkeeping problem with them coming in the last day, or just, "I'm only late one day."

ASSEMBLYMAN KAVANAUGH: I know with our computers, for example, when we put in the price of a gallon of oil -- everything that day -- if on a certain day you want to change the load, say after the 20th of the month, the price is \$10.00 and prior to that it is \$8.00 -- it would just print out, wouldn't it?

MR. SNEDEKER: Mr. Assemblyman, if I did that, you would probably receive more letters-- I wouldn't do it, you would have to do it. The Legislature would have to do it. You would probably have a lot of letters from people saying, "I'm only late one day. It is enough money to start with. Why am I being penalized?" It can be done. Once all these agencies, all fifty of them, are computerized, that certainly could be done. It would be a bookkeeping headache in the sense that if someone mailed it to us and we didn't get it in Trenton, we charge that person the same late fee through the mail as we would if he walked into an agency. And, that happens. In other words, our mail that comes in is tremendous. If you don't mail it back in the same envelope that we give you, it is sent to the Director of the Division of Motor Vehicles. I get hundreds of thousands of letters a day into that division. I wouldn't know that is a driver's license renewal application if you put it into one of your wife's little envelopes and sent it back with the \$8.00 fee in there.

We have someone slit all those envelopes open. If they are in an envelope that is marked "driver's license", it goes to the Driver's Licensing Division. If it is in a plain envelope, every one of those envelopes are hand slit open, read, looked at, and then referred to specific divisions -- to my office, to Mr. Tourlini's, or to whatever office it has to go to. The problem would be that it would be late because we made it late. It would be late because it was due tomorrow and you mailed it yesterday, so it would not be postmarked until today, and this is a problem.

ASSEMBLYMAN FLYNN: Would it be feasible to establish a two-tier fee system, through the mail at a lower fee and at the agency at a higher fee?

MR. SNEDEKER: That could be done, sure.

ASSEMBLYMAN FLYNN: That might get a lot of people to do it a little earlier, and mail it out.

MR. SNEDEKER: That could be done.

ASSEMBLYMAN FLYNN: Plus, it would help to defer the costs of your agencies.

MR. SNEDEKER: That could be very well done.

ASSEMBLYMAN FLYNN: Now, I noticed on your "specs" for the same three core terminal agency, you have a minimal area of 1,500 square feet. Now, what is that based on, that 1,500 square feet?

MR. TOURLINI: The total open space that we are going to lease. When we look at a site, we just look at open area, and we say that for a three configuration agency, or smaller, we want a minimum of 1,500 square feet. We would like to see every agency 2,000 to 3,000 square feet in order to more efficiently handle the public -- so that people don't have to stand out in the rain, so that we can add additional programs in the agencies. Some of the sites we have already leased, using the old "specs" are already identified as being too small.

ASSEMBLYMAN FLYNN: Would you say that as some of these old leases start coming up for renewal you might look for alternate sites -- larger sites?

MR. TOURLINI: Yes.

ASSEMBLYMAN FLYNN: I notice some of them, like some of the urban areas, have 700 square feet, or 800 square feet.

MR. TOURLINI: They are not acceptable.

ASSEMBLYMAN FLYNN: They are too small?

MR. TOURLINI: They are some of the problems that we ran into when we started this program, and this is why it has been so difficult to locate sites.

MR. SNEDEKER: One of the problems, Assemblyman, is, when we have an agency established in an urban area, it does do certain things for that urban area. It does bring traffic in. We have gone into some closed shopping centers and put an agency in there, and it has really opened that shopping center back up again because we have drawn off a lot of the public in there.

We don't like to move out of older cities because when we do, again, it is another nail that we put into them by moving out. But, you are limited in some older cities into smaller buildings. That is a problem.

ASSEMBLYMAN FLYNN: So, it is a matter of the idealized versus what is reality.

You mentioned shopping centers. Someone, the last time we were here, indicated that shopping centers may not be a good place to be. What is your feeling?

MR. TOURLINI: Our people feel that is the ultimate.

ASSEMBLYMAN FLYNN: Shopping centers are the ultimate?

MR. TOURLINI: Oh, yes. The thing is, in the smaller cities, or some of the cities like Newark or Jersey City, you are not going to find a shopping center.

MR. SNEDEKER: One of the problems too is, in the newer shopping centers you are paying prime-prime, top rate, if they are all occupied. If you went into a smaller shopping center -- a ten-store shopping center, or a fifteen-store shopping center, that is probably more ideal for our situation, with a lot of parking. But, when you go into a major indoor, inside shopping center, you probably can't find anything that is reasonable enough. We certainly wouldn't pay that kind of rent.

ASSEMBLYMAN FLYNN: So, basically, the smaller shopping center has the ultimate in parking because, basically, it is unlimited?

MR. SNEDEKER: Sure.

ASSEMBLYMAN FLYNN: Okay. Does anybody on the Committee want to look at the "specs"?

Now, the agency situation-- You say full-time, does that mean the person who is running the agency is there 40 hours a week?

MR. SNEDEKER: No, 30 hours a week.

ASSEMBLYMAN FLYNN: Thirty hours a week.

MR. SNEDEKER: Yes. Our consideration is a minimum of 30 hours a week. And, those hours are also the hours that we designate. In other words, they are the open hours. It is not that you can come in there and work home for six hours tonight and for six hours on Sunday and consider that as part of the hours. You are supposed to be

in the agency during the hours that that agency is open, and we establish the hours that they are open.

ASSEMBLYMAN FLYNN: Do you permit them to have other businesses at the same time?

MR. SNEDEKER: Yes, but not at that location. Certainly. We have no requirement. If they have another operation that they can run without being there, we have no objection.

ASSEMBLYMAN FLYNN: Because I assume your whole goal is, there is going to be somebody where the buck stops.

MR. SNEDEKER: You have an option under our contract. You do not have to sign up to be a full time agent. If you do not want to be a full time agent and put in the thirty hours, you can go back to the old contract. You do not have to sign up for those requirements. So, there is an option to sign up as a thirty-hour, full-time agent, or back to the old contract.

ASSEMBLYMAN FLYNN: If they take the option of not being full-time will they get less money?

MR. SNEDEKER: Yes.

ASSEMBLYMAN KAVANAUGH: Speaking of money, that is another mystery. What is the average motor vehicle agency making now?

MR. SNEDEKER: I don't know if there is an average, but I can tell you by item. In other words, it is by item. Maybe Mr. Tourlini can tell you what the items are.

MR. TOURLINI: We pay them, per item, ninety cents for the first fifty thousand, and then the next fifty thousand is seventy cents, I think. Then, for the next fifty thousand I think it is sixty cents, and down, I think, to forty cents.

ASSEMBLYMAN FLYNN: We learned the other day that an item is every time the cash register rings.

MR. TOURLINI: That's right.

ASSEMBLYMAN FLYNN: Now, there is probably no such thing as an average, because I am sure every agency varies, but we heard the other day about one that is doing about seven hundred a day.

MR. TOURLINI: We were talking about Matawan.

ASSEMBLYMAN FLYNN: Yes. Are they open five or six days?

MR. TOURLINI: They are all open five days.

ASSEMBLYMAN FLYNN: That is thirty-five hundred a week. Let's do the arithmetic and just see, so we can give you some example of what an average-- I assume that is an average one?

MR. SNEDEKER: I would say six hundred to seven hundred would probably be an average.

MR. TOURLINI: In the month of May they did twelve thousand three hundred and ninety-seven items.

ASSEMBLYMAN FLYNN: Twelve thousand in May, so that is one hundred and forty-four thousand a year?

MR. TOURLINI: About seven hundred a day, we average.

ASSEMBLYMAN FLYNN: Let's just say one hundred and fifty thousand a year as a figure. That first fifty thousand is per year, I take it?

MR. SNEDEKER: Yes.

MR. TOURLINI: That's correct.

ASSEMBLYMAN FLYNN: So, they get ninety cents. What is ninety cents times fifty thousand, real fast?

MR. TOURLINI: Forty-five thousand.

ASSEMBLYMAN FLYNN: Then they get thirty-five thousand for the next fifty thousand, and then they get thirty thousand for the next. So, that is one hundred and ten thousand dollars gross. Now, out of that one hundred and ten thousand dollars--

MR. SNEDEKER: They must pay their insurance.

ASSEMBLYMAN FLYNN: They have to pay, what?

MR. SNEDEKER: They have to pay their own insurance and they must pay their employees salaries, and a bond that is part of the insurance. The insurance that they carry is worker's compensation, liability, burglary, robbery, holdup, and a bond indemnifying the State.

ASSEMBLYMAN FLYNN: The rest of their expenses are paid by the State?

MR. SNEDEKER: Correct.

ASSEMBLYMAN FLYNN: Rent, heat, electric -- all that is paid by the State?

MR. SNEDEKER: Yes.

ASSEMBLYMAN FLYNN: How about employees?

MR. SNEDEKER: They pay their employees.

ASSEMBLYMAN KAVANAUGH: How many employees do they need?

MR. SNEDEKER: It depends. If they are a full-time agent, it depends on how many CRT's they have in there. They must pay the minimum wages. Some people want to have a Chief Clerk, or someone may want to have an Office Manager when they are not there, someone may want to go into group hospitalization -- that is entirely up to them; we don't go in and delve into what they do or how many people they hire. We have a minimum amount that they hire, but no maximum amount. Many have over the requirement we require. Certainly, an awful lot of them who have been appointed new agents kept the old employees, and their salaries were over the minimum wage, and they kept paying over the minimum wage, which we certainly have no requirement for.

ASSEMBLYMAN KAVANAUGH: Is the agent a State employee?

MR. SNEDEKER: No. You hire your own employees. They are your employees. You negotiate with them and pay the salary to them, and you are not a State employee; you are an independent contractor.

ASSEMBLYMAN FLYNN: Who pays the telephone?

MR. SNEDEKER: We do, unless you want a private, unlisted number of your own put in for your own calls. If you want to do that, you can have it. We have had requests for that, if people want to have outgoing calls convenient for themselves, they pay for their own.

We furnish them. If you want to have better furnishings than the State allows, or if you want to have a little private office built into an area, you would have to pay for that difference; we don't pay for that.

ASSEMBLYMAN KAVANAUGH: In the case of Matawan, for example, what would you need, something between five and seven employees?

MR. SNEDEKER: Matawan is four to three.

ASSEMBLYMAN KAVANAUGH: No, the CRT business.

MR. SNEDEKER: That is computerized, yes.

MR. TOURLINI: Matawan is a four and three, and it would require a minimum of seven employees.

ASSEMBLYMAN FLYNN: Four and three. Four CRT's, three printers?

MR. TOURLINI: That's correct.

ASSEMBLYMAN KAVANAUGH: So, you would be talking about around eighty thousand dollars in salaries, minimum?

MR. TOURLINI: We have no idea, really.

MR. SNEDEKER: Probably.

MR. TOURLINI: It could be more.

MR. SNEDEKER: That would be a minimum, probably.

ASSEMBLYMAN KAVANAUGH: So, if you are making one hundred and ten gross, you can soon see that there is not too much profit in a motor vehicle agency.

MR. TOURLINI: We just had one resignation.

ASSEMBLYMAN KAVANAUGH: Are there any guarantees?

MR. TOURLINI: No, sir, under the new program there is no guarantee.

MR. SNEDEKER: There was a guarantee of fifteen thousand dollars in the past. That guarantee was after you paid all the expenses. You paid insurance and you paid rent, so you could, frankly, pay more rent than would be reasonable to someone -- to a relative, or your family. You could hire a number of your friends and relatives and drain the system, so that you had more people than was required, and we would still guarantee you a minimum of fifteen thousand dollars, even if you didn't show up -- except to check the money once in a while.

ASSEMBLYMAN KAVANAUGH: So, the old system could be profitable. Under this system--

MR. SNEDEKER: Certainly, I don't think anyone is going to lose money. And, if someone goes into full time-- And, the reason we are asking for full time, and most are signing up for it, is that we feel you will watch the agency better, and you do give better service. If we do have a complaint, we can go right to you, the individual, and say, "We have a complaint. Your employee is not giving proper service to someone." We do get those complaints now.

ASSEMBLYMAN KAVANAUGH: So, you figure that an agent-- Just off the top of your head, maybe twenty thousand would be a reasonable figure?

MR. SNEDEKER: I think twenty thousand would be a reasonable figure. And, some of the agencies-- There are several large agencies that do three hundred thousand volume, and certainly they are going to make a lot more money.

ASSEMBLYMAN KAVANAUGH: But, they are also going to have more employees?

MR. SNEDEKER: Yes. But, they will still make more money because they will do a lot more volume than the average agency will do. I think you can see that the average agency is about one hundred twenty-five thousand; a three hundred thousand dollar agency is about double that amount.

MR. KLINE: If I may add something, in addition to the fourteen five guarantee, which we did away with, also prior to this administration you had a six thousand, two hundred and forty dollar yearly bonus -- or special pay they called it -- that was paid and that was outside the commission. That was a guaranteed two hundred and forty dollars biweekly. So, this is something else that was paid under the old system, outside the commission, that we have done away with.

MR. SNEDEKER: What happened previously is, the agents were not satisfied with their commission and there was almost an agent's strike. I think this was negotiated very quietly, in the sense that they would give the agents the two hundred and forty dollars as an extra bonus, over and above the fifteen thousand dollar guarantee.

ASSEMBLYMAN FLYNN: All right, so you are saying in the past the income was lower than it is now?

MR. SNEDEKER: No, in some agencies it was as high, certainly because of the fifteen thousand -- or fourteen-five -- guarantee, plus the sixty-two forty, would come into a twenty thousand dollar agency.

ASSEMBLYMAN FLYNN: I have a-- I don't know if the Committee has this or not. We have the report of the Motor Vehicle Agency Evaluation Task Force, December of 1981, and they have given us a breakdown of most of the motor vehicle agencies. I say most because there are some that I am familiar with that aren't on here. For example, I don't see Asbury Park here. Is there a reason why Asbury Park is not here?

MR. TOURLINI: That was a State operated agency.

ASSEMBLYMAN FLYNN: That was State operated?

MR. TOURLINI: Yes.

ASSEMBLYMAN FLYNN: Is that going to be phased out now?

MR. TOURLINI: It has been.

ASSEMBLYMAN FLYNN: It has been phased out?

MR. TOURLINI: It was replaced by Matawan.

ASSEMBLYMAN FLYNN: Matawan replaced it?

MR. TOURLINI: Right.

ASSEMBLYMAN FLYNN: Now, I look at Eatontown. That is in Monmouth County. I guess that is still there. Now, in 1980, the Eatontown total income -- gross income -- was ninety five thousand. That is on page D13. Now, the expenditures are listed, and included in those expenditures are such things as telephone, insurance, and wages, for a total of sixty-six thousand, nine. So, the net income at Eatontown was twenty eight thousand in 1980. And, that was based on an income per item of about thirty-eight cents per item.

Now, with the new structure of ninety, seventy, and sixty, can that Eatontown facility look forward to a tremendous increase in their net income?

MR. KLINE: First of all, Mr. Chairman, you have to realize that those costs were reimbursable. In other words, Eatontown--

MR. SNEDEKER: All the figures are not correct on this agent. There was no requirement as to what kind of form this agent was to fill out, really, because we didn't go into his records and ask: "What are you paying individuals and people?" We don't know what you are paying people and we don't ask who those people are. So, that individual paid for that insurance, but in that insurance it could be Blue Cross, it could be an accident plan, it could be a group plan for his employees, which he or she was not required to carry. They are only required to carry liability, worker's compensation, burglary, and a bond. The telephone was reimbursed by the State, so that person got back that seven hundred and twenty-eight dollars.

ASSEMBLYMAN FLYNN: The State would send him a check over and above?

MR. SNEDEKER: Yes, all the expenses would go back. Cleaning and maintenance -- I don't know why there would be any cleaning and maintenance because that is in a State building and we did the cleaning and maintenance in that building. We have our own maintenance man right there. That is a State operated building, that is why you see no rent on there to start with. The agent couldn't even consider putting in rent. It is in a State facility.

Office supplies -- we supply everything, except personal stationary, or some things the individual may want. We supply the

stamps, rubber bands -- everything in that agency. Accounting fee -- that is the individual's right. If he or she wants to take care of their own accounting records, that is up to them, but we don't pay that back.

Shortages -- the individual is responsible for shortages. If there are any shortages in the agency, he or she must pay them. Some of them are larger than that, some are very much smaller than that.

Auto -- I have no idea. That is taken off their own car going back and forth to work. We certainly don't reimburse that. If they want to take that off as an expense for delivering things, we don't pay that back. And, that individual puts a lot of these things in here, frankly, for tax purposes.

ASSEMBLYMAN KAVANAUGH: That's the old system.

MR. TOURLINI: Yes.

ASSEMBLYMAN FLYNN: You are saying then that this report is not accurate?

MR. SNEDEKER: No, it is not accurate.

ASSEMBLYMAN FLYNN: For comparison purposes?

MR. SNEDEKER: No, it is not accurate.

MR. TOURLINI: That is correct. That is one of the problems we had with the old Commission schedule. We had no way to audit it.

MR. SNEDEKER: If you go to the next page, Mr. Chairman, in Elizabeth you see under miscellaneous they have parking. They don't pay anyone for parking any of their customers. They may reimburse their employees for parking, but that is certainly not required of us, so we wouldn't reimburse that kind of figure to them.

ASSEMBLYMAN FLYNN: I notice on Elizabeth they have a rent item there of forty-four hundred dollars.

MR. SNEDEKER: They receive that money back if they paid that amount in rent. They would receive that money back. You can add that onto their total income on the bottom. If they have that taken off, you would then add at least the forty-four fifty-one, the twelve hundred and one, the four forty-nine, the forty-two dollars -- that would be added onto the bottom figure of fifteen thousand seventeen dollars that agent could say he made.

ASSEMBLYMAN FLYNN: That was their net income?

MR. SNEDEKER: Yes.

MR. TOURLINI: About thirty-eight cents was the average -- thirty-eight, twenty-seven. I see thirty-six.

MR. SNEDEKER: When they figure it out. I haven't really sat down to figure these out because they really don't show too much to me. When I appointed new agents, I couldn't honestly say these were the true figures, because some of the agents-- As you thumb through these, you will see a lot of money in rent. You can add that back onto the bottom as income.

ASSEMBLYMAN GILL: What is your audit system? Certainly, you must audit them.

MR. SNEDEKER: No, we don't audit.

ASSEMBLYMAN GILL: Who does audit?

MR. SNEDEKER: We only audit your income you receive from the things you do; we don't audit your outgo. Under the old system you would rent a building, you would submit a bill to Motor Vehicle, and we would reimburse you for that bill

ASSEMBLYMAN HENDRICKSON: You have tightened all that looseness up?

MR. SNEDEKER: Yes. We would like to rent the buildings in our own name, so we will pay the rental directly -- we will pay all these expenses directly. The phone is in our name, so we can pay the phone bill directly. If you make long-distance phone calls, we are going to charge you for those -- anything out of the ordinary.

ASSEMBLYMAN FLYNN: What was the reason for going away from the State owned and operated system to the private system?

MR. SNEDEKER: Under the State owned system, we have to pay pensions. We don't do that under a privately owned system. We have to hire different categories of employees and pay sick time and vacation time. And, if that agency were open later because there were some shortages or figures, we would have to pay that overtime. If there were any shortages in that agency, the State of New Jersey would have to pick them up. If there are any shortages in a private agency, the agent must pick them up. We have compared the cost of private-run agencies, compared to the ones that were State run, and we find that the private ones are much more profitable than the State run agencies.

ASSEMBLYMAN GILL: Is there a temptation to run your expenditure per item down as low as possible, which would possibly result in poor service?

MR. TOURLINI: Under the old system, yes.

ASSEMBLYMAN GILL: I mean the present system.

MR. SNEDEKER: No, you can't, because we require that you have "x" amount of employees. If we find that the volume is increasing -- through the computer we can tell tomorrow what you did yesterday. So, we can check those records and they can come in and we can find out that we might have to put in another CRT, such as in Matawan, which is a good example as a new agency. We don't know exactly what that is going to do, so we have to "guesstimate" about how many people are going to be there.

We are moving most of the agencies that are in the old agent's names. We are moving them to new locations in most instances. That move may be a five mile move, or a three mile move, or a ten mile move, and that may shift the number of items a person does to another agency, because that may be closer and people will go there.

ASSEMBLYMAN FLYNN: You mentioned Matawan, is that too small?

MR. SNEDEKER: I don't think so. I don't believe that is too small.

ASSEMBLYMAN FLYNN: It is 1300 square feet.

MR. TOURLINI: It is about 1500 square feet.

MR. SNEDEKER: I don't really think it is too small at this point. We don't really know what the figures are there.

ASSEMBLYMAN KAVANAUGH: Rudy, Ventnor, that doesn't seem like it is a high volume area as far as expensive. The rent is double or triple the normal rent, and the cleaning and maintenance is--

MR. SNEDEKER: They are the old figures. We are no longer in Ventnor. We moved.

ASSEMBLYMAN FLYNN: Ventnor is a high rent district.

MR. SNEDEKER: Yes, it is now. That is why we are out of there. They took the figure you have here and doubled that rent figure.

MR. KLINE: It tripled.

MR. SNEDEKER: It tripled? All right. We are out of there now. Ventnor is closed. That is an Atlantic City prime area. We are down in Northfield, and really not in a permanent area there either. It is very difficult down in that area to find an agency, and we really have to have one down there for the volume they do; there has to be one down in that area.

If you take the rent we paid and add it to the agent's income, you will see they are over the twenty thousand average.

ASSEMBLYMAN KAVANAUGH: Cleaning has tripled. It is over four thousand dollars for cleaning. That must have been a brother and sister act.

MR. TOURLINI: Yes.

REMARK FROM MR. JOSEPHSON IN AUDIENCE: Brothers-in-law do it cheaper. (laughter)

ASSEMBLYMAN HENDRICKSON: Not necessarily better.

ASSEMBLYMAN FLYNN: Getting back to what we were just talking about, size, if a three CRT needs 1500 and a five needs 1900 square feet, wouldn't 1300 be a little low?

MR. TOURLINI: Not really. Again, I point out that Matawan is not really 13; it is about 1500 square feet.

ASSEMBLYMAN FLYNN: Are you counting outside space? I thought you were talking about open space.

MR. TOURLINI: We are talking about the total area, the total square footage of the agency itself -- where the customer area is, where the bathrooms are, where the equipment is located, where the agent's office is, that whole area.

When this program was developed back in '78 and '79, they had no real idea of what the space requirements would be. They didn't have any idea of the type of service we would be giving, what kind of counters we would have, etc. We recognized over the last year and one-half that we need more space, that we need more open area, we need more waiting room for the customers, and we are upping those recommendations today. Anything that we look at is a minimum of 2000 square feet, or 3000, depending on the size of the agency. That is what we would like to have. That is the ultimate.

ASSEMBLYMAN FLYNN: Are you going to be looking to phase out those that are less than 2000?

MR. TOURLINI: Yes, we are.

ASSEMBLYMAN KAVANAUGH: On your Matawan Agency, we have been using a figure of thirteen dollars a square foot to arrive at nineteen sixty one. Now, you are saying it is really--

MR. JOSEPHSON: We will be addressing that.

MR. SNEDEKER: I think real estate will be addressing a lot of the costs. I don't really get into the cost figures.

One interesting thing, if you want to, look at Bergenfield on here as another example of income. It think it is interesting to note that one there. Notice your wages up on the top are \$34,088, and the individual has under 'miscellaneous' spouse wage, which he doesn't consider as a wage of \$17,500, which would mean that is the income into the family. So, if you add that to the rent, to the telephone, to a spouse, and to his automobile, he is--

ASSEMBLYMAN GILL: In all fairness, it is considered in the expenditure per item -- spouse, I mean. He is not evading it completely.

MR. SNEDEKER: No, that's right, but he is evading it from the \$14,000.

MR. TOURLINI: It is not included in his net income.

MR. SNEDEKER: That's right.

MR. TOURLINI: That's a problem.

ASSEMBLYMAN FLYNN: Does the agency establish the renovation requirements, or does that come from the real estate division?

MR. TOURLINI: We only have four requirements as to what is needed in a site, and I think real estate can address the others.

ASSEMBLYMAN FLYNN: You have four?

MR. TOURLINI: We have basically four. We wanted an entire office area to be open. We didn't want anything that was boxed in or anything with pillars, or anything that would be in the way. We needed specific electrical service going into the building in order to house the computer systems. We insisted on vinyl because of static electricity, and we required a specific sized air conditioner in order to keep the computers from overheating and cooking. The other requirements -- and we are willing to turn these over -- are State leasing requirements.

ASSEMBLYMAN KAVANAUGH: Do you have to have a floating floor for those computers or not?

MR. TOURLINI: No.

ASSEMBLYMAN FLYNN: The computers we are talking about, are the little home computer type things?

MR. SNEDEKER: It is like an IBM type, little, small--

ASSEMBLYMAN FLYNN: You know, computers can be the size of a room or very small.

MR. SNEDEKER: Texas Instrument type CRT -- little reading type thing that you see. That type of thing.

MR. TOURLINI: We use Honeywell 600 series.

ASSEMBLYMAN FLYNN: What kind of air conditioning do you need for that?

MR. TOURLINI: Well, Honeywell has recommended exactly what we see on these "specs".

ASSEMBLYMAN FLYNN: Seven or eight ton?

MR. TOURLINI: That's right. Seven to ten tons. We have found in some areas where we don't have that, we have run into problems. When you get a lot of people in the agency and you have body heat in the summertime, we have had problems with the air conditioning and these systems going down. In our own State installations we have had to add additional window air conditioners to where there is already existing air conditioning.

ASSEMBLYMAN KAVANAUGH: Do you have a terminal? What do you have in these offices?

MR. TOURLINI: We have a regular, small, mini computer, plus 'x' number of CRT's and printers.

MR. SNEDEKER: That is connected to a system of communications that is up at State Police, so everything is pumped into there.

ASSEMBLYMAN KAVANAUGH: All right. Now, why is it that you have to have the computer? Why can't you just have a terminal there, tied into the central?

MR. TOURLINI: I am not a computer expert, but this was a recommendation that was made by the study group back in 1978. They are not an on-line system. These are "stand alone" systems, so in case the

main frame goes down they can continue to operate. Each night they are polled and the information is transferred. As we go into different phases, we probably will go directly on-line.

MR. KLINE: You don't want to lose any of that information.

ASSEMBLYMAN GILL: As I understand it, the State's computer use has been primarily to measure retrieval.

MR. KLINE: That's right.

ASSEMBLYMAN GILL: The small computers-- And, by the way, when I said minimum, a ten ton is minimum in my books. I have done many a computer installation. You have to rip out the whole floor and build special floors and special ceilings, and that would cost some money.

But the information accrued from the State is not the same as using the mini computer to generate material, such as we saw down here in Trenton.

ASSEMBLYMAN FLYNN: Is it fair to say that your ultimate goal is to get a site that you are happy with, it has your standard space and everything, and then keep that on and on? In other words, not just keep changing around. In the past, it changed every few years.

MR. SNEDEKER: Yes, that would be preferable. You know, you have to move as the population moves. In some areas it is almost impossible to find sites because of prime lease space that we can't get into. Cherry Hill is a good example. We have been looking and looking in Cherry Hill. We are almost to the point of saying to someone, "Can you build a building reasonable enough for us to get into and lease it over a period of 'x' amount of years.

ASSEMBLYMAN FLYNN: Why wouldn't you build one?

MR. SNEDEKER: Well, once you get into that, you take the revenue away from the local town. Once you get into building State buildings around here and there-- Certainly, if I had the money, I would like to do it. We don't have in our budget a capital budget for Motor Vehicle.

ASSEMBLYMAN FLYNN: Wouldn't it be a plus if you did have something like that?

MR. SNEDEKER: I'm not sure, Assemblyman. I think you would have a lot of problems in some of the communities, especially some of

the older communities who would say, "lease our buildings; we can't get them occupied now."

ASSEMBLYMAN FLYNN: I'm thinking in terms of-- You know, you say you can't build for forty or forty five, but there is a certain figure with which you can build a building, especially when we are talking about a standard, block type building.

ASSEMBLYMAN KAVANAUGH: About eighty dollars. That is more realistic.

ASSEMBLYMAN FLYNN: No, I don't think it is. The testimony we had the other day was forty-five to fifty dollars a square foot.

ASSEMBLYMAN KAVANAUGH: That was from Speaker Karcher.

ASSEMBLYMAN FLYNN: No, that was from the Marzel expert.

Well, in any event, if you spend as much in five years to lease as you could build and then have nothing left at the end of the five years, wouldn't it be better to build?

MR. SNEDEKER: If I had my druthers in money, I would rather go into the motor vehicle inspection system and build more of those facilities. These locations seem to be easier to locate.

ASSEMBLYMAN FLYNN: Inspection?

MR. SNEDEKER: Well, they seem to be easier to locate. We just don't have a capital budget. We go every year for a capital budget, but we are sort of not high on the hit parade where money is concerned.

ASSEMBLYMAN GILL: Could you start phasing it in?

MR. SNEDEKER: Yes, we looked at one, frankly, in the Mount Holly area, where we are trying to consolidate. We have a very poor motor vehicle inspection system area there, where the building we are in is going to be torn down and a jug handle is going to be put there by the State highway. It is a very poor building. They don't want to put a lot of money into it. The agency in the Burlington area is in Pemberton -- a leased building. The driver qualification center is in another leased building, in trailers. So, what we want to do is to go out and lease temporarily with maybe the option to buy a facility, such as a new car facility that was closed down, and go in there and have inspection, an agency, and a driver qualification center all in one central area, like we do in Bakers Basin, or like we do at Eatontown.

That is the ideal situation -- a full service facility. That is the way to build those, really, along with all the facilities.

ASSEMBLYMAN FLYNN: Would a State Building Authority be of help in having them bond for this?

MR. SNEDEKER: I think it would be of some help, yes, Assemblyman. It has in the past. The last new motor vehicle inspection station we built was up in Flemington, and that is a leased facility. It is a two-laner up there and that is in a leased facility. That was built just for inspection. You really can't use it for anything else. It was built by private monies, and we are leasing that.

I think the ideal system is to have our own around, and then we can, in that same facility, have enough room to have these sub motor vehicle stations, like Trenton, so you can come in and answer your problems with State employees there, as to why you lost your license, or why you have certain problems. That is the ideal system.

ASSEMBLYMAN HENDRICKSON: Can I break in here. On State owned versus leasing, the leasing option gives you a little better availability. Rather than building in your State Police, your U.S. Post Offices are all leased, and have been for many years. It releases those funds for capital improvement. If you stay with the state of the art on leasing, you are not tying up the State's money on building and maintenance, and the whole bit. I would lean toward leasing rather than going into another bond issue. I would stay with that. I think owning for State in many areas, such as this and State Police barracks also-- If you stay right with the state of the art, the deterioration is less and so is everything else.

ASSEMBLYMAN FLYNN: Look at the difference in cost, particularly the one we heard figures on the other day. It is going to cost as much to lease for five years as it would to build it, and at the end of the five years you don't even have a new lease.

ASSEMBLYMAN KAVANAUGH: Which one is that?

ASSEMBLYMAN FLYNN: The Matawan one. One hundred and ten thousand dollars over five years. You could certainly build it for one hundred and ten thousand dollars.

ASSEMBLYMAN HENDRICKSON: Maybe and maybe not. You have to consider the purchase of your land and so forth, and you are talking forty five dollars a foot for construction purposes only. You do not have the improvement done on the land itself, sewerage hookups, etc.

ASSEMBLYMAN KAVANAUGH: John, we shouldn't throw that figure out. That figure is not correct.

ASSEMBLYMAN HENDRICKSON: That's what I'm trying to say. I brought it up that day. What I am trying to say is that forty five dollars has to be escalated because it is not a reliable figure.

ASSEMBLYMAN KAVANAUGH: You put your mechanicals in there and everything else and it will start moving up. I still feel that eighty dollars is a realistic figure.

ASSEMBLYMAN HENDRICKSON: You would have to directly relate it to the amenities and the needs -- the type of heat, the type of insulation, etc. The amenities are going to directly control it. You are not just talking about a lot of run-of-the-mill buildings. You are talking about a building that has a special use and a special purpose. And, you would actually have to go out with an architectural drawing and get your construction costs from it.

ASSEMBLYMAN KAVANAUGH: And, the land is not a gift. You have to include the price of the land.

ASSEMBLYMAN HENDRICKSON: Not only that, but the improvement to the land -- the parking, the preparation to build, which is fantastic.

ASSEMBLYMAN MAZUR: But, then you have a long-term asset.

ASSEMBLYMAN HENDRICKSON: Do you really?

ASSEMBLYMAN MAZUR: You are talking about the life of the building; you are not talking about five or ten years, you are talking more of twenty or fifty years.

ASSEMBLYMAN HENDRICKSON: That's the problem, because the state of the art is changing so quickly.

ASSEMBLYMAN MAZUR: Yes, but a building, such as a motor vehicle inspection station, twenty years down the road, is still a motor vehicle inspection station. The state of the art of construction itself hasn't changed so much as to render that particular place without any utility.

ASSEMBLYMAN HENDRICKSON: I think the proof of the pie is, the original inspection stations -- that aren't really that old -- were all brick and glass, and closed-in large doors. Now, we have an awful lot of them that are open on the sides and just billeted for the workers.

ASSEMBLYMAN MAZUR: The one in Paramus was built two years or so ago

ASSEMBLYMAN HENDRICKSON: Well, where we are.

ASSEMBLYMAN MAZUR: We could go on all day, arguing as to whether we should build or lease.

ASSEMBLYMAN HENDRICKSON: Yes. That should be left up to economics.

ASSEMBLYMAN FLYNN: Is there any thought of using existing State owned buildings that are not being used, or being used for--

MR. SNEDEKER: Yes, I think real estate will answer that, and what they have looked at.

ASSEMBLYMAN FLYNN: Because I know Assemblyman Zimmer has a building to sell -- some State owned property -- and perhaps some of that could be modified into a motor vehicle agency.

MR. SNEDEKER: I think real estate can probably answer a lot of these questions, Mr. Chairman, better than we can, because we don't get into the leases.

ASSEMBLYMAN FLYNN: Okay.

ASSEMBLYMAN KAVANAUGH: What do you do with these open air things when it is raining? What do the guys do, play cards?

MR. SNEDEKER: Try to go to one that is closed. In other words, they go to a closed facility.

ASSEMBLYMAN KAVANAUGH: What do our employees do?

MR. SNEDEKER: We bring them into a closed facility. In other words, one that is closed in. That is the problem that we have under our consideration of the new plan. We will be closing a lot of those open air facilities and getting out of those drive-in movie type situations.

ASSEMBLYMAN HENDRICKSON: Don't close Manahawkan. Those guys will think--

ASSEMBLYMAN FLYNN: One last question. If it is better to leave it for the real estate people, I'll pass. The State apparently is on a standard basis, paying 18%, from what I can gather, for renovations done by a landlord.

MR. SNEDEKER: That is a real estate question.

ASSEMBLYMAN FLYNN: That is a real estate question?

MR. SNEDEKER: Yes.

ASSEMBLYMAN KAVANAUGH: That was last year, or '81. We should see what the percentage is today. It should be different.

ASSEMBLYMAN FLYNN: Does anyone have any further questions?

ASSEMBLYMAN MAZUR: We touched on hours, just briefly, and I recognize that labor is a major component of cost and all that. What are the hours of motor vehicle agencies and inspection stations?

MR. SNEDEKER: The hours in agencies are the same as the State, which are 8:30 to 4:30, five days a week, closed on the same holidays that State has.

ASSEMBLYMAN MAZUR: Five days a week?

MR. SNEDEKER: Five days a week. There is consideration to revise these. We have looked into this. We don't let the agents set their own hours because we get into a problem. We were considering the possibility of opening up some of the shore agencies on Saturday. Again, it has to be profitable, certainly, for the agent, because he or she has to pay their employees.

To sell motor boat licenses. You go down the shore and you buy a boat and motor vehicle licenses your boat. If we let you open up in Sea Isle City on a Saturday and you live in Newark and you come down there and say, "Well, how come I can come down here on a Saturday and get my things done down here and I can't go in Newark?" would give us a problem with letting people set their own hours. We are considering do it. We are looking at this procedure right now. Once we are all computerized -- and that is our major objective right now -- once that is done, we are looking at revising the hours. In fact, we are looking to revising the hours to night hours also, to correspond with the inspection stations.

The inspection hours, again, are the regular day hours, five days a week, plus a half day on Saturday. We hope to go into a full

day on Saturday. And, depending on where they are , several nights -- at least one night, if not two nights a week -- so we can even have hours until about 7:00 or 8:00 o'clock. I believe it is 8:00 in some places.

ASSEMBLYMAN MAZUR: That would cut down on the lines that pile up at those particular hours when they are turned loose from their regular employment hours and try to get their car inspected.

MR. SNEDEKER: We had suggested a Tuesday to Saturday work week. Again, you get into labor negotiations and it gets out of our hands and gets into negotiations from the labor people and the Treasury Department. But, we are looking at, for motor vehicle inspection stations, Tuesday to Saturday, open all day Saturday.

Our experience in the past is, without a lot of advertisement in inspections, Saturday afternoon has been very light. People tend to go away or come down on a Friday night, do their things, and go away for the weekend, or run in Saturday morning and run away. When we do this, you really won't feel it for at least two years from the date we do it because you get your car inspected once and you don't go back for another year, and when you stand in line today you don't think about it until next year when you are going back again. Unless you know that we are open every Saturday, all day long, if it is on a hit-and-miss basis, you just don't tend to go there on a Saturday.

ASSEMBLYMAN MAZUR: The evenings should be more productive.

MR. SNEDEKER: Evenings are more productive. Again, we get into contracts with employees. They work a five-day week. We then have to start paying overtime, and we are a little short in funding right now.

ASSEMBLYMAN FLYNN: Are we talking about motor vehicle agencies?

MR. SNEDEKER: No, we are talking about motor vehicle inspection.

ASSEMBLYMAN MAZUR: But, the agents as well.

MR. SNEDEKER: The agents can do that, yes. Once we are all computerized, we are looking at those longer hours. We are waiting until we are all computerized, frankly, because it makes it a lot easier to set up one set policy. We are not sure that we want to open

nights in every area either -- if it is called for in every area. We are not sure that it is called for in every town. In some areas there gets to be a security problem for us. We may have to have security there if we are open certain evening hours. Employees might not want to go to work or come home from work at a late hour in some of the facilities we have. We know we may have some problems there.

ASSEMBLYMAN KAVANAUGH: Cliff, before you leave -- and Bob and Rudy -- this hearing was probably generated, as far as evaluation of the agency system, because of the Matawan question. I think it would be naive to say we are not here because of that. I was just wondering -- before you leave -- if you have any concerns or anything to tell the Committee regarding the Matawan agency's present location. There was a discussion -- I don't know whether you were privy to that or if you were in the room at the last meeting when we had a real estate person in, regarding a shopping center a mile down the road, the location itself, etc. Since this is looking at the four agencies you have spotted around, this is kind of in the center. The potential -- it was mentioned that originally it was 500 and now they are up to 700 units a day, and seem to be climbing. I was just wondering if you would care to give us any--

MR. SNEDEKER: Yes. Not getting into the cost of rental or those figures that we do not get into -- we don't get into those negotiations in motor vehicle; real estate does -- I certainly think there is a need for an agency in that area -- maybe not quite at that building. If there is another store or empty building around that is available to us, we will certainly look at that. We will have real estate look at it. Where there are several other agencies that leases have not been agreed to, we are looking to move out of those and find other sites.

The problem that we get into is when you are talking about interest. You know, when you started to negotiate these things a year ago, and interest rates were 18%, you considered, I guess, 18%. Today, interest is 12%, so you ought to consider 12%, but your lease was made a long time ago. I think real estate can answer that.

ASSEMBLYMAN KAVANAUGH: Did you initiate this?

MR. SNEDEKER: No, Matawan was negotiated -- that site was looked at before I became Director of the Division of Motor Vehicles. I have stayed out of all leases. Frankly, it was in the past that the Director got involved in leases, and I think sometimes looked at those because of political reasons. Mr. Clooney handles leases. If you have a problem with leases call him, because he is the one that goes out and looks at the sites, or who sends someone else out there to look at them.

We are in a bind in many communities in which we don't have sites. Frankly, we will give you a list. In your area, if we don't have a permanent building, we would be happy to give you the sites we don't have permanency in and you go find us one someplace, refer it to us, and we will be happy to look at it. We don't care what building we go into as long as it has adequate parking, the town is not mad at us for going in there, and we have enough space inside. I don't care if you own the building, or who owns the building, we will look at the building. If you want to refer it to us, we would be happy to look at any building at all. And, we have contacted Legislators in the past to say, "If we don't find a site, we may have to move out of your town, because the facility we are in right now is on a month-to-month lease." We are in twenty-seven locations right now, most of them on month-to-month. If that landlord finds another person to come in there tomorrow morning, we can be thrown out. That agency in your town may have to be closed. I have no alternative because I don't have a permanent site.

So, we certainly hate to do that. We have to get out of the Woodbridge agency. We are getting out of there. The landlord said, "Out by the end of July," and we are going to move out the 15th of July in order for us to have enough time to clean that site up -- to get our equipment out of there and to get out counters out of there. We are going out of there. And, to get a new site-- We are not moving into any new sites until that lease has been signed by everyone.

ASSEMBLYMAN FLYNN: Was that a policy in the past, that you would move in without the lease?

MR. SNEDEKER: Yes.

ASSEMBLYMAN FLYNN: And why was that?

MR. TOURLINI: Service.

MR. SNEDEKER: To service people. As I said, you just can't-- I think what has happened in the past, is that several of these sites we were in were prior agents' leases that they had agreed to and who are now no longer agents. And, we have no other sites to go to at this point. If we close in "X" town, we would be out of that town and we would not have another location. It is not my intention to move into another building unless all of the signatures are on those leases.

ASSEMBLYMAN FLYNN: Has it ever happened in the past that you have actually had to move out because a lease wasn't signed?

MR. SNEDEKER: Oh, yes. Sure.

MR. TOURLINI: Ventnor.

MR. SNEDEKER: Ventnor was one where they raised the rent up so high, we said, "Out we go." They, frankly, didn't want us; that is why the rent went up. Woodbridge is a site we are leaving. There have been several like that in the past.

ASSEMBLYMAN FLYNN: Who winds up paying for the renovations where there is no lease -- the renovations are done, there is no lease, and you move out? Who pays for that?

MR. SNEDEKER: The renovations are fairly minor because it is mostly the counters that are put in. We don't get into computerizing them. None of those temporary agencies are computerized at this point. So, we don't get into the air conditioning. We don't get into the heavy wiring that you need in those temporary sites. We don't really get into those.

I don't know how those leases have been negotiated in the past.

ASSEMBLYMAN FLYNN: Here is the one that Mr. Kavanaugh brought up - Matawan. Haven't all the renovations been done already?

MR. SNEDEKER: The landlord made those with no signatures on the leases. If we move out of there the landlord has to take care of them himself. There is no obligation on our part to reimburse that landlord for anything that is in there. We have nothing signed with that landlord.

ASSEMBLYMAN FLYNN: So, he is not too likely to throw us out too quickly?

MR. SNEDEKER: No, we have a letter from them that we can stay. We did have a letter from the landlord there that we were to get out of the building. We now have another letter from the landlord stating that we can stay on a month-to-month basis.

ASSEMBLYMAN FLYNN: Because he does have an extensive investment there.

MR. SNEDEKER: Yes. But, we are looking for new sites in any location that we are not permanent in.

ASSEMBLYMAN FLYNN: Is it fair to say that under prior administrations, prior Speakers, and prior Senate Presidents the signing of the leases was kind of a pro forma type thing?

MR. SNEDEKER: I don't know how they signed them. All I can say is that presently we have only five leases signed since January of 1982. We have only signed five leases. There have been five leases completely signed by everyone since January of '82, to date, that we have moved into.

ASSEMBLYMAN GILL: Do you remember which ones these are, Cliff?

MR. SNEDEKER: The new ones we have moved into?

ASSEMBLYMAN GILL: Since January of '82?

MR. SNEDEKER: Yes, Paterson had been signed in September, 1982. Toms River was signed in April of 1983. Woodbury was signed in September of 1982. Newton was signed in December of 1982. There is one other one, if I can find it here. I guess that is it -- no, I'm sorry, there is another one. There was an amendment to Camden that was signed also in June of 1983.

ASSEMBLYMAN FLYNN: When did you take over, Cliff?

MR. SNEDEKER: I took over in April of 1982. There have only been four signed since I-- Well-- Yes, there have only been four signed.

ASSEMBLYMAN FLYNN: Maybe you don't know the answer to this, but I assume Rudy may. Were you there before Cliff?

MR. TOURLINI: Yes, I have been there for three years.

ASSEMBLYMAN FLYNN: Three years. So, you really don't know past practice either?

MR. TOURLINI: I have been in the Division.

MR. SNEDEKER: He has been in the Division longer, but not in the agency.

ASSEMBLYMAN FLYNN: In the past, is it probable that these things were signed on a pro forma basis without too much looking at, in terms of the Speaker and the President of the Senate, and whoever else had to sign?

MR. TOURLINI: Well, I don't know about leases because at that time State agencies were obtained by the appointed agent. They would find a family business that was available to them -- a local store down the street -- and they would reimburse them for whatever rent they submitted to us.

When the decision was made, back in early '78/'79 that all sites would be taken over by the State, then a lease program was developed. It was understood that Real Estate would locate the leases. The Division would, under mutual agreement with Real Estate, agree to assist them in spotting sites that we thought were acceptable for motor vehicle agencies. That's as far as we went.

ASSEMBLYMAN FLYNN: So, we have only had leases for the last five years.

MR. SNEDEKER: Since 1981, really. The majority of the leases in '81-- In 1981, there were fourteen leases signed in that year alone. That looks like the year that the five year and the three year leases were started.

ASSEMBLYMAN FLYNN: In the '70's we didn't have leases.

MR. SNEDEKER: No, you were the agent and you got the contract.

ASSEMBLYMAN FLYNN: I know Speaker Karcher did take some raps for this because people were saying, "What did other Speakers do?" But, apparently, there weren't that many other Speakers involved since it wasn't in existence then.

MR. SNEDEKER: Mostly all the leases I have here are dated in '81. Fourteen were signed in '81, four in '82, one in '83.

ASSEMBLYMAN FLYNN: One question, getting back to the interest and forgetting about the percentage of interest, wouldn't it be better for Motor Vehicle, through its budget, to actually pay for the renovations, since you can borrow money -- or at least the State

can borrow money, no matter what the prime rate is at a given time -- for less than the landlord can? Wouldn't it make more sense for us to do that in this Matawan case, the \$20,000 worth of renovations at no interest?

MR. SNEDEKER: Really, I don't get into renovations. I don't get into contracts.

ASSEMBLYMAN FLYNN: This is policy now. I am talking about policy, as a policy.

MR. SNEDEKER: Treasury does that. You would really have to ask that of them.

ASSEMBLYMAN FLYNN: It would be better for you to recommend, say, in your next budget to give me, Cliff Snedeker, a capital budget so I can make renovations, purchases, if you will, etc.

MR. SNEDEKER: We would be happy to talk to Treasury, Mr. Chairman, on that and find out if that is the best way they think, moneywise, we ought to go. We will certainly go that way. We can take it right out of agencies. We do pay for the counters now.

ASSEMBLYMAN FLYNN: Right, you are paying directly. You could save 18%.

MR. SNEDEKER: I have no problem with doing that if the State has the money available -- if the Treasury agrees to it.

ASSEMBLYMAN FLYNN: Okay. If there are no further questions, we will hear from Mr. Josephson.

Okay. Now, Mr. Josephson, we have given you a list of questions. I would like at this point to swear you in.

WITNESS BEING DULY SWORN, TESTIFIED AS FOLLOWS:

ASSEMBLYMAN FLYNN: We have given you a list of questions that the Committee was concerned with. I understand from talking to you earlier, you are going to give us a presentation, covering those questions and maybe some things we didn't think to cover.

E A R L J O S E P H S O N: That's right

ASSEMBLYMAN FLYNN: Okay.

MR. JOSEPHSON: Mr. Chairman, you stated at the outset that this is the first of a series of hearings concerning leasing practices and policies, where the initial subject matter happens to be the leases for motor vehicle agencies, and your expression is welcome.

It has been exactly ten years since the Legislature has taken a global look at the leasing program, and a global review of this important subject is long overdue.

I have been responsible for that program for nearly eight years and during that time I have reviewed nearly two thousand lease proposals, with virtually no feedback from the Legislative branch, which would enable our staff to have any sense at all of what is acceptable to the legislative reviewers. We have had some questions, but very little insight into what the legislature considers an acceptable lease parameter.

Legislative interest in leasing, I have to say, has been very parochial. Usually it consists of a particular legislator trying to get a lease for a constituent, or trying to shield a slumlord from the legal remedies he deserves, or, as I suspect, preparing campaign contribution solicitations from a list of lessors. And, I was in an office when one of those calls came in.

I stress the term global, because any of the problems that I see associated with the leasing program have nothing to do with the leases themselves. It is much more fundamental. As the last Legislative Study Report pointed out, and the Cahill Management Commission before it, the real problem is there are simply too many leases and too many leased buildings. That is why for the last eight years our Division has dedicated itself to replacing and consolidating leased space locations, as most recently evidenced by the State Building Authority program to construct four new office buildings in Mercer County.

There is much more that could be done, in the form of regional office buildings of moderate size in a number of the smaller communities which have concentrations of State offices.

Another problem is an institutional problem in State government, the absence of meaningful strategic planning, a condition from which the Legislature and the Executive Branch, regardless of party, is responsible.

I could give you war stories for the next hour on the number of lease problems which have arisen after your august body has enacted legislation at this time of the year and demanded

implementation in September or October, particularly when there is political mileage to be obtained by doing so.

The last factor ever to be considered is, where are we going to house the employees needed for a new program? It is never mentioned in fiscal notes. It is rarely considered in establishing the effective dates of bills. And, when we are left with a narrow range of options, we have been hard pressed to find decent space at the right location, and at the best price.

When I became responsible for office space management, I found the program in total disarray with virtually no professional staff to administer the program. Office space growth after the Great Society has been phenomenal, and the State was trying to lease the associated space with a staff of three professionals. Space was leased without really looking at it. No effort was made to ensure quality, and, in fact, renovations were established after negotiations.

Through periods of fiscal austerity, we have managed to add an Inspection and a Quality Review section to the staff, and today we have a staff totaling a dozen professional and technical employees.

Now, our goals in 1975 were to eliminate, or deemphasize, the using agency role in space location and negotiations. They got into that because the Bureau of Real Estate didn't have anybody, and it exceeded defensible limits. Our goal was to develop the widest range of space alternatives as early as possible, in advance of need. We wanted to institutionalize an arms-length negotiation process, and conclude it with precise documentation and justification, that spelled out exactly where the rent dollar was likely to go.

We wanted to eliminate chaos in leased space management through the timely and orderly delivery of the product, and to assure that the lease, once we had it, was honored.

I believe we made significant strides in realizing those goals, and if you review the Cahill Management Study and the Program Audit by Jerry Siliphant, in 1973, you will find there are few recommendations that haven't been honored and implemented. And, the final phase will be the building program that I mentioned before.

Is there room for improvement? Of course there is. A serious legislative review would provide that opportunity. As a

minimum, though, that review should consist of an examination of a substantial and representative sample of leases negotiated in the past several years, representative as to location, size, type of space, type of program, length of lease, age of lease, type of lease, and it should be supplemented by field inspection.

After eight years, I have learned one salient fact: you can't generalize about leases. Each building and each lease has markedly distinguishing characteristics. If there was every a subject which was vulnerable to apple and orange comparisons -- and I may add to demagoguery -- it is leasing. If someone tells you that building "a" leases for \$10 and building "b" leases for \$15 and let's it go at that, you ought to have many, many questions before you can make an intelligent and responsible judgment: "How is the space measured?" "What improvements have been made, or ignored?" "What level of service is being provided by the owner, or the tenant?" "What kind of building is involved?" "Where is it located?" "How long is the lease?"

Against this background, I have to take vigorous exception to the sweeping condemnation of this program by Speaker Karcher. One swallow doesn't make a summer, and a handfull of motor vehicle leases doesn't discredit a leasing program.

This Committee should be aware that an expert hired by the Legislature, a friend of Speaker Karcher, in fact has reviewed three hundred and thirty-nine leases in recent months, and has recommended approval of all but three -- the motor vehicle leases in Flemington, Woodbridge, and Matawan. He has recommended approval of eight leases for motor vehicle agencies, which the Speaker has declined to approve.

If under these circumstances I seem skeptical about the possibility of a global, detailed review of leasing, which is long overdue, you may understand why. I have trouble believing it will actually happen when, for example, I see that a lease for a Paterson agency has an effective rate of \$17.15, premised on an 18% interest rate, \$20,000 in improvements -- sound familiar? -- and was approved in ten weeks by Speaker Karcher.

In any event, I wish you well. We will cooperate, and I hope this will be more than a two-day wonder.

Now, let me give you a little overview of the leasing program. And, Caesar Iacovone is here to talk about the three subject leases in greater detail.

This program began in '79, when they decided to computerize the leases. We know something about that because we bought the computers. As a result, the Division made a policy decision that the State would rent the offices for the use of the agencies, rather than have the agents find their own offices. This way, the State would be in a position to ensure the space would accommodate the computers, and that it would be consistently developed.

Early in 1980, we met with the Division of Motor Vehicles and Budget and Accounting to establish the guidelines for leasing, so that the forty locations could be secured in the most efficient manner, and not on a case-by-case basis that is more applicable to 10,000 square foot leases, and so forth.

Office prototypes of 1500 or 1900 square feet were established, varying according to the number of terminals, with a range of 15% to accommodate unusual circumstances. However, it was also understood that this was a guide, and that available space might well dictate the actual amounts we would lease. It was understood there would be little flexibility on the location criteria, given the fact that the law, as I understand it, requires one agency per 300,000 population, and also sets maximum travel distance limits for the public. The municipalities which fit the location requirements were predetermined by DMV.

The facilities, preferably, were to be retail-type establishments, ground level, easily accessible to the public and modified for program needs.

Specialized requirements included supplemental air conditioning, two to three tons above the norm for similar sized office space. That is based on Honeywell "specs" for the particular computers in use.

There is a specialized electrical service, 200 amps., for the computers. That is not the light bulb Speaker Karcher would have you believe we are getting for our rent dollar, automatically. In addition, we have bathrooms to accommodate the handicapped, as well as overall accessibility for the handicapped to get into the building.

Other requirements are comparable to office space, but they are not the type of features commonly found in retail space. We have drop ceilings with adequate lighting as an example of that.

To answer your question, we believe that renovations are necessary and realistic, and we don't believe they can be compromised without sacrificing the function that we are dealing with.

The lease terms were to be three years, with two one-year renewable options. Later, the Division proposed that lease terms be for five years. It was further understood that budget approval on effective square foot rental rates would be open and flexible in recognition of the programmatic constraints of securing space within the location limits under which DMV had to operate. That is to say that we recognized at the outset that substantial improvements to small amounts of space over a short term would result in per square foot rents which were above normal, and that we weren't going to be overly rigid about it.

It was also agreed that given the magnitude of the undertaking, DMV and Purchase and Property would cooperate in site identification. Now, roughly, here is the way the process goes: Once a site is deemed suitable on the basis of the program criteria, based on the options available, the Bureau of Real Estate evaluates the site to see if it is physically feasible to convert it to a functional facility. It goes without saying that finished space, requiring the least amount of renovations, would be pursued first, and we have been successful in several locations.

Once a site is determined to be physically suitable, the prospective lessor is requested to provide a proposal that includes bona fide estimates on improvement costs and base rent demands. When these proposals are received, meetings are held with the prospective lessor and his contractor to review the scope of renovations and the cost estimates. The determination is then made by the Bureau as to whether or not the renovations meet our criteria and whether the construction costs are reasonable.

The staff supplements its own estimating knowledge by using standard manuals: Means, Marshall's, and Swift. Staff also makes a judgment as to prevailing interest rates for commercial loans. Negotiations are then conducted with the prospective lessor.

Upon receipt of lease agreements, prospective lessors are required to submit architectural and mechanical plans for review and approval. Upon approval of plans, authorization is granted to proceed with construction, which is monitored by Bureau of Real Estate staff.

Upon completion of improvements and based on inspection by the Bureau of Real Estate and receipt of a Certificate of Occupancy by the owner, the lease terms and rentals commence.

The Division of Motor Vehicles, upon completion of the basic renovations, arranges for the installation of its computers and counters and the facility is then opened for business.

The lease negotiations have been assigned by Purchase and Property to James Poinsett, one of our veteran lease evaluators, who served for eleven years with the Department of Transportation's Division of Right-of-Way before joining our operation in 1976.

The proposed leases are then reviewed by Caesar Iacovone, the Chief of the Bureau of Real Estate for the past five years, who worked for eight years with the Division of Right-of-Way.

To date, thirty-two locations have been identified and approved by Executive Branch reviewers. Seventeen of these thirty-two locations were identified by Purchase and Property and fifteen by DMV.

The average effective rent of these thirty-two, excluding the amortization of improvements, is \$10.83 per square foot. The average amortization is \$3.80 per square foot, and the average total rent is \$14.63 per square foot.

The average square footage of these offices is 1,856 square feet, and the average total of improvements is \$21,826, or \$11.70 per square foot in construction costs.

The total cost of improvements in thirty-two locations is approximately \$700,000 and projects to \$875,000 for all forty planned locations. If the State wished to pay for the improvements upfront, it would have required a \$875,000 legislative appropriation, and that appropriation isn't free money, so whatever the calculation is -- and I am not prepared to say right here what the benefit is -- you have to apply an opportunity cost of 10% of the State's money; if you didn't use it for one thing, you use it for another. And, I think you can make some interesting comparisons that show when you apply that 10%

over the term of the lease, you may well come in the same place with the amortization, but I think that is a question of where the State wants to put its money. It is a matter of legislative policy.

Fifteen of the thirty-two leases exceed \$11 per square foot in effective rent, excluding amortization of improvements. On thirteen of the thirty-two, amortization exceeds \$4 per square foot.

Of the sixteen for which we have been able to calculate a rate of return to the landlord, the rates of return range from 8.1% to a high of 17.7%. And, of the thirty-two to date, twenty-two are for five years and ten are for three years.

We are talking about a total of 59,404 square feet, and when we are all done, it will probably be about 71,000 square feet of collected space. We are talking about a total effective cost per square foot, including the amortization, in other words, of \$869,000.

The three lease proposals which are the apparent subject of today's hearing, total 4,620 square feet, and have a total effective annual cost of \$80,000. The eight additional proposals which have not yet received final legislative approval represent another 14,826 square feet at proposed annual effective costs of some \$223,000.

To put this into some perspective, the State's central rent account exceeds \$63 million this year, covering some 700 leases, totaling 5.4 million square feet of office space rented in the private sector.

ASSEMBLYMAN FLYNN: Are you going to be able to give us a copy of that? Because you are going so fast with the figures, I am not able to write them down.

MR. JOSEPHSON: All right. Sure.

ASSEMBLYMAN FLYNN: That last figure -- was it \$63 million?

MR. JOSEPHSON: That's right.

ASSEMBLYMAN GILL: That's the total cost of leasing.

ASSEMBLYMAN FLYNN: All leasing. And, how many--

MR. JOSEPHSON: That's the total cost of leasing, and I have excluded the Justice Complex and some of the leases from pension funds. That is the private sector rental for the current year. I am not sure what we wind up with this year.

ASSEMBLYMAN FLYNN: How many are there currently? Did you say 700?

MR. JOSEPHSON: About 700 leases.

ASSEMBLYMAN KAVANAUGH: Five point four million square feet?

MR. JOSEPHSON: Five point four million square feet of office space, there's another half million square feet of storage.

Speaker Karcher has told one newspaper, although he has yet to tell us or you, that he would approve \$14 rents in Matawan if all the leases he opposes could be negotiated at a rent of \$14, the difference would be \$20,000 a year.

Speaker Karcher has raised a number of issues during the last few months that I think very well reflect some of your question. But, his presentation really overlooks two basic points that I think have to be stressed. First of all, these are leases of retail space, not typical office space. This isn't the Washington lease, or 1100 Raymond Boulevard; this is retail space. Retail space, typically, is rented unimproved and the tenant pays for the improvements. Speaker Karcher doesn't know what the operator of a boutique or an auto parts store spends per square foot when he completes his bare-bones store front. That's not a matter of public record, like the improvements we make. That is why, not long ago, when we got into this discussion before, I suggested that Speaker Karcher was comparing apples with platinum, and he still is.

Last week he told you that our presentations were not real world, but Alice in Wonderland. I suggest to you it is precisely the reverse. The Speaker has touched on interest rates, residual values to future tenants, construction costs, including whether the owner can get his brother-in-law to do the work cheaper; and, more recently, we have been favored with dissertations on how the owner could benefit from the tax laws on depreciation and investment credits. But, that's all very text-bookish and speculative. His experts acknowledged that these are elements which are on the table to be negotiated and that each side tries to get as much as it can for itself. There is no scientific procedure or formula to deal with these elements; you take the best bottom-line you can get, and that is governed by the laws of supply and demand more than by procedure manuals.

Let's look at the issues: First, the issue of whether the Bureau of Real Estate should audit construction costs in the renovation of leased premises to determine if the owner spends less than initially estimated. Implicit in the contention that we should is that we should negotiate a lower rent to reflect lower construction costs. But, the flip side of this suggestion has been ignored. Any owner with any brains at all is going to demand that the variable rent arrangement cuts both ways. He will want the State to pay for his cost overruns.

Similarly, it has been argued that the State should negotiate lower rentals if the interest rates originally assumed on the construction loans prove to be lower. Again, an owner of minimal intelligence will want the reverse: higher rents if interest rates prove to be higher than first anticipated.

What this argument really suggests is that the State should become a partner in real estate risk ventures with private owners. It is our strong conviction that such a notion is contrary to good business judgment and sound public policy.

A sound government leasing program should provide stability. We do not want to be paying higher rents simply because an owner is stuck, for example, with a five-year balloon mortgage, or a variable interest rate, or because, in a period of rapid inflation, he is stuck with a cost overrun.

Over the last five years, I think we have left more owners with overruns than we have paid out in windfalls. That is because of inflationary factors. The windfalls will generally be avoided if we are skilled in our estimating, and I think we are.

Aside from the business and public policy considerations, the theory being advanced has serious practical problems which will drive up our administrative costs:

An owner will not begin work without a signed lease. That means new lease terms will need to be reapproved every time there is a cost overrun -- unless the approval authorities are content to give us a blank check, which they shouldn't.

We will need a skilled auditor to review owners vouchers and records because we are now building in an incentive for that owner to distort actual costs.

We are adding another dimension of audit responsibility for the people who audit our program.

The second issue is the interest rates used in amortizing improvements, and specifically, whether the original assumptions of 18% are excessive, given the falling prime rate over the past year. It is suggested that, given the passage of time, the rent be renegotiated accordingly.

The prime interest rate has fallen five or six percent since a number of these leases were negotiated and sent to the Legislature for approval. The interest rate assumptions were conservative, however, based on 1 % to 2% over prime, which are the best terms customarily available at local banks, and, by the way, the ones Speaker Karcher said he could live with, but he didn't check his prime rate tables.

A recent survey here in Trenton shows that, notwithstanding a 10.5% prime rate, banks are charging for commercial loans, from a low of 11.5% -- tied to a floating interest rate, which means if it goes up next month, that goes up too -- to a 17.5% fixed rate.

Given the passage of time, we have another consideration which should not be overlooked. The owner who negotiated with us a year ago, when interest rates were higher, is going to remind us that his original construction cost estimate no longer is valid. Our information is that the average inflation has been 8%.

A \$25,000 construction loan for five years at 18% for a 1,500 square foot building would result in an amortized rent factor of \$5.08 per square foot. But, if that \$25,000 project cost is escalated 8%, to \$27,000, and the construction loan decreases to as low as 12%, the savings would be only 27 cents a square foot, or \$400 a year. And, I suggest that this purported saving should be viewed against the background of computer rental charges of nearly \$800 per office for each month that office is not in operation.

That is why when the guys got together at the beginning of this program. I had to pull them away from their usual mental fix. Our guys fight for every quarter of a square foot they can, but I would like to see them do that on \$200,000 leases -- 50,000 square feet.

And, I wasn't about to distort the priorities of this program to get even \$1.00 per square foot or \$1500 for one of these leases and then have the computer bill run up for another couple of months. It just doesn't make good sense to me. I thought so then, and I think so now, even through we are getting pilloried in the press. That's not the way to set priorities in government.

Now, it has also been alleged that our improvements will last beyond the term of the leases and inure to the benefit of the landlord, without having that benefit reflected in the lease negotiations. That is an easy assumption, but that is all it is, an assumption.

We have created a special use facility in a standard retail space, with features not only uncommon in retail facilities, but actually undesirable in several respects:

The supplemental air conditioning is excessive for retail and even small office use, and will have to be reduced.

The oversized electrical system has no value unless the future tenant has a computer.

The lavatory facility eats up valuable space for retail purposes if the retailer doesn't provide such facilities to the customer -- and many of them don't.

The floor tile is uncommon in small retail operations; carpeting is preferred. That is true in offices as well.

We have dropped the ceilings. Retailers commonly prefer high ceilings.

We have installed blinds in show windows, which is inconsistent with the needs of retailers.

Obviously, there could be some improvements with a future value, but, in point of fact, the owner will be obliged to spend money to restore many elements of the building to its original condition to make it rentable. A number of owners have indicated to us that they must build that cost into our rent.

Should the State decide to renew leases in any of these agencies, however, the Bureau of Real Estate, for the renewal term, would negotiate from a rental base which factors out amortization. And, if we don't, I am sure Speaker Karcher, or his successor, will be

here to remind us that we ought to. In fact, we have done so in several three-year leases with one year options, for the option year. A renewal option which does not tie the owner down to a future rate is of no particular value, and few owners are willing to commit to renewal rates after five years.

For the sake of argument, however, let's assume the assumption is correct; that a benefit is created for the landlord if we move. That could be avoided simply by negotiating leases which are as long as the useful life of the improvements -- ten or twenty years. The leases have been deliberately held to shorter terms for a reason: DMV was not sure two years ago what the future of these agencies would be. The Department of Law and Public Safety was considering other possible plans for regionalizing its facilities -- some of the kinds of things you heard this morning.

The Department had no desire to be locked in, and with good reason -- and with better reasons, from what we heard this morning. The shorter term leases provide the benefit of flexibility, enabling State agencies to react to changes beyond their control, and adapt facilities to those changes, such as the photo I.D. license approved by the Legislature, which is going to take more space. That's why those buildings are going to have to be 2,000 or 3,000 square feet.

I can assure you that if we negotiated the ten year leases to avoid this so-called landlord benefit, we would be back here before some committee explaining what the State was supposed to do with all these vacant offices, still under lease, that are of absolutely no value to anybody.

Now, finally, it has been suggested that base rents are excessive. Now, as a general proposition, the Committee ought to understand that State lease costs per square foot tend to be expressed at a higher rate -- not because the rent is higher, but because of the way the State measures its rentable space. For example, we exclude boiler rooms from rentable area, as well as the outside walls. If the State shares a building, our rentable area does not include corridors, common bathrooms, and shafts. The State's base rent also tends to include more of the services which, in typical private rent situations, are additional tenant costs. So, anyone comparing our lease costs

should examine carefully any claim concerning a comparable rent before making any judgments.

Before we get into specifics now with Caesar, a word on comparability is in order. It has been suggested that our comparables are misleading, in that the documents initially used for comparison purposes refer to other State motor vehicle agencies, rather than comparable private sector leases. We use our own comparables because our experience demonstrates that our effective rents are consistently below that of the private sector for comparable space. That is a fact which any number of landlords and brokers can verify. They will tell you the reason is that lessors consider the State a secure tenant who doesn't leave town with an unpaid rent bill. And, in many cases, we do our own negotiating, so the owner doesn't have to pay a broker's commission.

If it becomes necessary to validate the base rents with outside comparables, we are always prepared to do so, and Caesar Iacovone will do so very shortly.

We used other motor vehicle leases for comparables because this demonstrates whether or not the State is consistent; whether it plays the same game by the same rules with all of the owners of property. And, that is why we disclose fully all of the elements which enter into that rental, including the profit, when we can determine it. That, by the way, is one of the ways you make sure people don't play games.

It would be much easier, and conveniently bureaucratic, to just give the bottom line without the full disclosure. Then we wouldn't be here discussing interest rates and construction costs. That's the way business used to be conducted years ago, and we believe it is in the public interest simply to demonstrate that consistency and to make that full disclosure.

I want to leave a copy with you of what the Legislature was sent in 1971, when we leased an Arnold Constable store downtown for State agencies, 145,000 square feet. We found out later on that it had a 10% founder's fee for a couple of politicians. When you take a look at this, you will figure out just exactly how that could happen. I was a reporter then.

ASEMBLYMAN FLYNN: Do we all have copies of this?

MR. JOSEPHSON: I only made one.

ASSEMBLYMAN FLYNN: All right. We will make it part of the record.

MR. JOSEPHSON: I was a reporter then and I didn't catch it, and I don't see how I would have.

Here is what we do today. This is a lease for the Casino Control Commission, and it is all there, including the rate of return, what happened to the Commission, how much money was put in upfront, and what the comparables are. It may be wrong, but that is our best shot. It is not like the one for the Arnold Constable building.

ASSEMBLYMAN FLYNN: How would you ascertain there was a finder's fee if it wasn't made public?

MR. JOSEPHSON: Well, when you begin to look at the typical components that go into a lease -- and they don't change all that much -- there is janitorial, there are "norms" for construction, and as you go through it, little by little you are going to find out one of two things: either the guy has an excessive rate of return, or somebody is sharing it.

Now, finally, I think the thing that really has to be stressed is that all these elements really go into making the bottom line, and what you are really dealing with is a simple fact of life: the owners are only concerned with the bottom line. We may choose to break it down into components for informational purposes, but the owner is looking for a certain amount of dollars each month, and the real negotiation here focuses on the base rent. That's what is on the table; that's when the taxes are on the table -- the depreciation, the profit, whether he can get his brother-in-law to put the air conditioner in, etc. It is there to be negotiated. You get as much of it as you can.

We have had owners who have said to us, "I don't care how you measure it. I don't care whether you call it amortization. I want \$800 a month, and if you don't give it to me you can't have it." It is a question of supply and demand, and if the State has options it is in a better position to negotiate. And, if there are limited options, the price tends to increase, no matter how much someone exercising hindsight may wish otherwise.

I will leave you with another little sheet because I think it really illustrates what I just said about taxes. The tax laws have changed, but basically there are tax advantages in real estate. They weren't invented last week by some experts, and I just wanted to leave you with a list of four leases we negotiated in 1979 and 1981 for 93,000 square feet, a million and three-quarters in improvements and no return on equity. Why? Because we were lucky. They were looking for a tax shelter. They didn't want to make any money. They told us that. They just said, "Don't let us lose too much." When you get them you take them, and when you don't get them it's too bad. You can look at that list here.

Caesar will deal with the three leases.

ASSEMBLYMAN FLYNN: Before you leave, we have a few questions.

MR. JOSEPHSON: Well, however you want to do it. The questions may have more meaning when you hear about these three leases,

ASSEMBLYMAN GILL: I suspect mine are not going to be on procedure.

MR. JOSEPHSON: Okay.

ASSEMBLYMAN GILL: May I start now, Mr. Chairman?

ASSEMBLYMAN FLYNN: Yes.

ASSEMBLYMAN GILL: In the first two minutes of your presentation you talked about eleven leases being open, eight of which have been recommended for approval by the so-called expert.

MR. JOSEPHSON: Yes, Ralph Pizer.

ASSEMBLYMAN GILL: He did not testify last Thursday, did he?

MR. JOSEPHSON: No, in fact I believe he is in the hospital.

ASSEMBLYMAN GILL: Do you have any idea why, if the expert did recommend that the leases were to be signed, they were not signed?

MR. JOSEPHSON: No, I don't, except what Speaker Karcher told you the other day -- what he didn't like about them.

ASSEMBLYMAN GILL: The bottom line as far as your organization is concerned, is all eleven of these -- or at least those eight -- should have been signed?

MR. JOSEPHSON: Yes.

ASSEMBLYMAN GILL: All right.

ASSEMBLYMAN HENDRICKSON: My follow-up may be a little redundant. If I understand this correctly, the Speaker, or anyone inquiring into the leases, never really did the homework to go into just exactly what has been done throughout the area concerning your leasing procedure -- at least at this particular time?

MR. JOSEPHSON: Well, I must tell you that I don't think

ASSEMBLYMAN GILL: All right.

ASSEMBLYMAN HENDRICKSON: My follow-up may be a little redundant. If I understand this correctly, the Speaker, or anyone inquiring into the leases, never really did the homework to go into just exactly what has been done throughout the area concerning your leasing procedure -- at least at this particular time?

MR. JOSEPHSON: Well, I must tell you that I don't think very many people have. It is very distressing to sit there and hear these generalizations. They are all public record. I can't think of more than four times in the last eight years when a reporter got up off his or her duff to come over and look at them, let alone a Legislator. Everybody has an opinion on leases, but they never read them.

ASSEMBLYMAN HENDRICKSON: Just one other question. Could we have the Paterson lease also? That \$17.15, has that been approved?

MR. JOSEPHSON: That \$17.15 was approved, yes.

ASSEMBLYMAN HENDRICKSON: Do you find too much of a differential between the Matawan lease and the Paterson lease?

MR. JOSEPHSON: No, I'm just saying that I think--

ASSEMBLYMAN FLYNN: Isn't Paterson \$14.75?

MR. JOSEPHSON: \$17.20 is the effective cost. That includes everything. That is equivalent to the \$19.60 we have heard about in Matawan and the \$18 "something" we heard about in Flemington.

ASSEMBLYMAN FLYNN: You are including the maintenance.

MR. JOSEPHSON: Yes. Well, that's what Speaker Karcher does. We could very easily have said, "Don't worry about maintenance. Don't worry about electricity." But, that is part of the real cost of a rental. And, some leases include electricity with escalators, some include the janitorial with escalators. If you are really going to compare this stuff, you have to run them all out to the effective cost

so you can see what it really costs you to run the building, because in some cases the landlord pays and in some cases the State pays. And, the bottom line is really all you ought to be interested in.

ASSEMBLYMAN MAZUR: That maintenance factor was included in Mr. Karcher's \$19 for Matawan?

MR. JOSEPHSON: That's right. Matawan is \$17.10 without the electricity and the various maintenance items. That is the rent.

ASSEMBLYMAN MAZUR: What is the Paterson property? What kind of a building is it? What are we talking about? Is it a high-rise office building?

MR. JOSEPHSON: I believe it is retail space.

ASSEMBLYMAN FLYNN: Downtown?

MR. JOSEPHSON: Yes.

ASSEMBLYMAN MAZUR: You mean it is a storefront?

MR. JOSEPHSON: It is a storefront, yes.

ASSEMBLYMAN FLYNN: There is about \$2.30 difference between the two, as far as I can see. Is that about right?

MR. JOSEPHSON: Well, the point I think that has to be made here is -- and I should have made it before -- we asked Speaker Karcher, and I think this was a reasonable request, why he couldn't give us the outside amount of money that he was prepared to spend. I think that anyone who is negotiating for someone else ought to get that kind of parameter. He has yet to answer that, and he wouldn't tell you here. He did tell a newspaper reporter that \$14 is about as much as he would spend in Matawan.

I did a little calculation here, where if you assumed that all the leases he doesn't like were negotiated down to \$14, we would save \$20,000. That is what--

ASSEMBLYMAN FLYNN: Well, he indicated that some of the ones he didn't like were because of the renovation factor. There was one that had a fairly low square footage, but there was a tremendous renovation figure.

MR. JOSEPHSON: The only point I was making about Paterson is, \$17 is more than \$14, so is \$18.86, and so is \$19.61. If \$14 is about where he is comfortable, then that is where we ought to go, and we ought to see if we can find space like that. I don't think we will, but we ought to take a shot at it.

But, it seemed to me that Paterson was a little different from the others.

ASSEMBLYMAN FLYNN: Do we have two in Paterson -- two agencies? Because there are two on the list.

MR. IACOVONE: One is a temporary site.

ASSEMBLYMAN FLYNN: Oh, I see. The temporary was a month-to-month.

ASSEMBLYMAN HENDRICKSON: Mr. Chairman, it was my question. If I can just pursue it. I allowed my associate, Mr. Mazur to continue.

Just one other point. I am happy with your expertise and professionalism when talking about leases, because each investor does require an entirely different financial arrangement in leasing property for reasons of their own, which are many. And, you brought that up, and I tried to bring that out prior to this.

One other thing I want to bring up is, \$7.50 was mentioned in some of the conversation last week for an A & P Store, but it wasn't added that that might be a percentage lease. When you are talking about supermarket leasing and that type of traffic, that is not the end of the lease; that square footage is one part of the lease, but there is a percentage on the gross and many, many other areas that have a direct bearing on the bottom line of the lease. I think that had to be brought out. Because when you talk about \$7.50 a square foot, you have not read the lease properly, when it concerns a supermarket.

MR. JOSEPHSON: I think nothing will illustrate that better than when Caesar shows you this \$12.25 bargain we heard about, down the street from the Matawan property -- some bargain.

ASSEMBLYMAN KAVANAUGH: This Mr. Pizer -- I don't know Mr. Pizer -- has he been in contact with you, and sat down with you, and discussed the way you--?

MR. JOSEPHSON: I have had brief discussions with him. He has had extensive discussions with Caesar Iacovone.

MR. IACOVONE: When Mr. Pizer was hired approximately three months ago.

ASSEMBLYMAN KAVANAUGH: Hired by whom?

MR. IACOVONE: By the Office of Legislative Services, to conduct a review of leases on behalf of the Legislature. There was a backlog of approximately 339 to 340 leases. I worked in conjunction with Mr. Pizer answering his questions. We worked nights for approximately three weeks going through this backlog, until all of his questions were satisfied on these leases. The bottom line was that the 339 were processed, with three question marks -- the three that we are talking about.

ASSEMBLYMAN KAVANAUGH: So, Mr. Pizer has been employed by OLS?

MR. IACOVONE: Yes. Correct.

ASSEMBLYMAN KAVANAUGH: To review--?

MR. IACOVONE: As an independent reviewer.

ASSEMBLYMAN KAVANAUGH: Has this ever been done before?

MR. IACOVONE: There were reviewers, but, again, that is a question that should be addressed to OLS.

ASSEMBLYMAN KAVANAUGH: Is is on a per diem basis?

MR. IACOVONE: I haven't the foggiest idea. We have found him to be, as far as I am concerned in my dealings with him--

ASSEMBLYMAN KAVANAUGH: Mr. Chairman, could we find out what types of expenses are being incurred by OLS for his reimbursement?

ASSEMBLYMAN HENDRICKSON: And, also his qualifications and background, if I may add that. We would like to know exactly--

ASSEMBLYMAN FLYNN: I would think we should call him in as a witness.

MR. JOSEPHSON: For your information, he is undergoing open heart surgery.

ASSEMBLYMAN HENDRICKSON: We are not going to get him for a year.

MR. JOSEPHSON: He will be back in August, approximately.

ASSEMBLYMAN FLYNN: I would like to have him in, and if that is not possible, I would at least like to have a written report from him, since apparently he has some expertise in the area. We will find out exactly what his expertise is. What did you find? Did you find he knew what he was talking about?

MR. IACOVONE: Definitely. He is a competent individual. He asked all the hard questions.

ASSEMBLYMAN FLYNN: And, you had all the good answers?

MR. JOSEPHSON: There are still about fifty of them pending approval, but out of the three hundred and thirty-nine, three hundred and thirty-six were, in fact, recommended.

ASSEMBLYMAN FLYNN: It is just the three in our packet today that he hasn't approved?

MR. JOSEPHSON: Yes.

ASSEMBLYMAN FLYNN: We have three in our packet.

ASSEMBLYMAN KAVANAUGH: Did he have questions on those three leases, or did he not approve those three leases?

MR. IACOVONE: He did not recommend them for approval. I don't know all of the inside details because I am not privy to his reports on these things.

MR. JOSEPHSON: We did see a copy.

ASSEMBLYMAN KAVANAUGH: Where is his report on those three issues?

MR. JOSEPHSON: It would go to the legislative approval officials.

ASSEMBLYMAN KAVANAUGH: Could it be made available to the Committee?

MR. JOSEPHSON: I think you may have it. All it simply says is that the effective cost is too high. I interpreted that as a judgment by him that if a building could be found that didn't have as many renovations to do, it would be preferable. It was not saying that the base rents are too high. In fact, in the case of Woodbridge, he pointed out that the base rent was according to standards. But, that is what Caesar will point out to you.

ASSEMBLYMAN GILL: To the best of your knowledge, out of the eleven leases in question -- motor vehicle leases -- he recommended that eight of them be approved?

ASSEMBLYMAN FLYNN: For the benefit of the Committee, since some of you may not have brought yours with you, let me go over the three reports. Flemington is the first one. Flemington is reported as follows: The effective rate of \$18.82 per square foot is too high. The 18% interest on renovation charge -- the \$27,000 -- is also too high. A lower effective rate should be located in a general area where DMV requires space. That's the one for Flemington.

Now we have one for Woodbridge. It says: The \$18.42 per square foot effective rate is much too high, so the \$46,000 renovating cost translates to \$8.70 per square foot of the effective rate and is far too great. Retail store space on Main Street in Woodbridge is going for \$7.00 to \$9.00 per square foot. I would advise that 1,000 square feet would run about \$500 to \$600 per month. The former tenant paid \$650 per month for space.

MR. IACOVONE: We were not furnished any report on the Matawan location. That information came from us.

ASSEMBLYMAN FLYNN: That is part of your file.

MR. IACOVONE: Right.

ASSEMBLYMAN FLYNN: Okay. So, hopefully, we can get Mr. Pizer in and get the basis of his conclusions, because obviously these are conclusions rather than a factual analysis. We will do that after he has recovered from his surgery.

Now, have you finished with Mr. Josephson? Are there any questions on that side? (no response)

I have one other question I would like to ask. You have a dozen people on your staff. Is that your whole staff?

MR. JOSEPHSON: That's it.

ASSEMBLYMAN FLYNN: A dozen professionals?

MR. JOSEPHSON: Yes, and one vacancy.

ASSEMBLYMAN FLYNN: And, you have to go over seven hundred leases on an every two or three year basis, is that correct?

MR. IACOVONE: Our productivity is approximately 325 leases a year.

MR. JOSEPHSON: A lot of them, in the last year, have been month-to-month, or one-year renewals, because of so much uncertainty about government programs in general.

ASSEMBLYMAN FLYNN: I believe you were both here when Mr. Marzell testified as to the optimum way to do a lease. And, I say optimum because you would probably have to spend a lot of time to do it that way. Under your present staffing, do you have the kind of time to do what Mr. Marzell suggested?

MR. JOSEPHSON: No, and I don't believe it is even necessary to do it quite the way he did it, for this reason: I think what Mr.

Marzell is reflecting, is what the private sector would do -- say, for example, if Sears wanted to open up a northeastern regional office, somewhere between Boston and Washington, and they were going to spend a lot of money on it. They sure would make all those locational decisions. But, I think when you are talking about State leasing, and the kind of leases you are talking about, with program realities that limit your options -- the basic kind of leases you are talking about -- I don't think you are going to need that kind of attention. And, I submit also that for the small things it would be a misapplication of resources, because I think essentially you are working with some marketplace realities that narrow the number. Now, when you look at some of the larger leases we have done, we have devoted that kind of attention to them, we have applied all the basic real estate principles; and I think the Legislature should do likewise.

So, it is a question of priorities, and as I said at the outset, before we have another bloated bureaucracy that simply reacts to symptoms instead of to the underlying causes, what we ought to do is get rid of the leases. We ought to have a building in New Brunswick or in Jersey City that has all our space in it, and not have to deal with leases. By the way, that is not going to be a cheap lease, when we have it in one of those cities. It is going to be \$17 or \$18 to build it new, but I will tell you that two-thirds of it is going to be locked in for thirty years, and it will be looking pretty darn good in 1995, because nobody will be paying for it then.

ASSEMBLYMAN FLYNN: You heard of the "Little State House Concept," where around the State you have little State Houses that have a full panoply of State services, haven't you?

MR. JOSEPHSON: Exactly.

ASSEMBLYMAN FLYNN: That would be the ultimate goal you would recommend?

MR. JOSEPHSON: That's right. Absolutely. And, by the way, I think this is a good time to say that lest any of my remarks today be interpreted as an expression of Administration policy, or the policy of a new Director, who is visiting the Judiciary Committee this morning, I am speaking for myself, and I can in no way tell you whether Richard Kaempfer agrees with anything I have said.

ASSEMBLYMAN FLYNN: This is based on your experience though?

MR. JOSEPHSON: That's right.

ASSEMBLYMAN FLYNN: Is your Division also in charge of the Division of Vocational Rehabilitation leases?

MR. JOSEPHSON: Yes.

ASSEMBLYMAN FLYNN: I recently saw an article in the New Jersey Monthly. Somebody has probably called it to your attention. Have you seen that article in the New Jersey Monthly?

MR. IACOVONE: No, I haven't. But, I think there are two different types of leasing activities that you are talking about. We provide leased facilities for the operation of the Division of Vocational Rehabilitation. They, in turn, may contract for services, and those contracted services may include leased facilities. That they may do independently.

ASSEMBLYMAN FLYNN: You see, the article mentioned that whichever division is in charge of this admitted, or acknowledged, that they don't have time for onsite inspections because of their overburdened situation. And, they pointed out in the New Jersey Monthly article that they were in a five story building, the office was on the fifth floor, and the elevators weren't working, and hadn't worked for a long time. You know, it was one of these typical "look at the State, and how the State bureaucracy is" again. So, I was just curious to know if that is true -- that you just don't have that kind of time to go and look at these sites.

MR. JOSEPHSON: Well, I don't know which leases you are referring to. They may be the kind that Caesar is talking about.

ASSEMBLYMAN FLYNN: It is a Vocational Rehabilitation office, where people go to file their claims, I suppose, and get services. The one in Jersey City is in the June New Jersey Monthly.

MR. IACOVONE: Oh, the Jersey City one.

ASSEMBLYMAN FLYNN: Yes.

MR. IACOVONE: Okay. That is a building we have been trying to get out of for about twelve months. As a matter of fact, the lease is pending Legislative approval. The replacement site requires construction of a new building, and it is true that there are problems with that building. There are elevator failures. We have been trying to get out of there for a long time.

ASSEMBLYMAN FLYNN: Would you say the article is somewhat distorted in terms of the statement that you don't have the time to look?

MR. IACOVONE: No, we have a solution. The solution is right before the Legislature, awaiting approval.

MR. JOSEPHSON: And, the long-term solution is an office building in Jersey City.

MR. IACOVONE: Correct. This is an interim solution.

ASSEMBLYMAN FLYNN: A little State House?

MR. IACOVONE: Right.

ASSEMBLYMAN FLYNN: Are there any other questions of Mr. Josephson before I excuse him and we go on to Mr. Iacovone?

ASSEMBLYMAN HENDRICKSON: I would just like to commend him for his expertly written article.

ASSEMBLYMAN FLYNN: Yes. Could we have a copy of that?

MR. JOSEPHSON: Yes. I just noticed as I was going over it that there were some typos, but it is on a word processor and you will have a corrected copy in one-half hour.

ASSEMBLYMAN FLYNN: Okay. Thank you.

Mr. Iacovone, would you raise your right hand, please?

WITNESS BEING DULY SWORN, TESTIFIED AS FOLLOWS:

C A E S A R I A C O V O N E: Okay, some questions have been raised about specific leases, three in particular -- the Matawan, Woodbridge, and Flemington Motor Vehicle Agencies. So, I would like to just run through those leases and some comparability studies we have done with the private sector, to give you an indication as to why we recommended these particular sites.

What I am going to do is reiterate the questions that have been raised against each of these leases.

The first one concerns Matawan. That seems to be a very controversial lease, one that is on everybody's mind. The first statement is that the base rent appears excessive. Well, the base rent for the property is \$12 per square foot, as measured by the State. As indicated earlier, we measure from inside walls. We don't count boiler rooms. We are concerned about what can fit into the building, and not how thick the walls are, etc.

The State measurement for the space is 1300 square feet. Measured from the outside walls, the space actually measures 1500 square feet, making the base rent, incidentally, \$10.40 per square foot, by the owner's measurement. This rental includes taxes and maintenance. The original asking price from the owner was \$12 per square foot, based on his measurement, plus \$2 for taxes and maintenance. Our negotiated price reduced it. That converted price, by our measurement, would be \$13.54 per square foot. We saved \$1.54 in the base rent through negotiations.

There are some comparables in Matawan. There is a 1500 square foot block of space, located across the street from the subject, in a small combination retail office complex. It is renting at \$12 per square foot, plus taxes. All finishing is by the tenant, and utilities are also extra. I might add that all these comparables that I am going to give you are based on the private sector measurements. If they were converted to our measurements, the prices would be proportionately higher.

There is a 1000 square foot block of space in a moderate sized shopping center, approximately three-quarters of a mile south of the subject, also on Route 34. The rental is \$11 per square foot, plus a pro rata share of common area maintenance. Tenant finishing and all utilities are extra. This space doesn't meet our size criteria, by the way. It is 1000 square feet, measured from outside walls. Nor does it have a secondary means of egress. That means there is one door in and one door out. We don't rent a building like that for State operations. It is a fire trap.

ASSEMBLYMAN FLYNN: In the Matawan one did we build another door?

MR. IACOVONE: Yes, we did. There are actually three doors.

ASSEMBLYMAN FLYNN: Couldn't you do that with the building you just mentioned?

MR. IACOVONE: No, with that one you couldn't because it is located in a back-to-back shopping center.

ASSEMBLYMAN FLYNN: Okay.

MR. IACOVONE: Okay. The next comparable: this is the cream puff that was referred to us, down the street. It is a very nice piece

of property, by the way. There is a 1500 square foot unit, located approximately two and one-half miles south of the subject in a new plaza-type, small shopping center. The base rent is \$12.25 per square foot. The lease term is restricted to a three year maximum. That's it. Options: You can get a renewal option at \$15 a square foot. The tenant finishing and all utilities are extra. Incidentally, this space is being rented as a finished shell at the quoted price. That means there is no air conditioning. There is no floor. You start with a dirt floor. Electric is brought to the building only. Everything else is extra.

It has been suggested that the Matawan base rent is excessive simply because the prior tenant paid less. The prior tenant was a month-to-month occupant of approximately half the building. It was shared with the owner. The owner stated that this month-to-month tenant paid \$600 a month, or \$9.60 a square foot. All finishing was done by the occupant, and the occupant was responsible for all utilities. The tenant was Walter Blane, the unpaid agent in the subject transaction -- and I understand a family friend of the owner. I cannot control the fact that an owner will give a bargain to a friend or a relative.

ASSEMBLYMAN HENDRICKSON: It is okay if your brother-in-law paid for it.

MR. IACOVONE: Exactly.

ASSEMBLYMAN HENDRICKSON: I just want to comment how tough it is to get that information. That information is like getting hen's teeth out of most of the investors.

MR. IACOVONE: Incidentally, if any of you would like to follow along, I do have extra sets of this.

ASSEMBLYMAN HENDRICKSON: The information that has the influence on the lease is very difficult to get. It takes a lot of time to acquire it. I am sure you know what I am saying.

ASSEMBLYMAN FLYNN: One area that seems to cause some people confusion -- and maybe you can clear this up for us -- concerns Matawan. On the notice of proposed lease, somebody tacked in as the lessor the person that you are saying is the tenant. You will notice that you say in your packet: "The lessor, Walter T. Blane." That probably caused a lot of confusion.

MR. IACOVONE: All right.

ASSEMBLYMAN FLYNN: Is that an error?

MR. IACOVONE: No. All correspondence was done with Blane, who was acting on behalf of the owner. As part of that transmittal to the owner, we require a disclosure statement. If you will notice in that package, there is a statement that gives the ownership as well. It happens to be the long sheet in the package that you have right there. I'm sorry, it is in the package regarding the lease.

ASSEMBLYMAN FLYNN: Is this it?

MR. IACOVONE: Yes. In there there should be an eight and one-half by fourteen sheet of paper, and that is received after negotiations are consummated. It is a little further back in that material.

In any event, there is a full disclosure of ownership.

ASSEMBLYMAN KAVANAUGH: Keep in mind during this whole discussion, so it is clear, the comparable square foot cost, based on what is the everyday, accepted, public interest. There are 1500 square feet at Matawan, and that would be \$10.41 -- is that what you said?

MR. IACOVONE: Ten dollars and forty cents.

ASSEMBLYMAN KAVANAUGH: Ten dollars and forty cents.

MR. IACOVONE: That includes taxes and maintenance.

ASSEMBLYMAN KAVANAUGH: Okay. So, when you are talking about these other properties, I think for the Committee to be clear on it, instead of switching gears, we should use what is readily accepted in the industry, 1500 -- even though you are basing it on 1300. We should figure \$10.40 a square foot.

MR. IACOVONE: As opposed to what these comparables are renting for.

ASSEMBLYMAN FLYNN: Why does your Department do that? It makes it much tougher then for comparison purposes.

MR. IACOVONE: Why do we do that?

ASSEMBLYMAN FLYNN: Yes.

MR. IACOVONE: Okay. When we go through the space approval process, we are very, very concerned about what will fit in a block of space. For example, if you were going to rent the State House or the Annex, those walls are fourteen to sixteen inches thick in some areas,

and two feet thick in other areas. Somebody might measure this building and take into consideration the thickness of the walls, the thickness of all these interior walls that are bearing walls, and say, "you have so many square feet in that space." When you lop that off, you might find there is a ten to fifteen percent differential in it.

ASSEMBLYMAN FLYNN: Why does the private sector do it the other way?

MR. IACOVONE: Well, the private sector has no uniform standard for measurements. Some of them measure from the inside surface of the glass. Some of them measure from outside walls. That is why we prefer to take our measurements, so we know what has to go into the building. Obviously, as Earl indicated earlier, they have a bottom line, we will negotiate that bottom line, we will convert their measurement to our rental measurement. They are not interested in rounding off the square footage to five decimal places, but we are doing it so that we are sure we are renting sufficient space, based on the needs between walls, inside what is there.

ASSEMBLYMAN HENDRICKSON: Usable space.

MR. IACOVONE: Exactly.

ASSEMBLYMAN FLYNN: We are running short of time, so I want to get to some key questions. On all these leases, it looks like the standard is not to have an option to renew beyond the five years. Now, wouldn't it be better, since we are putting in \$29,000 worth of renovations, to have options to renew?

MR. IACOVONE: In all of our three year leases, we attempted to get two one-year renewal options. When you go to five years, because of the volatility in the financing market today and balloon mortgages, etc., nobody is usually willing to give you an option at that point in time.

ASSEMBLYMAN FLYNN: Do we try?

MR. IACOVONE: Sure.

ASSEMBLYMAN FLYNN: For example, take these three, did we try to get options to renew these?

MR. IACOVONE: Sure. As a matter of fact, one of the comparables I just quoted you lists a lease term of a three-year maximum, and they are quoting a renewal price of \$15.00. In this case,

these people are saying, "No, five years. Whatever the costs are at that time, we will sit down and renegotiate them." That's not an option. There is no sense putting an option in a lease that says, "At a price to be negotiated at termination of the existing lease term."

ASSEMBLYMAN FLYNN: There is some language that has just been approved in one case -- similar language to that -- where the renewal would be at a fair market rental at the time, and extend, subject to arbitration, if one party or the other feels the person who refuses to enter into the lease is being arbitrary.

MR. IACOVONE: Okay.

ASSEMBLYMAN FLYNN: It was upheld in a recent case.

MR. IACOVONE: Okay. The definition of a fair market value is the highest price that a willing buyer and a willing seller will enter into.

ASSEMBLYMAN FLYNN: It can be determined.

MR. IACOVONE: Okay. I'd rather negotiate the lowest price I can and not be concerned about fair market value. I think the comparables I have given you here for Matawan indicate that what we are really paying for Matawan is base rent. It is well below the prevailing market, and getting the functional utility we need.

ASSEMBLYMAN FLYNN: I don't want to pick your analysis apart, but I disagree with you because the ones you are comparing it with aren't quite comparable. The shopping center across the street happens to be a very, very brand new, high-class shopping center, as opposed to a block building. But, I don't want to get into arguments with you because I am trying to learn something.

MR. IACOVONE: Okay.

ASSEMBLYMAN FLYNN: What about the fact that we pay for the renovations at 18%, when if we paid for them ourselves, like we did the \$5600 formica counter, we wouldn't pay any interest, other than the interest that the State pays when it goes out to bond, which is maybe 9% or 10%?

MR. IACOVONE: Okay, as Earl indicated, that would require an upfront appropriation by the Legislature in order to pay for these things. However, here is a list of prime rates.

ASSEMBLYMAN FLYNN: The State doesn't pay the prime rate; that's my point.

MR. IACOVONE: No, but the State also has opportunity costs, and when the prime is high the State's investments also bring in a higher return as well.

MR. JOSEPHSON: I think there are two issues. One is whether it would have been better for the State, as a business proposition, to put all the money upfront. The other thought is whether or not, if it decided not to do that, the interest rates that were structured into this were unreasonable. Now, we prepared this chart here to show you that in almost every one of the cases where we had 18%, at the time it was negotiated it was one and one-half percent over prime, and I would suggest to you that that is about as good as you can do.

Now you get into the other issue: If the prime falls, what would happen to that person today? It was suggested by Speaker Karcher that one and one-half percent over prime wasn't a bad way to go, and what we are showing here in Matawan is that is exactly what the assumption was based on, I believe.

MR. IACOVONE: Well, in Matawan, at the time we negotiated the lease, which was June of 1982, the prime was sixteen and one-half percent, and the amortization of improvements at that time was eighteen percent -- one and one-half above prime prevailing for the market.

ASSEMBLYMAN FLYNN: But, my question concerns the whole policy of paying interest rather than having the State pay it. You say that requires an appropriation. But, when has anybody either in Motor Vehicle or in your Division ever come to the Legislature and said: "Hey, we can save a lot of money by doing it a different way. I would certainly think we could save at least maybe half."

ASSEMBLYMAN KAVANAUGH: If you look at it, we have to raise \$875,000 -- figure \$865,000 -- in an appropriation.

ASSEMBLYMAN FLYNN: For Motor Vehicle.

ASSEMBLYMAN KAVANAUGH: You take the loss we have in our investment portfolio for that period of time, and you probably really wouldn't come out ahead.

ASSEMBLYMAN FLYNN: Where do we lose money?

ASSEMBLYMAN KAVANAUGH: If we have this money invested--

ASSEMBLYMAN FLYNN: If we have a bond issue for capital construction costs, where do we lose money?

ASSEMBLYMAN KAVANAUGH: Well, you are going to have to pay interest on the bond -- say 10%, or whatever the bond returns.

ASSEMBLYMAN FLYNN: Let's say when the prime was sixteen and one-half, the State probably could have gotten ten, maybe less.

MR. IACOVONE: A little bit higher. You have two numbers. The State would have to borrow the money if it wanted to get it at ten or eleven. They would be investing it at fourteen, fifteen, or sixteen percent, short term kind of money.

ASSEMBLYMAN FLYNN: That's where you lost me, investing what?

MR. JOSEPHSON: If the Motor Vehicle fees aren't spent, then they are put in the General Fund, and they become part of your revenue, and the money is invested by the State until it is needed.

ASSEMBLYMAN FLYNN: But, I am talking about having a separate bond issue to cover capital for all these seven hundred leases we are talking about, not just Motor Vehicle leases -- all of them. A Capital Construction Bond Issue -- that money isn't going to be lost in some of the cash management problems.

MR. JOSEPHSON: I think it is really a worthy subject to review, but in a larger context. If you go back to Jerry Siliphant's report, in 1973 he talked about some of the factors you have to consider -- when the State ought to own and when the State ought to lease, and Jerry's bias was clearly for ownership. But, he pointed out that you are better off leasing when a program's characteristics are uncertain.

As you see here -- just to make this observation this morning the demographics of New Jersey change, and I think some Director of Motor Vehicles may decide when there is a huge housing project in Salem ten years from now, he wished he had a motor vehicle agency there, or maybe in Gloucester. So, I think with all these programs you really have to make the judgment, "Where is the State going to be in the year 2,000?"

ASSEMBLYMAN FLYNN: But, you are talking about buying now. We are on a limited subject right now, not buying but renovations. The renovations are here and now and we have had to do them.

MR. JOSEPHSON: All right, the renovations come down to a cash flow type of issue, which you should really talk to Director

Hofgesang about. We bought the computers. We elected to have a lease/purchase for these very same computers because the State didn't have one million nine hundred thousand dollars to put upfront for the computers. I think it is a question of how to best manage your money, and it is really beyond our ability to make that judgment, except to tell you that it is the kind of thing that businesses have to do all the time. Perhaps if they weren't running a six point five billion dollar budget on a twenty-two million dollar surplus, they might have the ability to make those kinds of judgments. But, I think it is a luxury right now.

ASSEMBLYMAN MARSELLA: Bill, one thing, we are really going to have to go into this.

ASSEMBLYMAN FLYNN: We are going to have to break and continue this. I am not sure which date we will choose. We will notify you as to the new date.

This hearing is now concluded.

HEARING CONCLUDED