FISCAL YEAR 2005 OPERATING BUDGET TESTIMONY
DEPARMENT OF GENERAL SERVICES
BOYD K. RUTHERFORD, SECRETARY
FEBRUARY 5, 2004

HOUSE APPROPRIATIONS COMMITTEE
PUBLIC SAFETY AND ADMINISTRATION SUBCOMMITTEE

General Introduction

Good afternoon. Thank you Madame Chair and the Committee for the opportunity to speak to you about the Department of General Services' budget and operations.

Let me offer a brief DGS primer for those who are unfamiliar with the Department. DGS is comprised of the following units: DGS Police and Security Operations, Planning, Design and Construction; Procurement and Logistics; Real Estate; Facilities Operations and Maintenance; and the Administrative Division. Each of these units is supported by a professional staff with expertise in their respective area of responsibility. Additionally, the Office of the Secretary consists of the Office of External Affairs and the General Counsel's office.

I have now been DGS Secretary for over a year. I have had an opportunity to review the Department on a unit-by-unit basis. As a result, much has changed at DGS over the past year. A brief explanation of those changes is as follows:

- The Office of Procurement and Contracting and the Logistics and Special Projects unit were combined to create the Procurement and Logistics Division.
- The DGS Police unit was taken out of the Facilities Operations and Maintenance Division and made an independent unit reporting directly to the Office of the Secretary.
- The Maryland State Agency for Surplus Property (MSASP) was moved from the Facilities Operations and Maintenance Division to the Procurement and Logistics Division.
- Finally, the Office of External Affairs was created to manage all public information for the department and serves as its liaison for legislative matters.

Historically, the DGS operating budget is less than one percent of the State Operating budget. However, DGS is responsible for almost 10 times its operating budget in terms of construction, real estate, and procurement services. It is through a collaborative, cross-functional approach, both internally and with our customer agencies, that we are able to achieve our mission, while doing more with less.

DGS Budget Priorities

The fiscal year 05 DGS budget shows an increase of $3.6 million (4.8%) over the fiscal year 2004 appropriation. The increase results primarily from funding added for facility maintenance and upkeep, operating costs increases, annualization costs for the Silver Spring District Court/Multi-Service Center, and costs associated with historic and overdue renovations for the State House in Annapolis.

Facilities Planning, Design, and Construction

The FY05 budget request exceeds the FY04 request by $500,000. A number of construction projects are underway and a handful are expected to break ground in fiscal year 2005. To date there are 24 projects in the preconstruction phase these projects include the Lowe House Office Building renovation and addition; the new State Police Barracks and garage in Easton; and several projects at St. Marys College of Maryland.

We expect to see the completion of a number of our active projects including the Reginald F. Lewis Museum of Maryland African American History and Culture; the Department of Public Safety Training Center in Carroll County; and the Silver Spring District Court this year.

Facilities Operations and Maintenance

The Facilities Operations and Maintenance budget involves three key components. Contractual services, building maintenance and grounds maintenance are critical to the operation of the 55 buildings and 6.5M square feet of space operated by the Division.

Contractual services include janitorial services, as well as maintenance contracts for HVAC systems and other facility operations. Providing State employees with a safe and pleasant work environment is critical for their well being and productivity. Regular maintenance of facility operating systems allows us to continue to maintain a pleasant work environment.

Many facilities are in need of major repairs and renovations. Putting funding into Life Safety, Risk Reduction and Facility Renewal Projects will help make our State facilities pleasant places to work and from which to operate the State well into the future. Dealing with maintenance issues effectively can save the State a great deal of money in the long run. Our goal is to tackle the most pressing maintenance and renovation problems at State facilities as soon as possible and then assess the remaining concerns and determine how soon they can be addressed. With the appropriate State funding, we are confident that many facility maintenance problems can be addressed right away.

Additional Priorities

Procurement Training

As one of the State's primary procurement agencies, we want to excel in our procurement process – as the field increases in complexity, we want our procurement officers to stay in front of the competition to garner the best deals for the State. In order to do this we must give Procurement Officers the opportunity to obtain professional certification. The Certified Professional Public Buyer and Certified Public Purchasing Officer certifications will give our Procurement Officers the tools they need to make educated procurements for the State and result in a significant cost savings. In addition, we are set to announce a recruiting effort to bring new blood in to this area. We will seek recent college graduates to join us to train for these positions.

Security Funding

In the aftermath of September 11th, the State of Maryland implemented an identification program that has been relatively ineffective. The State desperately needs a new, uniform identification system. A new system would allow DGS Police to coordinate security systems throughout the State. Improved coordination would further secure State facilities and ensure that employees and visitors were in a safe and secure environment. An improved system would also prevent theft and abuse of State property. Ultimately, a more effective security system could save the State money as well as improve the level of security at State facilities.

It is worth noting that significant changes are taking place within our DGS Police and Security Operations. We swore in a new Chief of Police yesterday, Warner Sumpter. He is a former Maryland State Trooper and comes most recently from the Military Department where he achieved the rank of Brigadier General. General Sumpter will facilitate my goal to increase the effectiveness and professionalism of the force. And Governor Ehrlich's push to make sure all State Law Enforcement Agencies are coordinated and prepared for any event.

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RESPONSE TO RECOMMENDED ACTIONS

1. FY 05 Managing for Results

New Managing for Results Goals for Customer Service: The committees are concerned about the lack of Managing for Results (MFR) goals related to customer service. The ability to serve other State agencies reflects not only the Department of General Services' (DGS) success but the success of State government as a whole. In that DGS has created a new Assistant Director of External Affairs, DGS Services, the department should submit a report to the committee detailing new MFR measures which track overall customer service levels. This report should include all the new MFR measures to be tracked, as well as goals to be achieved in the coming fiscal years. The report should be submitted to the committees by July 1, 2004.

We concur with the recommendation that DGS prepare a repo t documenting the efforts and activities of the new DGS customer service initiative. In fact, the original Fiscal Year 05 MFR report included a goal that addressed the need to measure professionalism in the workplace and workforce training. Unfortunately, that goal was omitted from the budget report.

DGS' core mission is to serve Maryland and its citizens by working to ensure that other State agencies are able to achieve their respective missions in an efficient and effective manner. With that in mind, I incorporated seven key goals into the FY05 MFR. Those goals include the following:

Goal 1 – Operate Efficiently and Effectively
Goal 2 – Manage Departmental Projects Efficiently
Goal 3 – Provide Timely and Accurate Management Information
Goal 4 – Achieve Responsible Asset Management
Goal 5 – Provide Best Value for Customer Agencies and Taxpayers
Goal 6 –Maintain a Professional Workforce and Workplace (OMMITED GOAL)
Goal 7 - Carryout Social, Economic and Other Responsibilities as a State Agency

The MFR that was in place when I arrived at DGS was not addressing key good government concepts such as training, customer service and eliminating inefficiencies. Each new goal was established with the idea that DGS needed to get back to basics. The new set of goals and objectives will address some of the more pressing challenges that the agency faces. Some of those challenges are as follows:

- Provide procurement officers with professional training opportunities
    - Opportunities for certification must be made available to DGS procurement officers. In today's competitive procurement environment DGS officers will need training in order to make educated procurement decisions and save money for the State.
- The State should provide opportunities for MBEs to operate as prime contractors not just as sub-contractors on State projects
    - Small and Minority businesses are often able to provide innovative solutions more efficiently than larger companies.
    - Nationally, over 50% of job growth comes from small businesses and minority small businesses are the fastest growing business segment in the country. Accordingly, presenting true opportunities for these companies to demonstrate their capabilities and building capacity not only helps overcome past exclusion but is good for the State and National economies.
- Ensure that DGS facilities are safe and secure environments for employees and visitors
    - Just recently new leadership has been brought on board at DGS Police. As a result, there will be more cooperation with allied law enforcement agencies.
    - The current ID and security system is flawed. Instituted shortly after September 11th, the system has proven to be ineffective. A new, more efficient system must be installed in order to further protect employees and visitors to State facilities. A new system will also secure State property preventing abuse and misuse.
- Completion of small contract procurements
    - Currently only 67 % of small procurements are completed within 10 days. Our goal is to increase this to 80%. Increasing the turn around time improves customer relations and makes doing business with the State easier for small businesses and MBEs who often fulfill these contracts.
- Implementation of standard operating procedures
    - Of the 19 9 operating systems controlled by DGS only 42% of them have standardized operating procedures. Standardizing procedures saves the State money and reduces unnecessary downtime.
- Reduce the amount of lost or missing items from Fixed Asset Equipment Inventory
    - It is unfortunate that reporting requirements had not been followed in the past. DGS and numerous other State agencies have significant amounts of lost or missing State property. Much of this is due to poor record keeping. However, State assets must be tracked in order to maintain accountability to the taxpayer.

The FY04 MFR report involved a number of service related objectives. These are important issues to consider, however the new Administration has decided to take a different approach to customer service. Many concerns were not being addressed by previous methods and a new approach to chronic problems had to be established. As a result, a new position within the DGS Office of External Affairs was created to address customer concerns. The Assistant Director of External Affairs – DGS Services position was created to focus on DGS' response to its customer base. It is intended that this position will allow DGS to: 1. identify issues before they reach crisis levels; 2. develop a greater understanding of our customer's business and needs; and 3. offer cost-effective solutions to their challenges. The true value that we can bring to our customers is solutions to their operational challenges.

In addition to our new approach to customer service, DGS found that many of the performance measures found in the FY04 MFR could not be documented. Nevertheless, we believe that the FY05 MFR more accurately reflects the goals of this Administration. At DGS, we are confident that by tracking these new goals and objectives we will be able to better serve our customers.

2. Workplace Improvement Initiative

Reduce carpet and painting initiative. The Department of Legislative Services recommends, due to the fiscal condition of the State, that this amount be reduced to $500,000. This $500,000 should be used to replace only the most critically worn carpet, paint, and ceiling tiles resulting in a safety hazard to employees and visitors.

We do not concur with your recommendation that $500,000 be cut from the Workplace Improvement Initiative. Please note that this initiative falls right in place with Goal 6 of the MFR, which specifies maintaining and improving workplace environments in State facilities.

As you may know, Governor Ehrlich has made an effort to visit State employees at facilities across the State in order to foster good relations and learn more about their work environments. As a result, he has requested that a number of facilities be considered for such basic improvements as carpet replacement and painting. We have labeled this our Workplace Improvement Initiative.

Making State facilities safe and providing a clean environment for our employees increases moral and productivity. State employees haven't enjoyed the benefits of a salary increase in several years [As you know the Governor's budget provides for a modest salary increase] . The least we can do is provide them an opportunity to work in a pleasant environment. As part of our initiative we are prioritizing the facilities we operate and plan to replace the most critically worn carpet, paint and ceiling/floor tiles in order to improve safety and the work environment.

The request for $1M is critical to the success of the Workplace Improvement Initiative. Several facilities are in immediate need for improvement and present potential safety hazards to State employees on a daily basis. Again, this request is inline with our 6th

MFR goal regarding workplace improvement. State employees deserve safe, clean and friendly working environments.

3. Minority Business Enterprise

Minority Business Enterprise participation in procurement contracts: The committees are concerned that statutorily required Minority Business Enterprise (MBE) participation levels have not been met by DGS. The department has acknowledged that these goals have not been met and has subsequently made operational changes in an effort to meet these goals. The committees request that DGS prepare a report documenting changes in operations, as well as any resulting change in MBE participation levels. This report should be submitted to the committees by August 1, 2004.

We concur with concerns regarding the static MBE participation levels. The MBE program is currently under review by the Lt. Governor's office and positive changes are currently taking place with regards to the implementation and operation of the MBE program.

Internally we are seeking to make improvements so that more MBEs can participate in the procurement process. Those improvements include allowing MBEs to serve as prime contactors and breaking up contracts so that more business opportunities exist for MBE participation.

Finally, we would be happy to submit a report to committees regarding the new initiative and our own internal efforts to improve MBE participation levels.

4. Deferred Maintenance Backlog

Deferred Maintenance Backlog: The budget committees are concerned that deferred maintenance backlogs will lead to higher future costs if not addressed more expeditiously. It is the intent of the committees that the Department of General Services and the Department of Budget and Management shall jointly prepare an assessment of the deferred maintenance backlog. The assessment should focus on the spending history, given the Spending Affordability Committee's exemptions provided in recent years, and develop a funding plan to address the maintenance backlog. Finally, the report should assess what level of exemption from the General Assembly's Spending Affordability Committee would induce greater annual spending for maintenance. The report should be submitted by September 1, 2004.

We do not see the value in issuing a report regarding the Deferred Maintenance Backlog. DGS, DBM and the Committees are in concurrence that the backlog must be addressed. DGS annually requests $5M for backlog projects. However, the State's current fiscal situation prevents us from making additional funding commitments to the projects listed. We are confident that once funds become available the backlog will receive more attention.

Delay causes further deterioration to facilities, increasing total project costs, and decreasing the value of received funds, i.e., they will not go as far. Often with renovation type work, situations change between identification of a problem and its constructed resolution. Increasing the lead time opens the door to additional changes and subsequent increased costs. For example, we identify a roof repair need one year, and the project does not receive funds until several years later. In the meantime, spring and summer rains and winter freezes have increased damage to the gutters, interior, downspouts, soffit, fascia, and flashings. When funds do become available for the backlogged projects, costs could increase for design also due to any number of reasons, including code changes, worsening conditions, revised general conditions or specifications, modified planned space usage, etc.

I would like to point out that the backlog of deferred maintenance has increased, as follows:

FY	Deferred Backlog	Received Funding
2002	$28,089 ,39 7	$5,462.000
2003	$35,110,218	$1,7 00,000
2004	$37 ,805,366	$1,7 57 ,500
2005	$39 ,083,317(estimated)	

Given current staffing, how much of the backlog could DGS complete in one year?

It is estimated that with the current staffing, DGS could complete $5.0 million in projects in one year.

If there were no maintenance backlog, what level of funding would be required to appropriately maintain the State's infrastructure?

If the State were in the financial position to give DGS $40 million to eliminate the backlog, we would have to hire additional staff and consider contracting with management companies to oversee project completion. DGS would still need $2.5 to $3 million each year just to keep up with new maintenance items assuming that the $38 million in projects that exists today were eliminated.

5. Privatization Efforts

Update on Privatization Efforts: The committees are concerned about potential efficiencies going unrealized. The opportunities for privatization that DGS documented in its response to the Joint Chairman's Report (JCR) could provide cost savings for the State and should be explored further. DGS should develop and submit by October 1, 2004, which details the progress made in implementing privatization opportunities.

We would prefer not to submit the requested report. However, DGS would be happy to testify before the committees regarding privatization efforts and implementation plans.

DGS began an initiative to privatize its IT operations this past fall. We expect to have a private firm on board to handle all DGS IT programs by this April. In addition to our IT effort, the Facilities, Operations and Maintenance Division is considering the benefits of establishing a contract with a building management company. This may be particularly helpful in the operation of some of our remote facilities. As part of FOMs recent regionalization effort the division took several steps to streamline the operation of State facilities and plans to go through private firms to do basic work such as repairing plumbing or electrical work. Currently, the FOM Division out sources HVAC, janitorial, extermination, trash removal and other service contracts in order to operate State facilities in a cost efficient manner.