218TH NEW JERSEY LEGISLATURE
ASSEMBLY BUDGET COMMITTEE
HON. ELIANA PINTOR MARIN—CHAIR

TESTIMONY

SAL RISALVATO
Executive Director
New Jersey Gasoline-Convenience-Automotive Association

FY 2020 BUDGET

March 27, 2019

COMMITTEE ROOM 11
TRENTON, NJ 08625

Testimony of Sal Risalvato

Chair Pintor Marin, members of the Committee, my name is Sal Risalvato, Executive Director of the New Jersey Gasoline, Convenience Store, Automotive Association (NJGCA), here representing nearly a thousand independent small businesses in this state.

I come to this hearing today to present with a request very different from just about everyone who has spoken before me. I am not asking you to increase funding for anything, in fact I have come to ask you to fight for a change that will **save the State over $35 million per year**, while also benefiting over a thousand independent small businesses statewide.

The change we would like to see is an alteration to the state's motor vehicle inspection program. Motor vehicle emissions inspections are mandated by the federal government for certain areas, including all of New Jersey. Over the last twenty years, almost all states have shifted toward a completely decentralized model, in which motor vehicle inspections are conducted by private independent businesses, overseen by a private contractor.

New Jersey operates the nation's only remaining "hybrid" program. If motorists go to a Central Inspection Facility (CIF), the inspection is conducted by the Parsons Corporation and the State is billed for the cost of the inspection. If the motorist goes to one of the state's nearly 1,300 licensed Private Inspection Facilities (PIF), they are responsible for paying the shop for the inspection.

The chief purpose of a hybrid system is to gradually ease into creating a fully decentralized system. Today, almost all states operate decentralized systems, including our neighbors New York, Pennsylvania, Connecticut, Massachusetts, and Rhode Island.

I propose that we follow the lead of our neighbors and adopt a decentralized program. Right now, we have a unique opportunity to restructure this program due to the flawed handling by the previous Administration of the transition from the contract currently in effect (an 5-year contract awarded 11 years ago) to a new contract and new program. NJGCA prepared a lengthy background on these issues for the Governor's 2017 Transition Committee, which I have updated and attached to this testimony. MVC is currently going through the process of designing a new RFP for the program, providing the perfect opportunity to restructure the program.

The first beneficiary of a fully decentralized program is the State. Under the current program, the State is charged by Parsons $18.95 (a decrease of 99¢ as of November 2018) for every inspection performed at a CIF. MVC estimates that in FY19 the State will conduct just over 1.9 million inspections, amounting to a cost of $36 million the State will have to pay to a very large corporation for performing a very basic service.

While there still would need to be a contractor brought in to oversee the PIF network and collect the inspection data, the cost of that contractor could easily be borne by the individual PIF shops. All of those involved in the program currently pay a monthly fee to perform inspections, which covers the costs they incur upon the contractor. The new program had intended to switch that from a monthly fee to a per-inspection fee, either of which would function well.

Beyond the annual savings the State would reap from decentralization, there would also be a windfall that would come from selling off most of the 20 or more properties the State currently owns where the CIFs are located. Most of these expansive locations are excellent commercial properties, providing economic development opportunities. Without a formal appraisal it is hard to estimate what their value could be, but it is easy to imagine such a sale bringing in tens of millions of dollars in total. In addition to the value the State would receive, the municipalities in which these facilities are located would also finally be able to start collecting property taxes from them.

The other big beneficiary to a decentralized program will be the shops which will be performing these inspections. Almost all of these facilities are independent small employers. They are the quintessential example of the American small business, and they struggle to stay open as much as every other small business.

Right now, the approximately 1,300 licensed PIFs must split about 13% of the total inspections performed per year (down from 18% in FY12). A fully decentralized system would increase their potential business more than seven-fold. This surge in business would have multiple positive effects. The cost per inspection would fall dramatically. Right now, these 1,300 businesses are paying a monthly fee just to be able to perform any inspection at all. They also need to have paid for certification and for at least one of their employees to become licensed to conduct these inspections.

With the pool of potential clients so small, most charge a larger fee than necessary simply so they that can recoup their costs off what little business there is. With another 2 million annual potential clients added to the marketplace, they will be competing with every other PIF to bring in customers. Since every PIF will be offering effectively the same service as every other one, price will be a key motivator in bringing motorists in the door. I predict it won't be long before an inspection becomes a loss leader for many shops, in the way oil changes often are.

In the discussions we have had over the years, there are two concerns which are raised about a decentralized program. One is that there are an insufficient number of PIFs currently licensed to meet the increased demand that would arise. Broadly, I do not consider this a meaningful challenge. There are at least 1,400 mechanical repair facilities in this state right now which are not licensed PIFs but have the capability to become licensed. They hold off merely because there is insufficient demand. Increase demand by this degree and they would be lining up to perform inspections.

But even if no new shops were to be licensed, I do not believe it would be an issue based on the experience of other states. Massachusetts, for example, performs about 5.1 million inspections per year at fewer than 1,800 locations, for a ratio of about 2,900 inspections per location. New Jersey currently performs a total of 2.2 million inspections per year. If all of them were performed at our 1,300 PIFs, that would equate to about 1,700 per location. Massachusetts also continues to perform safety inspections on its passenger vehicles, a more time-consuming process. Georgia's numbers are even more similar. They perform 2.5 million inspections per year at just 900 locations. Neither of these states, nor any of the other decentralized states, have had meaningful problems with their inspection programs.

NJGCA would of course stand ready to work with the State and whatever contractor were hired to ensure a smooth transition, and to ensure that supply and demand were properly equalized. There are a few geographic areas that would likely start off with fewer PIFs than ideal, but that is a problem easily rectified.

The other concern raised is the cost to the consumer. As I already stated, I believe the cost for an individual inspection will come down significantly in a fully decentralized program. Beyond that, it is a cost that will only fall on individuals who own a motor vehicle, and they will only have to pay it once every other year, and only after their vehicle is more than five years old. The cost for the inspection, the only purpose of which is to protect our air quality, will work out to less than the cost of a tank of gas, and a fraction of what they are legally required to pay for their car insurance every single month. One potential option would be to simultaneously lower the cost of vehicle registration fees, at least on vehicles 5 years and older. This would of course reduce the savings the State would otherwise reap, although it would still provide a huge boost for hundreds of small employers.

With the state budget as stretched as it is, the Legislature and Governor are forced to prioritize where every single precious taxpayer dollar is spent. **Is having the State pay for every vehicle inspection, a tab which almost no other state picks up, worth more to the general public than any of the requests you have heard over the course of these budget hearings?** I don't believe so, and neither should you. Even if there were no savings to the State, this would still be worth doing just to transfer these funds from a big corporation to over a thousand small businesses.

I am happy to work with you in whatever way you can to get this important change made.

Thank you.

Further background on the inspection program:
When the current contract (T-1628/NJ Start Purchase Order #71414) was awarded in May 2008, it was a five-year contract, with the potential for a three-year extension. In 2010 the new Christie Administration, against the advocacy of NJGCA, eliminated safety inspections for passenger vehicles as part of their first state budget. MVC budgeted a savings for the State of $11.5 million in FY 2011 based on the idea that they would no longer need to pay Parsons the $3.24 that Parsons had delineated as the cost of a safety inspection in their winning bid. This would have lowered the cost to the State of an inspection from $21.60 to $18.36.

This was the first of the many failures that would characterize the subsequent handling of this contract. In November 2012 State Auditor Stephen Eells filed a report detailing that the State had not seen anything close to the savings it was supposed to gain. While the elimination of safety inspections went into effect on July 1, 2010, the State did not negotiate changes to the contract until March 2011, three-quarters of the way through the fiscal year. The Auditor's report reads:

> "The basis of the negotiations was not made available to the auditors by the Division of Purchase and Property in the Department of the Treasury. The amendments included a reduction in the inspection rate by $0.67 to $20.93 'in light of the changes in law', and a permission for Parsons to close three facilities and reduce their operating hours. However, no change to the rate was made due to the elimination of the safety inspection. Subsequent to the changes in the law and the contract, we noted that Parsons had an average monthly reduction in their lane technician staffing by 121 positions, or 26 percent."

NEW JERSEY GASOLINE ▸ C-STORE ▸ AUTOMOTIVE ASSOCIATION

Not only did the elimination of safety inspections lower road safety and hurt small businesses, it did not even produce the savings it was promised. The only beneficiary was Parsons, which no doubt profited handsomely from the reduction in labor costs, especially since the safety inspection was the most labor-intensive aspect of a motor vehicle inspection. More than 6 years after this report was published, the State still pays more per inspection than the $18.36 rate it should have. The State would have saved well over $40 million in total over the more than seven years since safety inspections were eliminated, (or $30 million in the time since the Auditor's report) if it had just been able to make the adjustments it was owed. Instead that taxpayer money lined the pockets of the Parsons Corporation.

As early as 2010 NJGCA began advocating that the State should cancel this contract and move to a system of PIFs only. Even with the cost of canceling the contract early, the State still would have come out ahead financially. With the contract due to reach its natural termination in May 2013, the MVC hired the Eastern Research Group (ERG) to conduct an in-depth study on what the future of the State's inspection program should be. To this day, the contents (and the cost) of that study have never been made public, despite repeated requests throughout the years and despite the fact that while the study was being conducted, we were regularly told that its findings would be given to us and the general public. (We strongly believe that the study performed by ERG, that has never been shared, states clearly that the most efficient method for the state to pursue motor vehicle inspections in the future would be to utilize a complete all PIF system, and to close the Parson's run Central Inspection Facilities).

In May 2013 the State announced that rather than heeding our advice to close the CIFs, they were extending the current inspection contract for the full three years allowed for in the contract. Over the ensuing three years we continued to work with MVC and the Administration to argue the benefits of a fully decentralized system.

As effectively the only trade association representing the PIF community, we also met with all four of the companies who intended to bid on the next inspection program. All of us had met with MVC individually, and all had recommended a fully decentralized program, yet we had heard nothing from anyone in the State about what the final product would look like. This despite being told for months (and in our case years) that a decision and announcement was due at any time.

Finally, in the last week of December 2015 the official Request For Proposal (RFP) was announced. With less than six months until the current contract was set to expire, and despite years' worth of study, planning, and preparation, the document that was ultimately published was riddled with flaws. Some of these, in our opinion, were substantive. The RFP largely kept in place the current system of inspections, with a few positive reforms thrown in. The RFP was also riddled with basic errors, such as claiming in different sections that certain reports would be due "within X days of". It referenced statistical data that was clearly a few years old even though newer data was available online. It gave the reader an impression that at least some of the document had been written sometime in the past, and that this RFP was thrown together late in order to meet a deadline that had already passed.

Despite only being given about two months to craft a bid to operate such a massive program, all four contractors submitted bids to operate the program. The winning bidder would not only operate the CIFs, but also manage the computer software and oversee the PIFs.

Three of the four bidders (Parsons, Opus, and Applus) submitted bids whose cost was largely in the same range. These are the three companies which already operate state inspection systems, with Opus and Parsons running almost all of them. The fourth bidder, SGS, submitted a bid that was fully half the cost to the State as the other three. Despite the fact that SGS had never operated a statewide inspection program on its own, the State announced their intent to award the contract to SGS. Opus and Parsons both decided to contest this award, saying it was impossible for SGS or anyone else to successfully operate the type of program the RFP was calling for at such a minimal price.

In May 2016 the existing contract was given a second extension, this time for six months. But once those six months were up, the contract was given a third extension, again for six months. Then a fourth extension, also six months, was added. Once that was up in November 2017, the contract was given a fifth extension of one year, until November 5, 2018. When that date hit, it was extended again until November 5, 2019. That means this contract will last more than twice as long as it was originally signed for, and a full three and half years longer than was ever allowed for in the 2008 contract.

In 2017, the Christie Administration announced that they were throwing out the bid from SGS on a technicality and awarding the contract to Opus. This awarding was then challenged by Parsons, who as much as anything else would no doubt like to keep being paid at the current rate, rather than the lower rate they submitted in their 2016 bid (or nothing at all should Opus take over management of the program). Last May the Murphy Administration canceled this particular RFP (16-X-24049) entirely, and said that a new RFP would be released very soon. Close to a year later and nothing has been announced.