

N.J.S.A. 52:9M-12.2, effective June 18, 1996, provides that:

[w]henver a proposed State Commission of Investigation report is critical of a person's conduct, a copy of the relevant portions of the proposed report . . . shall be sent to that person prior to the release of the report. Upon receipt, the person criticized shall have 15 days to submit a written response of a reasonable length which the commission shall include in the report together with any relevant evidence submitted by that person.

The following materials are the responses submitted pursuant to that statutory requirement. The reader should note that they are not under oath.

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**RESPONSE OF BODMAN/PUBLIC STRATEGIES TO SCI'S
PROPOSED REPORT UNDER RELEASE NO. 02 02-013**

STATE OF NEW JERSEY
DEPARTMENT OF INVESTIGATION

This is the response of Roger Bodman/Public Strategies (hereinafter "Bodman" or "Public Strategies") which is being submitted pursuant to N.J.S.A. 52:9M-12.2 for inclusion in the SCI's Final Report on the Enhanced Motor Vehicle System Contract Award. This submission is intended to be a rebuttal highlighting the blatant factual inaccuracies of the SCI's proposed report with regard to Bodman and Public Strategies. The response is broken down in subject headings paralleling the proposed report relevant to Bodman/Public Strategies, and for ease of reference the following table of contents is provided.

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I. Introduction

The SCI report is a vindicating statement confirming that Roger Bodman and his company, Public Strategies, complied fully with all existing statutes, laws, rules and regulations in representing Parsons. On this one important point, we agree. The fact is the State has failed to write rules addressing many issues. This has also been acknowledged by the only SCI Commissioner who has served throughout this entire review process, **Commissioner W. Cary Edwards**, who has said in public statements:

W. Cary Edwards: "There are no rules. There are no regulations. There is no real guidance that exists to state employees to govern how they maintain...what we call a level playing field...And there should be.

In the same interview, Edwards confirms: "So there really are no sets of rules that are definitive, that anyone can hang their hat on, that we saw violated in this case."

(New Jersey Network On the Record Interview July 15, 2001).

In one newspaper article, Commissioner Edwards sums it up accurately:

W. Cary Edwards: "How can you hold anyone accountable when you (the State) have no rules?"

And **Charlotte Gaal**, the SCI's own Counsel, conceded in a public hearing in response to a statement concerning this lack of rules:

Charlotte Gaal: "the burden is on the State."

(New York Times July 12, 2001 and SCI Public Hearing Page 140 July 11, 2001).

Commissioner Edwards later agreed:

W. Cary Edwards: "It's not the private sector's job to control what government does. It's the government's responsibility to control what they do and how the private sector interacts with them."

(New Jersey Network On the Record Interview July 15, 2001)

Even on the subject of lobbyists and political contributions, Edwards agrees that there were no improprieties:

W. Cary Edwards: Lobbyists aren't doing an illegal activity...they are doing an encouraged activity in government, in point of fact. That's how the

system works. Political contributions are legal and encouraged. Encouraged. They're solicited...All the time. Lobbyists are the people who give private businesses and the people who hire them guidance on when to make contributions, how to interact with government. *That's why they're hired.*

(New Jersey Network on The Record interview July 15, 2001).

By conceding that it found no violations of law, the SCI has produced a disjointed report in an attempt to lead the reader to wholly inaccurate conclusions. Although this matter cannot be applied to any legal context since none exists, Bodman would applaud any honest effort to strengthen rules so as to establish a common set of guidelines for the future.

II. Factual Overview

The factual scenario set forth by the SCI does not contain any coherent time line thus allowing the SCI to mix and match events in order to suit their purposes. The facts jump back and forth between earlier and later dates. Although the report asserts facts occurring out of sequence in order to manipulate a time line to fit the ultimate conclusion, that time line is not supported by any witness or evidence. More importantly, the Bodman/Public Strategies portion of the SCI report is filled with outright misstatements of fact, innuendo, supposition and conclusions not supported by any evidence. The magnitude and repetitive nature of these misstatements suggest the SCI investigation so lacks the factual predicate necessary for their conclusion that manipulation and improper assertion of evidence is necessary to fit a preordained finding.

For the SCI, which describes itself as the State's only non-partisan, independent investigative body, to engage in such conduct in an attempt to reach its preconceived conclusion tramples on the rights of individuals and brings dishonor to the State.

III. Pre-RFP

A. History

The Bodman/Public Strategies section of the report begins by tracing the history of Parson's political

contacts within the State. "During the 1990's," according to the SCI, "the Company (Parsons) also came to rely upon advice and information provided by individuals with strong ties to the State government and to the Republican Party establishment statewide." The SCI attempts to suggest that Bodman or Public Strategies was utilized in this effort for years. However, what is clear from every document and witness is that Bodman and Public Strategies were not retained until the last week of January in 1998, only three weeks PRIOR to the issuance of the RFP. Although the heading of this section in the SCI report is "Manipulation" and "Setting the Stage," it is clear from the factual scenario that the only manipulation and stage setting is being done by the SCI in an attempt to justify their ultimate conclusion.

B. Contract Disclosure

After citing the contract text, the SCI notes:

"it is significant that prior to the Commissions investigation there was no public record of the written agreement between Parsons Infrastructure and...Public Strategies Impact, even though the provisions therein bore directly upon matters involving the public interest."

There is absolutely no rule, law, regulation, statute or other authority requiring that such private contracts be registered. Initially, the report implies sinister motives to the lack of public disclosure by terming it "significant" in light of the public interest at stake. Then, in an amazing turnabout, the report totally cuts the ground from beneath its characterization of this as "significant" by admitting no public disclosure was required.

Specifically, the report states:

Public Strategies was engaged in the practice commonly known as "contract lobbying." However because this form of lobbying is not included in the New Jersey Statutory definition of the term, there is no requirement for public disclosure. Indeed there was nothing in this instance to require that either firm even comply with minimal reporting and registration rules. Those strictures only apply to those lobbyists whose efforts are engaged directly in influencing State legislation and/or regulations.

The SCI therefore admits there was nothing for Bodman/Public Strategies to do in disseminating the existence of this consultant contract.

C. ELEC Filing

Public Strategies did register Parsons on a lobbying/client list with the New Jersey Election Law Enforcement Commission in March of 1998. This filing was not even legally required. However, Public Strategies registered "out of an abundance of caution" and "in the interest of complete disclosure." Nevertheless, the SCI interprets that filing as "misleading" since it stated Public Strategies would "monitor and influence legislation and regulations effecting automobile inspections." The SCI characterizes this as misleading because Bodman testified his firm never engaged in that form of lobbying on behalf of Parsons Infrastructure. However, this only discloses part of the evidence adduced before the SCI. Public Strategies' officials, as well as officials of Parsons, testified that part of Public Strategies' obligation was to "monitor" any possible legislation that "might" be introduced which could affect the automobile inspection program. Legislation was never introduced which could affect the program. Legislative lobbying would only occur if legislation were introduced. There was no reason to "influence legislation" that was not even proposed. The SCI's conclusion that this arrangement was "misleading" is a finding again unsupported by the facts and testimony involved in this case.

D. Pre-RFP Meeting

The SCI report proceeds to note that operating without "full disclosure" Parsons was able to:

"freely wield their influence with senior governmental officials using it to open doors at a time when procurement personnel were drafting confidential program requirements for inclusion in the second I/M Program RFP. Long before any vendor was invited to bid, Parsons Infrastructure executives were treated to exclusive private briefings during which they received inside information related to the State's plans and intentions."

After implying favoritism was shown to Parsons because of its association with Bodman, the SCI again cuts the ground from beneath itself with an admission that the meetings with State officials were appropriate and that it possessed no evidence indicating otherwise. The only actual meeting involving State personnel and Bodman occurred on February 17, 1998 at DOT during which Parsons sought to determine the status of the

RFP. The SCI concedes that there was nothing inappropriate with this meeting. Although the RFP was being issued the very next day, the SCI report confirms "there is no evidence to suggest the Parsons contingent knew it in advance." Bodman was not part of any other meeting with State officials. Bodman neither arranged nor attended any meetings that could have provided Parsons with a competitive advantage not otherwise available to any other bidder. Neither Bodman nor Public Strategies in any way influenced the RFP. The SCI report confirms these facts.

E. Evaluation Committee Information

The SCI report also contends that Public Strategies suggested they could help by getting somebody from the Governor's office on the evaluation team. This again is a blatant manipulation of the deposition transcripts. When placed in context the testimony reveals that Parsons was trying to anticipate the resolution of a possible deadlock between Commissioners and Agencies (Treasury v. Department of Transportation).

It is clear that Bodman and Parsons were not attempting to place someone from the Governor's office on the evaluation committee because they could be perceived as favorable to Parsons. It is clear that Parsons and Bodman had no knowledge of how the Governor's office felt on these issues and no one from Public Strategies or Parsons ever contacted the Governor's office. The discussion was simply that if there was a dispute between Treasury and DOT it might be helpful for someone from the Governor's office to be on the evaluation committee so that any potential tie could be broken, one way or the other.

Nevertheless, the SCI is careful to not cite the context in which the quotes they set forth arise. Clearly this is done because it does not suit their purposes to provide a full explanation. They would rather provide snippets, without context, seeking to have the reader draw inaccurate conclusions.

Finally, the suggestion that Bodman would "help select (subcontractors) that will help (Parsons) win the RFP" refers to a request by Larry Sherwood of Parsons to have Bodman identify whether any of the proposed subcontractors had negative experiences with the State which could result in bid rejection. This assessment,

which was garnered from Public Strategies drawing upon their years of experience, constituted information that any bidder could obtain if they were experienced in this process. It is certainly not the result of "insider information" that would give any bidder a competitive advantage over others.

IV. Post-RFP - Pre-Bid

The SCI report next turns to events that occurred following issuance of the RFP. It is critical to note that the SCI has simply "glossed over" any and all events which occurred from the time the RFP hit the street until the time bids were submitted (February 18, 1998 through June 16, 1998). This is perhaps because nothing occurred which gave any bidder, Parsons or otherwise, any advantage in the process. Rather, once the RFP hit the street all bidders were given free opportunity to submit any and all proposals to the State of New Jersey. No contacts were made by Parsons officials or any representatives on their behalf, Public Strategies or otherwise, during the time the RFP was being analyzed and a proposal submitted. This is the key time period in any bid proposal process and in this case that process went forward "strictly by the book."

V. Post Bid Contact

A. Haley Contact

After the bids were submitted on June 16, 1998, the SCI notes two contacts between Parsons representatives and State officials. The first occurred on June 23 when Bodman in a passing conversation with then DOT Commissioner Haley asked about the status of the award. At this point it was well known that Parsons was the only bidder. Haley informed Bodman that the State "could issue a contract award before July 27th." It is further noted that Haley characterized the company's bid as "a little pricey" but "well within the range." The SCI report does not indicate how the dissemination of this information "tainted" the process. Additionally, although the SCI attempts to suggest an inconsistency in Bodman's testimony on this issue, the reality is that the report mixes up the time line. Specifically, Bodman testified that there was no contact with State officials after the RFP "was on the street," a phrase which refers to the time between issuance of the RFP by the State and the submission of actual bids. During this time Bodman and Parsons had no contact

with State officials. This is compared to Bodman's later testimony that "I do believe I had a conversation with Haley asking the status of this contract after the bid was in." The answers are not inconsistent; they simply refer to distinctly different time frames. More importantly, any such contact was absolutely legal.

B. Alleged DiFrancesco Contact

A second contact that the SCI criticizes is just plain smoke and mirrors. The SCI report charges that a telephone call was placed to then Senate President DiFrancesco by someone at Public Strategies, but provides no support for its allegation, nor any official record of it. Indeed, in correspondence dated February 28, 2002, a copy of which is attached to this response, former Senate President and Acting Governor DiFrancesco unequivocally states that he has "no recollection of any consultant or contractor contacting me regarding this project representing Parsons or anyone else. I have no recollection of Roger Bodman discussing this matter with me at all prior to the awarding of the contract" and that he (DiFrancesco) learned that Sartor was a subcontractor to a subcontractor "from various news sources." Furthermore, the testimony of the Senate President did not include the allegation, and Bodman, in his testimony, categorically denied placing such a call. Upon repeated questioning by SCI Counsel asking whether it was even "possible" Bodman replied that although anything is possible, the contact did not occur. This is another example of a far reaching investigative body who cannot obtain the facts they want and instead, in response to categorical denials, turns to the fools paradise of asking "possibility" questions so they can print affirmative answers as though they represent metaphysical certitude. The SCI knows full well that Senator DiFrancesco never indicated that he received the information from Bodman or anyone at Public Strategies. Furthermore, it is noteworthy that Senator DiFrancesco actually opposed the contract.

VI. Political Contributions

The SCI report alleges that Public Strategies "nurtured the company's political giving." As evidence the report states that in the Summer of 1998 Mr. Bodman sent two letters suggesting the company may

"participate in various fundraising events." Bodman clearly testified that the letters were boilerplate, form, mass mailing documents sent out to 80 Public Strategies clients. In fact one of the events was the Governor's Gala to which the invitation list practically includes the entire list of who's who in the State of New Jersey.

The SCI report also indicates that during the Fall of 1998 and Spring of 1999 Bodman provided fundraising advice to Andrew Bonds, Parsons Senior Vice President in charge of Governmental Relations, and ultimately issued a March 29, 1999 memo recommending a total of approximately \$20,000 in contributions to both Republican and Democratic candidates. The SCI excludes Mr. Bonds' testimony that he viewed this information as "suggestions" and that upon receipt of the memo he dealt with it appropriately, giving it its proper place in his office garbage can. It is not suggested that Parsons donated to even one of the campaigns suggested by Bodman. The \$507,000 of contributions referenced in the report came largely from Parsons affiliates to local governmental entities and Bodman had no role in these contributions, most of which even predated Bodman's relationship with Parsons.

It is again noteworthy to repeat Commissioner Edward's astute observations about lobbying and political contributions:

W. Cary Edwards: Lobbyists aren't doing an illegal activity...they are doing an encouraged activity in government, in point of fact. That's how the system works. Political contributions are legal and encouraged. Encouraged. They're solicited...All the time. Lobbyists are the people who give private businesses and the people who hire them, guidance on when to make contributions, how to interact with government. *That's why they're hired. It's not the private sector's job to control what government does. It's the government's responsibility to control what they do and how the private sector interacts with them.*

VII. Public Relations

The proposed report notes that the Parsons Infrastructure bid "initially considered partnering with MCI Communications Corp." for the public relations portion of the contract but subsequently a Public Strategies' affiliate, DKB and Partners, was substituted in for that portion of the contract. However the SCI report again

fails to place this change in context. Specifically, the change occurred because MCI was not responsive to Parsons requirements. DKB was an existing subcontractor to MCI on the project and was, according to Larry Sherwood of Parsons, completely responsive. For these reasons Parsons decided to contract directly with DKB for the public relations portion of the contract based on their superior performance and responsiveness. Again, the SCI conveniently fails to disclose this fact leading to the conclusion either that they are inept or that they are attempting to leave the reader with a false impression. In reality, it probably is a mixture of both.

VIII. Conclusion

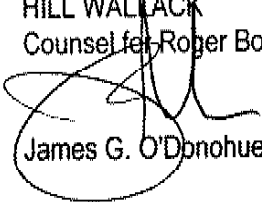
The SCI has pasted together a compilation of half-truths, innuendos and out of context statements to create a collage that it is attempting to pawn off as a work of investigative art. Using highly questionable assumptions, the agency strove mightily to assign blame or accuse individuals of impropriety and misconduct. Its methods failed and the agency was forced to produce a report in which it admits that all principals involved in the inquiry acted appropriately and in compliance with all laws, rules and regulations. The SCI tarnishes its own reputation when it suggests darkly that there is something of significance to be found in a failure to heed a non-existent regulation.

Like most puzzles which the creator attempts to "force together" the results are disjointed and do not fit. What is most important is perhaps not what is included in the SCI report but rather what is absent from the report. There is nothing in the facts to demonstrate that Public Strategies and its principals, including but not limited to Roger Bodman, did anything improper or illegal. There is no suggestion that they ever had any contacts with the Governor or, perhaps more importantly, with the Treasurer who was the individual under State Statute charged with the power and responsibility to award this contract.

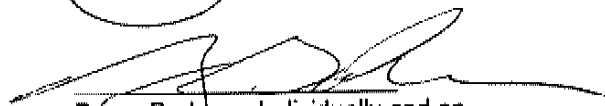
Public hearings were held on this contract in August of 1998. The contract award process had even been litigated up to the Appellate Division of the New Jersey Superior Court with a finding that the procedure was entirely legal and appropriate. In that litigation the State of New Jersey affirmatively represented to the

Court, both in its briefing and certifications, that the contract process was entirely by the book and that there was no influence or improper procedures which would in any way taint the process. Now, in order to justify a political witch-hunt, the SCI is attempting to rewrite history. In issuing this report they have succeeded in creating a work of pure fiction.

HILL WALLACK
Counsel for Roger Bodman/Public Strategies



James G. O'Donohue, Esquire



Roger Bodman, Individually and on
behalf of Public Strategies

Attachment



GOVERNOR DONALD T. DiFRANCESCO
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February 28, 2002

To Whom It May Concern:

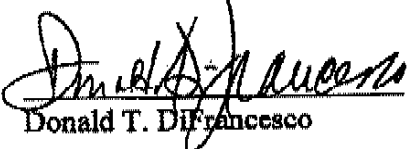
In an effort to clarify my involvement in the Parsons DMV project on my part, let me set forth my recollections.

I was never in any way privy to the discussion, the review, or the decisions surrounding the Parsons DMV project. That was separately handled by the Whitman Administration with no knowledge on my part.

I have no recollection of any consultant or contractor contacting me regarding this project representing Parsons or anyone else. I have no recollection of Roger Bodman discussing this matter with me at all prior to the awarding of the contract.

The firm of Paulus, Sokolowski and Sartor's involvement as a subcontractor to a subcontractor was not known to me until I learned that from various news sources. Again, I had no discussions about this involvement with any of the consultants or contractors involved.

I make this statement in an attempt to clarify the perceptions that have been raised in the past. No one has in any way urged me to set forth this information, but it is my hope that it will be helpful in insuring that erroneous allegations or inferences are not drawn from the actions of these past years.


Donald T. DiFrancesco

This document constitutes the response of DKB and Partners, Inc. (hereinafter "DKB") to the excerpted portions of the SCI report provided to DKB, which is being submitted pursuant to *N.J.S.A. 52:9M-12.2* for inclusion in the SCI's Final Report on the Enhanced Motor Vehicle System Contract Award. DKB appreciates the opportunity to respond to the SCI report. Initially, we are troubled by the lack of factual or legal context in the excerpts provided and find that the SCI has provided innuendo and insinuation, unanswered questions and implication, in the guise of an investigatory report. Simply, the SCI has implied conflict where there is none; has found impropriety in utilization of State employees where the relationship is wholly routine, proper and efficient; and ultimately has simply mischaracterized the contractual relationship and contractual provisions under which DKB acted. DKB responds within this framework, and will address each of the points raised in the report.

I. SPOT SURVEYS

First, under the general heading of "Excessive Costs" the SCI indicates that DKB spent "nearly \$340,000" to conduct a series of spot surveys aimed at gauging public opinion relative to the new inspection process. The SCI states that "[b]eginning in April 2000, these surveys also contained questions designed to elicit public opinion regarding the favorability of select politicians, including Gov. Christine Todd Whitman and Senate President Donald T DiFrancesco."

According to the RFP's public information requirement, the contractor was required to: "administer focus groups, and/or other customer samples, as necessary, during the campaign, to evaluate the program, or to obtain necessary public input, to correct a negative situation, and/or adjust the outreach." (RFP §3.11.3.0) In the RFP response, Parsons and DKB proposed to conduct both benchmark public opinion surveys and spot surveys to track media effectiveness. Every element of the public information campaign was subject to review, overall direction and final approval by the State. Thus, the public information campaign was driven entirely by the State's needs. This is borne out by the language of the RFP, which specifically provides:

All public information and education projects that are produced must follow the overall schedule and budget agreed to by the Department's Program Manager and Contractor... A designee of NJDOT, in consultation with a designee of NJDEP must approve all projects (within 30 days from the time of their receipt) in their conceptual stage before they may advance to production. A final formal approval is required by both the NJDOT and NJDEP Directors of Communication before a project is actually produced. Interim approvals may also be necessary for some projects. Some possible examples are choice of logos, theme colors, story boards, talent for radio and television, scripts, rough cuts.
(RFP at §3.11.4)

Thus, the implication of the SCI report that the magnitude of expenditures, and scope and context of the questions contained in the surveys were the responsibility of DKB is incorrect. In fact, the questions found in the surveys, the frequency of the surveys, and the amount expended all came at State direction. The survey administration was subcontracted to Penn Schoen and Berland, a reputable polling company, who developed the survey content. However, the information sought and questions set forth in the surveys was generated with the input and approval of the

DOT.¹ Both the scope of the surveys and the cost were entirely proper, and a product of the State's directions, not DKB's.

II. THE SCOPE OF WORK

The SCI report states that the investigation "revealed issues that raise questions about the extent of contracted work actually performed by DKB personnel and about its billing practices," and quotes a DMV official who indicates that he prepared material on state time for dissemination by the firm. In fact, that State employee was doing his job. He was the individual charged with the technical knowledge of the system, its operational requirements and its rules. The RFP required that "public information and education materials shall present the basic practical information that vehicles owners need to know and the benefits to them." (RFP at §3.11.2)

Thus, the testimony reflects nothing more than a normal business relationship between State personnel who provided technical information on the system to DKB, which information DKB utilized in the performance of its public information function. State personnel were not used for those responsibilities that were contractually DKB's, including press inquires and advertising. Again, the report improperly raises negative inferences from what is a normal and proper business relationship between contractor and client.

¹Further, as to the actual content of the questions. As Governor Whitman was a proponent of the program and Senate President DiFrancesco was publicly opposed to the program, it is assumed that the State, in requesting those questions may have been attempting to gauge public reception to the program through the perception of these two highly visible public figures with opposite and public positions on the project.

In that same context, the report criticizes DKB for acknowledging that Parsons was its client, and inquires as to the "true purpose" of DKB's public relations function. While the report attempts to drive a stake between Parsons and the State, implying that service to one could not be service to the other, the exact opposite is true.


DKB's function was to promote the inspection program. That program was run by the State and administered by Parsons. Functionally, for the most part, inquiries and contacts initially came to the DMV, DOT or the Governor's office who would forward the inquiries to Carl Golden of DKB. Thus, the relationship required close interaction with the State. The State and Parsons had a singularity of interest and purpose, and DKB worked to foster that interest. Clearly, if the public information program was run effectively, both Parsons and the State would benefit. To imply a conflict in this situation is an attempt at fiction. DKB never considered the relationship conflicting nor did it ever act in a manner to the detriment of either the State or Parsons.

Notwithstanding, and contrary to SCI implication, the contractual relationship is clear. DKB was and is a subcontractor to Parsons. DKB had no direct contractual relationship with the State, nor did it ever charge the State for its services. Further, as Parsons is compensated on a per vehicle basis for each inspection performed, the State has never been charged *any* amounts for the public information component of the bid. Media commissions were prorated over the course of the contract and via a monthly retainer. However, all costs, expenses and time were tracked by DKB, and in fact, produced to the SCI in a voluminous response to its request for information.

While the SCI may not have understood the information before it, DKB was ready willing and able to provide any information or explanation necessary. However, in what appears to be a sadly typical methodology for the SCI, conclusions are blindly drawn without ever bothering to learn the underlying facts.¹

In sum, the SCI's report is a compilation of distorted half-truths and mischaracterizations. Most troubling is that the SCI is aware of the actual facts and chooses to ignore those facts herein. DKB has produced extensive documentation to the SCI supporting all media and other expenses incurred for this contract. DKB has a reputation as one of the top advertising/public relations agency in New Jersey. It stands by and is proud of its performance on the motor vehicles inspection contract.

Dated: March 11, 2002

By: 
John Manos, President
DKB and Partners, Inc.

¹ No issue better illustrates this point than the issue of printing. The SCI, at its public hearings in July, 2001 misrepresented the costs associated with Parsons' contract with respect to printing. At the hearing, the SCI's staff accountants asserted that there was an alleged "4000%" markup on printing proposed by DKB. After receiving a sworn statement from DKB regarding the actual facts, the SCI has dropped that allegation as the facts reveal that DKB *never* proposed to do *any* printing for the State for this contract and had merely assisted the State in putting together some budget projections for the potential printing requirements of the contract. The RFP had been specific in its admonition to bidders that "the State itself will acquire the printing, through a separate publicly bid contract." (RFP § 3.11.1).

March 1, 2002

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STATE OF NEW JERSEY
INVESTIGATION

Charlotte K. Gaal, Counsel
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Dear Ms. Gaal:

Thank you for the opportunity to respond to those portions of your draft report which you've advised me contain the references to me in my capacity of Director of the New Jersey Division of Motor Vehicles (DMV). While I strongly disagree with the subjective analyses and conclusions that permeate the portions of the document I reviewed, I nevertheless think the record would benefit from a definitive statement from me regarding issues and inferences it contains.

For nearly twenty-five years, I have had the privilege of serving the New Jersey public, first as a councilman in the Township of Mt. Olive for nine years, then as a State Assemblyman for nine years, and most recently as Director of the New Jersey Division of Motor Vehicles for six years. At all times I have held myself to the highest moral standards and have always protected the public's interest. I have not violated any laws, regulations, or violated my ethical obligations to the State of New Jersey. Former State Attorney General Cary Edwards stated that no public official violated any laws or regulations during the course of the RFP (Request for Proposal) process ultimately won by the Parsons Infrastructure ("Parsons").

In April of 1994, I became the Director of the New Jersey Division of Motor Vehicles. At that time, the State was not in compliance with the federal Clean Air Act, and was faced with the very real threat of the imminent loss of federal transportation dollars if compliance was not achieved in the very short term. My number one priority was to do whatever I could to see to it that New Jersey would be in full compliance with the EPA regulations relating to automobile emissions inspections as quickly as possible.

In December of 1994, representatives of the Whitman Administration went to Washington and met with the EPA to achieve a conceptual agreement that would meet the requirements of the Clean Air Act. It was universally known that all other jurisdictions were experiencing difficulties at the start with their clean air programs, and that the majority of problems centered on the process and equipment aspect of programs, which were extremely expensive.

The State made an agreement with the EPA whereby we had to have a program in place by November 27, 1997 or we would lose the federal transportation funding. The Clinton Administration told us in no uncertain terms that failure was not an option. That deadline was cast in stone and that no extensions would be granted.

Estimates for such a program in the State of New Jersey, using the EPA model, would cost from 1.4 billion dollars to 1.8 billion dollars. Additionally, one of the Federal Requirements of Law required a guaranteed source of funds to provide for the program. In order to establish a designated source of funds, the State of New Jersey passed legislation prohibiting New Jersey from using the EPA's choice of testing and instated specified the use of a more consumer friendly procedure. If the program was not in existence and running by November 27, 1997, the State of New Jersey would be penalized under the federal guidelines, and lose an estimated 1.2 billion dollars annually in unrecoverable Federal Highway Funds. Twenty-seven other states which also attempted to comply with the Clean Air Act mandates all faced major problems, delays, and setbacks with the implementation of the new enhanced motor vehicle inspection program.

As the Director of DMV, we were not the individuals responsible for deciding on the terms for the RFP, nor was DMV responsible for the terms of any specific contracts between potential bidders and the State of New Jersey. Those decisions were specifically authorized by the State Department of Treasury and Department of Transportation.

Input on the RFP's was received from the Department of Environmental Protection, the Department of Transportation, the Division of Motor Vehicles, and the Department of the Treasury, Department of Labor, and the Department of Education. The RFPs were promulgated by the Division of Purchasing and Property, who had the final say on all aspects of the RFP process and the details of the RFP itself. They were also responsible for determining the winning bid, without input from my agency. As a practical matter, I had little or no substantive input into the process or the result, nor did I ever seek to have such input.

Three RFPs for implementation of the emission testing system were issued by the Purchase and Property Division, the Department of the Treasury in February of 1997. The most significant RFP called for a contractor to construct and operate centralized emission lanes at State run inspection stations. The second RFP related to private inspection emission lanes, and required the contractor to design and assist in the operation of the private inspection stations. The third RFP was for a contractor to undertake the role of project manager responsible for supervising the performance of the entire contract and overseeing the work of the other two contractors.

Only one bid was received in response to the central emission lanes RFP in August 1997. That bid was judged unresponsive. One bid was received for private inspection emission lanes. That bid was rejected. The third RFP, for a project manager, however, was awarded in April 1997. A decision was made to issue a new RFP that would combine the two RFPs that had not been awarded.

Much has been made of a meeting that supposedly occurred on December 10, 1997 between representatives of Parsons and myself. As I have stated on numerous occasions, nothing improper occurred in any of my discussions with Parsons. No inside information was given to Parsons and they were not given any preferential treatment. Notes that were taken by Parsons do not reflect any wrongdoing.

I had no part in writing the first RFP and did not see it before it was released. I was not involved in writing the second RFP and only had general knowledge of the first RFP on December 10, 1997. Any information that I gave to Parsons was general in nature and was available to anyone that was interested.

It is proper and prudent to meet with potential vendors in anticipation of an RFP. Vendors know their products and their industry and can be helpful in explaining the idiosyncrasies of their particular project. I would have met with any person or entity that I believed could have given me information on a complex subject. Parsons was the only potential vendor to seek such a meeting, as far as I recall. At no time was inside information or preferential treatment given to Parsons or to any other vendor by me.

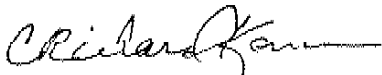
On February 18, 1998, the second RFP was issued. Only one vendor submitted a proposal - Parsons. No other proposals were received and no vendor complained that the bidding process was unfair or that Parsons had received any advantage over other vendors. The Division of Purchase and Property prepared the bid and determined that Parsons had won the bid.

As Director of DMV, and throughout this entire process:

- I did not have the power to approve any of the conditions or terms of the contract between the State and the bidders
- I did not have any authority to direct payments to corporations or individuals with regard to the contract
- I did not have any personal interest in any of the contractors that participated in the bidding process
- I did not have any personal interest in the party awarding the contract concerning the clean air emissions program in the State of New Jersey
- I never received a personal benefit of any kind whatsoever
- At no time did I violate any law or regulation governing my conduct as Director

I have been available to answer any questions concerning my role in this matter and continue to be available. I have answered all questions as completely as my memory allows. I've not broken any rule or regulation, and have always conducted myself in a lawful and ethical manner. I resent and strongly deny any inference to the contrary.

Very truly yours,



C. RICHARD KAMIN
CRK/

RESPONSE OF PARSONS TO SCI
PROPOSED REPORT UNDER RELEASE NO. 02-02-016

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This document constitutes the response of Parsons to the excerpted portions of the SCI report provided to Parsons, and is being submitted pursuant to N.J.S.A. 52:9M-12.2 for inclusion in the SCI's Final Report on the Enhanced Motor Vehicle System Contract Award. This submission rebuts the inaccurate and misleading representations set forth in the SCI's proposed report.

THE COST OF THE PROGRAM

The report displays SCI's fundamental lack of understanding of the payment provisions of the contract. The contract uses two methods of payment: (1) a fixed price to design, build and/or retrofit 132 inspections lanes with enhanced emissions and safety inspection equipment and software; and (2) a per vehicle inspection cost to operate and maintain the system. Thus, when the SCI makes such statements as "Parsons Infrastructure billed the I/M contract" it is inaccurate. The only invoices presented to the State are based on fixed prices for the construction and per vehicle charges for inspections, not costs incurred by Parsons.

Parsons bid \$24.25 per vehicle for each enhanced emissions inspection ("EEI") and \$20.61 per vehicle for each non-enhanced emissions inspection ("non-EEI").¹ Although the SCI utilizes such inflammatory headings as "Excessive Costs," in point

¹The RFP provided for an annual adjustment to the operation and maintenance component of the per test price based on the consumer price index for all urban wage earners using the New York and Philadelphia region indices. (RFP § 8.10.2). The current rates based on these adjustments are \$26.34 per EEI test and \$22.39 per non-EEI test.

of fact, the inspection fees bid by Parsons compare favorably with those charged in other States for comparable inspections, with the added benefit that New Jersey is among the few States that conducts safety inspections as well. New Jersey is somewhat unique in that it has a hybrid system composed of both centralized ("CIF") and decentralized (private or "PIF") inspection facilities. With the exception of Colorado and California, which have smaller hybrid components, all other states with inspection systems are either entirely one or the other, centralized or decentralized. Cost comparisons can readily be made between these other programs and New Jersey's program. Unfortunately, the SCI, apparently did not examine the costs of such systems elsewhere, or because Parsons' costs are competitive with these other programs, disregarded the data.

For instance, in Colorado, only the Denver metropolitan area is required to conduct enhanced IM 240 inspections, which are performed by a centralized contractor on vehicles dated 1982 and newer at a cost of \$24.25 per vehicle. Unlike New Jersey, Colorado's fees do not include any safety inspection component.

California has an entirely decentralized program, except for a "referee" program for disputed inspections. The Referee performs approximately 50,000 inspections per year out of a total of approximately 20 million. The weighted average test cost based on total volume is \$45.37. At test-only stations, the cost averages \$47.48. The centralized component, the "referee" program, is run by California's community colleges at a per vehicle inspection cost of \$25. Like Colorado, and unlike New

Jersey, California has no safety inspections included in these costs.²

PARSONS' PERFORMANCE OF THE CONTRACT

The SCI, under the report heading "Non-Performance," incorrectly faults Parsons for receiving full payment for EEI inspections claiming that it has not performed an evaporative pressure test. The SCI claims that the "per-inspection labor cost of the [evaporative pressure] test is \$3.56." The SCI goes further to conclude that the cost of the labor element of the test is \$9.5 million per year and \$50 million over the seven years of the contract. Again, this is simply wrong and does not reflect the facts. Although, the SCI does not disclose the methodology for its calculation, its conclusion is, at best, misdirected. The labor cost of this contract as a whole is a **fixed** cost driven by the number of lanes, positions per lane and weekly operating hours. Whether Parsons performs one test or all ten of the tests in the RFP, it still must staff its system to perform the required inspections.³ That cost is what it is, regardless of whether a particular test is performed.

Further, Parsons' per vehicle fee is not a compilation of fees per individual

²Even outside the hybrid system scenario, Parsons still compares favorably. In Phoenix, Arizona, where there is no safety component, an enhanced inspection costs \$30 on vehicles dated 1981 and newer and \$12.50 for all other vehicles at centralized stations. In St. Louis, Missouri, centralized stations charge \$24 for an EEI inspection on 1971 and newer vehicles. Again, there is no safety inspection. In New York, a decentralized system administers a transient test (variable speed test) at a cost of \$25 per vehicle with an additional \$10 per vehicle for a safety inspection. In Massachusetts, a decentralized system administers a transient test at a cost of \$29 per vehicle for safety and emissions.

³ In fact, at the State's request, Parsons is currently operating 61 hours per week, a full six hours beyond the RFP and statutorily mandated 55 hours per week.

component of each inspection. It was not solicited or bid that way. Rather it is the whole panoply of costs including, labor, equipment maintenance, administration, technical support, facility improvement and maintenance, customer service, etc. The SCI never bothered to ask Parsons about this, even though it demanded several thousand documents during the course of its investigation.

It is simply incorrect to charge Parsons with "non-performance" when this test is not even included in the elements of the EEI required by the State. There is no "pressure-testing mandate" in the RFP, as stated by the SCI. In actuality, RFP Section 3.6.1 provided that the

Contractor ***shall conduct one, or more, of the following test procedures***, on each vehicle presented for inspection, based upon the vehicle type and model year, in accordance with *N.J.A.C. §7:25-15* and *N.J.A.C. §13:20-43*. In addition, test procedures used by the Contractor will conform with the requirements at *N.J.A.C. §7:25-15* and *N.J.A.C. §7: 27B-4*, "Air Test Methods", referencing USEPA's Inspection/Maintenance Final Rule 40 CFR part 85, Subpart W, or EPA updates:... (Emphasis supplied).

Ten different tests are thereafter specified, of which the evaporative pressure test is one. Thus, the RFP contemplated that the contractor may not be performing all of the tests specified. The contractor's contractual obligation for the test procedure is essentially driven by the New Jersey Department of Environmental Protection's ("DEP") and/or United States Environmental Protection Agency's ("EPA") regulatory or practical guidance and requirements in that regard.

The evaporative pressure test has proven in other states to be a problematic test as it requires the inspector to actually get under the hood of the inspected vehicle,

clamp the fuel lines of the vehicle, pressurize that closed system and measure the pressure decay over a period of time. Often, fuel lines in older vehicles actually break when they are clamped, and other problems relating to vehicle damage and inspector injury can arise during the course of the test. Moreover, model years 1996 and newer vehicles can be tested with the less intrusive On-Board Diagnostic computer test that the EPA will require in January, 2003. In 2001, approximately 48% of the vehicles tested were 1996 or newer. Idiosyncrasies relating to various model years 1981 to 1995 render an additional 11% of the vehicle population untestable.⁴

In fact, in a Rule Proposal published January 22, 2002, the DEP has proposed to *delete* the evaporative pressure test from its I/M program rules stating that the vehicle population tested by this procedure (vehicles 1995 and older) represent "an ever-decreasing portion of the fleet and thus an ever-diminishing emission reduction potential." The DEP explains its rationale for deleting this requirement in the Rule Proposal stating:

...the State determined that it was no longer advisable to integrate the evaporative pressure test into its enhanced I/M program, because the resources needed to implement this component would not yield a sufficient benefit to support such a modification to the program. Thus, the Department is now proposing to modify its rules to remove this test from the enhanced I/M program. The State will however, retain the fuel cap leak test, which is currently administered as part of the State's enhanced I/M program, ...The EPA has determined that the fuel cap leak inspection accounts for 40 percent of the full evaporative pressure test

⁴There was also considerable opposition from the Private Inspection Facility community to this test. Given that less than half of the originally anticipated number of PIFs are performing inspections, it simply made no sense to potentially drive out even greater numbers of PIF from the market.

benefit. ... Therefore, the Department has determined that the resources needed to implement this component are small as compared to the emissions benefits derived therefrom. 34 *N.J.R.* 418.

Thus, although the State suspended the implementation of this problematic test during the course of the program, as was permitted by the contract, this decision has now been confirmed by the regulatory change proposed.

OTHER CITED "COSTS"

Under the heading "Excessive Costs" and "Questionable Expenditures," the SCI claims that Parsons "billed the I/M contract for a total of \$36,372 to the cover the cost of seminars." This is simply false. As stated above, this contract was bid based on two fixed line items: a lump sum to build and/or retrofit inspection stations and a per vehicle inspection fee for EEI and non-EEI inspections. Parsons did not "bill" the State these seminar costs. Parsons provided these seminars, *at its own cost*, in an effort to bring Parsons, the State and the State's oversight engineers together in a collaborative fashion during the construction phase of the project, as Parsons had found that many elements of the State's team did not appreciate the urgency of the project and had delayed this fast-tracked project at critical junctures.

The only other "Questionable Expenditure" which the SCI was able to find in this multi-million dollar contract is a \$9,375 cost, again, *at Parsons' expense*, not the State's, for an employee picnic in September of 2000. It is indeed ironic that the SCI would fault Parsons for being a good employer by rewarding its union employees, who had weathered an extremely stressful year. In any case, it was not "billed" to the State as the SCI implies. It was paid at Parsons expense.

The most striking fact about this part of the SCI's report however, is that of a \$190,640,000 billed to date for construction and inspections, the only "questionable" costs, were for employee benefits, at Parsons sole cost and amounted to \$45,747, or .023% of the total State cost to date. Parsons most emphatically did NOT bill New Jersey for costs other than the lump sum construction cost and the per vehicle inspection fee.

OTHER FEES RAISED BY SCI

A. The Alleged "Administrative Fee"

The SCI persists in asserting that Parsons' received what it characterizes as an excessive "administrative fee." This is wrong. There is no excessive administrative fee. The SCI does so even though, at its request, Parsons provided testimony and documentation demonstrating that this fee included not only the profit normally encompassed by "administrative fees" but other oversight and direct costs of Parsons in administering subcontracted change order work during the course of construction.

The State negotiated a fee for Parsons' services on various construction changes that the State wished to incorporate into the contract. Parsons provided documentation to the SCI showing the details of the change proposal and 25% fee. This fee is not comparable to the "administrative markup" of 15% which the SCI referenced in its report, as the latter is limited to fee for profit and does not contain the other actual cost items Parsons sought to recover in its "administrative fee", all of which were explained and documented to the State based on Parsons prior actual experience on this project.

In fact, during his testimony, Parsons' Contract Manager, Rick Shields, explained that this 25% factor was derived by adding Parsons' prior actual experienced costs for direct labor and indirect costs, together with a 10% fee for profit on those amounts, plus Parsons' actual experienced costs for travel, temporary living expenses, permit costs, construction office expense and construction performance bond (without any fee for profit on those items), plus a ten percent fee for profit on the construction contractor's costs. This amount (Parsons' actual experienced direct costs) was then divided into the contractor's actual construction costs to date to arrive at an approximately 25% factor. As Mr. Shields explained, this is a standard methodology in the construction industry to determine such a multiplier on the actual construction costs under these circumstances.

Thus, as the SCI is well aware, the factor at issue here does not represent the typical "administrative fee" of mere overhead and profit. As the documentation provided to the SCI confirms, when the construction change orders were negotiated, the State was aware that the 25% figure was reflective of Parsons' actual construction management labor and design overhead, other direct costs, as well as fee for profit, after reviewing the project's actual cost history for the construction phase.

B. The Appointment System

As many residents have long been aware, the State has seven one- and two-lane inspection stations that are incapable of expansion and for whom the unfortunate motorists living nearby have been plagued with lines for many years. As a matter of

simple math, because the duration of an inspection is limited at the top end by the actual time to perform the test, if a line forms prior to opening or thereafter, even at maximum throughput, a one or two lane facility cannot overcome that deficit during the day. Parsons, working with the State, found a solution to this problem by implementing an appointment system at these stations. Appointment systems have met great success in other states and so far have been received with equal enthusiasm here. The alternative for the State was to acquire the land and build additional lanes in these stressed areas, at considerable cost to the State.

After several months of discussions with the State in 2000, Parsons was finally given 40 days to design a system, construct a reservation center, hire and train the staff, advertise to the affected public and implement the reservation system. As it was wholly outside the scope of the original RFP, the State agreed to compensate Parsons for its actual documented costs associated with the development, implementation and operation of the system.

The Parsons staff oversee and administer this system through a subcontract with another company named ProtectAir.⁵ Originally, Parsons was to receive a one-time mobilization cost and ongoing operational costs plus Parsons' oversight costs of 25%. In Amendment 8, Parsons agreed to absorb one half of the actual operating costs and reduced its oversight fee from 25% to 15%, which equates to over

⁵ Given the extremely short timeframe, Parsons chose, with the full approval and advance knowledge of the State, to utilize ProtectAir of Canada, which was a recent acquisition of Parsons, and had direct experience in the design and operation of such systems.

\$1,440,000 over the course of the contract.

ProtectAir does not manage the system as alleged by the SCI, Parsons manages the system for which there are clear administrative costs. ProtectAir operates the system under a subcontract from Parsons. The SCI correctly states that the cost to the State is \$20,000 per month, but ignores the fact that this is one half of the actual operational costs of the system. The other half is paid by Parsons, at considerable savings to the State.

C. The Construction Change Order

Finally, the SCI states that Parsons requested a construction change order of \$8,386,900 for State authorized work performed over the course of the construction contract, and suggests that what it characterizes is the "overhead and profit" component was exorbitant, yet it *never mentions that Parsons agreed to accept \$5.5 million for that claim*, as a result of a global resolution of all claims between the parties. Nor does the SCI indicate that on a \$63,155,836 fast tracked construction project, a change order rate of less than 9% is astonishing.

CONCLUSION

In conclusion, although the SCI's goal is to discover instances of inappropriate business behavior, the end result speaks for itself. Despite the criticisms of the program by the individuals quoted in the SCI report, the State has received the system it bought at a reasonable cost; a cost that compares favorably to that paid in other States. New Jersey has a system that works extremely efficiently and has accomplished what it set out to do. The DEP indicates that the program has resulted in overall reductions of 55% for HC, 58% for NOx and 84% for carbon monoxide. [34 N.J.R. 415] Likewise, public satisfaction is high. Recent polling indicates that more than two in three motorists have a favorable impression of New Jersey's inspection facilities (69%), and a 52% majority give the State high marks.⁶ A full 64% are of the opinion that while there were problems in the beginning, those problems have been worked out.⁷

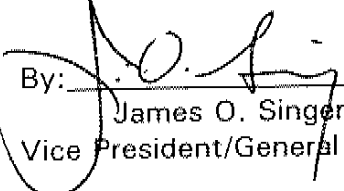
These polling results are borne out by the responses received by Parsons to customer survey cards that have been distributed at all facilities since January 15, 2001. Parsons has received 8864 completed cards, of which 2271 (25.6%) had written comments in addition to the question responses. Of those written responses, a full 91.5% were positive. The responses to the three questions on the card were

⁶The poll indicates that 10% of motorists say the State has done an "excellent" job, 42% say a "good" job, 24% say a "fair" job and only 16% say the State has done a "poor" job.

⁷ Of the remaining motorists, 16% continue to describe the new system negatively and 20% do not know or have no opinion.

equally telling of Parsons' current performance: 99% indicated that the station was clean, 98.4% that the inspectors were friendly, and 96.9% rated their overall experience positively.

Parsons is proud of the Enhanced Inspection System in New Jersey and fully cooperated with the SCI throughout this investigation. There is neither mismanagement, excessive costs nor nonperformance on this contract. The mischaracterizations and inaccuracies which comprise the SCI's report benefit neither the State of New Jersey, nor the public.

By: 
James O. Singer
Vice President/General Manager

**Response Statement of Kathryn A. Watson
to the Proposed Commission Report**

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STATE OF NEW JERSEY
INVESTIGATIVE

I reviewed the excerpts of the Proposed Commission Report provided to me and submit this statement in response.

Preliminary Statement

In 1997, everyone in or affected by the vehicle inspection industry (vendors, environmental advocacy groups, the American Lung Association, and virtually every major stationary pollution source) knew that if New Jersey did not have an implemented vehicle inspection program by the end of 1999, it would lose its highway funds totaling over \$1 billion. Such a result would have been catastrophic. Thus, those of us involved in the process hoped that the State would receive several (at least three) qualified bids for the program so that it could be implemented before the deadline. I was not, however, involved in the initial Request for Proposal ("RFP") or any review or postmortem of that RFP.

In June 1997, I was recruited from DOT by Commissioner Shinn to work for DEP. My mission was to ensure that the State met its vehicle inspection obligations under the Clean Air Act. Commissioner Shinn was concerned that employees at the Department of Transportation were not working diligently enough to ensure successful implementation of the program within the required time frame. My job was to be a pleasant "thorn in their sides" to get the program moving with a reasonable RFP put out for bidders or a plan for state implementation of a vehicle inspection program.

I was assigned to report to John Elston. My job was to act as an "outreach" person with primary responsibility for "pushing along" the I/M program. I routinely reported to John Elston, Air Administrator, and on occasion provided status information to Mike Hogan, Chief Counsel

or Mark Smith, Deputy Commissioner. Again, my primary job was to ensure that the State received bids and implemented the program in a timely manner. My supervisors were all verbally apprised of my progress and my activities over the course of my employment with DEP.

As set forth below, it was my job to make sure that the State stayed on track to get a bidder and implement the vehicle inspection program before the end of 1999. In performing my job, I did not give specific non-public information to anyone, including bidders. I simply encouraged people to bid; which was in the best interests of the State.

Responses to Specific Statements in the Proposed Report

I. Under what appears to be the section of the Commission's report entitled *Manipulation*, it is reported that I "attended the state's postmortem session with vendors" and that I "contacted him [Sherwood] after the company submitted its letter of recommendations for changes in the second RFP." I do not agree with these statements. They appear to be based solely on Mr. Sherwood's testimony, which I believe is either inaccurate or taken out of context. At the time of the issuance of the first RFP released by the Department of Transportation, I was employed in the legislative affairs office of DOT assigned full time to the reauthorization of the federal transportation funding act - ISTEA; which was subsequently passed in Congress as TFA 21. A colleague of mine, who was involved in the vehicle inspection project, generally kept me abreast of the program's evolution and in that context informed me that the State received a letter from Parsons declining to bid on the initial RFP and recommending changes to any revised RFPs. I was advised that the State staff was disappointed with the responses to the RFP, but nevertheless were pleased to receive any

feedback from any vendors regarding the program. I have no recollection of initiating any communication with Parsons or any other vendor with information about the status of the initial RFP. I did receive a call from Mr. Sherwood asking if I had heard anything and I did say that the State was disappointed with the response to the first RFP, but it was appreciative of the feedback from Parsons. I assured him that the State would not let the initiative die, but that it was in the hands of others within DOT and that I had nothing to do with the I/M program.

II. The Commission's Questions and Answers to Mr. Sherwood as quoted in the proposed report suggest that I spoke with Mr. Sherwood on more than one occasion. I remember speaking to Mr. Sherwood when he called me. I also received calls from Mr. Batista from MCI, Mr. Tedeschi from ESP and other vendors who expressed continued interest in New Jersey's vehicle inspection program. I also spoke with equipment manufacturers, other state administrators, the USEPA and anyone else present at the Clean Air Conference in Steamboat Springs Colorado (September, 1997), the North American Vehicle Emissions Control Conference (NAMVEC) in March 1998, or any other public event routinely attended by members of the vehicle emissions control community. In the telephone calls, I did not reveal any specific information about the RFP or the timing of the RFP. In every public event, I made certain I had a state colleague with me in any conversation with any vendor present so that there could be no perception of impropriety. In Colorado, Ken Stevenson joined me in virtually every conversation; at NAMVEC, my supervisor, John Elston and a former colleague from DMV, Mark Marino, joined me.

III. In the Commission's Proposed Report, under the subtitle *The Inside Track*, it is reported that Philip Morris of Parsons scheduled a private meeting with DMV Director Dick Kamin. The Report suggests that I had something to do with his decision to schedule a meeting with DMV. First, he suggests that there was "further encouragement" coming from me. Any perceived encouragement from me was not specific as to Parsons. Indeed, my job was to encourage all vendors to consider bidding on the New Jersey project. The State had over \$1 billion in federal highway funds at stake. Moreover, as a DOT analyst invested in the reauthorization of those funds, I was well aware of the havoc that would ensue should the state fail to meet its Clean Air Act Requirements.

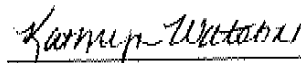
Second, Mr. Morris' quoted testimony states that Parsons' "letter was well received. That there were serious discussions going on within the administration as to what would be the best way to proceed." I assume that the letter Mr. Morris is referencing is Parsons' letter to the State after the first RFP, which was written well before the December 10, 1997 meeting at DMV. Thus, I do not see what connection this letter or my comments on it would have to do with Parsons' decision to schedule a meeting. Furthermore, after the demise of the first RFP and with the loss of highway funding eminent, every vendor in the industry was assuming that New Jersey would be issuing a new RFP. I have no recollection of making any communication, either formally or informally, to any vendor on the timing or specifics of the revised RFP.

IV. The Commission's report states, "In the course of its investigation, the Commission found no evidence to suggest that Watson acted under official direction." This

statement flies in the face of my job responsibilities. Moreover, it is impossible to ascertain what the commission looked at to determine that I was not acting under official direction. It was my job to promote the vehicle inspection program and make sure that it was implemented before the deadline. I performed my job in a competent and lawful manner. Moreover, I kept my supervisors informed of my work on a regular basis.

V. As stated earlier, I encouraged all vendors to "stay tuned" and to consider submitting a strong bid for the project. Parsons did not have any exclusive or preferential relationship with me. While I have known Mr. Sherwood since the mid 1990's, I have also known Jay Gordon of Gordon Darby, Bill Dell who has been with a number of I/M vendors including Systems Control, Envirotest, and SPX, Ron Tedeschi, Sr. Vice President of ESP, the lobbyists representing Marta, Ed Trifari of Testcom and at least one or two of the representatives each from MCI WorldCom, ProtectAir, TestCom - all project management or data management vendors; Snap-On, SPX, Maxwell, Worldwide, Stant and Waekon - all equipment manufacturers. Some of these individuals I have known since 1991 and others have become business friends and colleagues. By 1997, I had spoken with virtually every Inspection /Maintenance administrator or coordinator in North American and every vendor working in North America. As stated previously, I did not contact Parsons at any level greater than or less than every other vendor in the vehicle inspection industry.

Respectfully submitted,



Kathryn Watson

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Christine Todd Whitman 2002 MAR -1 PM 4:57
55 Felmley Road
Oldwick, NJ 08858
STATE COMMISSION OF
INVESTIGATION

March 1, 2002

Charlotte K. Gaal
Counsel
Commission of Investigation
State of New Jersey
P.O. Box 045
Trenton, NJ 08625-0045

Dear Ms. Gaal:

Thank you for the opportunity to comment on those provisions of this report that are specific to the Office of the Governor. I look forward to reading the full recommendations, in addition to the few redacted pages you have supplied to me already. As I recall, your stated mission was to look at the bidding process and the awarding of the contract for this complicated system.

Little of what was provided to me by the SCI dealt with the bidding process. Obviously, the SCI recognizes that during my tenure the Governor's Office did not participate in awarding any state contracts. At the outset of my first term, I made it clear that I would not tolerate even the appearance of involvement by the Governor's Office in the award of any contracts, ever.

The few pages that are specific to the Governor's Office seem to focus on perceived inter-agency conflicts between the Division of Motor Vehicles, the Department of Transportation and the Department of Environmental Protection.

I believe that a discussion of the impetus for this project, the lessons learned and the corrective action taken would give the readers of this report a sense of context that is important to fully understand all aspects of this important project.

Although the state knew full well the requirement to meet the federal standards and deadlines of the Clean Air Act, little, if any substantive progress had been made by the Division of Motor Vehicles or any other agency prior to 1994.

While we had no preconceived notions of how the state would come into compliance with the Clean Air Act, we certainly knew the extraordinary consequences of failing to comply on a schedule that was agreeable to the federal government.

In an effort to protect our air quality and ensure that the federal government did not curtail nearly a billion dollars in critical federal highway and mass transit funds, we moved quickly to implement an enhanced inspection/maintenance program for automobiles in New Jersey.

This was an enormous task for which little work had previously been done, for which there was no state model anywhere in this country and where the costs of failure were monumental - both in terms of human health and in maintaining and improving the transportation system upon which all New Jerseyans rely.

Operating an enhanced inspection/maintenance program for automobiles was then, and remains today, an essential component in how the state will meet the important mandates of the Federal Clean Air Act. Failing to meet those mandates will have measurable health and quality of life consequences for the people of New Jersey.

In 1995 the members of the Senate and the Assembly approved legislation requiring that the proposed system be the subject of public bidding and that the bidding documents specifically solicit proposals for a fully privatized system, a system operated by public employees, or a combination of public and private operation. It was that legislation that specifically required the State Treasurer to oversee the awarding of this contract.

Unfortunately, few private contractors and no public employee groups showed an interest in undertaking this important and complicated system under the exceptionally tight deadlines established by the federal government.

Installing a system of the size and complexity of this magnitude is difficult, even under the best of circumstances.

The initial start-up of the system was fraught with problems. The implementation failures by the state's contractor and by the project managers at the Division of Motor Vehicles were inexcusable. The communications failures within and among the Division of Motor Vehicles, the Department of Transportation and my office were well-documented in the report by the task force I established which was headed by former Supreme Court Justice Alan Handler.

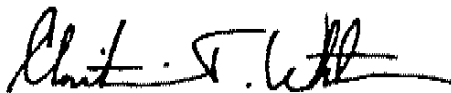
Two important changes grew from those failures and the Handler report.

First, implementation of the inspection system was put on hold until we were satisfied that the contractor would meet its obligations and our expectations for running a system that achieved environmental and health benefits at the least possible inconvenience to New Jersey's motoring public. Substantial fines were imposed on the vendor, DMV personnel who bore operational responsibility for the implementation were replaced, and the system was vastly improved. Our continuing monitoring of the system indicated that after the re-start, the system ran smoothly and efficiently.

Second, and just as important, permanent and clear lines of communication were established from within the governor's office and the project management teams for unusual, significant and substantial state projects. This communications management protocol was established to ensure that the right information gets to the right people at the right time.

I firmly believe that fundamental to success in meeting the complex and unusual challenges that are emerging for state government will be the continuation of these sorts of communications protocols.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Christine Todd Whitman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Christine Todd Whitman