



**pennsylvania**  
DEPARTMENT OF GENERAL SERVICES

**House Appropriations Hearing  
Opening Statement – Secretary Curt Topper  
March 9, 2016**

Good morning Chairman Adolph, Chairman Markosek, and members of the House Appropriations Committee. I am Curt Topper, Secretary for the Department of General Services. Beside me is Beverly Hudson, Deputy Secretary for Administration.

Thank you for the honor of appearing before you today to discuss the Department's proposed 2016-2017 budget and our priorities for the coming year.

Today, I will be pleased to provide an update on our Department's progress during the last year, and I look forward to your questions regarding the Department's proposed budget. However, before doing so I would first like to share the Department's perspective on the challenges we face together during this unprecedented budget cycle.

Last year I testified that after the preceding six consecutive years of budget cuts and headcount reductions, the Department was significantly less capable than it was when I had previously served the Commonwealth in 2008. I said then that we needed to be more creative, more collaborative, and more transformational in our approach because savings and efficiencies would be difficult to find and capture.

Now that I have had a full year and a much better opportunity to assess our situation, I remain as confident as ever in our ultimate ability to innovate and to deliver a more efficient and responsive state government, a Government that Works.

But during the last year, it has also become abundantly clear to me that the shortsighted budgets of the last several years created real, ongoing handicaps for the Department with significant negative consequences for our customer agencies and the citizens we serve. Continued failure to provide a structurally sound solution will only make it more difficult for us to reduce the Commonwealth's costs of operations in the long run.

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I believe strongly in the notion that we should run the business of our government like a business. One of the great things about being DGS Secretary is that the Department, perhaps unlike other state agencies, is readily amenable to comparisons with the private sector. Commercial benchmarks for most of what we do are reasonably easy to find.

One thing we can learn from such a comparison is this: cutting a budget, cutting expenses, and creating efficiencies are not all synonyms for the same thing. They are three different things.

Cutting a business's top line will not automatically, instantly or magically drive it to greater efficiencies. Cutting an operating budget may create a necessity for greater efficiency, but that necessity by itself will not foster the innovation needed to produce the efficiency.

Genuine innovation requires investment. It requires time, effort, expertise and often capital.

During hard times, successful firms don't cut blindly. They still innovate. They invest in automation. They restructure business operations and revenue models when they can. They acknowledge that higher short term expenses may be necessary to ensure greater value in the long term.

A successful state government ought to do these things too.

Let me be specific about a few areas where recent budgets have put DGS and the Commonwealth on the wrong path and actually made it more difficult to reduce costs.

**Public Works**

DGS Public Works staffing levels were reduced by more than 30 percent overall in budgets between 2010 and 2014 and the bureau's capacity to manage projects suffered. By the end of 2014, DGS was managing 20 percent fewer active construction projects annually; and since 2010, the Department has now accumulated a backlog of more than 60 authorized pending design and construction projects worth more than \$200 million. That's roughly equivalent to 2,800 construction jobs that would have been created or sustained in Pennsylvania

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over the last five years if DGS capacity had been maintained. The backlog also means that our clients are waiting longer for new and upgraded facilities to be built. The additional delay increases the cost of construction due to escalation and it results in extra operating costs for our customers. The longer they wait, the more time they spend in older facilities that are less energy efficient, more costly to maintain and don't serve their needs.

**Procurement**

DGS Procurement staffing levels were reduced by more than 30 percent overall in budgets between 2010 and 2014. These reductions reflected a decision to abandon well established commercial best practices, to disaggregate strategic contracts and to shift the burden of procurement operations from DGS to the agencies. As a result, the Commonwealth created a more costly and labor intensive procurement system overall, and the agencies paid higher prices for goods and services.

**Small Business Opportunities**

Staffing levels in the DGS Small Business Opportunities bureau were reduced by 28 percent overall in budgets between 2010 and 2014. As you may recall, the previous administration put a lot of rhetorical emphasis on increasing small businesses participation in Commonwealth contracting. Unfortunately, the cuts were also among the likely reasons why the actual small business share of Commonwealth payments for goods and services fell from just over 13 percent to roughly 9 percent, almost a 40 percent drop during those four years.

These are just a few examples meant to underscore the importance of providing a structurally balanced solution. Now in the Department's sixth consecutive year of austerity budgeting, the "low hanging fruit" has long been plucked. Without adequate recurring funding, we are putting future efficiency gains and the enterprise at risk.

**Year in Review**

Despite all these challenges, the Department has made substantial progress during the last year on several fronts. I am grateful to my colleagues in the cabinet for their unprecedented support and cooperation in our enterprise level initiatives. None of the Department's success would be possible without our agency customers.

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This year, the Department introduced a new formal mission statement: To help government operate more efficiently, effectively and safely – delivering exceptional value for all Pennsylvanians. We have begun to simplify our approach and redirect our energies to where we can add the most value for our customers. We are making continuous improvement an essential component of our business model.

Some key achievements for the year include:

**GO TIME - Strategic Sourcing**

Despite the capacity constraints I have mentioned, the DGS Procurement team has made substantial progress towards our \$100 million Strategic Sourcing goal for the first year. While some projects have been delayed, I am incredibly proud of the forward steps we've taken to modernize procurement. The department conducted 14 successful reverse auction events for commodities and services ranging from contracts to provide Student Assessments for the Department of Education to road salt, dump trucks, and elevator maintenance. In addition to reverse auctions, the Department applied more traditional techniques to reduce contract costs for more than 50 different spend categories. Altogether, the projected annualized savings from just these efforts are nearly \$70 million. Further, the Procurement team is also currently working with our consulting partner on at least 10 ongoing savings projects associated with IT services contracts, software, food, IT hardware, office supplies, wireless telecom, and more. Altogether, we project total annualized savings in excess of \$100 million will be achieved before July of this year.

**GO TIME - Public Works Modernization**

The DGS Public Works modernization effort is now fully underway and will continue through the better part of FY '16-17. It represents a wholesale change in how DGS does business, including more efficient systems and business processes, as well as a new staffing model and funding mechanism. By returning the Department's focus primarily to capital projects and providing the agencies with the ability to execute small construction projects directly, we can shorten cycle times, resolve the project backlog, and fund the majority of the Deputate's administrative costs using capital funds instead of GGO.

**GO TIME – Mail Consolidation**

The first phase of the Mail Consolidation project has been completed, and the Department is now performing all of the outbound mail pre-sort function for all of

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the agencies under the Governor's jurisdiction and some others. To date, the effort has resulted in over \$600,000 in reduced costs Commonwealth-wide. In less than six months, the DGS Publications Bureau has created a world class mail processing operation whose efficiency rivals that of any similar commercial operation. The second phase the project, focused on inbound and inter-office mail, is more complicated. We anticipate results of the formal study we have commissioned to be available within the next two months.

**Energy Procurement**

Last fall, the Department competitively bid and awarded fixed price contracts for electricity that will result in a \$2 million annual cost reduction and ensure price certainty through December, 2019.

**Real Estate**

The Department sold 21 surplus properties during the last twelve months, earning over \$5 million and avoiding over \$3 million in carrying costs. The Real Estate Bureau also continued to reduce the size of our lease portfolio by supporting agency initiatives to optimize occupancy of Commonwealth-owned buildings and by promoting inter-agency sharing of leased space. Altogether, the non-LCB lease portfolio is now 173,000 square feet smaller than it was a year ago; that is an area larger than the entire state Agriculture building.

The Department's proposed budget is sufficient to ensure progress on these and other critical projects. I am immensely proud of the creativity and spirited hard work that the Department's staff has put into our collective effort this year despite extraordinary challenges. They are delivering transformative and lasting changes, delivering on the promise of a government that works.

I would be happy to take your questions.