

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

January 27, 2005
8:02 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Jim Elkins
Representative Bob Lynn
Representative Jay Ramras
Representative Berta Gardner
Representative Max Gruenberg

MEMBERS ABSENT

Representative Carl Gatto

COMMITTEE CALENDAR

OVERVIEW(S): DEPARTMENT OF ADMINISTRATION: DIVISIONS OF
RETIREMENT AND BENEFITS/RISK/GENERAL SERVICES/FINANCE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MELANIE MILLHORN, Director
Division of Retirement & Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Presented the portion of the department's
overview relating to the Division of Retirement & Benefits.

BOB REYNOLDS
Mercer Human Resource Consulting
Seattle, Washington

POSITION STATEMENT: Offered details regarding the Division of
Retirement & Benefits section of the department's overview.

BRAD THOMPSON, Director
Division of Risk Management
Department of Administration

Juneau, Alaska

POSITION STATEMENT: Offered the part of the department's overview relating to the Division of Risk Management.

KIM GARNERO, Director
Division of Finance
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Presented the section of the department's overview regarding the Division of Finance.

VERN JONES, Chief Procurement Officer
Division of General Services
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Gave the part of the department's overview relating to the Division of General Services.

KEVIN BROOKS, Deputy Commissioner
Office of the Commissioner
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Answered questions during the overview on behalf of the Department of Administration.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at [8:02:24 AM](#). Present at the call to order were Representatives Elkins, Lynn, Gardner, and Seaton. Representatives Ramras and Gruenberg arrived as the meeting was in progress.

OVERVIEW(S): DEPT. OF ADMINISTRATION: DIVISIONS OF RETIREMENT AND BENEFITS/RISK/GENERAL SERVICES/FINANCE

[8:03:00 AM](#)

CHAIR SEATON announced that the only order of business was the overview from the Department of Administration, covering the Division of Retirement & Benefits, the Division of Risk Management, the Division of General Services, and the Division of Finance.

[8:04:25 AM](#)

MELANIE MILLHORN, Director, Division of Retirement & Benefits, Department of Administration, presented the portion of the department's overview relating to the Division of Retirement & Benefits. She listed the division's funding goals: paying for benefits during the working lifetime of members; [meeting a] 100 percent funding ratio of assets to approved liabilities, including retiree medical; actuarial funding of medical benefits for members; paying for the unfunded liability over the course of a 25-year period, which is the amortized schedule; collecting enough contributions during the working lifetime of the employee and earnings on those contributions to pay for retirement benefits; and [ensuring] relatively stable employer contributions over time. She noted that those goals were established by the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

[8:06:13 AM](#)

MS. MILLHORN, in response to a question from Chair Seaton, said the funding goals are established for all the tiers together.

[8:06:48 AM](#)

MS. MILLHORN turned to page 2 in the handout [included in the committee packet]. She spoke about the funding policies that govern PERS and TRS, and she noted that the assumptions and methods are established by the Public Employees' Retirement board, the Teachers' Retirement board, and the commissioner of administration. She said experience studies are done every four to five years to look at each and every assumption that underlies the actuarial evaluation for the system. She offered details. She stated that the other part of the process is actuarial audits, whereby the actuary who is contracted by the Division of Retirement & Benefits is audited, also every four to five years.

MS. MILLHORN stated that the Public Employees' Retirement board, by statute, sets the employer contribution rate. The Teachers' Retirement board does not have the authority in statute to set the teachers' retirement contribution rate. She added, "However, for the last 10 years they have acted as that party, until last year, when Commissioner Matiashowski reminded the board that he has the authority to set that rate and that they can make a recommendation to him."

[8:09:05 AM](#)

MS. MILLHORN said the last policy that governs PERS and TRS is the legislature; it is the exclusive purview of the legislature to determine the benefits policy for the retirement systems. In 1978, she noted, there was an attorney general (AG) decision that looked at retirement benefits to determine whether those benefits could be collectively bargained. The AG's opinion determined that retirement and benefits are not subject to collective bargaining. In response to a question from Chair Seaton, she offered further details.

[8:10:55 AM](#)

CHAIR SEATON asked if changes can be made regarding employee contribution, through collective bargaining.

[8:11:20 AM](#)

MS. MILLHORN answered that's correct. She explained, "Enhancements can be made, but it's a decrease that must be made prospectively for new tiers."

[8:11:41 AM](#)

MS. MILLHORN referenced page 3 of the handout, speaking to PERS, as it relates to: measurement year; employer rate year; actual investment return; actuarial investment return; cumulative return shortfall; cumulative dollar shortfall, in billions - market value; health care cost rate used; health care percent of total accrued liabilities; average calculated rate; board adopted rate; contribution increase; funding ratio - assets and liabilities; non-medical benefits only; and total benefits. She explained that the benefit paid is based on a formula set in statute; members receive a lifetime benefit that's based on years of service, salary, and age. Actuarial evaluation reports are prepared annually for PERS and TRS to measure the assets and liabilities of the plan. One of the primary functions of the actuarial evaluation is to determine the annual contribution rate that is expected to adequately provide for future benefit payouts.

[8:12:46 AM](#)

MS. MILLHORN stated that there are over 20 separate assumptions under the actuarial evaluation prepared annually, and they are broken into two different categories: economic and graphic. Two of the assumptions have a great deal of sensitivity and volatility: the investment return and the health cost trend.

[8:14:54 AM](#)

MS. MILLHORN told the committee that the health cost trend for PERS, as of 2001, was set at 7.5 percent. The assumption was reset in 2002 to 12 percent, which had the consequence of adding considerable liabilities to the system. The rate was reset after a period of consideration, because it was determined that the cost trend was too low.

[8:16:06 AM](#)

MS. MILLHORN stated that the average calculated rate for PERS is based on the membership. She said there's an actuarial valuation on PERS, but there's also a supplemental valuation that looks at each individual employer's assets and liabilities in order to calculate the employer rate.

[8:17:01 AM](#)

MS. MILLHORN, in response to a remark made by Chair Seaton, confirmed that the state is its own employer, thus it pays at a different rate. She mentioned municipalities. She said the rate that one employer versus another would be paying would be based on many factors, including: the assets and liabilities of the employer's system, the membership that employer has, the participation agreement, and if past service for the members is recognized.

[8:18:43 AM](#)

CHAIR SEATON said he would like to see the breakdown.

[8:18:59 AM](#)

MS. MILLHORN noted that the actuarial calculated rate, as recommended by Mercer [Human Resource Consulting] was 25.63 percent, which is based on the underfunded status of the system, comparing the assets to the liabilities and making a determination about needing to pay those benefits out for the next 25 years. She said the [board adopted rate] is capped at a 5 percent increase or decrease in any one year, which was established in regulation and adopted by the Public Employees' Retirement board in 1991.

[8:20:09 AM](#)

MS. MILLHORN explained that the funding ratio is a comparison of assets to liabilities made first on nonmedical benefits only, and then on total benefits. The reason for that is that PERS is atypical; since the 1970s, it has prefunded for its medical benefits, while other systems, with the exception of those in three other states, do not do that. [As shown on the PERS section of page 3], when the medical component of the pension benefit is included, it reduces the funding ratio to 72.8 percent. Ms. Millhorn explained that the valuation report is designed to look at the funding ratio target, which is 100 percent, and determine: "If you needed to pay all of the liabilities accrued to the members, for the system, as of that date, you would have 72.8 percent of the assets available to pay for those members."

[8:23:07 AM](#)

MS. MILLHORN continued her reference to page 3 of the handout, speaking to TRS, as it relates to: measurement year; employer rate year; actual investment return; actuarial investment return; cumulative return shortfall; cumulative dollar shortfall, in billions - market value; health care cost rate used; health care percent of total accrued liabilities; average calculated rate; board adopted rate; contribution increase; funding ratio - assets and liabilities; non-medical benefits only; and total benefits. She noted, "PERS and TRS added together represent \$5 billion in an unfunded liability to both systems." The average benefit for TRS is \$2,500 per member, per month, while the average benefit for PERS is \$1,500 per member, per month. There is a higher liability for PERS, because more of the benefit is costed toward the medical liability. She showed how the funding ratio is changed by including or omitting the medical component.

[8:25:15 AM](#)

MS. MILLHORN, in response to a remark by Chair Seaton, said there are a number of factors that contribute to the underfunded status of TRS as it compares to PERS; it's not just the pension benefit factors. [Ms. Millhorn nodded at Chair Seaton's request for information showing the comparison.]

[8:27:56 AM](#)

CHAIR SEATON offered his understanding that the reason TRS pension benefits are higher is because, in general, teachers have had higher salaries than those with PERS benefits.

[8:28:07 AM](#)

MS. MILLHORN answered that's correct.

[8:28:49 AM](#)

MS. MILLHORN directed attention to page 4 of the handout. She noted that, in August 2004, the Government Accounting Standards board ruled that, beginning in 2007, all pension systems will have to account for their medical costs on an accrual basis. Alaska does this already. Furthermore, [the State of] Alaska also prefunds for its medical costs. In response to a question from Representative Seaton, she said legislation has the ability to make a change so that medical costs would not be prefunded.

[8:31:32 AM](#)

BOB REYNOLDS, Mercer Human Resource Consulting, the actuary for Alaska PERS and TRS, said he would address pages five through eight in the handout, which isolate the factors that have contributed to changes in the status of PERS and TRS between 1993 through the end of the Fiscal Year 2003 (FY 03).

[8:32:56 AM](#)

MR. REYNOLDS noted that page 5 shows year-by-year changes in funded status in PERS. He said the three factors that affected funded status in 2001 were demographic experience, investment experience, and plan changes. He mentioned House Bill 242 and an ad hoc post retirement pension adjustment (PRPA) that was adopted by the board; both of those factors contribute to the plan change component in 2001.

[8:34:22 AM](#)

MR. REYNOLDS read the listed categories on the right-hand side of page 5, which are: non-health assumption changes; health assumption changes; demographic experience; plan changes; medical experience; and investment experience. He explained what each of those categories mean.

[8:35:49 AM](#)

MR. REYNOLDS, in response to a question from Chair Seaton, said nonhealth assumptions are made regarding: turnover rates, disability rates, mortality rates, and retirement rates.

Roughly every 5 years, those assumptions are considered for changes. When changes are made, there will be a change to the liability of the system. Additionally, each year a review is done of the experience of the system relative to those assumptions, which is called demographic experience. Mr. Reynolds noted that health assumption changes relate to the future, while medical experience looks back to the past. Investment experience, he said, is one of the largest contributors to changes in funded status in any given year. He offered details.

[8:38:56 AM](#)

CHAIR SEATON referred to a 2001 plan change, with a 5 percent change in funded status. He asked, "How does this relate to the contribution rate that is required of the employer to fund the system?"

[8:39:36 AM](#)

MR. REYNOLDS said the 5 percent shown on page five is the decline in the funded status, which represents the increase in the accrued liability caused by the plan changes. That increase is actuarially amortized over 25 years in determining the contribution rate. He clarified that the 5 percent is not the change in the contribution requirement, but rather the debt increase. He noted that the actuarial report is available online through the Division of Retirement & Benefits' web site.

[8:41:10 AM](#)

MR. REYNOLDS turned attention to page 6, which he said shows similar information to that on page 5, but for TRS. He noted patterns of increases in funded status due to investment returns and overall decreases in funded status, with large factors being medical costs and investment returns.

[8:41:46 AM](#)

MR. REYNOLDS directed attention to page 7, which shows that the change in funded status is split between assets or investment factors, and liability sources. He explained that what is being looked at is funded status relative to the market value of the actual assets in the fund. Market value of assets is used to reflect the actual assets available in the fund. From July 1, 2002, to June 30, 2003, the funded percentage for PERS declined from 92.3 percent to 70.0 percent, while the funded percentage

for TRS declined from 91 percent to 61.7 percent, based on the market value of assets. Liabilities were the larger contributor to the decline in funded status of the systems.

[8:44:11 AM](#)

MR. REYNOLDS continued his reference to page 7, directing attention to the bottom of the page, which shows the following categories: health experience, health assumption changes, plan changes, demographic experience, non-health assumption changes, and total change due to liabilities. Each of those factors influence the increase or decrease shown for PERS and TRS. He offered details.

[8:46:56 AM](#)

CHAIR SEATON, in response to Representative Gruenberg, told the committee that any suggestions for changes will be looked at on February 1. He also indicated that, in general, he will be asking questions, not to oppose issues, but to bring up ideas for discussion.

[8:48:12 AM](#)

MS. MILLHORN directed attention to page 9, which summarizes PERS and TRS and is identified by tier and membership categories; it identifies "the universe of the population" that has or may receive a medical benefit. She stated that there are approximately 71,500 PERS members and approximately 93,000 TRS members. Currently, the State of Alaska, through PERS and TRS, covers 52,000 members who have medical benefits through the system.

[8:49:44 AM](#)

MS. MILLHORN, in response to Representative Gruenberg, said that there are "membership categories who have more than one coverage." In that instance, there is a coordination of benefits that occur.

[8:50:05 AM](#)

MS. MILLHORN turned to page 10, which is taken from the division's comprehensive annual financial report. It shows an historical look at the medical costs of the premium rate, the annual percentage change, and the average compounded annual increase, from 1977 to date. She offered examples.

[8:52:00 AM](#)

MR. REYNOLDS, in response to a question from Chair Seaton, mentioned evaluation reports that are available from the division, which describe each of the assumptions that are employed, including the health cost trend. He explained that the division employs a scale of health increase factors into the future, beginning at 12 percent for FY 05 and declining by .5 percent per year, for each of the next several years, eventually arriving at an ultimate rate of 5 percent. He said that the division is assuming that medical costs will increase at relatively high rates for the next few years.

[8:53:31 AM](#)

MS. MILLHORN brought focus to page 11 of the handout, which shows system membership by status. She noted that the membership has doubled since 1993. Page 12 shows a 10-year comparison of expenses by type, including: pension benefits, healthcare benefits, refunds of contributions, and administrative expenses. She pointed out the increase in costs since 1995.

[8:54:46 AM](#)

MS. MILLHORN turned to page 13, which shows the system membership by status for TRS, with a 10-year comparison of active to retired members. She said the number of retirees has increased and is expected to continue to do so. Ms. Millhorn added that in 2004, 2,025 members retired from all the systems - almost double the amount from 2003. Another notable year for retirement was 1995, which was a RIP [retirement incentive program] year. In response to Representative Gruenberg, she said the information for 2004 is not in the handout, but she could provide that information for the committee.

[8:57:31 AM](#)

MS. MILLHORN said more members retiring from the system means more benefits to be paid out.

[8:58:04 AM](#)

CHAIR SEATON said he would like to get other information on "how that would affect system."

[8:59:03 AM](#)

MS. MILLHORN turned to page 15 in the handout, which is a summary that looks at investment return assumptions, medical cost assumptions, the mortality table, the actuarially computed rate for PERS and TRS, the adopted rate for PERS and TRS, and any difference between the actuarially computed rate and the board adopted rate.

[9:01:08 AM](#)

CHAIR SEATON noted that during some years, PERS had showed a dramatic drop in contribution rate, while TRS did not.

[9:02:12 AM](#)

MS. MILLHORN, in response to a question from Representative Seaton, explained that each year that the actuarially computed rate recommended by Mercer Human Resource Consulting is not adopted by TRS, means additional liabilities are added to the system.

[9:05:30 AM](#)

MR. REYNOLDS recommended that the committee look further back in history to make comparisons between PERS and TRS. He mentioned market turndown, and suggested considering the timing of the contributions as it relates to the long-term effect on the system.

[9:08:19 AM](#)

MS. MILLHORN, in response to a request from Representative Gardner, offered to provide the committee with a chart showing what the balance was in the rates at the time they were adjusted.

[9:11:35 AM](#)

MS. MILLHORN answered a question from Representative Gruenberg regarding page 16 of the handout, which shows PERS and TRS composite employer contribution increase amounts and total contributions. She said it shows 5 percent year after year. She explained, "So, each year, when those rates are established with a 5 percent increase, that sets the baseline for the next year, and then another 5 percent is increased. So, that's additive; that's a cumulative effect of those employee

contribution rate increases." In response to a follow-up question from Representative Gruenberg, she explained that [the totals for each fiscal year] are not directly linear; there is a slight increase.

[9:12:44 AM](#)

MR. REYNOLDS said the reason is that the base figures each year are anticipated to increase each year with payroll. He offered details.

[9:13:52 AM](#)

MS. MILLHORN, in response to a question from Representative Lynn regarding why Alaska has two totally different retirement systems, explained that it's because of the benefits that are arrived at each retirement system. The membership is completely different and the benefits that the legislature has conferred on that membership is completely different. She offered examples.

[9:14:53 AM](#)

MS. MILLHORN, in response to a question from Representative Elkins, stated that TRS was established in statute in 1955, and PERS was established in 1961; the benefits for retirement are not negotiated through collective bargaining. In response to a follow-up question from Representative Elkins, she said the premium increases for State of Alaska employees are negotiated.

[9:16:04 AM](#)

CHAIR SEATON recommended that the committee members submit any further questions to be sent to the witnesses. In response to a suggestion from Representative Gruenberg, he said the committee would be working extensively on PERS and TRS issues and a staff working session would be possible after February 1.

[9:18:08 AM](#)

BRAD THOMPSON, Director, Division of Risk Management, Department of Administration, on behalf of the department, presented the portion of the overview relating to the Division of Risk Management. He said the State of Alaska has set up a comprehensive program for property and casualty claims. The Division of Risk Management deals with accidents that affect the individual agencies of the state - legislative, administrative, and judicial. All monies come from interagency receipts, not

from general fund. The division allocates the cost of risk, or premium, based on two concepts: the exposure - assets, activities, or operations; and experience - the prior claims history. He offered examples. He said the division is trying to address the trend of normal, expected loss. He noted that the division is like an insurance company, but is comprised of only five people.

MR. THOMPSON said the division is set up with funding for the normal insurance program. In excess of that, for large individual claims, the state insures the first \$1 million through risk management. He offered an example regarding the Alaska Marine Highway System's M/V LeConte.

[9:21:16 AM](#)

MR. THOMPSON, in response to a question from Chair Seaton, said, "Each year, the allocation to the agencies is the amount that they pay, and then we deal with the financing of those accidents, whether it's worker's [compensation], general liability, auto liability, marine, aviation, airports, [or] bonding. The state, with all of its activities has a [vast] diversity of exposures and activities - and we provide the protections for all of those operations." In response to a follow-up question from Chair Seaton, he confirmed that the State of Alaska provides worker's compensation, for example, in house, because the state is a self-insured employer and self-finances the liability owed to its injured employees.

[9:22:29 AM](#)

CHAIR SEATON asked if each department or agency that has employees has a line item in its budget that gets transferred to the Division of Risk Management.

MR. THOMPSON answered, "It's an assessment for the risk management cost of risk, and it's detailed by the type of insurance" He offered examples.

[9:23:21 AM](#)

REPRESENTATIVE GRUENBERG mentioned a serious insurance crisis that occurred in the 1980s, the gist of which was that society had little control over how the companies operated. He asked if there is better control now.

[9:24:42 AM](#)

MR. THOMPSON offered his understanding that that's a general reference to the hard market/soft market cycle in the world reinsurance. He noted that, regarding property casualty, there have been a couple significant adjustments over the past two decades to the method of rate calculation, and the awareness level of the issue has increased. He offered further details.

[9:27:14 AM](#)

MR. THOMPSON said the division does many claims in house, but will engage outside counsel, although it is rare that it does so.

[9:29:44 AM](#)

MR. THOMPSON, in response to a question from Representative Gruenberg, said other states have statutory schemes that require administrative filing, giving the state a certain period to respond before filing in a civil action. He noted that the division will, working with the tort section, respond to claims in a quasi-administrative fashion. In response to follow-up questions from Representative Gruenberg, he offered his belief that it is unnecessary to change the law, because the practice accomplishes the same ends, and he said didn't know of anything that could be done to make the process speedier and less expensive. He opined that the division deals very effectively and efficiently.

[9:31:34 AM](#)

CHAIR SEATON asked Mr. Thompson if he could provide the committee with a the division's rate structure and charge to agencies, in order to compare it to private worker's compensation.

[9:32:02 AM](#)

MR. THOMPSON said he can provide the committee with the division's cost allocation scheme and the rates that are collected through a payroll assessment; however, he said that to compare that to what's done in the commercial market would be like comparing apples and oranges. In response to a follow-up question from Chair Seaton regarding possible solutions to consider, he noted that each insurance underwriter that is permitted to file worker's compensation files annually. The State of Alaska, as a self-insured employer, is also required to

file. He said that information would be the best uniform data set for seeing trends and experience, and he offered to supply that information to the committee.

[9:35:09 AM](#)

REPRESENTATIVE GRUENBERG asked if the state uses a broker to buy excess insurance lines.

[9:35:28 AM](#)

MR. THOMPSON answered yes.

[9:35:51 AM](#)

REPRESENTATIVE GRUENBERG asked if the cost of insurance has gone up because of the New York attorney general's raising criminal lawsuits against a brokerage company and other large insurance companies.

[9:36:06 AM](#)

MR. THOMPSON replied, "Our premium experience to compare is not as affected, because ... we buy select, very high excess." He offered examples. He said, "Ours is a flat-fee based arrangement."

[9:38:35 AM](#)

KIM GARNERO, Director, Division of Finance, Department of Administration, on behalf of the department, presented the portion of the overview relating to the Division of Finance. She turned to page 1 in a handout [included in the committee packet] titled, "Finance Component." She said the division has been working to reduce the penalties by the Internal Revenue Service (IRS), through several steps, including: reporting as compensation the value of state vehicles for employees required to commute in them; reporting amounts paid to inmates for prison labor; successfully appealing a \$13,000 penalty for tax deposits made late last year; and hosting two training sessions with IRS representatives for state and local government finance professionals to help prevent future tax reporting problems. Ms. Garnero said these efforts have become more important since the IRS is shifting its focus to more audits of government employers.

[9:40:27 AM](#)

MS. GARNERO reported that on January 31, the division will publish the Executive Compensation and Travel Report. She noted that \$2,100 was saved by publishing on the web site only. Ms. Garnero said the state won a certificate of achievement in excellence in financial reporting.

[9:41:30 AM](#)

MS. GARNERO said the division is starting a statewide travel office, modeled after the State of Utah's, which will establish a consistent statewide policy that protects the state's interest and treats travelers equitably. She offered further details.

[9:42:51 AM](#)

MS. GARNERO, in response to a question from Chair Seaton, spoke of the streamlined process for Medicaid travel. She noted that the division is currently only handling travel by air and ferry.

[9:43:53 AM](#)

MS. GARNERO said the division runs a statewide accounting and payroll system, known as the Alaska Statewide Accounting System (AKSAS) and the Alaska Statewide Payroll System (AKPAY). Both systems are nearing the end of their useful lives. Last October, the division added the capability to make electronic payments to individuals, which will factor into the division's ability to implement the electronic payment requirements of House Bill 494, which passed last year. Ms. Garnero stated that a functional payroll system is critical to the state, and it takes a substantial amount of time to convert for an organization as large and diverse as the state is. She noted that the governor's budget request includes \$20 million to replace the current payroll system and create a reporting database or data warehouse for both the replacement and legacy systems. In response to a question from Chair Seaton, she confirmed that that data is electronically maintained.

[9:45:55 AM](#)

REPRESENTATIVE GRUENBERG told Ms. Garnero that "we" introduced the warrant bill again and will be asking for assistance from the division.

[9:47:45 AM](#)

CHAIR SEATON said some systems have different parameters and he suggested the division ensure that the search engine is adequate.

[9:49:32 AM](#)

MS. GARNERO, in response to a question from Representative Gardner, said the penalties, to date, have been due to software problems, but it's been close. In response to a follow-up question from Representative Gardner, she explained that the delay related to the permanent fund dividend (PFD) was an administrative error.

[9:50:38 AM](#)

VERN JONES, Chief Procurement Officer, Division of General Services, Department of Administration, on behalf of the department, presented the part of the overview relating to the Division of General Services. He explained that he works as director of the division. He noted that the division's major components include central purchasing for establishing statewide contracts and overseeing the executive branch. He said the oversight role is to provide purchasing advice and procurement training. There are only five buyers in central purchasing; the fewest in any state. The division focuses a lot of attention in education and advising the agency procurement people.

[9:52:07 AM](#)

MR. JONES related that one of the division's performance measures in purchasing is to reduce the cost of goods and services that the state procures via establishing cost-effective contracts. The two focuses in central purchasing are establishing contracts that drive the cost of goods and services down and the oversight function. Another performance measure is to provide adequate training sessions to enable the customer agency procurement people to earn and maintain certification.

[9:53:13 AM](#)

MR. JONES said the division's leasing section is responsible for establishing and administrating contracts for all executive branch leased office and warehouse space. There are over 500 leases statewide. Leasing performance measures include a 10 percent reduction in the amount of square footage for new, leased office space. To meet that reduction, the division has established new, more efficient space standards. Another

performance measure in leasing is a 5 percent reduction in the average cost of leased space and negotiating lower costs for all expiring leases.

[9:54:31 AM](#)

MR. JONES listed some of the major spaces that the division's facilities section manages and maintains, which totals over 1 million square feet. The property management section has two functions: to dispose of excess state property and to dispose of surplus property to eligible donees, such as local governments and non-profit [organizations]. He noted that the property [management] section is lean and efficient and operates completely on the receipts that it generates.

[9:55:27 AM](#)

MR. JONES stated that the central mail component provides state agencies in Juneau with daily sorting, delivery, insertion, and posting services. Central mail's performance measures are to reduce the cost of agency mail processing and to reduce the number of postage meters in use.

[9:57:15 AM](#)

MR. JONES, in response to a question from Representative Gruenberg, said that ensuring that government is run properly would fall roughly within the purview of Department of Administration, but there is no such title as inspector general. He note that, as Chief Procurement Officer, he performs that function as it relates to procurement. In response to a follow-up question from Representative Gruenberg, he noted that other states exert much more central control than Alaska does. In response to another question from Representative Gruenberg, regarding whether Alaska should have a state agency [to ensure the proper running of government], he said there may be arguments for that; however, it would cost money and would be a higher policy call than he would make.

[9:59:22 AM](#)

REPRESENTATIVE RAMRAS thanked Mr. Jones, Ms. Garnero and the others for their due diligence and the pride they show in their divisions.

[9:59:55 AM](#)

CHAIR SEATON asked if broad general contracts are done so that every agency buys fuel or toilet paper, for example, from one place.

[10:00:35 AM](#)

MR. JONES answered, "We are the only agency that establishes statewide contract for everyone else's use. Every other department out there procures for their own individual department's needs If there [are] common needs across departments, that's our job in [the Division of] General Services, and I think the fact that we only have maybe 60 to 80 contracts is a function of that. We only have five people, and they do split their time between contracting and oversight."

[10:02:44 AM](#)

CHAIR SEATON told Mr. Jones to let him know if there is anything that the legislature can do to help him get centralized contracts used by all the vendors. He asked Mr. Jones to provide the committee with information regarding the 14-year contract for the Department of Transportation and Public Facilities' (DOT&PF) move to Ketchikan.

[10:05:03 AM](#)

KEVIN BROOKS, Deputy Commissioner, Office of the Commissioner, Department of Administration, speaking to Representative Gruenberg's previously stated question regarding whether the state might consider having an agency to ensure the proper running of government, noted that while there's not a specific office of an inspector general in state government, there is an internal audit function that occurs. Furthermore, he noted that the priorities of Governor Frank Murkowski's administration include looking at the administrative processes of government for efficiency measures. He said, "While it's not housed in a single person or office, there's certainly an ongoing effort that is far reaching"

[10:07:40 AM](#)

CHAIR SEATON remarked that when PERS and TRS have to be absorbed into department budgets, it is necessary to look everywhere for savings.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [10:07:59 AM](#).