

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**May 1, 2006**  
**9:06 a.m.**

**CALL TO ORDER**

Co-Chair Lyda Green convened the meeting at approximately [9:10:01 AM](#).

**PRESENT**

Senator Lyda Green, Co-Chair  
Senator Gary Wilken, Co-Chair  
Senator Con Bunde, Vice-Chair  
Senator Fred Dyson  
Senator Bert Stedman  
Senator Lyman Hoffman  
Senator Donny Olson

**Also Attending:** REPRESENTATIVE GABRIELLE LEDOUX; BEN MULLIGAN, Staff to Representative Bill Stoltze; MICHAEL O'HARE, Staff to Representative Pete Kott; JIM MCMILLAN, Deputy Director, Credit and Business Development, Alaska Industrial Development & Export Authority, Department of Commerce, Community and Economic Development; LALANYA SNYDER, Staff to Representative Mike Chenault; GREY MITCHELL, Director, Division of Labor Standards & Safety, Department of Labor and Workforce Development; SUZANNE HANCOCK, Staff to Representative Gabrielle LeDoux; JANE ALBERTS, Staff to Senator Con Bunde; BRUCE LUDWIG, Business Manager, Alaska Public Employees Association and American Federation of Teachers; TOM BRICE, Public Employees Local 71; JIM DUNCAN, Business Manager, Alaska State Employees Association, former State Senator, and former Commissioner, Department of Administration; CHERYL FRASCA, Director, Office of Management and Budget, Office of the Governor

**Attending via Teleconference:** From Anchorage: DAVID GERMER, Project Manager, JL Properties, Inc.; From offnet sites: JOHN DUFFY, Manager, Matanuska-Susitna Borough; KATE GIARD, Chair, Regulatory Commission of Alaska, Department of Commerce, Community and Economic Development; ROD COMBELLICK, Deputy Director, Division of Geological & Geophysical Surveys, Department of Natural Resources; JOHN AHO, Chair, Alaska Seismic

Hazards Safety Commission; SCOTT HAWKINS, President, Alaska Supply Chain Integrators

**SUMMARY INFORMATION**

HB 500-BONDING AUTHORITY FOR HATCHER PASS

The Committee heard from the bill's sponsor, the Matanuska-Susitna Borough, the Alaska Industrial Development & Export Authority, and the private sector firm associated with the project. The bill reported from Committee.

HB 283-AK HOUSING FINANCE CORP BOARD COMP.

The Committee heard from the bill's sponsor and the Alaska Regulatory Commission, Department of Commerce, Community and Economic Development. The bill was held in Committee.

HB 338-CERTIF. OF FITNESS FOR EXPLOSIVE HANDLERS

The Committee heard from the bill's sponsor and the Department of Labor and Workforce Development. The bill reported from Committee.

HB 83-SEISMIC HAZARDS SAFETY COMMISSION

The Committee heard from the bill's sponsor, the Department of Natural Resources, and the Alaska Seismic Hazards Safety Commission. One amendment was adopted and the bill reported from Committee.

SB 160-STATE PROCUREMENT ELECTRONIC TOOLS

The Committee heard from the bill's sponsor, Alaska Supply Chain Integrators, representatives of labor organizations, and the Office of the Governor. A committee substitute was adopted and the bill reported from Committee.

[9:12:16 AM](#)

#hb500

HOUSE BILL NO. 500

"An Act amending the principal amount of bonds that may be issued by the Alaska Industrial Development and Export

Authority for the purpose of financing the development of Hatcher Pass."

This was the first hearing for this bill in the Senate Finance Committee.

[9:12:21 AM](#)

BEN MULLIGAN, Staff to Representative Bill Stoltze, the bill's sponsor, informed the Committee this bill would allow the Matanuska-Susitna (Mat-Su) Borough to advance its Hatcher Pass development efforts by expanding the scope of what the Alaska Industrial Development and Export Authority (AIDEA) bonds and other financing could be utilized for. In addition, the AIDEA bond authority would be increased from \$15 million to \$25 million.

Co-Chair Green summarized the bill. It would expand the scope of the project and increase the bond amount.

Mr. Mulligan affirmed.

[9:13:42 AM](#)

JOHN DUFFY, Manager, Matanuska-Susitna Borough, testified via teleconference from an offnet site in support of the bill. Granting this authority to AIDEA is essential to the project, as AIDEA's "participation is critical to the success of this public/private partnership" proposed for Hatcher Pass. This project is the result of the Borough's long-term economic development effort to enhance its economy, diversify the area's tax base, and increase recreational opportunities.

Mr. Duffy stated that both the Borough and the State have contributed money for infrastructure improvements. He particularly acknowledged Co-Chair Green's efforts in getting electric power expanded to the site. The Borough has funded geotechnical and hydrological studies and an economic impact assessment, which concluded that the project would create approximately 1,500 jobs. The construction phase of the project is anticipated to cost \$41 million. "A very strong cooperative effort" between the Department of Natural Resources' Division of Mining, Land and Water and the Division of Parks & Outdoor

Recreation State Parks, and the Borough also furthered the advancement of this project.

9:16:04 AM

DAVID GERMER, Project Manager, JL Properties, Inc. testified via teleconference from Anchorage. Cooperative efforts on this project began in October 2003 when JL Properties, a private sector business, "responded to a solicitation from the Borough to develop an alpine and nordic ski area at Hatcher Pass". During the next two years, JL Properties, the Borough, and Borough consultants worked on developing the scope of the project and a financial plan. In order to ensure the overall success of the project, it was determined that the project must "integrate an alpine ski area, a residential community, and a Nordic ski area and trail system".

Mr. Germer characterized the development of the financial plan, which would include "a unique blend of private and public financing", as "quite challenging". AIDEA's participation "is an integral part of the financing plan", and the approval of this legislation would be essential to the project. The next step would be for the Borough, AIDEA, and JL Properties to independently "conduct its own due diligence analysis" on "the financial feasibility of the project". AIDEA's Board of Directors would base their decision on whether or not to approve the financing plan upon the due diligence analysis and the financial feasibility studies. Approval of the financing plan would allow construction of the project to commence in the summer of 2006 with a completion date of spring 2008.

9:18:33 AM

JIM MCMILLAN, Deputy Director, Credit and Business Development, Alaska Industrial Development & Export Authority, Department of Commerce, Community and Economic Development testified in Juneau in support of the bill. Alaska Statute (AS) 44.88 would require AIDEA to receive Legislative authority in order "to issue in excess of ten million dollars worth of bonds". He clarified that passage of this legislation "would not guarantee financing". It would however, allow AIDEA to conduct the due diligence and project feasibility analysis. This effort would allow AIDEA to review technical, operational, and financial aspects of the project and determine how "to mitigate" any risks found. Were

the project to be deemed feasible, "a finance plan will be the presented to AIDEA's Board of Directors for approval".

Mr. McMillan reminded the Committee that AIDEA has been associated with the efforts to develop Hatcher Pass for many years. While numerous proposals had been discussed, none were advanced. However, the conceptual plan being presented is "worthy of our consideration", as AIDEA deems the timing, the plan, and the private developer involved in the project with the Mat-Su Borough as being the "right" mix of circumstances.

[9:20:47 AM](#)

Co-Chair Green pointed out that language in the Analysis section of the Department of Commerce, Community and Economic Development's fiscal note #1, specifies that this bond authorization would have "no fiscal impact on AIDEA operations".

[9:20:59 AM](#)

Mr. McMillan affirmed the passage of this legislation would have no fiscal impact on AIDEA. This legislation "is merely the authorization to move forward with the feasibility work". Were the Board to authorize the financing of the project, there "would be additional receipts to AIDEA", which could be used to support such things as operations and dividends.

Co-Chair Green observed that the bill would increase the level of bonds that could be authorized by AIDEA.

Mr. McMillan concurred.

[9:21:39 AM](#)

Senator Olson asked the reason for increasing the bond authorization from \$15 million to \$25 million.

Mr. McMillan responded that the original bill on the Hatcher Pass project was passed in 1998. That proposal was limited to the development of a \$20 million alpine ski area. The project now proposed is "much more expansive and comprehensive", with an anticipated project cost of \$42 million; thus, the need to increase AIDEA's participation.

Co-Chair Green deemed the public and private sector partnership being advanced in this project to differ from most other projects presented to the Committee.

Co-Chair Wilken moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

Without objection, HB 500 was REPORTED from Committee with previous zero fiscal note #1 dated April 14, 2006 from the Department of Commerce, Community and Economic Development.

AT EASE [9:23:30 AM](#) / [9:25:00 AM](#)

#hb283

CS FOR HOUSE BILL NO. 283(STA)

"An Act relating to the compensation for board members of the Alaska Housing Finance Corporation; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

MICHAEL O'HARE, Staff to Representative Pete Kott, the bill's sponsor, noted that a new committee substitute is being offered for consideration.

Co-Chair Green moved to adopt committee substitute Version 24-LS0922\F as the working document. She objected for purposes of explanation.

Mr. O'Hare explained that Sec. 2, page 1 line 10 through page 2 line 2, has been added to Version "F". This new section would amend Alaska Statute (AS) 42.04.020(f) pertaining to the salary paid to the chairperson and commissioners of the Regulatory Commission of Alaska (RCA). Existing step and range salary schedule language would be replaced with language allowing the Governor to determine those salaries.

[9:27:41 AM](#)

Senator Olson asked the fiscal impact of this change.

Co-Chair Green noted that the recent drafting of Version "F" has not provided sufficient time for RCA to calculate the fiscal impact.

Co-Chair Green noted that in addition to the salary changes pertaining to the RCA chairperson and commissioners, Version "F" would also increase Alaska Housing Finance Corporation (AHFC) Board members compensation while attending business meetings from \$100 to \$400 per day. This language is depicted in Section 1(e) on page 1 line 6.

9:29:01 AM

KATE GIARD, Chair, Regulatory Commission of Alaska, Department of Commerce, Community and Economic Development testified via teleconference from an offnet site and communicated that the compensation changes proposed for the four RCA commissioners would incur a fiscal impact of approximately \$170,000. The fiscal impact of the compensation for the chairperson is unknown, as the Governor would make that determination.

Ms. Giard stated the increased compensation proposed would expand the range of RCA commissioner candidates. The RCA Chair is appointed for a four-year term and commissioners are appointed for six-year terms. Her term as RCA chair began in 2002 and would terminate in 2006. One of her objectives as chair was "to position the RCA to move forward into the future". This included a review of commissioner compensation, as one of "the challenges" facing the Legislature is to recruit commissioners willing to work very hard during their terms and who could bring maturity and business experience to the Agency. Their decisions "would have long-term fiscal impact on the State of Alaska". Current Commissioners are paid \$86,000 annually, as compared to State department commissioners who earn approximately \$124,000 annually. The current base level salary paid to RCA commissioners is insufficient to attract a business executive or a department commissioner. The proposed salary would be similar to that of State department commissioners. The Governor would establish the salary for the RCA chairperson.

9:32:24 AM

Senator Stedman asked whether an updated fiscal note would be provided prior to action being taken on the bill. In response to a remark by Co-Chair Green, he acknowledged Ms. Giard's

testimony that the commissioners' salary increase would equate to approximately \$170,000.

In response to a question from Senator Olson, Ms. Giard affirmed the commissioners' salary increases would amount to \$170,000 per year.

[9:32:55 AM](#)

Senator Stedman observed that compensation levels for boards and commissions have been a matter of discussion in the past. "The issue is broader than just the subject matter in this bill." Thus, the compensation of other boards and commissions should also be addressed.

Co-Chair Green acknowledged Senator Stedman's remarks.

The bill was HELD in Committee.

[NOTE: No action was taken on the motion to adopt Version "F".]

[9:33:25 AM](#)

#hb338

CS FOR HOUSE BILL NO. 338(L&C)

"An Act relating to applications, qualifications, and criminal history and background checks for a certificate of fitness for explosives handlers; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

[9:34:00 AM](#)

LALANYA SNYDER, Staff to Representative Mike Chenault, the bill's sponsor, informed the Committee the Department of Labor and Workforce Development is responsible for issuing Certificate of Fitness licenses to explosives handlers. While an Alaska criminal background check is required as part of that process, a fingerprint check is not. Authorization of a fingerprint check is being sought, as it would assist the State in verifying

identification and would provide a tool for checking criminal activity on record in other states.

Co-Chair Green understood such action would align State statutes with federal law.

Ms. Snyder affirmed.

Co-Chair Green asked for further information about explosives handlers.

Ms. Snyder deferred to Grey Mitchell with the Department of Labor and Workforce Development.

[9:36:06 AM](#)

GREY MITCHELL, Director, Division of Labor Standards & Safety, Department of Labor and Workforce Development, identified explosive handlers as people who are employed in such things as road construction and rock pit operations. Individuals, such as miners, who are employed in operations subject to federal jurisdictions such as the Federal Mine, Safety, and Health Administration, would be exempt from the background check requirement.

Senator Stedman inquired about the certificate of fitness license requirements for an explosive handler.

Mr. Mitchell expressed that the licensing process requires an applicant to provide their name, address, physical disabilities, and employment history. In addition, applicants are tested on general explosive knowledge, safety procedures, and explosive handling. The license is valid for three years.

[9:38:24 AM](#)

Senator Olson asked for further information about the exemption for miners from the background check requirement.

Mr. Mitchell clarified that the State does not have jurisdiction over people employed in occupations covered by the Federal Mine Safety and Health Administration. Thus, the State Statute specifically excludes those occupations. These jurisdictional issues were addressed when Statutes regarding this certification process were originally established.

Senator Olson asked whether the Alaska Miners Association has a position on the bill.

Mr. Mitchell understood that the Association had not provided testimony on the bill.

Ms. Snyder informed the Committee that the Alaska Miners Association opposed the original bill, as miners were included in the list of occupations subject to the provisions. Their opposition was removed once miners were excluded from the requirement.

Co-Chair Wilken moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

There being no objection, CS HB 338 (L&C) was REPORTED from Committee with two previous zero fiscal notes: fiscal note #1 dated January 5, 2006 from Department of Labor and Workforce Development and fiscal note #2 dated January 17, 2006, from the Department of Public Safety.

[9:40:38 AM](#)

#hb83

SENATE CS FOR CS FOR HOUSE BILL NO. 83(STA)  
"An Act relating to the Alaska Seismic Hazards Safety Commission; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

[9:41:08 AM](#)

SUZANNE HANCOCK, Staff to Representative Gabrielle LeDoux, the bill's sponsor, stated the bill would extend the termination date of the Alaska Seismic Hazards Safety Commission, which is under the auspices of the Department of Natural Resources (DNR), until June 30, 2012 and increase the Commission's membership from nine to eleven. The increase in membership would provide more local government representation. The Governor appoints members of the Commission for three-year terms.

Ms. Hancock noted "the scientific community and the insurance industry" support the legislation.

REPRESENTATIVE GABRIELLE LEDOUX supported Ms. Hancock's remarks.

Amendment #1: This amendment deletes the entirety of language in Sec. 3(4), page 2, lines 8 through 11 and replaces it with the following.

(4) "seismic hazard" means an earthquake-induced geologic condition that is a potential danger to life and property; in this paragraph, "geologic condition" includes strong ground shaking, landslide, avalanche, liquefaction, tsunami inundation, fault displacement, and subsidence;

Co-Chair Wilken moved to adopt Amendment #1.

Co-Chair Green objected for explanation.

Co-Chair Wilken explained that the Senate State Affairs Committee added "definitional language" to the bill. DNR deemed that language "too broad" in its scope, and requested the original bill language be reinstated. Thus, this amendment would reinstate the original language.

Co-Chair Green removed her objection.

There being no further objection, Amendment #1 was ADOPTED.

[9:43:25 AM](#)

ROD COMBELLICK, Member, Alaska Seismic Hazards Safety Commission and Deputy Director, Division of Geological & Geophysical Surveys, Department of Natural Resources, testified via teleconference from offnet site and affirmed that DNR is the administrator of the Commission. Amendment #1 addressed both the Commission's and the Department's concern that the Senate State Affairs language would "broaden the scope" of the Commission's responsibilities "to include all geologic hazards even those that were not seismically induced". Amendment #1 "would refocus the Commission's purview in the area of earthquake hazards".

Mr. Combellick noted the bill would also expand the Commission's "purview to include tsunami hazards". This expansion is considered "appropriate".

Mr. Combellick pointed out that Amendment #1 would also remove volcanic eruptions from the purview of the Commission. The Commission supports this exclusion because that activity is currently under the purview of the Alaska Volcano Observatory (AVO), in which the State is a participant. The Commission's responsibilities should not overlap with those of that "very effective body".

Mr. Combellick stated DNR supports the Commission extension, as it would allow the Commission to further its recommendations on issues it had identified in a recent report [copy not provided] to the Department.

[9:45:52 AM](#)

Senator Olson asked the level of communication between the Commission and AVO.

Mr. Combellick responded that a "considerable" amount of communication occurs between the two entities, specifically as the State's participation in AVO is conducted through his agency. He is the direct conduit between the entities.

Mr. Combellick shared that during the recent Mount Saint Augustine volcano eruption there was concern the volcano "might generate a tsunami". The Commission relied on AVO to appropriately address that situation.

[9:46:57 AM](#)

Co-Chair Wilken noted the State would provide for the travel expenses of the eight Commission's member employed by the State. To that point, he asked whether funds would be allocated for the travel expenses incurred by the Commission's three public members, as specified in Sec. 2(c)(7) page 2 lines 4 through 6 of the bill. Else wise, this issue might negatively impact public member recruitment.

Mr. Combellick noted that sufficient funding is available to provide for all members' travel. He pointed out, however, that the agencies in which the State Commission members are employed typically cover these expenses.

Co-Chair Wilken concluded therefore that not addressing this issue in the bill "would not preclude the public members' being taken care of".

Mr. Combellick affirmed. While this issue is not specifically addressed in this bill, the Commission was granted such authority in the original legislation.

Co-Chair Green understood therefore that Commission travel expenses were addressed in existing Statute.

Mr. Combellick affirmed. Travel authority for the Commission was provided in legislation adopted in 2002.

[9:48:56 AM](#)

JOHN AHO, Chair, Alaska Seismic Hazards Safety Commission, testified via teleconference from an offnet site. The Commission has been very active and this extension would enable it to continue its "seismic risk mitigation activities". The Commission's efforts "are extremely important" to the State.

Co-Chair Wilken moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

There being no objection, SCS CS HB 83(FIN) was REPORTED from Committee with previous zero fiscal note #4 dated January 20, 2006 from the Department of Natural Resources.

AT EASE [9:50:19 AM](#) / [10:10:46 AM](#)

Co-Chair Green called the meeting back to order.

[10:10:56 AM](#)

#sb160

CS FOR SENATE BILL NO. 160(L&C)

"An Act relating to a procurement and electronic commerce tools program for state departments and instrumentalities of the state; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Senator Bunde, the bill's sponsor, moved to adopt committee substitute Version 24-LS0524\B as the working document.

Co-Chair Green objected for explanation.

[10:12:02 AM](#)

Senator Bunde voiced appreciation for today's hearing. This bill would address the State's procurement and electronic (e-commerce) tools pilot program that has been in operation for a year. He determined the State would benefit most by retaining senior procurement specialists to purchase specialty items such as gears needed for the State ferries while using the e-commerce tools for simple, repetitive orders. Thus, Version "B" would limit outsourced e-commerce procurements to \$50,000. State procurement personnel would be responsible for specialty purchases exceeding \$50,000 as well as the majority of contracts for services.

Senator Bunde explained the changes in Version "B" were based on a consensus between the Administration and the private contractors. Private contractors' responsibilities would expand "horizontally" to include more of the small, repetitive aspects of purchasing. State procurement officers would secure services, contracting, and large procurements. The State should use the experience gained through the pilot procurement program [PPP] to advance its procurement activities. He urged the Committee to support the bill.

[10:13:55 AM](#)

JANE ALBERTS, Staff to Senator Bunde, noted that provisions in Version "B" would address State employees' position that, if provided e-commerce tools, they could match the procurement savings experienced by the private contractor. These provisions would allow each State department to either "contract for both labor aspects and e-commerce tools from the private contractor" or to "pay a licensing fee ... for the e-commerce tools" and conduct procurement operations with State employees. Since both these options would utilize "the same e-commerce tools", the Office of Management and Budget could compare purchases made by State employees to those purchased by the private contractor.

[10:15:09 AM](#)

Senator Bunde stated that Version "B" would also extend PPP's current State procurement code exemptions another three years.

[10:15:30 AM](#)

In response to a question from Senator Olson, Senator Bunde clarified that PPP's current State procurement code exemptions would be extended until July 1, 2009. After that date, all procurements must comply with the code.

Co-Chair Green noted that language in Sec. 9 page 4, line 21 pertained to the procurement code exemption.

Senator Olson asked for further clarification.

Co-Chair Green read the language.

Sec. 9. Section 2 and 3 of this Act take effect July 1, 2009.

Senator Bunde stated that, in order to successfully implement the PPP and its e-commerce tools, exemptions to some portions of the State's procurement code were required. Those exemptions would be continued until July 1, 2009. After that date, all provisions of the procurement code must be adhered to.

Senator Olson asked whether this bill would affect PPP's "estimated savings".

Ms. Alberts deferred to Scott Hawkins with ASCI.

Senator Bunde understood Senator Olson's question to be whether eliminating the procurement code exemptions would negatively affect the savings the State might receive from the PPP.

[10:17:31 AM](#)

Co-Chair Green understood Senator Olson's question to be whether the proposal to allow State employees to purchase large ticket items would negatively impact savings the State might receive were ASCI, with its specified exemptions, to make those purchases.

[10:18:06 AM](#)

SCOTT HAWKINS, President, Alaska Supply Chain Integrators, testified via teleconference from an offnet site. The affect on savings is "one of the things that the three-year period will tell us". DOT data indicates that approximately 93 percent of all transactions are less than \$5,000. Thus, the exemptions to the State procurement code would "streamline, really, a small share" of the overall transactions. The reasons for providing the procurement code exemptions were "more technical than relating to cost savings". Technical compliance issues would include such things as "the implications for having a private contractor" serving as an agent of the State and how do certain "elements of the procurement code apply to a private agent of the State". The three-year procurement code exemption extension would provide "adequate time" in which to address technical issues.

Senator Olson characterized the response as "vague". He understood that one of the objectives for implementing the PPP was to save between five and 20 million dollars. Thus, his question was whether this bill would affect that savings potential.

Mr. Hawkins recalled that the five to 20 million dollars savings projection was based on implementing the PPP to all State departments. The PPP that was implemented was "so small" it negated the opportunity to save even five million dollars.

Senator Olson asked whether the PPP has produced any savings, to date.

Mr. Hawkins stated that a savings of approximately \$187,000 in procurement-warehouse overhead and operating expenses have been documented over the PPP's two-year operational timeframe. A savings measurement for costs of goods procurement was unavailable, "as the program hasn't been implemented to a degree" that could provide reliable catalog data.

[10:21:15 AM](#)

BRUCE LUDWIG, Business Manager, Alaska Public Employees Association and American Federation of Teachers, testified in opposition to the bill. The PPP was enacted two years prior "as an experiment". Even though the program was projected to save five to 20 million dollars, "the only documented savings has

been negative". Two independent audits indicated that PPP has cost the State at least a million dollars a year because ASCI paid more for goods than State purchasers did. "The final savings in overhead" was in the range of \$53,000 after contract modifications were factored in. "In short" the PPP "failed miserably".

Mr. Ludwig questioned the decision to continue exempting the private contractor from the State's procurement code, as the code was developed to protect citizens of the State by providing: transparency in the process; competition; and appeal procedures. Continuing the exemptions would provide none of these. He asked the Committee to take no action on the bill at this time.

[10:22:57 AM](#)

TOM BRICE, Representative, Public Employees Local 71 Labor Association, informed the Committee that Local 71 members are "the blue collar workers of the State of Alaska": they are involved in airport, warehouse, pioneer home, and highway station operations such as snowplow drivers and belly blade truck drivers. These individuals have been some of the primary users of the pilot procurement program in Southeast Alaska. Association members have communicated to him that the "very complicated process" involved in this procurement program has forced many of them to use "credit cards or other alternative means of purchasing, simply because trying to go through and follow the computer system, trying to place an order through the ASCI program, is becoming very cumbersome and burdensome".

Mr. Brice also noted that, oftentimes, orders placed through the program deliver the wrong item, or the order is never delivered, or does not arrive in a timely manner. One Association foreman ordered 50 fluorescent light bulbs for a State shop. They arrived one or two at a time over a three-month period. An order for front-end loader oil filters remained unfilled for three months. Such delays impact services provided by the State.

Mr. Brice urged the Committee to further investigate this issue before moving it from Committee.

[10:25:47 AM](#)

JIM DUNCAN, Business Manager, Alaska State Employees Association and former State Senator, spoke in opposition to the bill. Many of the 7,500 general government unit members represented by the Alaska State Employees Association (ASEA) would be impacted by this legislation. Reasons against this legislation include the fact there is clearly "no indication that this is a cost savings of any kind". When ASCI questioned whether the Administration's audit of the program was objective, a third party auditor, Mikunda Cottrell Accounting & Consulting (MCAC), was hired to conduct another audit.

Mr. Duncan stated he had not attended the March 24, 2006 Committee hearing about the MCAC audit because he was unaware it was scheduled. The validity of that audit is in question. The MCAC auditor "recognized" that the sample size was too small to be valid and took this concern to the State and ASCI. The decision was made to continue. The MCAC audit concluded that the two-year program produced "a small savings" of \$50,000 per year in personnel costs for the two-year period. It also indicated there was a "tremendous" one million dollar per year increase in the cost of goods purchased.

Mr. Duncan reminded the Committee that MCAC "clearly" stated to both this Committee and the public that its study was "not a valid study but was a strong indicator of what was happening" with the PPP. The indication was that PPP produced small personnel savings, but increased costs of goods. Thus, there is a "strong" indication that expanding the program beyond the limited application of the initial pilot program endeavor "would cost a whole lot more to the State".

Mr. Duncan opined it would be illogical "to expand and extend a program that has a strong indication from a third party auditor" with no vested interest, that the program would increase costs to the State.

Mr. Duncan urged the Committee to consider the indicators reflected in the MCAC audit and not expand or extend the program. He also urged the Committee to be "very careful in allowing anyone" making procurements for the State "to bypass the State's procurement code". Such action could be "very dangerous and it could create tremendous problems in the future". The procurement code was developed between 1984 and 1986 by a Legislative commission, which ranked the best interests of the State and the public as paramount.

Based upon his experience as a former Legislator and commissioner of the Department of Administration, Mr. Duncan believed the State's procurement code has worked and "would continue to work very well".

Mr. Duncan concluded his remarks by reiterating reasons not to further the pilot procurement program: "there is no indicator that it has saved the State any money; there is a strong indicator" that it would cost the State a tremendous amount of money, particularly were it expanded to other departments. Furthermore, "there is no good public policy reason to bypass the State procurement code". Please do not extend or expand this program.

10:30:46 AM

CHERYL FRASCA, Director, Office of Management and Budget, Office of the Governor, testified on behalf of "the group that is held accountable for the management results that State government delivers". She appreciated the attention the Committee has provided to evaluating the PPP's success or lack thereof. She has, at times, "refereed" in regards to the "issues and challenges" presented from "both sides of the pilot". Nonetheless, the Administration "believes that these are management tools that are good for government to deploy where it makes sense". She appreciated Senator Bunde's efforts to develop a committee substitute that "is a good reflection of the lessons learned" from the PPP. Forwarding Version "B" would make State government more efficient and would save money.

Senator Bunde stated that major technological advances have occurred in the past decades, and, while "change is threatening" it is inevitable. In spite of the "resistance" the pilot program has experienced, "it has shown progress and promise. It is time for the State" to update its e-commerce procurement activities to the level at which private enterprise has operated for years. This would improve efficiency and produce cost savings. He urged the committee to support this legislation.

Co-Chair Green withdrew her objection to the adoption of the Version "B" committee substitute.

There being no further objection, the committee substitute was ADOPTED.

Senator Bunde moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

Senator Hoffman objected.

Senator Olson also objected. A pilot program that has cost the State more than one million dollars a year rather than saving the State money "is almost counterintuitive. The five to 20 million dollar anticipated savings have not transpired.

[10:34:44 AM](#)

Senator Olson asked why the pilot program had not provided the expected results.

Senator Bunde responded that "there's absolutely no proof that that million dollar" expense would not have been incurred under the original procurement system. To that point, State personnel costs have increased. "The audit has been pretty thoroughly debunked", and he did not believe that the program incurred additional costs. Costs increase "whether there is change or not".

Senator Hoffman, speaking as a businessman, surmised that no business person in making payroll decisions would approve this measure.

Senator Olson did not object to the practice of employing another private sector business to assist with the operation of his business, as, in many cases, it is less expensive to contract out some jobs. However, after reviewing the February 28, 2006 study [copy on file] on the MCAC report, he acknowledged "validity, in spite of the previous study" that included invalid variables.

A roll call was taken on the motion.

IN FAVOR: Senator Dyson, Senator Bunde, Senator Stedman, Co-Chair Wilken, and Co-Chair Green

OPPOSED: Senator Hoffman and Senator Olson

The motion PASSED (5-2)

CS SB 160 (FIN) was REPORTED from Committee with new \$650,000 fiscal note dated April 29, 2006 from the Senate Labor & Commerce Committee.

[10:37:55 AM](#)

#

Co-Chair Green announced that the Committee would reconvene at 5:00 pm to address the capital budget bill.

RECESS TO CALL OF THE CHAIR [10:38:09 AM](#).

[NOTE: The Committee reconvened at 6:40 PM to address amendments to 231-BUDGET: CAPITAL & OTHER APPROPRIATIONS. Those minutes are identified as SFIN 0501060640 PM.]