

**ALASKA STATE LEGISLATURE  
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

January 23, 2017

3:16 p.m.

**MEMBERS PRESENT**

Representative Adam Wool, Co-Chair  
Representative Sam Kito, Chair  
Representative Andy Josephson  
Representative Louise Stutes  
Representative Chris Birch  
Representative Gary Knopp  
Representative Colleen Sullivan-Leonard

**MEMBERS ABSENT**

Representative Bryce Edgmon (alternate)

**COMMITTEE CALENDAR**

DISCUSSION: GOVERNOR'S FY 18 BUDGET PERTAINING TO THE DOT&PF

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

STEVE BRADFORD

Juneau, Alaska

**POSITION STATEMENT:** Testified in opposition to Governor Bill Walker's proposal to outsource DOT&PF's design work.

DAVID EPSTEIN

Juneau, Alaska

**POSITION STATEMENT:** Testified on behalf of himself in opposition to Governor Bill Walker's budget.

MARK MORRIS, Owner

Morris Engineering Group, LLC

Juneau, Alaska

**POSITION STATEMENT:** Testified in opposition to Governor Bill Walker's budget outsourcing DOT&PF's design work.

MARC LUIKEN, Commissioner

Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of Governor Bill Walker's proposed budget.

JIM DUNCAN, Executive Director

Alaska State Employees Association (ASEA), Local 52  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to Governor Bill Walker's proposed budget.

#### **ACTION NARRATIVE**

[3:16:36 PM](#)

**CHAIR SAM KITO** called the House Labor and Commerce Standing Committee meeting to order at 3:16 p.m. Representatives Wool, Josephson, Stutes, Birch, Knopp, Sullivan-Leonard, and Kito were present at the call to order.

#### **DISCUSSION: GOVERNOR'S FY 18 BUDGET PERTAINING TO THE DOT&PF**

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CHAIR KITO announced that the only order of business would be a discussion about Governor Bill Walker's Fiscal Year 2018 budget and decision to outsource design engineering services.

CHAIR KITO explained that the purpose of the meeting was to hear from a number of individuals concerning Governor Bill Walker's 2018 budget and the decision to outsource design engineering services. He read from the governor's budget, as follows:

The Department of Public Transportation & Public Facilities is embarking on an aggressive plan to get more projects completed from the available federal transportation funding by shifting to private contractors not only for construction but for the design phase as well. The department will increase work to the private sector while shrinking internal design staff. This has the added advantage of bolstering the private sector economy. By operating with more contract staff and fewer in-house engineering staff, the department will balance public and private sector specialized expertise and be able

to quickly scale up and scale down based on available funding.

Including this budget component, there are 11 Department of Transportation [& Public Facilities] components with design staff. Among the 11 components there are 76 design positions eliminated in this budget. These reductions represent the initial phase of the plan to maximize the use of private design contractors while reducing the proportion of design work done in-house to among the lowest in the nation. The department currently contracts over 55 percent of all design work and will strive to send all design work to contractors by FY 2019. Department of Transportation [& Public Facilities] positions that remain after this initiative will be responsible for project management and contractor oversight as opposed to hands-on engineering work. During the governor's FY 2018 amended submission, and in subsequent budget cycles, more design positions will be identified for deletion.

CHAIR KITO opined that DOT&PF has worked well for many years, and the proposed changes raise a red flag. He indicated that this action will not save the state money, but could end up costing more money due to less experience at the project management level and no plan to train engineers to be adequate owners, representatives, and project managers.

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CHAIR KITO, in response to Representative Birch, explained that what he had read was language from the budget submitted by the governor in December [2016].

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STEVE BRADFORD introduced himself as an Alaskan resident of nearly 42 years. He stated that his qualifications are as follows: over 30 years of design and construction experience; 10 years with the Federal Highway Administration (FHWA), most of that within Alaska; 17 years with DOT&PF; and upon retirement from DOT&PF, the next 8 years with CH2M Hill, Inc. (CH2M), the national consulting firm, as a flex employee. He elaborated by saying that of his 10 years with DOT&PF, 7 of those were spent as a design group chief where he supervised 6 project managers and developed up to 50-60 projects at any given time. Mr.

Bradford estimated that during his time as design chief, about 30 percent of DOT&PF projects were delivered by consultants. Mr. Bradford stated that he retired from DOT&PF as chief bridge engineer, after 7 years of overseeing the state's bridges in all capacities including design, inspection, and construction assistance. He related he worked as a senior bridge engineer while with CH2M. He explained to the committee his reasoning in detailing his professional career is to exemplify his familiarity with how consultant teams are assembled to utilize their engineering specialists and staff located in various offices in the Lower 48. He offered further details regarding his background.

MR. BRADFORD voiced his opposition to the governor's proposal to outsource 100 percent of DOT&PF's design work. He opined that the action is unnecessary and damages local and statewide economies. He stated that DOT&PF has demonstrated competency over many years by successfully delivering capital projects, and he said the department currently outsources 55 percent of its work, which he opined is a substantial amount. He explained that under the governor's proposal, approximately 300 jobs would be eliminated statewide, with 133 coming from Anchorage, 91 from Fairbanks, and 76 from Juneau. Mr. Bradford further elaborated that those numbers are in addition to the 76 mostly vacant positions that are slated for elimination in FY 18. He clarified that those positions are vacant because of the governor's current hiring freeze.

MR. BRADFORD shared his belief that the deletion of those 300 positions would amount to approximately \$30 million a year in wages. He illustrated that outsourcing 100 percent of design work means money would be concentrated largely with Anchorage consultants, such as CH2M, whose staff are primarily located in the Lower 48, and that equates to less money circulating through the local economy. He offered a figure of 50-70 percent of outsourcing to the Lower 48.

MR. BRADFORD explained that federal funding sources - FHWA, the Federal Aviation Administration (FAA), and the Federal Transit Administration (FTA) - are stable or increasing, with over \$500 million per year in construction contracts. Mr. Bradford opined that there is no need to trim DOT&PF staff levels, and he reminded committee members that the department is currently outsourcing 55 percent of its design work.

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MR. BRADFORD said President Donald Trump is proposing a large infrastructure program to modernize America's highways and airports; therefore, he opined that now is not the time to disrupt a time-tested organization such as DOT&PF. He said the DOT&PF program is built almost entirely on federal funds and very few state funds - the state match is generally only 9 percent. Mr. Bradford noted that studies done by other states found that outsourcing results in no savings to the state, but showed increases in design costs of 20 to 50 percent.

MR. BRADFORD reiterated his concern that the governor's proposal would damage the state's economy by sending \$15-\$20 million per year out of state. He said state design engineers have already started looking for jobs in the Lower 48, and worker loss equates to fewer consumers in state. Mr. Bradford noted that the state has already invested millions of dollars in hiring, training, and equipping these employees. He voiced his concern that the governor's proposal would leave a design, construction, and maintenance organization without a cadre of designers. Mr. Bradford questioned where the experience was going to come from to hire and manage consultant designers, since he said he feels an experienced staff is necessary to manage consultants. He stressed that DOT&PF managers, who lack hands-on personal experience, will not be able to adequately direct or competently review consultant work projects. He noted that DOT&PF's designers have a significant amount of local knowledge and are able to produce designs that reflect that knowledge.

MR. BRADFORD suggested that consultants have to worry about liability so their designs are more conservative and often result in more expensive projects. He disclosed that many consultants are not familiar with Alaska's short construction seasons, remote locations, and permafrost, et cetera.

MR. BRADFORD opined that the governor's proposal is not a sound proposal for improving [Alaska's] economy, but would negatively impact the Alaska's local and state economies by sending additional money south and spending more for project designs. He warned that the governor's proposal will destroy DOT&PF's ability to respond to emergencies and retain institutional memory, technical knowledge, and capability. He also raised his concern as to why the state would outsource 55 percent of its design work and send 50-70 percent of the outsourced funding out of the state when that money would be better spent in Alaska.

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CHAIR KITO asked Mr. Bradford to confirm that he had worked both for DOT&PF and private engineering firms within Alaska.

MR. BRADFORD confirmed that is correct. He elaborated that during his seven years with CH2M, he helped to develop proposals for projects throughout Alaska, which included putting teams together and submitting proposals to DOT&PF.

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REPRESENTATIVE BIRCH asked how Mr. Bradford's mention of the 100 percent outsourcing of DOT&PF's design work reconciles with "a personal service decrement of \$200,000 and two permanent full time positions" from the governor's budget.

MR. BRADFORD noted that the governor's proposal stated the intent to shift to 100 percent outsourcing. He offered his understanding that the only positions that would remain within the department would be consultant managers.

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REPRESENTATIVE KNOPP asked if Mr. Bradford was a civil engineer by trade.

MR. BRADFORD answered yes. He stated that he graduated from Oregon State University in 1971 and has been a licensed engineer in Alaska since 1975.

REPRESENTATIVE KNOPP asked about CH2M's origins. He offered that it started up originally as an environmental engineering firm, then got into the oil field service sector. Representative Knopp asked if, during Mr. Bradford's seven years with CH2M, there were ever any heavy highway civil construction projects undertaken, and whether any of those were contracted by the state.

MR. BRADFORD answered yes; CH2M has a full transportation business group that did a lot of work for DOT&PF, in the Central and Northern regions of Alaska. He indicated the company did a lot of "number structures," which would have been designed "down south." He speculated that the company may have done the Parks and Glenn Highway interchange.

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DAVID EPSTEIN emphasized that although he is an employee of DOT&PF, he is using approved personal leave in order to testify on behalf of himself. He remarked:

The focus of my testimony concerns a representation made in a recent briefing on the administration's proposal to outsource [DOT&PF] design engineering positions. Our management explained that the goal of the proposed budget is not to save money, but rather, reduce the size of the State Government. Given the state's enormous fiscal shortfall, I believe that the focus should be on saving money rather than proving a point characterized by the privatization of hundreds of Alaskan jobs, without regard to cost-savings. This is unfortunate because there aren't any cost savings. Consultants are selected based on their qualification, after which the fee is negotiated. Oftentimes, it's not the lowest price.

I'm testifying because I've had a different work experience than many of my colleagues and believe I can add a different dimension to the conversation.

I came to [DOT&PF] following a career with the Federal Aviation Administration, during which I managed program area budgets for Alaska and the western third of the country. FAA faced serious fiscal challenges that, like ours, involved budget shortfalls. We developed remedies based on evaluating the work to be done and finding better ways to do it. The administration is seeking to reduce the size of government without regard to budget implications, impacts on the travelling public, or the state's ability to acquire and spend federal transportation funds.

That the department's performance dashboard metric on project administrative and engineering cost shows we are in the green is entirely pertinent and something that should not be overlooked. It's in the green - not the yellow, not the red - the green. Yes, there's always room for improvement, and "If it ain't broke, don't fix it!"

In FAA, we managed our way through the crises by optimizing work processes and maximizing customer service. DOT is doing the same thanks to Commissioner

Luiken's prescient view of fiscal storm clouds gathering on the horizon, leading to the advent of strategic planning in 2011 and more recently, the Results Based Alignment (RBA) initiative. I heard Mr. Luiken speak to strategic planning six years ago. In 2015, I helped to frame the development of RBA. Neither were intended to bring about a mass transfer of work to the private sector.

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Our consultants, many of whom are employed by firms based in the Lower 48, know of this budget proposal. Some of the work they're currently doing for us is performed down south. Additional taskings will be accomplished Outside, to the detriment of the Alaskan economy. As you well know, money spent locally has a multiplier effect. The dollars that would have been spent in Alaska by our resident design professionals will instead benefit distant economies. We will be left to discover what many other states already have - that contracting out provides no clear financial benefit versus allowing a carefully re-engineered DOT to carry on. You've already heard Mr. Bradford's testimony regarding the consequences of outsourcing project design in other states - costs rose by a minimum of 20 percent. Alaska is different from other states in many respects, but this is not one of them.

To be clear, I agree that the department is in line for measured organizational changes in addition to those already made based on strategic planning and RBA. The collective bargaining agreement of the supervisory unit, of which I am a member, requires that decisions to contract out be made only after the affected agency has conducted a written feasibility study determining potential costs and benefits. This process must not be violated.

I have heard that the legislature cannot stop the administration from implementing the proposed budget. That may or may not be true. But whether or not you have control, you most certainly have influence. I urge you to apply it - with the other body as well as Mr. Walker. Help keep jobs that are over 90 percent funded by the federal government here in Alaska, supporting Alaskan families and Alaskan businesses.

There is much at stake, and the cure need not be more harmful than the disease. Again, thank you for this opportunity.

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CHAIR KITO asked how long Mr. Epstein has been in the engineering profession.

MR. EPSTEIN responded since November 11, 1976.

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REPRESENTATIVE STUTES asked how long Mr. Epstein has worked for the State of Alaska.

MR. EPSTEIN responded since August of 2009.

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REPRESENTATIVE WOOL confirmed that the reason for the proposed outsourcing was not to save money but simply to decrease the size of government. He stated that if the projects are still being done, whether in house or outsourced, then the budget wouldn't be reduced. He asked if, from a budget standpoint, outsourcing would make the department smaller.

MR. EPSTEIN replied that he was repeating statements from a management "out brief." He stated his understanding that the meaning of those statements was to reduce the number of positions.

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REPRESENTATIVE BIRCH asked if Mr. Epstein holds a Capital Improvement Plan (CIP) funded position - if his work ebbs and flows with the capital project - or if he holds an administrative role in the department.

MR. EPSTEIN answered that he is the Regional Traffic and Safety Engineer for the south coast region. He stated that he administers the Highway Safety Improvement Program (HSIP) for the region; does consulting work, answers questions about speed limits, stop signs, et cetera; and manages some projects.

REPRESENTATIVE BIRCH asked if Mr. Epstein's salary is funded half through the capital budget and half through the operating budget.

MR. EPSTEIN responded his salary is mostly capital, but he is involved in maintenance activities.

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MARK MORRIS, Owner, Morris Engineering Group, LLC, stated approximately 30 percent of the work his electrical consulting engineering firm has done has been as a consultant to the DOT&PF. He conveyed that his consulting firm in Juneau has felt the drop in oil prices and dropped from 12 employees to 4, so he is familiar with the pain the state is facing. He stated that Draconian cuts in state budget departments as an attempt to solve a fiscal issue will hurt many things in the state. He offered an example of a working couple of a household tapping the earnings of their retirement in response to a temporary drop in income. He implored that the political leadership should be doing the same thing with the permanent fund. He challenged any representative to show how much money in each of their community's budget comes from the state. He stated that Alaska has a government-dependent economy. Any major budget cuts will put the state into an economic recession, and will create a domino effect. He urged the legislature to take the earnings from the Permanent Fund Dividend (PFD) through legislation, index the earnings to the prices of oil, and cap state government based on the Anchorage Consumer Price Index (CPI) index or something similar.

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MR. MORRIS stated his friend worked with him on the electrical portion of the Ketchikan International Airport runway reconstruction as a DOT&PF employee while Mr. Morris was a private consultant on the project. Design engineers develop a vast knowledge of existing state infrastructure through their design work. He stated that his friend and his coworkers at DOT&PF have the requisite perspective and experience to oversee the work. He projected that if all the work went to consultants, the years of perspective, experience, and understanding would be lost: "You cannot outsource perspective or institutional knowledge." He testified as a consultant against the state's putting out more work to consultants. He stated that consultants are not incompetent, but lack the consistency of DOT&PF engineers, and it is unreasonable to

expect a few administrators to have an institutional understanding of the conditions of Alaska's infrastructure and oversee all the consultants' applications. He stated that shifting all work to consultants is "exceedingly dangerous." He recalled from his experience on the Board of Architects, Engineers, and Land Surveyors that the board considered the impacts on health, safety and welfare of the public with any impact on Alaska's engineering profession. He offered his belief that institutional knowledge will be lost if much more than 55 percent of the work is offered to private consultants.

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REPRESENTATIVE BIRCH stated that it's hard to be critical of the administration for taking initiative regarding the budget crisis. He stated that [the legislature] should be looking at ramping down the government's footprint. He recognized the value of senior employees managing contracts. He asked for Mr. Morris's thoughts on a transition to a smaller footprint.

MR. MORRIS referenced the governor's FY 18 budget, which states that the department currently contracts over 55 percent of all design work and will strive to send all design work to contractors by FY 19. He offered his understanding that the administration is trying to get rid of the entire design staff. He identified that the majority of the department's work is civil structural work which requires a large support staff, and if the amount of work done by the department in the design section is reduced, then the supporting staff can't be justified. This leads to dysfunction and inefficiency. He referenced the governor's budget for engineering is \$11 million, which mostly comes from projects. The department manages a half billion dollars of work.

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REPRESENTATIVE WOOL stated that the balance right now is about 55 percent private, and 45 percent is done in house. He recognized that the governor's proposed budget is good for Mr. Morris's business. He asked if Mr. Morris believes the balance now is good - if it provides some advantage to bring in private consultants.

MR. MORRIS answered that it absolutely benefits DOT&PF; he does think it's a good balance. His experience in the private industry with other clients can bring in ideas to the department. He developed a technique that has become a standard

for the department. He stated that there is a benefit to the department using consultants, but they both help each other; the department taught him a new method on the last project. He noted that he is not an expert on DOT&PF, but the ratio of outside work seems about right the way it is now. He referenced a project built by consultants that worked initially, but was not managed by experts in the field and the consultant's error shortened the service life of the infrastructure significantly. He stated that if federal tax dollars fund a large infrastructure project and a consultant's error results in half the expected service life, then the state budget will cover the repairs and maintenance. The savings in the budget plan would be outweighed by fixing in mistakes that would occur without the department's perspective.

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REPRESENTATIVE JOSEPHSON commented that he has met Mr. Morris in Point Thomson, after Mr. Morris designed the electrical system for the runway. He noted that the fact that he testified against his own professional self-interest makes for very compelling testimony.

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MARC LUIKEN, Commissioner, Department of Transportation & Public Facilities (DOT&PF), testified on Governor Bill Walker's proposed budget. He remarked:

Like all State of Alaska government agencies, DOT&PF is reducing in size in light of the state's fiscal crisis.

Over the last two years the department has absorbed the impact of sizeable funding cuts in those mission areas primarily funded by general funds.

In keeping with our department core value of excellence - which drives continuous improvement - and in light of the state's fiscal crisis as so strongly emphasized by Governor Walker in his State of the State address, we are seeking to optimize the delivery of our capital program. A key component of that optimization is continuous careful review of our workforce size and capabilities.

Therefore, we have been looking at mission areas funded by the Capital Improvement Program and have now embarked on a more focused effort to optimize the department's workforce responsible for delivering our capital project program.

We are currently analyzing our operations, which includes identifying cost-savings and/or improved services. This analysis includes the consideration of contracting out work. However, we are committed to doing our due-diligence and the state has bargained collectively with the unions - the Supervisory Unit, the General Government Unit, and Local 71 representing Labor, Trades, and Crafts - that a feasibility or efficiency study will be conducted prior to any final decisions. The department intends to honor those agreements. We are currently planning on issuing a request for proposal for a feasibility/efficiency study to be completed. After completion, if the initial determination is made to contract out work, the applicable union will be notified and have an opportunity to respond to the feasibility study as outlined in the collective bargaining agreement.

Best practice shows that setting a stretch goal can help teams perform better and realize greater innovation. Analyzing an established practice such as our current capital project program to identify a potential new business model is a very challenging stretch. It is also a responsible and prudent action to take in today's fiscal climate.

This direction reflects our governor's view of Alaska's current fiscal crisis and is a responsible and prudent action given the state's ongoing fiscal position.

The end-state of our capital program workforce optimization review will be a DOT&PF team with core competencies that can ensure contracted program work meets current quality standards and federal regulatory requirements.

DOT&PF is a critical economic driver for our state and we must keep federal transportation program funding flowing to our state. An optimized DOT&PF workforce that reflects smaller government and highly effective

partnering to best leverage every taxpayer dollar is good for our state and good for our nation.

[4:04:45 PM](#)

REPRESENTATIVE STUTES asked what the cost savings would be to the state.

MR. LUIKEN stated that the department is still in the analysis process, so it's premature to identify cost savings.

REPRESENTATIVE STUTES asked if the layoffs would not occur prior to completion of the feasibility study.

MR. LUIKEN stated that's exactly what would happen based on the bargaining agreements with all three unions.

[4:06:01 PM](#)

REPRESENTATIVE BIRCH asked how many positions within DOT&PF are funded, and how many positions are occupied.

MR. LUIKEN stated that he would follow up with more accurate information.

REPRESENTATIVE BIRCH mentioned that it would be helpful to understand the aggregated cost of the positions with benefits.

MR. LUIKEN stated that is the intent of the feasibility study.

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REPRESENTATIVE SULLIVAN-LEONARD stated that with an incredible budget deficit facing the state, it's commendable to look at efficiency within the department. She asked him to expand on the results-based accounting and the efficiencies being sought in this area.

MR. LUIKEN stated that results-based alignment is a framework to measure the contribution of all employees toward the accomplishment of the department's mission. The process is just beginning, performance data is being collected to determine how well the department is delivering their service to the state. He noted that preservation, operation, or modernization of the system are all being considered. The department is looking at an optimized workforce to deliver the capital program.

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REPRESENTATIVE KNOPP stated that the Kenai Peninsula Borough contracts out all design and project management. He asked if 55 percent of the design work includes surveying, electrical, and civil components.

MR. LUIKEN stated that he will follow up for a specific response.

REPRESENTATIVE KNOPP asked if the intent of the budget is cost savings or maximizing the amount of dollars on the street. He asked if design work is outsourced to save 40 percent, then would the 40 percent get "put out in the project."

MR. LUIKEN stated that the department is attempting to optimize delivery of the program. The feasibility study will show what the optimized organization should be.

[4:13:02 PM](#)

REPRESENTATIVE WOOL asked if the planning is under the same formula - 90 percent federal - as other DOT&PF money.

MR. LUIKEN answered yes. The planning, design, and construction efforts are funded with federal capital receipts; the ratio is roughly 90:10.

REPRESENTATIVE WOOL asked for clarification whether the optimization is for the remaining 10 percent and whether the balance of outsourced work can be ascertained after the study is completed. He asked if the department is ready to look at outsourcing jobs without knowing if it would be optimal.

MR. LUIKEN stated that is the department's intent with the feasibility study.

[4:15:00 PM](#)

REPRESENTATIVE JOSEPHSON asked why the governor would recommend deletions before a study was done.

MR. LUIKEN stated that the language in the budget doesn't clearly represent the administration's intention, and a new version of the FY 18 budget will have different language.

REPRESENTATIVE JOSEPHSON asked if the target for savings is the 10 percent general fund or the 90 percent match. He asked if the goal is to repurpose the 90 percent to hire 10 Oklahomans rather than 7 Alaskans, and if the department is allowed to do that.

MR. LUIKEN stated the department is trying to find the optimum balance and organizational structure to deliver the capital program.

REPRESENTATIVE JOSEPHSON indicated his appreciation that there would be some vacating of positions due to the fiscal crisis. He asked if some deletions are due to the shrunken capital budget or are an attempt to shift some work to the private sector.

MR. LUIKEN stated that from 2014 to today, the capital program has gone from \$2 billion to \$750 million. He asserted that it's reasonable to expect a requisite adjustment to the number of the folks delivering the capital program.

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REPRESENTATIVE STUTES asked if there has been any research done to know if the private sector can provide the professionals needed for the outsourced positions as opposed to going out of state to look for qualified individuals.

MR. LUIKEN stated that is what the feasibility study will be looking at.

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CHAIR KITO asked whether the revised language in the budget will keep the 76 positions eliminated in the current language.

MR. LUIKEN stated that it would be best [to answer] to wait until the state has a settlement with the General Government Union based on the filed grievance.

CHAIR KITO asked when the feasibility study "would be on the street" and when the committee would see the study results.

MR. LUIKEN responded that the department is developing a request for proposal, is expecting to advertise by the end of the month, and will have an award by the beginning of March. The department wants a third party to look at what is asked for in

the study. He stated that the target is six months until results would be available.

CHAIR KITO asked for confirmation that the study would not be complete before the legislature completes its work on the FY 18 budget.

MR. LUIKEN stated that is correct.

CHAIR KITO expressed his concern that action is taking place and all of the design division is expected to be outsourced by FY 19, when the study won't be available until the FY 19 budget is addressed. He asked if federal funding for capital projects has been stable in the last five years.

MR. LUIKEN stated that it has been stable and is increasing. He noted that with the "Fast Act," Alaska is now receiving roughly \$500 million in federal highway apportionment, and that amount will go up 3 percent every year.

CHAIR KITO asked if Alaska receives a similar match with federal aviation funds.

MR. LUIKEN said the federal aviation funds are fairly steady or possibly decreasing and are around the \$160-million range.

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CHAIR KITO asked if Mr. Luiken anticipates any swings in capital funding for highways or aviation.

MR. LUIKEN answered that he does not.

CHAIR KITO asked, with the steady funding, how much of DOT&PF's design or construction work is encompassed within the federal highway and federal aviation sectors. He asked how much of the work that DOT&PF does is federal aviation and highway. He asked if there are general fund projects happening and what percentage of the capital work is with the two federal programs.

MR. LUIKEN stated the vast majority of the work is federal.

CHAIR KITO clarified that the work is close to 100 percent federal work. He asked if the decline in the capital budget would be a reason for a decrease in staffing levels.

MR. LUIKEN answered it would not.

CHAIR KITO noted that the state had a design program that capitalized on work that other states could not complete and drew in millions of dollars on top of the regular apportionment. He asked if that has historically been the case.

MR. LUIKEN affirmed that the department has been successful at having enough design work ready to accept the August reapportionment by FHWA. He clarified that those funds don't come from other states, they come from other programs funded by federal highways and are distributed to the states that have additional capacity. Alaska has been successful at garnering chunks of that money.

CHAIR KITO asked if Mr. Luiken would agree that the DOT&PF design program, with the current split of 55 percent contracted out, has been successful in completing and advancing projects. He added that to his knowledge, Alaska has never had to turn money back to the federal government for not completing a project.

MR. LUIKEN stated that is right. He attributed the success to the organization and how well it does its job. He stated that [the budget] is not about the efficacy of the department.

CHAIR KITO added that the department is able to draw money in that was not originally allocated, and it is efficient enough that that money is never turned back to the federal government, He concluded that this is a strong testament to the success of the setup of the system right now.

[4:25:51 PM](#)

REPRESENTATIVE BIRCH asked if the department is entertaining proposals for operating the bar and lounge areas of the marine highway system.

MR. LUIKEN answered that the proposal before the committee is more oriented to the operating budget. He stated that the department hasn't found anyone who expects to make money operating [the bar and lounge].

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REPRESENTATIVE WOOL asked if federal funding is determined by how much the state can offer or on a project by project basis.

MR. LUIKEN outlined that the funding apportionment is based on a formula. In Alaska, the apportionment is \$5 for every dollar the state commits to the federal trust fund. The state contributes approximately \$90 million to the highway trust fund, and based on the formula, \$500 million returns to the state.

REPRESENTATIVE WOOL clarified that the feasibility study will determine if the department will outsource all or part of the design program. He asked if the 76 positions [proposed to be eliminated] were determined by a negotiation with the union.

MR. LUIKEN noted that those positions were identified through position management - looking at unfilled positions and positions filled by seasonal workers or people soon to retire. The positions wouldn't have been filled by the end of this fiscal year. He stated that this was the initial effort to identify the positions.

[4:29:34 PM](#)

JIM DUNCAN, Executive Director, Alaska State Employees Association (ASEA), Local 52, testified on Governor Bill Walker's proposed budget. He stated that the union represents 7,800 employees. He noted that actions taken by the administration and the legislature have reduced government over the past 18 months. He acknowledged that part of his job is to oversee the implementation and enforcement of a collective bargaining agreement with the state. The current agreement goes from July 1, 2016, to June 30, 2019. He stated that when the governor introduced his budget it was clear it contained a violation of the contract and that a grievance needed to be filed. He stated his respect for the governor, and opined that it shows courage to take strong actions.

MR. DUNCAN recognized that the governor and departments have the right to manage operations as they see fit to best deliver services. They also have a responsibility to follow the collective bargaining agreement, which is clear about procedure for outsourcing positions. He referred to article 13 of the bargaining agreement, and quoted: "The employer has the right at all times to analyze its operation for the purpose of identifying cost savings opportunities." He referenced another portion of the agreement, saying "the decisions to contract out should be made only after the effected agency has conducted a written feasibility study." He noted that the language previously read [in the governor's budget] says the decision has already been made - 76 positions will be eliminated for

outsourcing in FY 18, and another 300 positions in FY 19. He noted the language contained no reference to cost savings as a basis for making that decision, but mentioned the need to prop up the private sector. He stated that the administration has the responsibility to follow the collective bargaining agreement and proper processes for outsourcing positions. He pointed out there was no mention of doing a feasibility study, and the first mention of a feasibility study was after the grievance was filed.

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MR. DUNCAN reminded the committee that according to the agreement, a feasibility study must be done before a decision is made. The union filed a class action grievance to protect jobs of the members and ensure that the method of the department is in the best interest of the State of Alaska. He offered his opinion that outsourcing DOT&PF is not in the interest of the State of Alaska. He mentioned that after being questioned by the committee about cost-savings, the commissioner had no answer. He concluded that this is because the decision to outsource was made without any consideration or analysis cost savings.

MR. DUNCAN mentioned that over the years, the state has increased contracts with consultants without feasibility studies or cost analysis. The union found that the average "loaded rate" for DOT&PF engineers is \$100-120 per hour, including benefits, and the minimum contract with consultants has been \$200 per hour and up to \$450. He stated that it costs more to outsource work than to use competent state employees. He expounded that it is not in the best interest of the State of Alaska to privatize just for the sake of privatizing. He conveyed that some folks feel that "how you reduce government is not to reduce cost, you just get rid of people." He noted that fewer state employees can increase the cost to provide the same service through the private sector. He emphasized that the main issue is: "Does this make sense because it's going to benefit the State of Alaska and the people of the State of Alaska, or is it being done only because there are those who would like to see less state employees on the payroll?" He maintained that the answer is the latter.

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MR. DUNCAN stated that the union has filed a grievance and is in step two of three in the process. The state responded and

denied the grievance without any explanation. He informed that he instructed his staff to advance the grievance to step three and ask for expedited arbitration. He is confident that the grievance will prevail, but by then the budget decisions will have been made and the department will follow the budget [as planned]. He stated that in a meeting with the governor, he noted his preference to have a settlement. He mentioned a settlement should go back to ground zero: the positions eliminated in 2017 and 2018 would not be eliminated in the governor's budget, the language "completely outsource design" would disappear from the budget. He stated the other problem is that any study conducted by DOT&PF after the administration made the decision to outsource isn't credible. The study must be done by an independent, neutral third party, who has no ongoing or close relationship with anyone in the administration in order to have an objective outcome. He mentioned that the union should be able to comment on those who respond to the RFP. The study should be as independent and as credible as possible to give the administration more insight.

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MR. DUNCAN maintained that the study must clearly define the cost of providing services from the public sector verses the private sector. He asserted that it's a roll of the dice, but he is willing to bet that it's more expensive to provide this service in the private sector than to do it with competent public employees. He stated from experience that privatization studies can list a cost for the first year, and decisions are made on that, but the costs increase year after year. He instructed not to do just a one-year study, but a three- or five-year projection of costs. He stated that any action must ensure the money going to the private firms must stay in Alaska to benefit the private sector. He opined that he doesn't believe that the department was going to do a feasibility study. He reemphasized that a study must be done and done in accordance with guidelines. He stated that although it is a management's right to determine how to manage and explore privatization, he does not advocate privatizing the design function of DOT&PF. He offered his belief that the answer may be of great benefit for other privatization efforts coming along.

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REPRESENTATIVE BIRCH asked whether there is a term in the agreement related to financial exigency.

MR. DUNCAN stated there is no financial exigency term in the contract. There is a possibility to negotiate provisions in a contract to reopen under certain circumstances, such as if revenues went to a certain level. He stated his belief that the members of the union recognized the state's situation and did their part by giving up pay increases and taking furlough hours.

REPRESENTATIVE BIRCH stated that the approximate cost of \$200-\$400 per hour for a consultant is a good deal.

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REPRESENTATIVE KNOPP noted that most testifiers today mentioned work and money leaving the state. He agreed that the study is necessary and that a study conducted by a third party is appropriate. He asked how much of the 55 percent currently being outsourced is going to out-of-state firms.

MR. DUNCAN stated he doesn't know the figures of what work goes outside the state. He noted that DOT&PF should be asking that of any new contractor. He conveyed that the 45 percent of in-house work is staying in Alaska, and he asked, "Why should we worry about 10 or 15 percent of the 45 percent ... when we know that 100 percent of that 45 percent is staying in the state right now?"

REPRESENTATIVE KNOPP asked if Mr. Duncan would agree that the per hour figure for a state employee verses a contractor's bid is a fair comparison, considering salary and hours worked.

MR. DUNCAN stated his belief that it is a fair comparison. The \$100-120 figure is a "loaded rate"; it's a lot more costly to use contractors. He expressed that state employees are committed to doing the job and can accomplish the task in the same number of hours as a private consultant.

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REPRESENTATIVE WOOL asked if the 55 percent currently outsourced used to be 25 percent and how it's changed. He asked if this is a point of contention between the union and the state.

MR. DUNCAN answered that it is a point of contention. The contracts are negotiated every three years, and at every negotiation this is an issue. The state has been slowly contracting out services and not doing feasibility studies. He mentioned that a slow trickle-out of jobs has been going on for

years. The union has asked the state to stop, but the current budget brought it to the point where a grievance needed to be filed.

REPRESENTATIVE WOOL asked for Mr. Duncan's response to Mr. Luiken's comments that the 76 positions were unfilled or seasonal.

MR. DUNCAN stated that he is not surprised they are unfilled due to the governor's hiring freeze. He emphasized that if the budget recovers, those positions may be needed, and once you move those 76 positions out, getting them back in will be difficult. The department is removing positions of staff that can do design work.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Labor & Commerce Standing Committee meeting was adjourned at 4:55 p.m.