

SENATE FINANCE COMMITTEE

March 12, 2021

9:01 a.m.

[9:01:48 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Natasha von Imhof  
Senator Bill Wielechowski

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Paloma Harbour, Fiscal Management Practices Analyst, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Kelly Tshibaka, Commissioner, Department of Administration; Kate Sheehan, Director, Division of Personnel and Labor Relations; Thor Vue, Director, Office of Procurement and Property Management, Department of Administration; Ian Smith, Managing Director, Alvarez and Marsal; Leslie Isaacs, Administrative Services Director, Department of Transportation; Dom Pannone, Administrative Services Director, Department of Transportation.

SUMMARY

CENTRALIZED SERVICES INITIATIVE:  
OFFICE OF MANAGEMENT and BUDGET  
DEPARTMENT OF ADMINISTRATION

DEPARTMENT OF TRANSPORTATION and PUBLIC FACILITIES

9:03:47 AM

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself.

PALOMA HARBOUR, FISCAL MANAGEMENT PRACTICES ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself.

Mr. Steininger discussed the presentation, "State of Alaska Office of Management and Budget, Senate Finance Central Services and Rates Overview, March 12, 2021" (copy on file). He looked at slide 2, "Central Services":

General Definition

- A service that is performed centrally on behalf of the rest of the organization
- Also known as general administration, overhead, back office functions

State of Alaska Specific Definition

- A service that is performed centrally by one department on behalf of all departments

Purpose

- The central service agency is a subject matter expert in their service area
- Centralized services benefit from economies of scale for overall cost savings

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Mr. Steininger looked at slide 3, "Central Services - Currently":

Dept. of Law

Legal Services

Dept. of Education

Archives

Dept. of Transportation

Facilities Services

Capital Project Management

Leasing

State Equipment Fleet

Dept. of Administration

Risk Management

Administrative Systems (IRIS/ALDER)

Office of Information Technology  
Shared Services  
Personnel and Labor Relations  
Procurement  
Public Building Management  
Leasing

Senator Hoffman remarked that there was always a fight between centralization and decentralization. He stated that one of the key factors was relation to how and where the personnel would provide services during the centralization process.

Mr. Steininger clarified that Senator Hoffman's question was about the physical location of the services.

Senator Hoffman agreed.

Mr. Steininger explained that in some cases, centralization of services may result in relocation. He stated that it depended on the functions performed by the staff.

Senator Hoffman requested a list of personnel adjustments that would result from the centralization.

Mr. Steininger agreed to provide that information.

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Mr. Steininger pointed to slide 4, "FY2022 Governor's Budget -Central Service Changes":

Transfer existing centralized services from Administration to Transportation

- Public Building Management
- Leasing

Additional services centralized within Administration

- Procurement
- Personnel (Human Resources)

Senator von Imhof hoped that the administration was looking at both cost and value of provided services. She used an example to illustrate her point.

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Mr. Steininger addressed slide 5, "Central Services Costs":

#### Cost Distribution

- Central Service costs are charged to benefitting programs using a cost allocation rate
- Also known as a chargeback rate
- Allocation rates are applied to a cost or activity that drives costs within the central service agency
- For example, central human resource services charged with a per employee rate

#### State of Alaska Specific Costs

- Greater than \$380 million charged to all fund sources
- Less than 4 percent of the overall state budget

Senator Hoffman wondered whether the \$380 million allocation would be a problem in the system.

Mr. Steininger responded that the maintenance and support of the IRIS system was included in the \$380 million, but was a variable in the charge-back rate from the Division of Finance. He stated that increased costs for the contractor would result in a change to the \$380 million.

Senator von Imhof wondered how there was certainty that there was no compromise to quality and accountability. She reiterated that she was grateful for the focus on cost, but wanted to ensure that the change would work.

Mr. Steininger replied that Commissioner Tshibaka would address how the Department of Administration (DOA) would ensure the delivery of service. He stated that OMB would ensure execution of the budget.

Co-Chair Stedman handed the gavel to Co-Chair Bishop.

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Co-Chair Bishop stated that he had worked on centralization when he was the commissioner of the Department of Labor and Workforce Development under former Governor Murkowski. He wondered whether there were conversations with the commissioners of the departments about the execution of centralization. He shared that there could be a

centralization of services, but the personnel conducting the service would still be in another separate department.

Senator Olson remarked that the process of centralization and decentralization had been ongoing for as long as he could remember in the legislature. He remarked that prior centralization efforts were not particularly successful, and wondered why this effort would be successful.

Mr. Steininger deferred to DOA, but stated that the individuals that would be in the new Human Resources were a part of the prior consolidation, so they understand the lessons in that former centralization effort and the resulting friction.

Senator Olson stressed that it was the third year of the current administration's tenure. He wondered what would occur with a change in governor.

Mr. Steininger understood that the consideration must be made when evaluating a government organization. He shared that the Office of Information Technology was a centralization under the prior administration. He remarked that the current administration was attempting to achieve success in those centralized services.

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Senator Olson asked for more examples of successful centralized services.

Mr. Steininger recalled that the Office of Information Technology was created from the Enterprise Technology Services, and brought on all of the technology support and server management from agencies. He remarked that it was not a perfect path, but it was a progress that showed benefits of bringing together discrete activities by applying consistent standards. He also shared that there were similar accounting functions within the newly consolidated Shared Services.

Senator von Imhof remarked that there had been many past attempts at centralization and decentralization from various administrations that were aiming for increased value. She felt that there was an issue about an electronic process versus a paper process; employee turnover; employee communications; and other issues. she wondered how many

times there had been a decentralization and centralization of certain programs over the previous twenty years. She wondered whether there were other ways to add value.

Mr. Steininger responded that he did not know how many times there were centralized and decentralized of services, but agree to provide that information.

[9:29:08 AM](#)

Mr. Steininger discussed slide 6, "Rates -Current System." The slide showed the current process of allocated rates of services. He stated that the current way of allocating services was complicated and generated friction within state agency finances, resulted in an issue of concern about the cost of centralized services. He stated that the slide showed a sample of the larger rates.

Senator Olson assumed that the slide referred to indirect costs. He remarked that the indirect costs had not been paid in full by the state, and queried the process for rate negotiation with tribal organizations.

Mr. Steininger replied that the indirect costs were primarily charged by DOA to state agencies. He did not know how that would apply to tribal organizations.

Senator Olson wondered how OMB would negotiate the rates with the different agencies within the state.

Mr. Steininger remarked that there were weekly meetings with the administrative directors, and deferred to Ms. Harbour for detailed information.

Ms. Harbour furthered that the point of the process was for simplification, but agencies already know the charges. The charges were negotiated later in the fiscal year in order for it to be in the budget process to ensure the charges were known.

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Senator Olson stressed that the effort often resulted in benefits and drawbacks.

Ms. Harbour remarked that the advantage of developing the rates during the budget process was that there could be an

accounting of the benefits and drawbacks during the process.

Co-Chair Bishop surmised that there was an attempt to create good public policy.

Mr. Steininger agreed.

Co-Chair Bishop looked at the DOT Public Building Fund, which addressed the buildings in all agencies.

Mr. Steininger agreed, and remarked that the current system was overly-complex and did not always lead to consistent outcomes.

Co-Chair Bishop surmised that the multiplier did not indicate enough.

Mr. Steininger agreed, based on the backlog list.

Ms. Harbour looked at slide 7, "Rates -Principles for Moving Forward":

- Simple
  - Fewer rates
  - Fewer methods for distribution-group similar rates
  - Simplified payment process
- Predictable
  - Set for budget development -integrated into budget system
  - Clear method to estimate program cost impacts
  - Predictable billings -no end of year surprise billings
  - Based on lagging averages -average of three prior year actuals
  - Cost constraints -change how central service agency costs are budgeted
  - Mechanism to absorb large fluctuations

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Ms. Harbour looked at slide 8, "FY2022 Governor's Budget - Rate Changes":

Transfer State Facility Lease Funding from  
Transportation to Occupying Agencies

- Consistent treatment of state facility leases
  - Reflect true program costs
- Reduce Shared Services and Information Technology Budget Authority
- Align central service agency budgets with approved rates
  - Recognize efficiencies and realized savings
  - Improve budget transparency

Senator von Imhof wondered whether there were things that could be done without centralization, such as setting simpler rates. She asked what specific problem required a solution.

Mr. Steininger replied that rate simplification could be achieved without centralization. He shared that the problem of central service payment source existed before the centralization of other services. He stated that centralizing bigger services highlights the problem, hence the requirement to address the problem.

[9:46:37 AM](#)

Senator von Imhof surmised that the commissioner would address her concern about the benefit of centralization.

Mr. Steininger stated that OMB's focus on rate setting was a focus.

Senator von Imhof stated that rate setting was a separate issue.

Mr. Steininger stressed that the problems related to further centralizing procurement or human resources (HR) would be addressed by the commissioner.

Co-Chair Bishop handed the gavel to Co-Chair Stedman.

Senator Wielechowski queried the measured outcomes and standards that were used to ensure the benefit of the changes.

Mr. Steininger deferred to Commissioner Tshibaka.

[9:48:56 AM](#)

KELLY TSHIBAKA, COMMISSIONER, DEPARTMENT OF ADMINISTRATION (via teleconference), introduced herself.

KATE SHEEHAN, DIRECTOR, DIVISION OF PERSONNEL AND LABOR RELATIONS (via teleconference), introduced herself.

THOR VUE, DIRECTOR, OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT, DEPARTMENT OF ADMINISTRATION (via teleconference), introduced himself.

IAN SMITH, MANAGING DIRECTOR, ALVAREZ AND MARSAL (via teleconference), introduced himself.

LESLIE ISAACS, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION (via teleconference), introduced himself.

Mr. Isaacs discussed the presentation, "Procurement and HR Consolidation" (copy on file). He looked at slide 2, "How Are These Efforts Different?"

- DOA invested in pre-consolidation assessments, developed by subject matter experts
- DOA is employing governance structure, giving other departments a decision-making role in consolidation decisions that affect them
- DOA has established Service Level Agreements (SLAs) between each department and OPPM, DOPLR
- The consolidations were designed through consolidation a collaborative, inclusive process, involving the staff, stakeholders, and leadership of other departments

Mr. Isaacs highlighted slide 3, "Coordination and Decision Making":

#### HOW THESE DECISIONS WERE MADE

- Between mid-2019 and December 2020, DOA had 300+ formal engagements with other departments to implement consolidations, not including ad hoc phone calls or conversations between staff
- Governance structure led by the Alaska Administrative Governance Council (AAGC), 5 commissioners, and OMB
- 4 Advisory Committees report to the AAGC: HR, Procurement, IT, and Shared Services-Accounting. These

committees are comprised of representatives from different departments

- Working groups staffed from across the departments assist the Advisory Committees

[9:55:29 AM](#)

Mr. Vue addressed slide 4, "Procurement Consolidation":

History of the Procurement Consolidation

- February 2019: AO 304 Issued (Procurement Consolidation Order)
- Over 100 employees held procurement delegation throughout State agencies
- Decentralized model had significant drawbacks, redundancies, difficulty sharing best practices, difficulty enforcing procurement policies
- Consolidation benefits: commodity and contractual cost savings, standardized, streamlined processes, greater consistency, and control in procurement

Co-Chair Stedman handed the gavel to Senator von Imhof.

Mr. Vue pointed to slide 5, "Procurement Consolidation":

AAPEX Assessment (Alaska Administrative Productivity and Excellence)

Focused on how to consolidate procurement to:

- Generate Cost Savings
- Improve Customer Satisfaction
- Achieve Process Efficiencies
- Address Staffing Challenges

Reviewed purchasing, warehousing, supply chain and inventory management activities within the State.

Mr. Vue addressed slide 6, "Previous State of Procurement":

AAPEX found the decentralized structure resulted in inefficiencies and operational issues

[9:59:15 AM](#)

Senator von Imhof felt that the presentation could continue by moving to slide 9.

Mr. Vue pointed to slide 9, "Procurement Consolidation":

#### PCNs Were Selected Working With Departments

- 185 PCNs performed some sort of procurement functions within state government
- DOA excluded PCNs that only had marginal connection to procurement; 113 remained
- DOA sent a survey for each specific PCN and asked Departments to analyze and provide an initial allocation of percentage of duties spent in procurement functions
- Reviewed Department responses starting in March 2020
- Departments asked to make recommendation on appropriate staffing
- DOA determined final PCN count, including only staff performing purchasing, procurement, contracts, and related functions
- Ultimately, 62 positions, including 18 DOA PCNs were considered within scope
- Remaining 44 positions were transferred into DOA by January 2021
- Budget request transfers PCN funding from previous to new departments

Senator von Imhof felt that there were some specialty items that would be pertinent to specific departments. She encouraged department in the subcommittee process to address the functionality of the centralization, because she felt that waiting six months for a department to receive an item was not beneficial.

Senator Hoffman wondered whether there was personnel relocation.

Mr. Vue replied that the department was mindful of the need to provide a high level of customer service, so the consolidation was approached in a dual model. He remarked that there would be dedicated employees to service the specific departments. He shared an example of centralized procurement, as it relates to items that are used across agencies and departments.

[10:05:48 AM](#)

Senator von Imhof remarked that she was eager to hear from the commissioners in the subcommittee process. She stated that she would like to skip to slide 11.

Mr. Vue addressed slide 11, "How will these save money?"

#### Procurement Consolidation

##### Strategic Sourcing Cost Savings Methodology

- Reduced actual spend by 20 percent, across all categories, including current contracts, and accounted for purchasing practices, geography, and vendor availability;
- Additional spend reductions: some spend categories were reduced as much as 64 percent to account for the unique challenges faced in Alaska, up to and including 100 percent for some difficult-to-procure categories;
- Reduced spend was compared with proprietary benchmarks which represent real-world sourcing results in actual sourcing events. This results in a range of savings for any particular category;
- Strategic sourcing savings do not include any reductions in PCNs. Any future PCN-reduction based cost savings from a procurement consolidation would be separate from strategic sourcing savings.

Senator von Imhof felt that the HR component of the proposal was important.

Ms. Sheehan pointed to slide 12, "Human Resources Consolidation":

#### History of the HR Consolidation

- February 2019: AO 305 Issued (HR Consolidation Order)
  - Mandated all HR positions be transferred to Division of Personnel and Labor Relations (DOPLR)
  - HR was partially centralized but lacked consistency; without standard processes, Departments were operating under different systems
  - Purpose of AO was to streamline and increase accountability of HR activities within the Executive Branch by realigning HR staff to create

a clear reporting structure to the Director of DOPLR and within respective agencies

August 2019: Work on Consolidation began in four phases

Ms. Sheehan discussed slide 13, "Human Resources Consolidation":

Phase I: Assessment, Research, Work Session, Mapping of Processes, and Planning Activities

- Conducted by HR staff throughout the agencies, with assistance of outside contractors that had prior experience with DOTPF
- HR staff identified 70 process inefficiencies across departments, including lack of standardization, lack of digitization for on-paper practices, irregular pay processing, and problems in recruitment, onboarding, and retention
- Developed new organizational structure to address inefficiencies and inconsistencies

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Senator Wielechowski wondered whether any consultants were used to study the consolidations.

Ms. Sheehan replied in the affirmative.

Senator Wielechowski wondered whether the consultations were conducted through a request for proposal (RFP) process or a no-bid process.

Ms. Sheehan replied that there was a current contract with Collins Alliance.

Senator Wielechowski wondered whether that was a bid contract.

Ms. Sheehan replied that she would provide that information.

Ms. Sheehan looked at slide 14, "Human Resources Consolidation":

Phase II: Analyze and Design Phase (Began November 2019)

- Led by HR Transformation Leadership Team comprised of HR staff, agency administrative staff (ASD and Division Operations Manager), DOPLR Staff, Director of DOPLR, and DOA Deputy Commissioner
- Meetings of the HR Transformation Leadership Team were held every two weeks starting in February 2020
- The team determined which services were needed and where they fit into the new structure
- HR staff in every department were asked to fill out a survey with their top three preferences on where they would want to work in the new structure; over 90 percent of staff got the positions they selected

Senator Hoffman wondered whether there were public records of the team meetings.

Ms. Sheehan replied that there were not public records of those meetings. She shared that there was more communication in the current process, including town hall meetings.

Senator Hoffman queried the location of the town hall meetings.

Ms. Sheehan replied that the town hall meetings were held on either Web X or Teams.

Senator Hoffman asked where the town hall meetings were held.

Ms. Sheehan replied that the meetings were held online.

Senator Hoffman wondered whether Bethel participated in the town hall meetings.

Ms. Sheehan responded that the town halls were for HR staff and administrative service directors. She shared that there were no current HR staff in Bethel.

Senator Hoffman stated that there was not a worry, because there were no records.

Senator Wielechowski asked the name of the consulting firm.

Ms. Sheehan replied that it was Collins Alliance and Tandem Motion.

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Senator Wielechowski asked about the experience of Tandem Motion.

Ms. Sheehan replied that the principle of Tandem Motion had years of experience in the type of consulting work for various states and corporations. She agreed to provide further information.

Senator Wielechowski requested a copy of the CV, experience, and the cost of the contract.

Senator von Imhof wondered whether there was a written record from the commissioners that asserted approval of the centralization.

Ms. Sheehan replied in the affirmative, and shared that she met regularly with the commissioners.

[10:18:08 AM](#)

AT EASE

[10:19:00 AM](#)

RECONVENED

Senator von Imhof stated that the HR consolidation portion of the presentation would be set aside for another day, and the meeting would continue with the presentation from the Department of Transportation and Public Facilities (DOT).

[10:20:02 AM](#)

DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION (via teleconference), discussed the presentation, "Department of Transportation and Public Facilities, Senate Finance Committee DFS Update" (copy on file). He looked at slide 2, "Division of Facilities Services":

Statewide Public Facilities

☐ Registered Professional Architects, Civil, and Mechanical Engineers

- PMI Project Management Professionals (PMP)
- Certified Energy Management Professionals (CEM)
- Construction Contracting Officer

#### Facilities Maintenance and Operations

- Facilities and Building Maintenance Managers
- Maintenance professionals spanning all building trade disciplines (carpentry, plumbing, electrical, HVAC, building automation)
- Capabilities range from ground up construction to routine maintenance and repairs throughout all regions of state
- Computerized Maintenance Management System (CMMS) Established FY2019

Mr. Pannone discussed slide 3, "Computerized Maintenance Management System (CMMS)":

The intent of the Computerized Maintenance Management System is to provide an enterprise level management system for all State of Alaska departments who own or manage facilities, lease space, and manage projects.

Mr. Pannone pointed to slide 4, "Current and Future Service":

#### Currently Providing Service to

- Department of Education and Early Development
- Department of Health and Social Services
- Department of Administration
- Department of Labor and Workforce Development
- Department of Public Safety
- Department of Transportation and Public Facilities
- Alaska Court System

#### Future Services

- Onboarding two more departments by FY2022, DNR and DEC.
- Consolidate Leasing and Public Building Fund functions from DOA in FY2022.
- Onboarding DFG and DMVA by FY2023.

[10:25:24 AM](#)

Mr. Pannone looked at slide 5, "Lease Management and Public Building Fund Facilities."

Mr. Pannone discussed slide 6, "Facilities Budget Alignment." He stated that the department had an increased accountability with the dollars in expenses. He shared that, traditionally, DOT had billed out for their buildings that may be occupied by other state agencies based on actual expenses. He stated that it was found that some agencies had occupied space but did not pay anything, so did not know the cost of the space. Therefore, DOT paid for the operating components from their own budget. He stated that the proposal would transfer the UGF to the occupying agency, so their budgets could reflect the true cost of delivering their services.

Senator von Imhof discussed housekeeping.

#

ADJOURNMENT

[10:29:24 AM](#)

The meeting was adjourned at 10:29 a.m.