

SCOMM

122:2



and Delivery of Government Services

21ST ALASKA LEGISLATURE

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

FINAL REPORT

**APPENDIX A:
SUBCOMMITTEE REPORTS
VOLUME 1**

ADMINISTRATION

COMMUNITY AND ECONOMIC DEVELOPMENT

ALASKA RAILROAD CORPORATION

AIDEA HYDROELECTRIC PROJECTS

CORRECTIONS

COURTS

EDUCATION

www.privatizealaska.org

JANUARY 2000

ADMINISTRATION

**COMMISSION ON PRIVATIZATION
AND
DELIVERY OF GOVERNMENT SERVICES**

SUBCOMMITTEE REPORT

ON THE

DEPARTMENT OF ADMINISTRATION

November 10, 1999

**Subcommittee Members: Joe Henri, Chair; Bill Allen, Jack Coghill, David Cottrell,
John Fox Worthington, Donn Liston, Paul Martone, Andree McLeod, Dale Nelson,
Janelle Norman, Lewis Quinn, Jim Rowe, Carl Springer, Scott Stewart, Tom Wagner,
Gerri Wakefield, Dan Wayne**

**Commission on Privatization and Delivery of Government Services
Subcommittee on the Department of Administration Report**

Table of Contents

Recommendations

Attachments

Report Info for Items I – IX	Appendix A
Public Defender Agency	Appendix B
Pioneer Homes	Appendix C
Purchasing Function, General Services & Supply	Appendix D
Telephony	Appendix E
Information Services Group	Appendix F
Paying Functions, Retirement & Benefits	Appendix G
State of Alaska Mailrooms	Appendix H
State Travel	Appendix I
Productivity of State Workforce	Appendix J

Department Response

REPORT OF THE SUBCOMMITTEE ON ADMINISTRATION

TO

**THE COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT
SERVICES**

10 November 1999

[By Joseph R. Henri, Chair]

Those who were in Alaska at statehood 40 years ago, and those who participated in state government during decades prior to the 90's tend to wonder at the growth of Alaska's employee force and the very large annual per capita dollar expenditure. "To govern means to rectify," said Confucius. Senate Bill No. 33 [61 Session Laws of Alaska 1999] sets out to review, rectify, reform, and reinvigorate the current status of our Alaska state government. Our subcommittee on the Department of Administration (DOA) pursued the objectives of Section 5 of SB 33; peculiarly falling to our attention was Sec. 5 (2), "review state contracting policy and procedures, including competitive bidding procedures."

During the course of the summer and fall of 1999, above 25 volunteers signed on to aid the Privatization Commission in pursuing the intent of SB 33 as it affected the Department of Administration; they followed the counsel of the Greek stoic Epictetus, who said, "Let no wise man estrange himself from the government of the state...." But familiarity with the state's functions repelled some of our volunteers; our laboring group shrank to 12 or so people who dedicated time, effort and talent to the assigned tasks. The chair's sincere thanks go out to each and every one.

Each of our volunteers is engaged in a job or business on a daily basis; we had no retired or otherwise leisured people who could fully devote themselves to an intensive pursuit of our subject. We brought what time and insight we had to the task assigned. Thus, this is not the work of a consulting group; it is the product of citizens using what little time they could spare in order to give the Commission a sense of some possibilities which should be pursued in earnest by experts. Such a pursuit will not be without expense; what we have done is to sort out and identify some promising areas of inquiry and consequent action.

In our work we were well and ably assisted by the high echelons of the Department of Administration whenever we requested assistance. Commissioner Robert Poe seems to head an effective, dedicated agency (this is not to say that we conceive of no room for improvement!).

A GENERAL VIEW ABOUT PRIVATIZATION: (SOME NOTES) We were struck by the large amount of state production which is already privatized. This is true in a number

number of departmental divisions. For example, in the Retirement & Benefits Division, the administration of the health plan is conducted by Aetna out of Seattle; the Deferred Compensation Plan and other, cognate plans are administered by Great West, out of Denver, Colorado; actuarial work is contracted to William Mercer of Seattle; the health plan consultants are Deloitte Touche out of Minneapolis, Minnesota; and annual audits for the various health and retirement funds are performed by KPMG Peat Marwick of Anchorage.

Frequently, the privatizing of government work to achieve a lower cost will entail the performance of the tasks out of state. Sometimes, but not often, the necessary talent is not readily available in Alaska. Most times, though, the farming out of work to Lower 48 companies is done to keep the state employee numbers from swelling, and to keep within budget allocations. Obviously such privatization is a matter of trade-offs. For each privatization adventure, careful attention must be given to the overall consequences for the economy and well being of Alaska and its citizens.

Privatization has long term consequences as well as possible immediate reductions in costs. Privatization will always work best in an environment of plentiful competition, i.e., where the services sought are provided by a goodly number of providers, all motivated to do the work competently for the lowest possible cost. Where competition is weak, or non-existent, privatization may well result in higher costs and poorer performance. If by privatizing, existing state-hired talent or state-owned facilities are done away with, the company offering the service from the private sector may profit from a lack of any reasonable alternatives at the time of contract renewal.

The collective bargaining contracts with the various employee groups of state government all contain provisions covering the subcontracting of work outside the state work force. In general, union members are given a "right of first refusal" to analyze the state's plan for outsourcing or privatizing, and then to submit a plan of their own to the state which, to be accepted, must more or less equal the anticipated savings from privatization. These typical provisions provide for a thorough vetting of the possible savings. The privatizing of the function of Central Duplicating a few years ago, brought these clauses into play, and created hard feelings between employer and employees. For the state to privatize work, it must run a gauntlet, which may, in fact, discourage much consideration of privatization. In like vein, we inquired into the effects of the "Little Davis Bacon" (LDB) Alaska statute on privatizing efforts. We learned that LDB applies to construction outsourcing, necessitating "Prevailing Wages" in construction work, making labor costs higher than otherwise. LDB does not apply to strictly maintenance functions, according to the Commissioner of Labor, nor does it apply to non-construction work, i.e., to service contracts.

The items which our group chose to consider, and our comments about them, follow. In most cases, we have attached appendices wherein an explication of the subject is set forth.

A. REORGANIZE AND STREAMLINE DOA AS A PURELY STAFF AGENCY SERVING THE GOVERNOR AND THE OTHER DEPARTMENTS; MOVE LINE ACTIVITIES TO OTHER DEPARTMENTS.

Two of our volunteers are former commissioners of DOA, Messrs. Allen and Henri. DOA has become a handy repository for an unconnected variety of tasks rendering service to the public. We advocate the following "consolidation or other efficiency change": Remove the following "Services to the Public" and place them in other departments: Alaska Longevity Programs, Alaska Oil and Gas Conservation Commission, Alaska Public Offices Commission, Motor Vehicles, Office of Public Advocacy, Senior Services. Retain Office of Tax Appeals and the Public Defender Agency due to conflict of interest problems, and the mandates of federal and state courts. Take the Office of Management and Budget from the Governor's Office and integrate it into the work of DOA, where it had been historically lodged. Restore an Internal Audit function in DOA to give the executive branch ability to manage its departments and create efficiencies. The commissioner of DOA should be the governor's major domo for the management of state government. That is how the job and the department were conceived by the consulting group which advised the first state legislature in 1959, when the Alaska government was initially fleshed out.

- B. PUBLIC DEFENDER AGENCY.** Federal and state courts have mandated legal defense of indigent clients. Alaska spends around \$10 million annually pursuant to this duty, employing over 100 people. To contract out this function to the private bar would cost considerably more than the present cadre of state employees. Your subcommittee recommends leaving the status quo. Appendix B, attached, explains this rationale.
- C. PIONEER HOMES:** Those in our group studying this issue have recommended privatizing the homes, advocating that the services be provided by a private company whose core competency is in providing such care; our subgroup are also of the opinion that the state would realize cost savings. See Appendix C, attached. On the opposite side are DOA officials who assert that state operation costs are cheaper than private nursing home costs, using figures of \$50,000 per resident in the state program, and \$90,000 per resident on the private side.

We learned that Alaska and one other state, Alabama, have "opted out" of Alzheimer's coverage under the Medicaid program. If there were state Medicaid coverage, out of every dollar spent 60 cents would be federal, 40 cents state. Seemingly, more coverage for Medicaid/Alzheimer's would be available to more Alaskans if Alaska "opted in" for Alzheimer's coverage than now receive subsidized

care through being guests at a Pioneer Home. Would overall state expenses be higher? We were not able to establish that answer

The Pioneer Homes require a thorough and objective analysis by a competent third party contractor as to the wisdom and cost savings of privatizing the function.

- D. **PURCHASING FUNCTION, GENERAL SERVICES & SUPPLY.** The purchasing laws of Alaska generally parallel the Model Procurement Code of the Council of State Governments, with certain Alaska modifications. The model code is currently under revision. Complaints were expressed over the law's requirement of purchasing certain goods from the Department of Corrections; i.e., goods made in prisons, because at times the quality is inferior and the items provided not exactly what is needed. Compulsory purchase of prison production, etc., is one of several purchasing quirks under our statutes, all militating in one way or another against finding the best quality goods at the lowest possible prices. Many of the provisions (irritating to purchasing officers) are for the purpose of promoting Alaska business—helping small in-state businesses, instead of buying from large outside suppliers. We make no recommendations on such provisions, except to point out that the concept "purchasing" is fraught with a multitude of overtones and mutually contradictory objectives.

Our Appendix D contains a number of insightful suggestions for bettering service and lowering costs. The bulk of state purchases are for amounts under \$100,000, yet the central office has no method of keeping track of such transactions; at present there is neither a pre-audit nor post-audit function by which to adequately monitor compliance with the laws and regulations. There is regular training of purchasing officers throughout state government. We believe that certain modifications of the state accounting system would enable the GS&S Director and the Governor and the Legislature to have a better grasp of purchases in the "Under \$100,000 Range," and we urge swift action to rectify this failing.

- E. **TELEPHONY.** We recommend privatizing this function in order to realize cost savings and a stream of revenue. Commissioner Robert Poe is already soliciting proposals, which will at least partially implement this recommendation. See Appendix E
- F. **INFORMATION SERVICES GROUP:** We recommend against the privatizing of this function, i.e., against severing the function from state workers; nevertheless, we consider the outsourcing of some of the work a real possibility. See Appendix F, attached.
- G. **PAYING FUNCTIONS, RETIREMENT & BENEFITS:** We raised the question of privatizing these functions (payroll, accounts payable, retirement benefits): Could the state achieve the same results at a reduced cost? Could the availability of so much

computing work be used to attract a new enterprise to Alaska, which would use the state business as its core income generator, and then capture other business of an even larger magnitude from outside Alaska? Could we help create a new and high paying sector in the Alaska economy? These were the exciting questions, but we had no available means to derive answers. We know that several years ago, the state spent above \$20 million to produce a new accounting system; production of such a system entailed a thorough knowledge of the state's accounting needs - what it was currently doing, what it should be doing if it had the computing ability, etc. Our group would also have to apprise itself of this information in order to make privatizing recommendations. We believe the subject is deserving of careful inquiry and subsequent decision, but your subcommittee is not able to make recommendations other than this at the present time. See Appendix G.

- H. **STATE OF ALASKA MAILROOMS:** It seems that the outsourcing of the mailroom functions of the state would result in better service at a lower cost. Appendix H highlights some of the considerations, which prompt our recommendation.
- I. **STATE TRAVEL:** Like many before us, we considered the possibilities for saving money on this function, but we came up with no satisfactory insights or recommendations. A summary of recent departmental effort in this area is contained in Appendix I.
- J. **STATE LABOR RELATIONS OFFICE:** Great dissatisfaction with the care, output and response of this agency led to a strong entreaty to abolish the agency, and farm out its work to each department for decentralized administration of the collective bargaining agreements. While two of our members were for abolition, the vast majority of our group voted their opinion that the Labor Relations agency should be retained, but its performance and responsiveness thoroughly improved.
- K. **PRODUCTIVITY OF STATE WORKFORCE:** While the state conducts on-site and off-site training for many of its employees, the question arises as to whether more could be done to further productivity. In general, government bureaus are little motivated to eliminate jobs; the usual tendency is to add more workers to cope with new facets or increased workload. What can be done to bring more hardheadedness and "bottom-line" mentality into the supervisors' motivating values? One idea was to use the existing capabilities of the state accounting system to record from the segments of the workday spent by employees on their various tasks in order to derive a concrete idea about time spent against tasks accomplished. The result may be quite a revelation: some will be found to be heavy producers, others rather laggard. Knowledge of the facts will presumably lead to higher productivity. Appendix J, attached, addresses two versions of personnel cost accounting.
- L. **PARTNERING WITH LICENSE-ISSUING AGENCIES:** The issuance of various licenses is always a big part of a state's output. Frequently there is a need for licenses

at times other than normal working hours; sometimes expeditious treatment is not available from a typical bureau, but is nevertheless needed by some deserving applicant. These are the types of cases, among others, where a non-state employee partner can be profitably used to fill in the gaps and create better, more efficient service. We found that the Division of Motor Vehicles is doing some of its work through the use of partners. We think their efforts are commendable, that they should be studied and understood by other agencies so that such public-private partnering can be expanded and tested in other areas. Private partners can be a good alternative to expansion of the permanent state workforce. We encourage the state to examine this practice in all fields of licensing.


Joseph R. Henri, Chair



**Department of Administration
Response to subcommittee recommendations
November 10, 1999**

A. Reorganize and streamline DOA as a purely staff agency serving the Governor and the other departments; move line activities to other departments

The placement of various "services to the public" in the Department of Administration has a long and varied history. Many of the functions reside in the department due to potential conflicts with other more logical placements. That is true of the Office of Public Advocacy, the Public Defender Agency, the Alaska Oil and Gas Conservation Commission, the Alaska Public Offices Commission, and the Office of Tax Appeals. The Alaska Pioneers' Home programs have been a part of the department since the '60's. Other senior programs were added to the department in the early '80's in response to senior concerns that placement in the Department of Health and Social Services equated senior programs to welfare. The Legislative Task Force on Long Term Care reviewed the placement of all senior programs as part of its work in 1998-99. It was determined that recent efforts on the part of the Department of Health and Social Services and the Department of Administration to consolidate all senior programs within the Department of Administration provided an effective "one-stop" shop for seniors. Concern was expressed that returning these programs to the Department of Health and Social Services could result in reduced services to seniors because of the competition with children's services.

The Office of Management and Budget was contained within the Department of Administration until 1976, at which time it was relocated to the Office of the Governor. Due to the major policy implications contained within the development and subsequent oversight of the budget each year, placement within the Office of the Governor continues to be appropriate.

Reestablishing an internal audit function would require additional resources.

B. Public Defender Agency

We concur with the subcommittee's conclusions.

C. Pioneers' Homes

Due to the condition of the facilities, and the lack of any public funding for institutional care of residents with a primary diagnosis of Alzheimer's disease (outside of the Pioneers' Homes), we believe that privatization of the Homes is not in the best interests of the residents of the State of Alaska. Alzheimer's disease will become more prevalent as the State of Alaska's population ages in place. National attention has recently been focused on the public policy issues needing to be addressed as the baby boomer generation moves from middle age to senior status. The Alaska Pioneers' Home program

is recognized nationwide as a model program addressing the needs of the ADRD population.

The subcommittee appears to have made several errors in reviewing this program. For example, there is reference to the program ending in 2029. There is no intent to conclude the Pioneers' Homes at any future date. In 2029, the senior population in this state is anticipated to be more than four times the present size making the demand for services even greater.

The Pioneers' Homes are presently run and staffed by people who are professionally certified in the field of long term care. Privatization would not change the character of the staffing, so it is erroneous to assume that better care would be a result. The Pioneers' Homes programs are recognized both statewide and nationally as a leader in specialized care for residents with ADRD.

Compared to other long term care facilities in the state, such as nursing homes, the cost per resident at the Pioneers' Homes is already much lower. Privatization will have two significant factors that will drive the cost of operations up: 1) Depreciation of buildings and equipment which will need to be factored into rates, and 2) operation for profit.

The Pioneers' Home program currently participates in a national cooperative for the purchase of goods and supplies, Peace Health Corporation. This participation has significantly reduced supply costs and resulted in standardization of consumables.

D. Purchasing function, general services and supply

The Department of Administration has requested funding for the past several years to bring automation to the procurement process. The estimated cost, which includes modification to AKSAS, is \$400.0.

E. Telephony

The Department of Administration has embarked upon an effort to bid a "public/private partnership" with a firm or a consortium of firms for the provision of telecommunications services. This process will be completed during the summer of 2000.

F. Information Services Group

We concur with the subcommittee's conclusions.

G. Paying functions; retirement and benefits

We do not believe that there are cost savings in this arena; however, the subcommittee has raised other issues regarding economic advantage that we are unable to address.

H. State of Alaska mailrooms

It is unclear what if any savings are anticipated with this recommendation. The appendix appears to indicate the need for a significant investment in equipment.

I. State Travel

Appendix I contains the Department's response.

J. State Labor Relations office

We concur with the subcommittee's conclusion that a centralized labor relations function should be retained, and have embarked upon a process with other agencies of state government to address concerns about performance and responsiveness.

K. Productivity of state workforce

After 12 years of consecutive budget cuts, all state departments have had to analyze, redefine, and improve work output to continue to provide the services for which they are charged. The Department of Administration is no exception. Additional dollars for computerization could potentially save operating dollars at some time in the future, but the initial up front investment must be made to realize those savings.

In a workforce of over 15,000 employees, there will always be some employees who are "rather laggard". This would be true of any organization of similar size. However, the majority of state employees take a great deal of pride in their work and perform their jobs with a high degree of productivity.

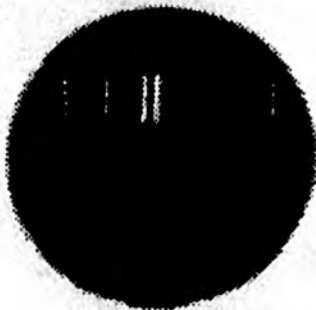
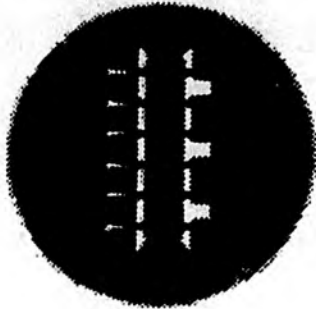
L. Partnering with license-issuing agencies

We concur with the subcommittee's recommendations. However, we wish to add a caveat: development of public/private partnerships does not happen without a considerable investment of time and effort on the part of the public enterprise. In the case of DMV, this also took considerable modification of computing resources. Again, this is an area where improved service to the public can certainly be acquired, but it takes an "up front" investment of time and money to make it happen.





THE Department of Administration



FY2000 Budget Overview

**Bringing Tomorrow's Solutions
to Government Today:
Improving Service for All Alaskans**

Tony Knowles, Governor

Robert Poe, Jr., Commissioner

Table of Contents

	Page
INTRODUCTION	
Office Location Map	2
Department Organization Chart	3
Program Contacts	4
FY2000 Major Goals and Strategies	6
1998-1999 Major Accomplishments	7
Key Issues	10
FY2000 CIP Request	14
FY2000 Operating Budget Charts	
Operating Budget Comparison	16
Operating Budget by Service Category	17
Operating Budget Comparison by Program—All Funds	18
DIVISION OVERVIEWS	
Department Management	
Office of the Commissioner	20
Administrative Services	22
Services to the Public	
Alaska Longevity Programs	26
Alaska Oil and Gas Conservation Commission	32
Alaska Public Offices Commission	36
Motor Vehicles	40
Office of Public Advocacy	44
Office of Tax Appeals	48
Information Technology Group (Public Communications Services)	50
Public Defender Agency	54
Senior Services	58
Services to State Agencies	
Finance	64
General Services	66
Information Technology Group	72
Personnel	76
Retirement and Benefits	80
Risk Management	84
Y2K Project Office	88
APPENDICES	
1 DOA: Functional Organization Chart	94
2 The Eden Alternative Program	96
3 Internal Services Fund Update	97

	Page
APPENDICES continued	
4 DOA-IT Update	98
5 Division of Motor Vehicles: Public Service	99
6 Longevity Bonus Phase Out	102
7 Facilities Maintenance	103
8 Workplace Alaska	104
9 Contract Negotiations	105
10 Alaska Oil and Gas Conservation Commission	106
11 Alaska Commission on Aging	109

ORGANIZATIONAL CHARTS

Department Management

Office of the Commissioner	112
Administrative Services	113

Services to the Public

Alaska Longevity Programs	115
Alaska Oil and Gas Conservation Commission	123
Alaska Public Offices Commission	124
Motor Vehicles	125
Office of Public Advocacy	130
Office of Tax Appeals	131
Public Defender Agency	132
Senior Services	134

Services to State Agencies

Finance	135
General Services	136
Information Technology Group	140
Personnel	144
Retirement and Benefits	147
Risk Management	148
Y2K Project Office	149

Introduction

	Page
Office Location Map	2
Department Organization Chart	3
Program Contacts	4
FY2000 Major Goals and Strategies	6
1998-1999 Major Accomplishments	7
Key Issues	10
FY2000 CIP Request	14
FY2000 Operating Budget Charts	
Operating Budget Comparison	16
Operating Budget by Service Category	17
Operating Budget Comparison by Program—All Funds	18

Department of Administration Office Locations

Divisions

Commissioner's Office
Administrative Services
Alaska Longevity Programs

Alaska Oil and Gas Conservation
Commission

Alaska Public Offices Commission
Finance

General Services

Information Technology Group
Motor Vehicles

Office of Public Advocacy
Office of Tax Appeals
Personnel
Public Defender Agency

Retirement and Benefits
Risk Management
Senior Services
Y2K Project Office

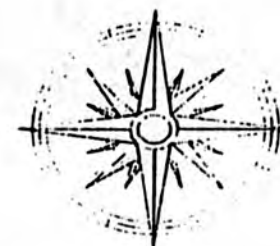
Location

Juneau
Juneau
Anchorage, Fairbanks, Juneau,
Ketchikan, Palmer, Sitka
Anchorage

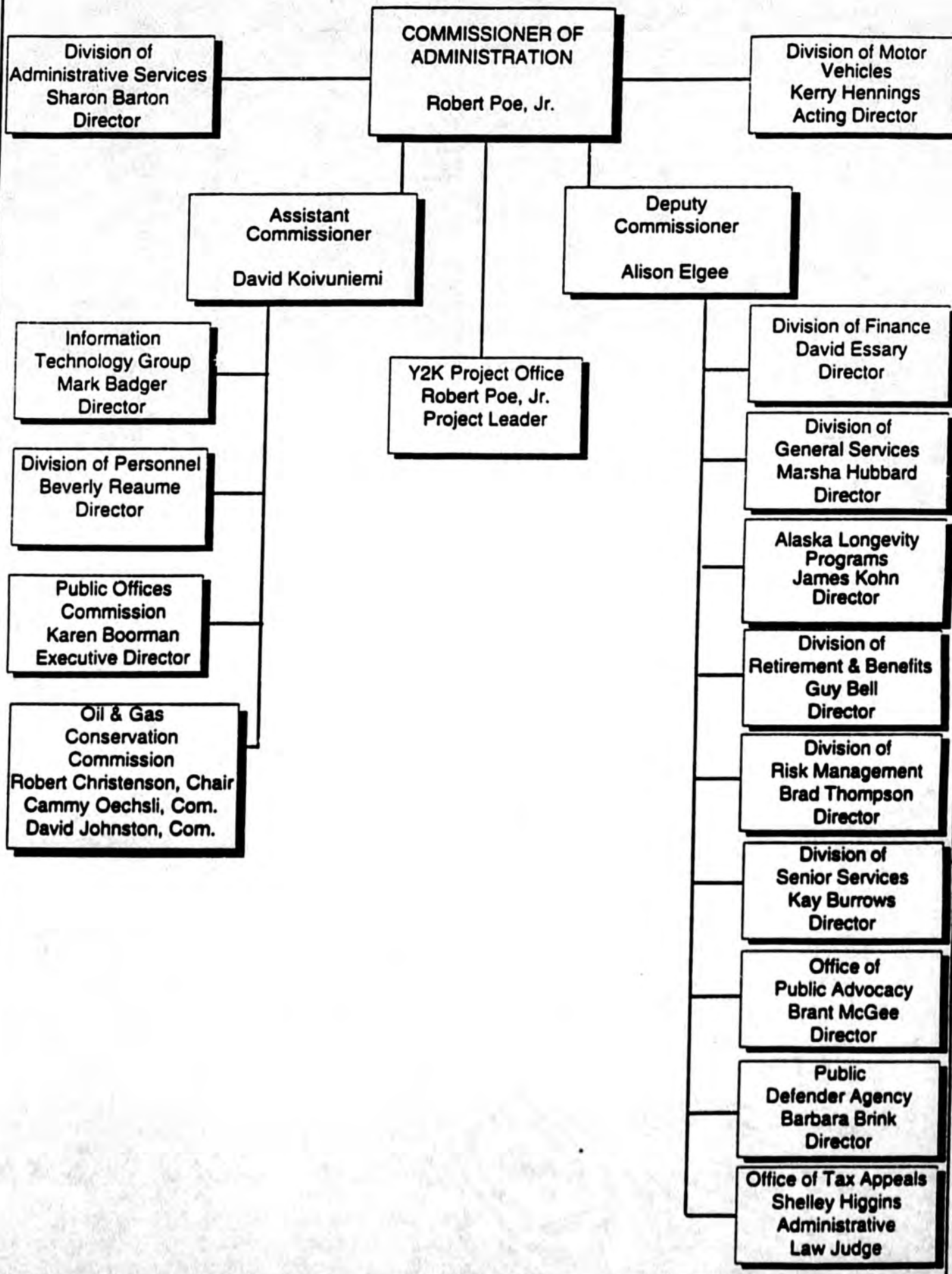
Anchorage, Juneau
Juneau

Anchorage, Juneau
Anchorage, Bethel, Delta Junction,
Elmendorf, Eagle River, Fairbanks,
Glennallen, Haines, Homer,
Juneau, Ketchikan, Kodiak, Nome,
Palmer, Sitka, Soldotna, Valdez
Anchorage, Fairbanks, Juneau

Juneau
Anchorage, Juneau
Anchorage, Barrow, Bethel,
Dillingham, Fairbanks, Juneau, Kenai,
Ketchikan, Kodiak, Kotzebue, Nome,
Palmer, Sitka
Anchorage, Juneau
Juneau
Anchorage, Juneau, Fairbanks
Juneau



Department of Administration



Program Contacts

Department Management

Commissioner's Office

Department Management: Robert Poe, Jr., Alison Elgee,
David Koivuniemi (465-2200)
Legislative Liaison: David Koivuniemi (465-2200)
Telecommunications Information Council: Robert Poe, Jr.
(465-2200)

Administrative Services

Budget: Eric Swanson (465-5654)
DOA-IT Team: John Monagle (465-5768)
Fiscal: Chris Parce (465-5653)
Human Resources: Bruce Cummings (465-5658)
Municipal Grants: Lena Simmons (465-5647)
Payroll: Judy Elphic (465-5663)
Property: Jack Gregson (465-5656)
Procurement: Jack Gregson (465-5656)

Services to the Public

Alaska Longevity Programs

Longevity Bonus/Pioneers' Homes: James Kohn
(465-4400)

Alaska Oil and Gas Conservation Commission

General Information: Robert Christenson (793-1228)

Alaska Public Offices Commission

Campaign Finance: Chris Ellingson, Therese Green
(276-4176)
Conflict of Interest: Nancy Freeman (276-4176)
General Info: Karen Boorman, Jenifer Kohout (276-4176)
Legislative Financial Disclosure: Nancy Freeman (276-4176)
Lobbying: Brooke Miles (465-4864)

Motor Vehicles

Drivers License: Sandra Eckerson (465-2650)
Driving Records: Sandra Eckerson (465-2650)
Vehicle Records: Charles Hosack (269-5559)
Vehicle Documentation: Charles Hosack (269-5559)

Office of Public Advocacy

General Information: Brant McGee (269-3500)

Office of Tax Appeals

Administrative Law Judge: Shelley Higgins (465-5641)

Public Defender Agency

General Information: Barbara Brink (264-4400)

Senior Services

Adult Protective Services: Dwight Becker (269-3674)
Assisted Living Home Licensing: Gary Ward (269-3655)
CHOICE Medicaid Home Care: Barbara Hendrickson
(269-3663)
Grants and Technical Assistance to Senior Services
Providers: Jane Demmert (465-4879)
Long-Term Care Ombudsman: Jane Demmert (465-4879)

Long-Term Care Services Unit: Barbara Hendrickson
(269-3663)

Personal Care Grants Admin: Susan Cook (269-3653)
Alaska Commission on Aging: Jane Demmert (465-4879)

Services to State Agencies

Finance

General Information: Debbie Bump (465-5615)
Accounting: Kevin Worley (465-5614)
Annual Financial Report: Joe Thomas (465-5616)
Payroll Systems: Bill Diebels (465-5600)
Systems Administration & Security: Linda Murray (465-5603)
Payroll: Mark Minthorn (465-5599)
W-2s/1099s: Jim Barnes (465-5590)
Accounting Systems: Guy Warren (465-5602)

General Services

Central Mail: John Schauwecker (465-6546)
Leasing & Facilities: Keith Gerken (465-5683)
Property Control: Rob Spoo (279-0596)
Purchasing: Vern Jones (465-5684)
Surplus Property: Rob Spoo (279-0596)
Vendor Lists: Vern Jones (465-5684)

Information Technology Group

Computer Services: Ron Hensley (465-5789)
Customer Services: Karen Morgan (465-5794)
Public Communications Services: Mark Badger (465-2220)
Telecommunication Services: Mark Badger (465-2220)

Personnel

ADA, FMLA, FLSA: Mike McMullen (465-4431)
Alaska Professional Development Institute: Arlene Abbott
(465-3412)
Classification: Elaine Williams (465-4054)
EEO Investigations: John Dede (563-0226)
Labor Relations: Kent Durand (465-4098)
Personnel Board: Mike McMullen (465-4431)
Workplace Alaska: Elaine Williams (465-4054)
Employee Acquisition: Elaine Williams (465-4054)

Retirement and Benefits

Deferred Compensation: Anselm Staack (465-5703)
Group Health and Life Insurance: Janet Parker (465-4473)
PERS/TRS Boards: Guy Bell (465-4471)
Retirement Programs: Bill Church (465-5700)
SBS Benefits: Janet Parker (465-4473)
Supplemental Annuity Plan: Anselm Staack (465-5703)

Risk Management

Property and Marine Insurance: Scott Jordan (465-2183)
Claims Administration and General Insurance Issues:
Ted Lehrbach (465-5724)
Workers' Comp & General Liability: Betty Johnson (465-2184)
Legal Defense & Self-Insurance: Brad Thompson (465-5723)

Y2K Project Office

General Information: Robert Poe, Jr. (465-2200)

NOTES

FY2000 Major Goals and Strategies

FY2000 Goal

Continue to pursue opportunities for efficiency, cost reduction, innovation, and effective delivery of state services and programs.

FY2000 Strategies

- Enable and support state agencies' efforts to efficiently deliver improved and cost effective state services electronically.
- Ensure that state services remain viable in the face of Y2K-related computer problems.
- Work with the Telecommunications Information Council to design and implement an electronic commerce strategy for statewide procurement and other key transactions.
- Implement state purchasing cards in order to reduce the cost of these high volume/low value transactions.
- Implement procurement officers' certification program that ensures competent application of state law as delegated to state agencies.
- Complete space utilization, information technology infrastructure, business management, and rental structure planning for the Bank of America Center.
- Implement the Eden Alternative in all six Pioneers' Homes.
- Expand the volunteer guardian ad litem court-appointed special advocate (CASA) program to Southeast Alaska.
- Expand care plan counseling for seniors and adults with physical disabilities seeking long-term care.

1998-1999 Major Accomplishments

- **Y2K:** Adopted life, health, safety, and economic wellbeing of Alaskans as Y2K criteria for identifying the most critical public services provided by executive branch departments.
- Established guidelines and standards for Y2K work in departments including the achievement of Y2K compliance in all critical automation systems, preparation of department contingency plans, and preparation of the state's emergency response capabilities.
- Created a Y2K monthly progress reporting system for all departments and executive branch agencies.
- Assisted departments in identifying Y2K problems and resource needs and prioritized funding needs, particularly in the areas of state facilities, transportation systems, and the state's mainframe computing environment.
- Established a statewide Y2K web site as a guide to Y2K readiness for Alaskans.
- Established a statewide outreach program for providing information and assistance to local communities, small and medium-sized businesses, the public, and others.
- **Division of Motor Vehicles (DMV) Services Improvements:** Improved motor vehicle services to the public by implementing Interactive Voice Response (IVR) and Internet-based transactional services allowing the public to do business with DMV by telephone or computer rather than coming to a DMV office.
- **Electronic Commerce Initiatives:** Prepared the state's accounting infrastructure for electronic commerce and piloted purchasing cards.
- **Recruitment for State Employees:** Fully implemented Workplace Alaska providing on-line vacancy-based recruitment for state employees.
- **Statewide On-line Services:** Leveraged the work done at DMV to assist the Departments of Commerce and Economic Development and Revenue with on-line services projects at minimal cost.
- **Pharmacy Program:** Established and implemented the Pioneers' Home pharmacy program serving all six Homes by the end of FY1999 as a cost-saving service for Pioneers' Homes residents.

- **Purchased Bank of America Building.** Established a contract for a private sector property management firm to provide the needed building services and run the daily operations of the building; continued negotiation with private building tenants for their early departure in order to make room for state tenants; prepared an overall building space plan for the accommodation of the new state agency occupants and put in place contracts for the implementation of physical moves during 1999.
- **Central Mail:** Consolidated the Juneau mail offices of the Departments of Revenue and Corrections and the Division of Motor Vehicles into the Central Mail Service operation. All three agencies reported substantial savings and improved service as a result of this effort.

NOTES

Key Issues

Year 2000 Date Conversion

Alaska, like all other states, is facing a major challenge to ensure that key government services are not interrupted due to computer problems resulting from the date change to the new Millennium. The Y2K Project Office is working with all state agencies to ensure that all mission-critical systems are made Y2K-compliant and that all nonmission-critical systems are properly supported by contingency plans. The Y2K Project Office will continue to provide ongoing statewide coordination, progress reporting, and budget control for this effort.

Personnel/Labor Relations

With all 12 union contracts up for renegotiation, the state's labor relations resources will, of necessity, be focused on collective bargaining. Backlogs in grievance and arbitration work are expected during this period. (See Appendix 9, page 105, for details.)

Pioneers' Homes

A movement has begun nationwide to convert long-term care facilities from sterile, institutional settings to more home-like atmospheres including plants, animals, and birds. The "Eden Alternative" has been demonstrated to be very effective in combating loneliness and depression in the elderly. During the remainder of FY1999 and FY2000, the Pioneers' Homes will fully implement the Eden Alternative in all Homes. (See Appendix 2, page 96, for details.)

Senior Services

Alaska is experiencing the second most rapid growth of seniors in the nation relative to the state's total population. This growth rate will result in increased numbers of seniors seeking long-term care. The division is working to expand long-term care alternatives throughout the state by educating and recruiting care providers and developing reasonable reimbursement schedules for home and community-based care alternatives. The care plan counseling project, begun as a pilot in the Anchorage area during FY1998, will be expanded so individuals seeking long-term care will be informed about all options available.

CASA Volunteers

The use of court-appointed special advocates (CASAs) for guardian ad litem services in children's cases has proven cost effective while improving children's advocacy in Southcentral Alaska. The Office of Public Advocacy will begin expansion of this program into Southeast Alaska.

DMV Reengineering

Implementation of interactive voice and Internet transactions will be completed in 1999. Automation of back office processes must be completed to realize maximum potential efficiencies and cost savings. Programming resources are spread thin on this work with the need for complete update to accommodate continuing changes in state and federal law. Otherwise the focus of the division will continue on streamlining core processes, developing additional private partners, and assessing other avenues for providing faster, more convenient service to the public. These include: stand alone self-service devices, and expanding physical locations in Anchorage and the Mat-Su Borough.

Bank of America Building Occupancy

The occupancy project will involve multi-agency planning and management teams focused on business practice improvement opportunities, space planning, and technology infrastructure. During the latter half of FY1999 and early FY2000, the Department of Natural Resources, Office of the Governor, and most of Department of Commerce and Economic Development will be relocated from more expensive leases to the Bank of America Building.

Alaska Oil and Gas Conservation Commission (AOGCC) Funding

Expanded oil field development on the North Slope and in the Cook Inlet area coupled with downsizing of the oil companies calls for an increased level of attention by the Oil and Gas Conservation Commission, requiring a larger commitment of human and capital resources. (See Appendix 10, page 106, for details.)

Children's Initiative

The Office of Public Advocacy, as the advocate for children in need of aid cases, and the Public Defender, as it is assigned to represent the parents in such cases, are partners in the success of the Governor's initiative to reform the state's process for handling children in need of aid cases. Additional funding requested in the Governor's budget may not be adequate to keep up with growing caseloads. This situation must be monitored through FY1999-FY2000 to assure that these agencies do not become the bottleneck in the Children's Initiative.

Electronic Commerce

Budget constraints and pressures from a public being conditioned by private sector models to deliver products and services fast, right, cheap, and easy, as well as from the business community and the federal government, require aggressive implementation of electronic commerce initiatives. The department is working to implement electronic purchasing and payment wherever possible without additional CIP funding.

State Facilities Rental Structure

A rental structure is being developed for all leased and owned state facilities. A rental structure is planned for a pilot in select buildings in FY2000.

NOTES

FY2000 CIP Request

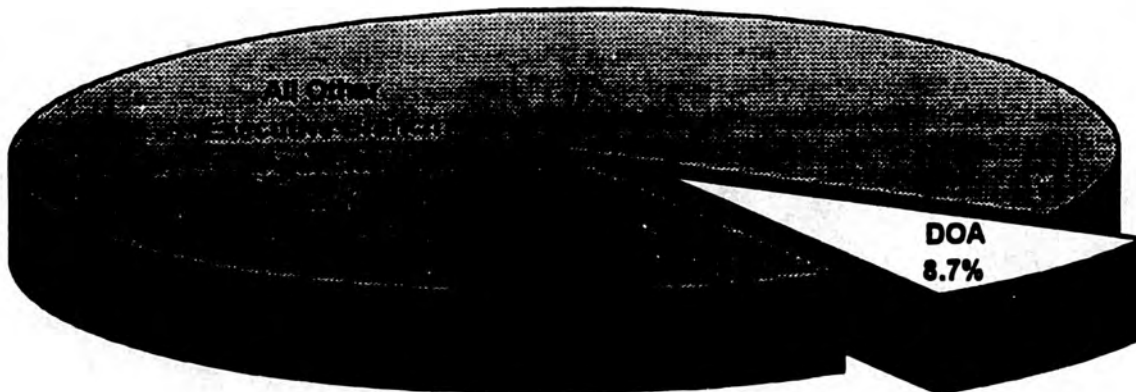
- **Pioneers' Homes Health and Safety Repairs** **\$500.0 GF**
Funding will provide for continued repairs to address health and safety issues in the Homes. The projects proposed for this funding directly relate to failures in the integrity of emergency, electrical, and other building systems.
- **Public Defender Criminal Justice Information Integration** **\$400.0 GF**
This project will electronically connect Public Defender Agency offices allowing them to share internal databases, case management systems, and legal documents, as well as information available from external criminal justice agencies. This project increases the agency's access to and dissemination of information through the purchase and installation of Y2K compatible hardware and software.
- **DMV License Plates and Manuals** **\$200.0 GF**
This project provides for the purchase of license plates to maintain stock levels needed in FY2000. Funds are also included for regular, motorcycle, and commercial driver manuals which must be available at all motor vehicle office locations, and for the purchase of motor vehicle law books for use in DMV field offices.
- **Information Technology Literacy Project** **\$175.0 GF**
This funding is requested to continue the IT Literacy project partnership established in FY1999 with the Gartner Group and the University of Alaska providing on-line training across a broad spectrum of information technology to all state employees.
- **ITG Bandwidth Increase** **\$500.0 GF**
General Funds are requested for capacity increases to the state's Wide Area Network (WAN). Normal capacity increases are a routine requirement of doing IT business and are funded through computer services rates for services. This request would fund extraordinary capacity needs that have arisen from two situations: agency-specific new application development and implementation of the 1996 Federal Telecommunications Act.
- **Satellite Interconnection Project Equipment Replacement/Repair** **\$150.0 GF**
Funding will be used for repair and replacement of essential components of the Satellite Interconnection Project (SIP). The SIP provides news, weather, government, and educational information to all Alaskans. It also serves as backbone of the emergency alert system, providing an essential component of contingency planning and communications for rural communities.

- **Land Mobile Radio Migration** **\$615.0 GF**
 This project covers state infrastructure costs of converting state two-way radio systems to allow interoperability of two-way radio resources at the federal, state, and local levels so that response to life threatening situations can be quick and efficient.
- **Criminal Justice Integration Project Analysis** **\$200.0 GF**
 Funding will be used for an analysis of the criminal justice data processing integration project. Current status of individual projects funded in prior years will be reviewed in light of overall system objectives and a strategy will be developed to complete the integrated criminal justice system.
- **ISF Equipment Replacement** **\$3,500.0 ISF**
 Through the depreciation component of chargeback, approximately \$3,500.0 will be collected in FY2000 for the purpose of replacing worn-out and/or outmoded equipment. Authorization is requested to expend those funds on necessary equipment replacement during FY2000.

Department of Administration

FY2000 Operating Budget Comparison

General Fund Only



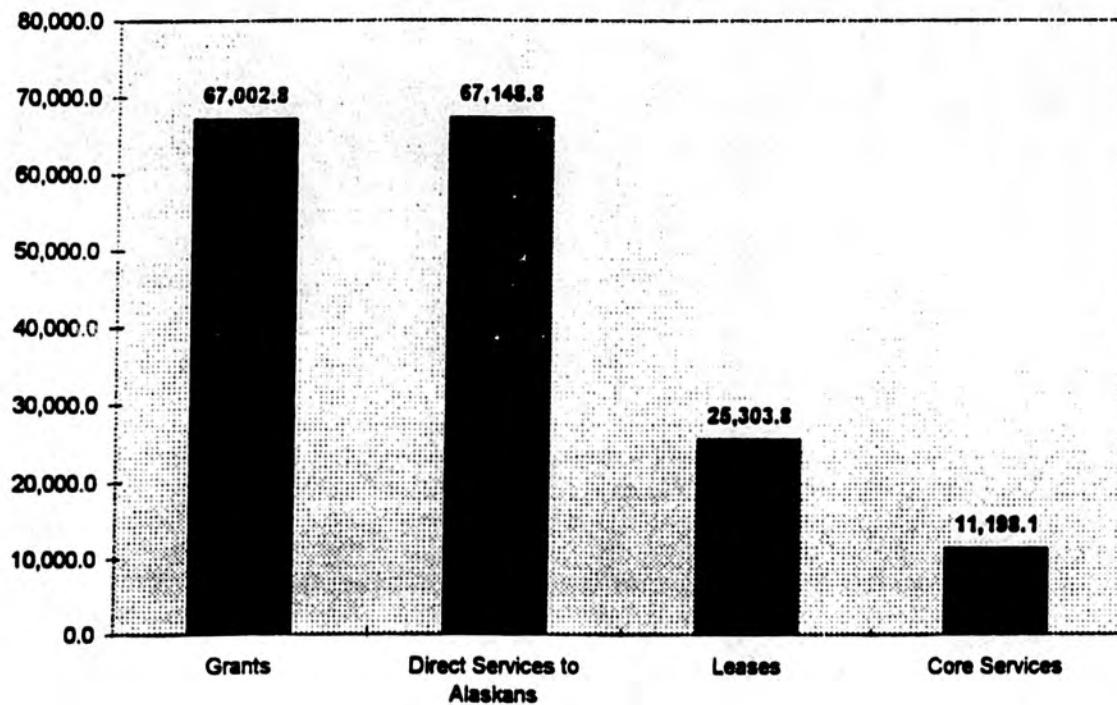
All Other Executive Branch Agencies	\$1,780,424.5
Department of Administration	\$ 170,653.5
Total Executive Branch Operating Budget	\$1,951,078.0

Department of Administration

FY2000 Operating Budget by Service Category

General Fund Only

Total \$170,653.5



Grants

Public Broadcasting
Longevity Bonus
Senior Services

Direct Services to Alaskans

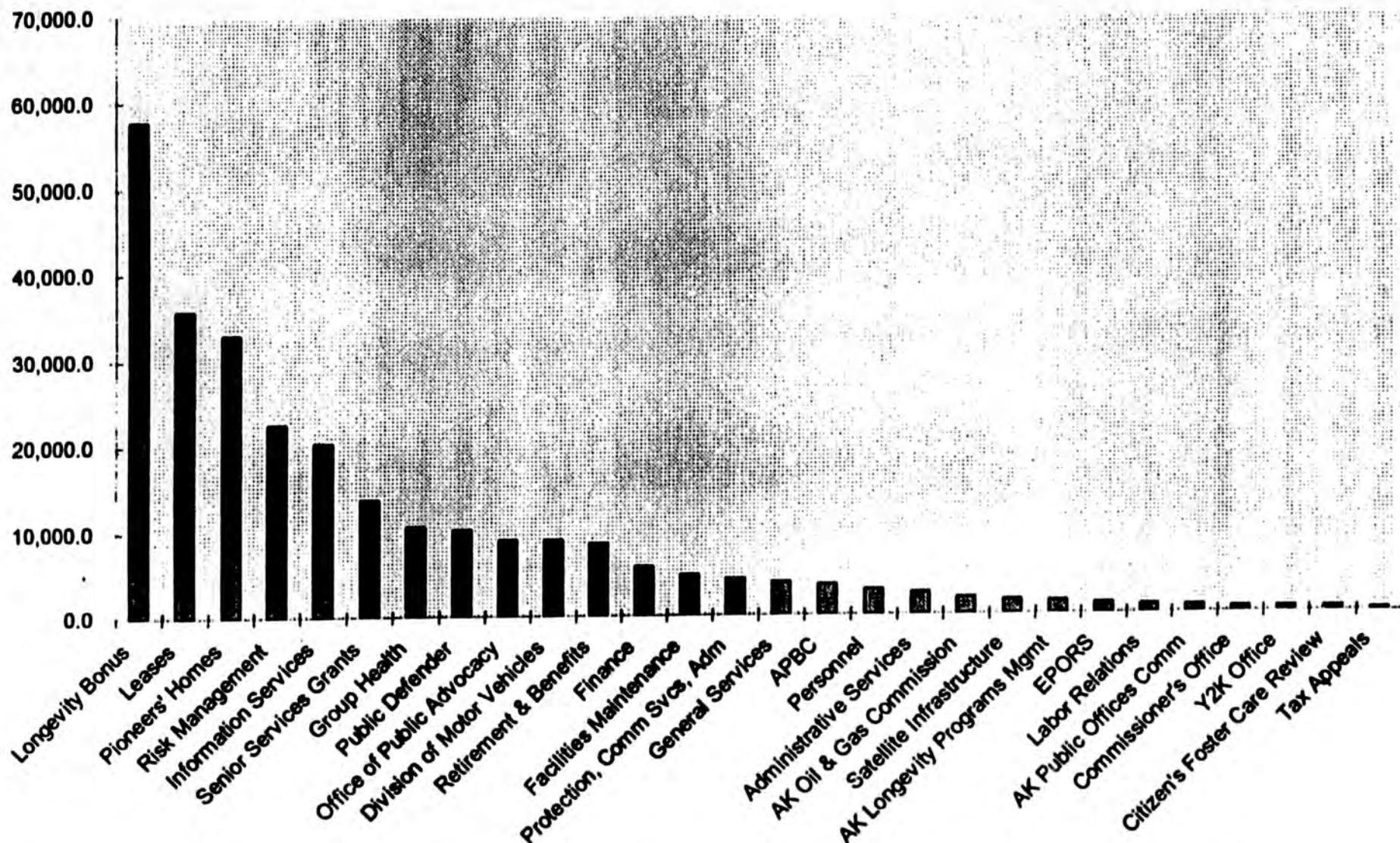
Tax Appeals
EPORS
Public Broadcasting Commission
Satellite Infrastructure
Pioneers' Homes
Alaska Longevity Programs Mgmt.
Protection, Community Services,
and Admin.
Home Health Services
Citizen's Foster Care Review
Panel
Office of Public Advocacy
Public Defender Agency
AOGCC
APOC
Motor Vehicles

Leases

Core Services

Office of the Commissioner
Administrative Services
Finance
Personnel
Labor Relations
General Services

Department of Administration **FY2000 Operating Budget Comparison by Program--All Funds** **(Millions)**



Department of Administration

Division Overviews

	Page
Department Management	
Office of the Commissioner	20
Administrative Services	22
Services to the Public	
Alaska Longevity Programs	26
Alaska Oil and Gas Conservation Commission	32
Alaska Public Offices Commission	36
Motor Vehicles	40
Office of Public Advocacy	44
Office of Tax Appeals	48
Information Technology Group (Public Communications Services)	50
Public Defender Agency	54
Senior Services	58
Services to State Agencies	
Finance	64
General Services	66
Information Technology Group	72
Personnel	76
Retirement and Benefits	80
Risk Management	84
Y2K Project Office	88



Office of the Commissioner

Robert Poe, Jr., Commissioner
bob_poe@admin.state.ak.us

Telephone: (907) 465-2200
Fax: (907) 465-2135

Mission

Provide management oversight and policy direction to departmental programs, and to interface with the judicial, legislative, and executive branches of government to assure the effective, efficient, and economical delivery of public services to Alaskans.

Funding Summary

Office of the Commissioner Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Gen Fund	373.0	373.5
I/A Rcpts	168.5	168.5
Invst Loss	0.5	0.0
Total Funds	542.0	542.0
PFT Positions	5.0	5.0
PPT Positions	2.0	1.0

Staff Changes

Office of the Commissioner (-1 PPT)

One student intern position is being deleted.

Primary Services Provided

- Provide policy direction and leadership for departmental programs.
- Provide inter/intraagency coordination as necessary.
- Facilitate Better Business Practices throughout state government.

Customers

- Departmental programs
- State agencies
- The Governor
- The public
- The Legislature

Accomplishments

See division Accomplishments.

Key Issues/Initiatives

See division Key Issues/Initiatives.



Division of Administrative Services

Sharon Barton, Director
sharon_barton@admin.state.ak.us

Telephone: (907) 465-5655
Fax: (907) 465-2135

Mission

Facilitate delivery of all DOA programs by providing efficient and cost-effective business management support; effectively administer state municipal grants programs; and aggressively support improvements in business practices throughout the department and state government.

Funding Summary

Administrative Services Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	599.0	600.6
I/A Rcpts	913.7	963.7
Invst Loss	1.6	0.0
Total Funds	1,514.3	1,564.3
PFT Positions	23.0	25.0
PPT Positions	0.0	0.0

DOA Information Technology Support Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
I/A Rcpts	0.0	988.6
Total Funds	0.0	988.6
PFT Positions	0.0	13.0
PPT Positions	0.0	0.0

Significant Budget Changes

Administrative Services: \$50.0 I/A. This increment will fund increased costs for personal services, information technology support, and department-wide staff training.

DOA Information Technology Support: \$988.6 I/A. The Information Technology Support budget component is new in FY2000. The IT Support Section was created by consolidating staff and associated budget for departmental IT

support. No new funds are requested. (See Appendix 4, page 98, for details.)

Staff Changes

Administrative Services (+ 2 PFT)

One PFT position is transferred to DOA-IT and three PFT positions are added, funded by Interagency Receipts.

DOA-IT (+ 13 PFT)

Ten PFT positions are transferred from various divisions and three new PFT positions are added. All positions are funded through Interagency Receipts.

Primary Services Provided

- Establish departmental business management policies and procedures and provide training for all DOA administrative staff.
- Develop the DOA annual budget; act as the department liaison with the Office of Management and Budget and the Legislature regarding budget matters.
- Provide procurement, accounting, personnel, and payroll support to divisions.
- Oversee department business management practices to assure compliance with state and federal rules.
- Provide comprehensive 7x24 centralized desktop support which includes maintenance of the department Local Area Network (LAN), analysis of software and hardware product enhancements, and liaison with the Information Technology Group and the TAC.
- Administer the Municipal and Capital Matching Grants programs for incorporated municipalities.

Customers

- DOA program managers and employees
- Private sector vendors
- Office of Management and Budget
- The Legislature
- Incorporated municipalities and organized boroughs (Municipal and Capital Matching Grants)

Accomplishments

Administrative Services

- Sponsored Administrative Services' second DOA Administrative Workshop, a

three-day event in both Anchorage and Juneau, providing a broad spectrum of administrative and technical training for the DOA Administrative Support Team and department managers.

- Provided intensive support to the Division of Motor Vehicles as it integrated into the department and as it launched organizational and business process changes.

DOA-IT

- Established logical departmental network and migrated approximately half the divisions onto the new network.
- Established department standards for computer hardware and software.
- Migrated the department to standard email.
- Established remote dial-up services for some users.

Key Issues/Initiatives

- A statewide crisis is developing from the increasing difficulty in recruiting qualified accounting staff at all levels above the Accounting Technician I level. Positions are left vacant for too long while recruitment periods are extended in the hope of attracting additional candidates. The result is degradation in the state's accounting integrity, late payments to vendors, and burn out of incumbent staff having to cover more than one desk over long periods of time, followed by long training periods required by minimally qualified new employees. Redesign of the classification and pay structure for these positions is needed.

NOTES



Alaska Longevity Programs

James Kohn, Director
james_kohn@admin.state.ak.us

Telephone: (907) 465-2159
Fax: (907) 465-4108

Mission

Provide cash payments to Alaskan seniors as authorized by the Alaska Longevity Bonus program and provide assisted living support for Pioneers' Home residents.

Funding Summary

Pioneers' Homes Component

	FY1999 Authorized	FY2000 Governor's Request
Gen Fund	13,965.0	10,528.7
GF/Prgm	9,873.7	9,873.7
I/A Rcpts	66.2	134.0
GF/MH	6,552.2	10,032.9
Invst Loss	44.4	0.0
MHTAAR	0.2	0.2
Pioneers' Home Receipts	0.0	2,364.0
Total Funds	30,501.7	32,933.5
PFT Positions	486.0	550.0
PPT Positions	79.0	78.0

Pioneers' Homes Facilities Maintenance Component

	FY1999 Authorized	FY2000 Governor's Request
I/A Rcpts	0.0	2,125.0
Total Funds	0.0	2,125.0
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Longevity Bonus Grants Component

	FY1999 Authorized	FY2000 Governor's Request
Gen Fund	63,499.4	57,702.1
Total Funds	63,499.4	57,702.1
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Alaska Longevity Programs Management Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	981.1	983.0
I/A Rcpts	322.1	322.1
GF/MH	64.3	64.3
Invst Loss	1.9	0.0
CIP Rcpts	53.0	53.0
Total Funds	1,422.4	1,422.4
PFT Positions	15.0	14.0
PPT Positions	0.0	0.0

Significant Budget Changes

Longevity Bonus: (\$5,797.3 GF). Decrement reflects cost reduction due to program phase out. (See Appendix 6, page 102, for details.)

Pioneers' Homes: \$2,364.2 PH Receipts. Authority for Pioneers' Home Receipts is proposed in a pending Governor's bill. The FY2000 revenue forecast exceeds the FY1999 program receipt authorization level by \$2.36 million. This increment proposes to use the additional collections to provide badly needed direct care staff. Also, authorization for \$3,480 is transferred from GF to GF/MH. This fund source change recognizes the Pioneers' Homes' involvement with and service to a mental health trust client group (ADRD residents).

Facilities Maintenance. A new component is included in the department budget to segregate the facility maintenance budget for the Pioneers' Homes. (See Appendix 7, page 103, for details.)

Staff Changes

Pioneers' Homes (+ 64 PFT, -1 PPT)

One PPT position was changed to PFT to meet workload demand at the Ketchikan Pioneers' Home. This change actually occurred in FY1997 but was never properly recorded in the budget. Sixty-three PFT nurse aide positions are added to meet the increased demand for direct care support in all the Homes. Funding for these positions is Pioneers' Home receipts.

ALP Management (-1 PFT)

One PFT position is transferred to DOA-IT.

Primary Services Provided

- Long-term assisted living care for up to 600 Alaskan seniors providing special capacities for individuals with Alzheimer's Disease and Related Disorders (ADRD).
- Cash bonus program for Alaskan seniors.

Customers

- Alaskan seniors receiving the longevity bonus and their families
- Pioneers' Home residents and their families
- Alaskan seniors on the Pioneers' Homes' waiting list and their families
- Representatives of Alaskan seniors, including the Legislature and the Governor
- Communities in which Pioneers' Homes are located (Anchorage, Fairbanks, Juneau, Ketchikan, Palmer, and Sitka)
- Senior organizations
- Senior service provider agencies

Accomplishments

- Established and fully implemented the centralized revenue unit that is responsible for billing Pioneers' Homes residents, receiving and posting payments and processing all payment assistance applications. Prior to the establishment of the revenue unit, these functions were performed separately at each of the six Pioneers' Homes.
- Consolidated the majority of administrative functions previously performed separately at each of the six Homes into two offices, allowing the Pioneers' Homes to reclassify administrative positions into much needed direct-care positions.
- Continued to pursue other strategies for cost containment including centralization, computerization and standardization. Group purchasing, division-wide facilities management, and the in-house pharmacy all provide immediate cost savings while other programs, such as reducing employee injury and therefore workers' compensation costs, will provide savings over time.
- Established the Pioneers' Home pharmacy which resulted in:
 - a cost savings for Pioneers' Home residents. The Pioneers' Home pharmacy provides medications without additional markup or dispensing fees;
 - on-staff pharmacists who have a background and interest in the specialty area of geriatrics and who are dedicated specifically to serving Pioneers' Homes residents; and
 - improved efficiencies and safety controls. Prior to the implementation of the

Pioneers' Home pharmacy, a number of pharmacy sources supplied medications to residents. The difference in the ordering, packaging, labeling, storing, and administration of medications resulted in inefficiencies and potential safety problems.

National Awards:

Anchorage Pioneers' Home: 1998 American Society on Aging Award--Best Practices in Human Resource Management. The Anchorage Pioneers' Home transitioned from a skilled nursing facility into an assisted living facility focusing on the care of those with Alzheimer's Disease and Related Disorders (ADRD). Increased needs of this population, coupled with budget cuts, created a demand for radically increased efficiency. Through the use of cross-functional care teams, the facility was able to improve the quality of care, reduce sick leave usage by over 40 percent, and dramatically reduce employee injury costs.

Juneau Pioneers' Home: August 1998 Eden Alternative Home of the Month. This award is given by the creators of the Eden Alternative. Each month a long-term care facility which best exemplifies commitment to the Eden philosophy, is featured in the Eden Alternative discussion. (See Appendix 2, page 96, for details.)

State Awards:

The 18th Annual Governor's Safety and Health Conference. Out of all public and private organizations in Alaska, two awards were won by the Palmer Pioneers' Home:

1. Governor's Safety Award of Excellence: Given to a company or corporation that has made significant improvement in its overall safety and health program.
2. Special Recognition Award: Given in recognition for developing projects which have had a lasting, positive affect on safety and health.

Key Issues/Initiatives

- The Pioneers' Home system must continue to strive to maintain affordability, defined as the ability of the residents and the state to jointly fund the program.
- Based upon a recent staffing study, the Pioneers' Homes need additional nurse aides to meet the direct-care staffing needs of the residents. Over 190 Pioneers' Home beds were converted from "residential" (coordinated services) to other levels of care within the last ten years. As Alaskans age, this trend will continue and has resulted in a dramatic increase in the amount of direct-care staff assistance required by residents. The Governor's

budget includes a request for 63 additional nurse aide positions which amounts to approximately three aides per Home per shift.

- The heating system in the Fairbanks Pioneers' Home is in urgent need of replacement; funding must be sought to avoid an outright emergency.
- Provide ongoing training opportunities to the staff of all six Pioneers' Homes to enable each home to be registered as an Eden Alternative facility by June 30, 2000. The Eden Alternative concept and approach for care provide a comprehensive prescription for change in the long-term care giving environment. (See Appendix 2, page 96, for a list of the ten principles; see also the Eden Alternative website at 222.edenalt.com.)

NOTES



Alaska Oil and Gas Conservation Commission

Robert Christenson, Chair
robert_christenson@admin.state.ak.us

Telephone: (907) 793-1228
Fax: (907) 276-7542

Mission

Ensure minimum waste of Alaska's oil and gas resources by regulating all subsurface activity directly relating to oil and gas exploration and production; maximize ultimate recovery and protect correlative rights; ensure that the design and integrity of wells, well control procedures and equipment, underground injection programs, and management of reservoirs comply with state oil and gas statutes and regulations.

Funding Summary

Alaska Oil and Gas Conservation Commission (AOGCC) Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Fed Rcpts	100.2	100.2
Gen Fund	1,556.2	1,790.0
Invst Loss	2.3	0.0
Total Funds	1,658.7	1,890.2
PFT Positions	19.0	19.0
PPT Positions	0.0	0.0

AOGCC Facilities Maintenance Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
I/A Rcpts	0.0	49.3
Total Funds	0.0	49.3
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Significant Budget Changes

Alaska Oil and Gas Conservation Commission: \$238.6 GF. Additional funding is requested for inspector overtime and program underfunding. A new fee structure will be sought this session to fully fund the Commission. (See Appendix 10, page 106, for details.)

Facilities Maintenance. A new component is created in the budget to show a facility maintenance budget for the AOGCC facility. (See Appendix 7, page 103, for details.)

Primary Services Provided

- Review, approve, and inspect all oil and gas well operations.
- Approve and monitor plans for oil pool development and plans for enhanced oil recovery.
- Determine pool rules and impose conservation orders.
- Manage Alaska's Underground Injection Control (UIC) program and the annular waste disposal program.
- Collect and maintain all oil and gas drilling and production records.

Customers

- Alaskans
- Oil and gas companies
- Alaska Department of Natural Resources
- Alaska Department of Revenue
- Alaska Department of Environmental Conservation
- U.S. Environmental Protection Agency
- U.S. Department of the Interior, Minerals Management Service, and Bureau of Land Management
- U.S. Department of Energy
- Trade organizations

Accomplishments

- Approved rules for development for four new reservoirs with a combined recoverable of hundreds of millions of barrels.
- Issued 25 percent more drilling permits from FY1998 to FY1999 leading to expanded exploration and development throughout Alaska.
- Initiated first phase of reservoir modeling program for independent assessment of Alaska oil and gas resources.

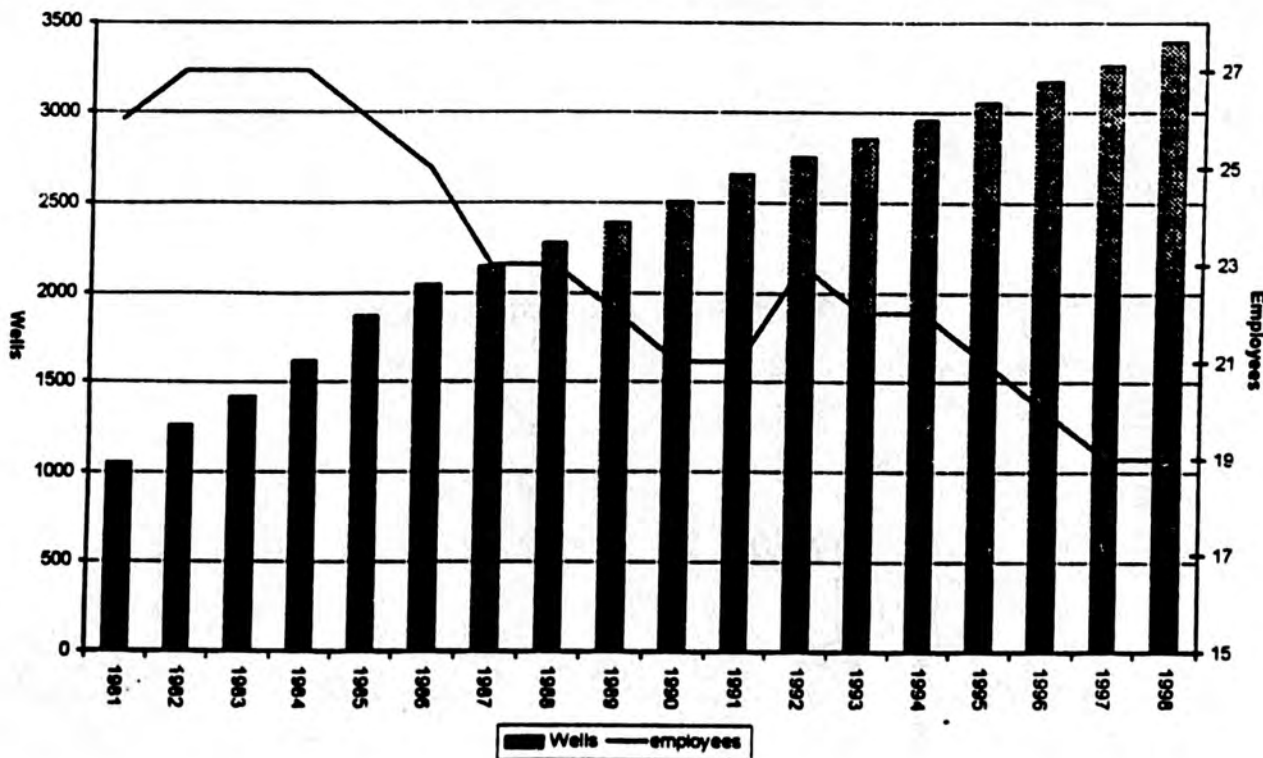
Key Issues/Initiatives

- The AOGCC lacks staffing and funding to meet its current workload. The Commission is underfunded for current staffing needs by approximately \$238.6 in FY1999. The General Fund increment of \$238.6 will address these specific obligations in FY2000. Because the number of active wells has grown in excess of 80 percent and the number of reservoirs by 70 percent since the mid-1980s, the AOGCC needs an annual budget of about \$2.5 million to address its critical functions. In light of declining General Fund revenues, the AOGCC is

seeking statutory authority to annually calculate and impose a regulatory cost charge on each active well sufficient to fund the AOGCC each fiscal year.

- The Department of Law has advised that field inspection staff is overtime eligible under federal law and that there is a significant overtime liability for which the commission will need additional funding. At current staffing levels, the overtime obligation cannot significantly be reduced without risking delay to drilling operations.

Alaska Oil and Gas Conservation Commission
Number of Active Wells v. Employees



NOTES



Alaska Public Offices Commission

Karen Boorman, Director
karen_boorman@admin.state.ak.us

Telephone: (907) 276-4176
Fax: (907) 276-7018

Mission

Promote fairness and openness in elections, minimize the effect of undisclosed influences on public decision-making, and encourage participation in the process of representative democracy so the public may have confidence in the election process and in their elected and appointed officials.

Funding Summary

Alaska Public Offices Commission Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Gen Fund	727.9	729.2
GF/Prgm	53.8	53.8
Invst Loss	1.3	0.0
Total Funds	783.0	783.0
PFT Positions	11.0	11.0
PPT Positions	1.0	1.0

Primary Services Provided

- Inform the electorate by providing disclosed information.
- Ensure that disclosed information is accurate and complete.
- Facilitate citizen participation in government.
- Investigate and adjudicate complaints of reporting and conduct violations.

Customers

- Individual members of the public
- Public and private interest groups
- Elected and appointed officials
- Political action committees, political parties, and large contributors
- Lobbyists and employers of lobbyists
- News media
- Other state and federal agencies

Accomplishments

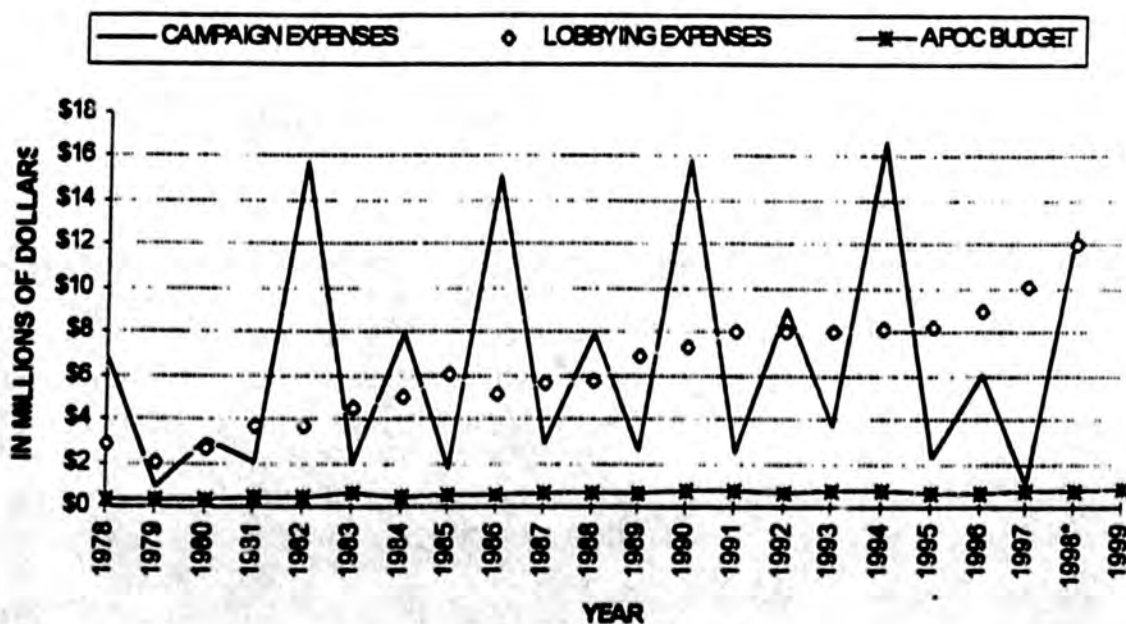
- Successfully tested electronic filing software for filing campaign disclosure reports in the 1998 Anchorage Municipal and State of Alaska elections.
- Replaced antiquated administrative and disclosure database for campaign finance with much improved Y2K compliant, relational database.
- The new database enabled publishing of Candidate and Group Summary within five days of candidate and group report filing; the publication required months during past elections.
- APOC has had 6,556 visitors to its web page in the first ten months of 1998. Most filing forms are available for downloading. Changes in statutes, advisory opinions, and recent court decisions have been made available on-line almost immediately after decisions have been made.
- Computers with resident data and Internet access have been made available to the public in the Anchorage and Juneau offices.
- The campaign finance reform law was implemented for the first time in a state election. Three lawsuits, several court decisions, and the new law raised many questions during the election.
- Fifteen training seminars were held around the state at different times during the election cycle in Anchorage, Juneau, Fairbanks, Kenai, Barrow, and the Mat-Su Borough.
- Campaign disclosure forms and manuals were streamlined and revised to reflect the new statute.
- Twelve advisory opinions were issued by the Commission. Six of twelve pending complaints were resolved by the Commission.

Key Issues/Initiatives

- During the last legislative session, the Legislature made significant changes to the filing requirements associated with personal financial disclosure by legislators and state and municipal public officials. Additional information such as close economic associations is required to be reported. The list of who must report has expanded. The date of filing annual reports which has been April 15 since the law's inception, has changed to March 15. In addition to updating the computer tracking system, new manuals and forms must be drafted and a significant educational effort put forth to educate filers about these changes to ensure that filers do not make inadvertent errors.

- The Alaska Supreme Court's decision on the ACLU lawsuit challenging the constitutionality of the campaign disclosure law is still pending and will likely alter at least some provisions of that law. In addition, APOC anticipates that legislators may propose changes to the law now that they have conducted campaigns under its provisions. The commission will work with legislators to develop constructive changes.
- Under any scenario, the campaign finance reform law requires regulations. The commission lacks the staff to support the process of promulgating new regulations. Funds are needed to support a regulations specialist and to pay costs associated with the necessary legal process for promulgating regulations.
- With the success of electronic filing by candidate and group testers in the 1998 election, the commission is committed to encouraging all municipal filers to file campaign disclosure reports electronically in upcoming municipal elections in 1999.
- The Alaska Public Offices Commission workload is directly related to the amount of spending by lobbyists and campaigns. Greater activity by lobbyists and campaigns increases the number of public inquiries, request for reports and the number of reports filed. As the chart below shows, state election years show a significant increase in spending while the APOC budget remains constant.

**APOC'S BUDGET COMPARED TO CAMPAIGN AND LOBBYING
EXPENDITURES 1978-1998**



* 1998 Figures are approximate.

NOTES



Division of Motor Vehicles

Kerry Hennings, Acting Director
kerry_hennings@admin.state.ak.us

Telephone: (907) 269-3771
Fax: 907) 269-3774

Mission

Provide protection of life and property through the efficient administration of the motor vehicle laws.

Funding Summary

Motor Vehicles Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Fed Rcpts	77.1	77.1
Gen Fund	3,372.1	3,343.4
GF/Prgm	5,284.5	5,324.3
I/A Rcpts	142.7	142.7
Invst Loss	11.1	0.0
Total Funds	8,887.5	8,887.5
PFT Positions	148.0	147.0
PPT Positions	12.0	12.0

Significant Budget Changes

The four DMV components (Field Services, Driver Services, Administration, and Financial Responsibility Act Enforcement) are consolidated into one component for FY2000 called Motor Vehicles.

Staff Changes

Motor Vehicles (-1 PFT)

One PFT position is transferred to DOA-IT.

Primary Services Provided

- Provide title, registration, and driver license services through public service offices in major populated areas and through email, Interactive Voice Response (IVR), and on-line options statewide.
- Maintain vehicle and driver records.
- Collect and disburse, when required, state and local government taxes and fees.
- Revoke or suspend driver licenses as directed by the court.
- Provide enforcement mechanism for related programs such as emission inspections, odometer recording, and IRS heavy vehicle tax.

Customers

- Owners and drivers of vehicles in the state
- Persons requiring an ID card
- Businesses that own or operate vehicles or who employ commercial drivers
- Businesses engaged in buying or selling vehicles
- Insurance companies who base rates on individual driving records
- Law enforcement agencies who rely on driver and vehicle records
- Individuals with handicaps or disabilities who need permits for special parking privileges
- All local, state, and federal government agencies that need personal identification information

Accomplishments

- Authorized and trained commercial driving schools, school districts, school bus contractors, tour companies, and trucking companies to administer the road test for drivers getting noncommercial and commercial driver licenses in Anchorage, Fairbanks, Matanuska Valley, Soldotna, Anchor Point, Ketchikan, and elsewhere.
- Emission inspection stations have been authorized to accept registration renewals since March of 1995. We are continuing to expand this effort to more vendors.
- New car dealers are authorized to issue titles, registrations, and license plates to their customers when they take delivery of the new car.
- Snow machine dealers may issue snow machine registrations, decals, and tabs at the time of snow machine purchase.
- The Anchorage, Fairbanks, and Palmer offices have established "express service" lines for customers with simple transactions such as registration or driver license renewals that can be completed quickly.
- Registration renewal drop boxes have been installed in many office locations allowing customers who do not wish to either wait in line or mail their renewal forms to drop the forms off at their nearest DMV office.
- Opened a midtown field office in an Anchorage building with an existing state lease that was not being utilized. The new office will be managed on a "Team Concept" and has self-service terminals and phones for registration renewal services as well as providing the normal DMV services. This concept will be the standard DMV office of the future.
- The DMV field office in Juneau is located nine miles from the downtown area where the majority of the workforce is during normal working hours. A vacant

space in the State Office Building was used to set up an "express service" DMV office. This office does the most routine DMV transactions with the exception of driver road tests.

- Developed an Interactive Voice Response system that will allow customers to renew vehicle registrations using a touch tone phone and a credit card. The system has a toll free number and is available 24 hours a day, seven days a week. In addition, registration renewals, as well as personalized/vanity plates, can be ordered via the Internet through the DMV web page at:
<http://www.state.ak.us/local/akpages/ADMIN/dmv/dmvhome.htm>
- Established mechanisms to allow payment of all DMV fees by credit card. The system uses the state's new credit card contracts and accepts both MasterCard and Visa. We expect to expand this acceptance to American Express and Discover Card in the next 12 months.
- The use of self-service terminals will be expanded in DMV field locations statewide. These allow the public to perform some of the more simple DMV transactions. This results in decreasing the number of individuals who must stand in line for service.

Initiatives

- Fully implement restructuring for improved service delivery.
- Finalize digital photo and document capture and retention systems.
- Continue to increase the number of DMV business partners.
- Improve office service by opening a new office in the Mat-Su district as well as encourage commission agent participation in new areas of the state such as Kotzebue.

NOTES



Office of Public Advocacy

Brant McGee, Director
brant_mcgee@admin.state.ak.us

Telephone: (907) 269-3500
Fax: (907) 269-3535

Mission

Protect the rights of vulnerable Alaskans by providing excellent, cost-effective legal and guardian representation to abused and neglected children, incapacitated adults, and others.

Funding Summary

Office of Public Advocacy Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Fed Rcpts	32.0	32.0
Gen Fund	7,337.5	7,260.3
GF/Prgm	95.1	95.1
I/A Rcpts	54.9	239.0
GF/MH	611.7	1,176.5
Invst Loss	3.5	0.0
MHTAAR	6.8	6.8
Tobac Setl	0.0	135.8
Total Funds	8,141.5	8,945.5
PFT Positions	38.0	46.0
PPT Positions	4.0	4.0

Significant Budget Changes

Office of Public Advocacy: \$563.0 GF; \$135.8 Tobacco Settlement. These increments and increases address underfunding and Child Protection Legal Services cost increases. Also, authorization for \$564.8 is transferred from GF to GF/MH to recognize OPA's involvement with and service to a mental health trust client group.

Staff Changes

Office of Public Advocacy (+8 PFT)

Of the eight additional PFT positions, four were created in FY1999 and are funded by Interagency Receipts as part of the Adoption Backlog and Smart Start funding from the Department of Health and Social Services; two new positions are added for Child Protection Legal Services funded by the Tobacco Settlement; and one position was converted during FY1998 from a PPT to PFT to address increased caseload in the Public Guardian section. The increased cost of the

position was paid with funds transferred from contractual services. In addition, one new PFT position was added to provide systems administration for the public guardian software program that manages guardian funds for over 500 Alaskans. This position was also funded with a transfer from contractual services.

Primary Services Provided

- Legal and guardian representation to some 11,590 clients throughout the state when appointed by the courts.

Customers

- Abused and neglected children involved in legal proceedings
- Incapacitated adults who need assistance in protecting their social, financial, and medical interests
- Indigent criminal defendants when the Public Defender Agency has a conflict of interest

Accomplishments

- Played a leadership role in advocating early and effective intervention in child abuse cases in coordination with executive branch agencies before and during the 1998 legislative session.
- Played an active role in developing the new child abuse law.
- Office of Public Advocacy's guardians ad litem effectively met the challenge of new incoming child protection cases with few additional resources.
- Provided timely, cost effective, and quality representation in more than 10,000 cases involving individual Alaskan children and adults.

Initiatives

Meeting the needs of Alaska's abused children:

- Statewide caseloads grew by 42 percent last year and the new child abuse law has created strict timelines. Both factors will significantly increase demands on OPA's guardians ad litem.
- OPA will work to ensure effective and consistent implementation of the new law through additional statewide training of guardians ad litem, especially strategy sessions on advocating adherence to the time deadlines.
- OPA will enhance staff guardian ad litem representation of abused and neglected children through implementation of a new team approach and other section initiatives in Anchorage.

Enhancing the quality of public guardian services:

- **Improve the efficiency of financial services to public guardian clients by implementing improvements in the CompuTrust computer system and maximizing its use by all guardian staff.**
- **Develop agency plans to implement the ideas for improvement contained in the McDowell Group report.**

NOTES



Office of Tax Appeals

Shelley Higgins, Chief Administrative
Law Judge
shelley_higgins@admin.state.ak.us

Telephone: (907) 465-1886
Fax: 907) 465-2280

Mission

Provide impartial, timely, and cost-effective hearing of tax appeals and other administrative appeals brought by Alaskan businesses and individuals.

Funding Summary

Tax Appeals Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	231.7	214.0
Invst Loss	0.2	0.0
Total Funds	231.9	214.0
PFT Positions	2.0	2.0
PPT Positions	1.0	1.0

Significant Budget Changes

Transferred 47.9 GF to Leases Component.

Primary Services Provided

- Hear and decide all taxpayer appeals from informal conference decisions of the Department of Revenue.
- Hear appeals to the Commissioner of the Department of Administration in procurement, longevity bonus, and personnel matters.
- Hear any administrative appeals referred by other departments.
- Make final decisions readily accessible to the public.

Customers

- Taxpayers
- Businesses and agencies involved in procurement
- Citizens or state agencies that want an impartial, professional, and expeditious hearing of an administrative dispute before the dispute goes to court

Accomplishments

- Issued timely decisions, or achieved settlements, in pending tax and procurement appeals.

- No appeals by taxpayers to Superior Court.
- Published tax and procurement decisions on the Internet for easier public access.



Information Technology Group Public Communications Services

Mark Badger, Ph.D.
Chief Technology Officer
mark_badger@admin.state.ak.us

Telephone: (907) 465-2220
Fax: (907) 465-3450

Mission

Provide an essential piece of the state's information infrastructure by efficient use of Alaska's satellite-based public communications system ensuring the delivery of educational, childrens' programs, news, and information material and emergency warnings throughout the state.

Funding Summary

Public Broadcasting Commission Component

	FY1999	FY2000
	<u>Authorized</u>	<u>Governor's Request</u>
Gen Fund	56.9	57.0
Invst Loss	0.1	0.0
Total Funds	57.0	57.0
PFT Positions	1.0	1.0
PPT Positions	0.0	0.0

Public Broadcasting Radio Component

	FY1999	FY2000
	<u>Authorized</u>	<u>Governor's Request</u>
Gen Fund	2,613.9	2,613.9
Total Funds	2,613.9	2,613.9
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Public Broadcasting Television Component

	FY1999	FY2000
	<u>Authorized</u>	<u>Governor's Request</u>
Gen Fund	845.2	845.2
Total Funds	845.2	845.2
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Satellite Infrastructure Component (formerly Alaska Rural Communications Services Component)

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	1,104.3	1,104.3
I/A Rcpts	100.0	100.0
Stat Desig	373.7	373.7
Total Funds	1,578.0	1,578.0
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Significant Budget Changes

Satellite Infrastructure (formerly Alaska Rural Communication System).
Component name change.

Primary Services Provided

- Provide a broadly available, easily accessible telecommunications service for all Alaska, delivering public, educational, and other programming to close and remote areas of the state.
- Integrate the satellite distribution of channels and programming services, including those from Alaska Rural Communication Service (ARCS), public broadcasting, the University of Alaska, state agencies, schools, local communities, citizens, and other public telecommunications services.
- Allocate appropriated funds to public telecommunications entities to ensure the delivery of vital educational, news and information, and emergency services to all Alaskans in the most efficient and cost-effective manner.

Customers

- People of Alaska
- Alaska's educators
- Alaska's children
- Communities and municipalities
- Government
- Corporations for public broadcasting
- Other national public broadcasting agencies and organizations

Accomplishments

- The Alaska Public Broadcasting Commission provides leadership in system development and management necessary to foster the production and delivery of public telecommunications broadcast services. The system continues to

operate despite sharp funding reductions. Innovation has produced new services and management models.

- Satellite Infrastructure is moving the Alaska Rural Communications Service to a simplified management structure, providing better communication among the partners and better service to the public.
- Alaska Three came on line with distance delivered classes for college and K-12 students.

Key Issues

- Alaska Public Broadcasting Commission
- Alaska Rural Communications Service
- Satellite Interconnection Project

These three programs intersect at the use of the AT&T Alascom satellite transponder. Presently, the transponder carries statewide public television, Alaska One; coverage of the legislature through Gavel to Gavel; K-12 and post-secondary distance education through Alaska Three; the Alaska Rural Communications Service (ARCS); and public radio channels.

When considering only the needs of the transponder lease, the system is strong. However, the financial weakness of the partners, particularly ARCS, jeopardizes the vitality of the operation. ARCS receives no direct support for the origination of programming nor the costs of maintenance for an aging infrastructure. The need for management and interaction with providers and citizens remains. Bethel Broadcasting has divested itself of the management of the channel, making it necessary for alternative methods of operations to be explored and undertaken. Funding, at least as a start up, is needed for a project office.

In addition, funds for the internal APBC budget are inadequate to provide for regular management and to maintain capable, experienced staff. The temporary placement of staff functions in the Public Communications Services office does not allow for the necessary involved leadership and system development. Public broadcasting in Alaska, while it has been commendably innovative and has engaged in thorough restructuring, is proving less and less resilient and increasingly unable to provide quality of service.

Initiatives

- Implement "The Alaska Model" adopted by the Public Broadcasting Commission and funded primarily by the Corporation for Public Broadcasting.
- Work with the Satellite Interconnection Project and the Public Broadcasting Commission to explore ways to boost the financial capacity of the system to provide for the program management and maintenance of the transmitters and the earth stations.

- Continue ongoing collaboration with the Alaska Division of Emergency Services to provide emergency alerting through the satellite infrastructure.
- Continue planning that reduces the state's role and cost in administrative functions.
- Create a project office for the management of the Alaska Rural Communications Service, maximizing nonstate support and funding and utilizing partnerships with private providers.



Public Defender Agency

Barbara Brink, Director
barbara_brink@admin.state.ak.us

Telephone: (907) 264-4400
Fax: (907) 269-5476

Mission

Enhance the quality of justice throughout Alaska by providing constitutionally-mandated legal representation to indigent clients.

Funding Summary

Public Defender Agency Component

	<u>FY1999</u> <u>Authorized</u>	<u>FY2000</u> <u>Governor's Request</u>
Gen Fund	9,256.6	9,549.2
GF/Prgm	190.6	190.6
I/A Rcpts	0.0	255.0
Invst Loss	13.2	0.0
Tobac Setl	0.0	225.0
Total Funds	9,460.4	10,219.8
PFT Positions	109.0	118.0
PPT Positions	6.0	7.0

Significant Budget Changes

Public Defender Agency: \$397.0 GF; Tobacco Settlement: \$225.0. These increments address underfunding and Child Protection Legal Services cost increases respectively.

Staff Changes

Public Defender Agency (+9 PFT, +1 PPT)

Of the nine additional PFT positions, four are funded by Interagency Receipts as part of the Adoption Backlog and Smart Start funding from the Department of Health and Social Services; two PFT positions were added during FY1999 to handle additional caseload. These positions were funded with the FY1999 Full Funding increment approved by the Legislature. One position is added for FY2000 for increased CINA cases and is funded by the Tobacco Settlement and one PFT position is added for FY2000 to be funded with the FY2000 full funding increment. In addition, two part-time positions authorized by two separate FY1999 fiscal notes have been combined to create one full-time position.

Two PPT positions are added for FY2000 for increased caseload and will be funded with the FY2000 underfunding increment; one PPT position is added with Tobacco Settlement Funds to address the increase in CINA caseload.

Primary Services Provided

- Legal representation, only when court ordered, to indigent clients in over 19,000 cases per year.
- As a component of the state justice system, performs a core government function with 13 offices from Ketchikan to Barrow.

Customers

- Individuals accused of crimes
- Children accused of delinquent behavior
- Parents, when the state seeks custody of a child
- Mentally ill individuals, when the state seeks involuntary commitments
- Individuals accused of contempt or violating probation/parole orders

Accomplishments

- Improved service to rural clients by creating the statewide appellate unit and a statewide on-call system that provides access to an attorney from anywhere in the state.
- Enhanced staff and administrative efficiencies by networking the Anchorage office and increasing available technology.
- Provided timely, cost-effective, and quality representation in over 19,000 new cases with only 66 attorneys.

Key Issues

- Maintaining a balance in the state's child protection system through staff and training resources to allow the continued timely, cost-effective, and quality resolution of cases.

Initiatives

- Play an active role in the continuing development of child protection, juvenile delinquency, mental health and criminal law and policy for the state.
- Improve service to rural clients by centralizing and forming a statewide investigative unit.
- Enhance staff and administrative efficiencies by networking remaining 12 offices and increasing available technology including research, brief, and motion banks.

- Participate in federally-funded grant opportunities to study feasibility/ desirability of drug courts in Alaska.

CASELOAD SUMMARY
FY1988-FY1998

	<u>Attorneys</u>	<u>Cases</u>	<u>Avg Cost per Case</u>	<u>Year to Year Change in # Cases</u>	<u>% Case Increase</u>	<u>Cases Per Attorney</u>	<u>Per State Population</u>	<u>Per Capita Cost</u>
FY88	53	12,524	490			236	535,000	\$11.47
FY89	54	13,272	485	748	6%	246	538,900	\$11.94
FY90	53	14,901	449	1,629	12%	281	553,171	\$12.11
FY91	55	15,330	477	129	1%	273	569,063	\$12.60
FY92	55	17,094	454	2,064	14%	311	586,684	\$13.23
FY93	55	16,137	464	-957	-6%	293	596,808	\$12.54
FY94	58	17,582	446	1,445	9%	303	600,765	\$13.06
FY95	62	17,393	464	-189	-1%	281	601,646	\$13.41
FY96	65	17,866	476	473	3%	275	604,966	\$14.06
FY97	65	18,462	482	596	3%	284	609,311	\$14.59
FY98	66	19,336	464	874	5%	293	621,400	\$14.43

- Overall caseload has increased by 54 percent
- Number of attorneys has increased by 25 percent

NOTES



Division of Senior Services

Kay Burrows, Director
kay_burrows@admin.state.ak.us

Telephone: (907) 269-3665
Fax: (907) 269-3690

Mission

Maximize the independence of vulnerable and elder Alaskans by providing choices and access to prevention, wellness, and quality long-term care services.

Much of the work of the division is done with and through the Alaska Commission on Aging, funded in their budget in both the Protection, Community Services, and Administration component, and Senior Services Grants. (See Appendix 11, page 109, for details.)

Funding Summary

Protection, Community Services, and Administration Component

	FY1999 Authorized	FY2000 Governor's Request
Fed Rcpts	1,315.2	1,315.2
G/F Match	269.8	269.8
Gen Fund	1,050.8	1,202.0
GF/Prgm	10.4	10.4
I/A Rcpts	874.4	1,060.9
GF/MH	259.7	259.7
Invst Loss	1.2	0.0
CIP Rcpts	0.2	0.2
MHTAAR	485.0	142.5
Total Funds	4,266.7	4,260.7
PFT Positions	43.0	44.0
PPT Positions	1.0	1.0

Senior Services Grants Component

	FY1999 Authorized	FY2000 Governor's Request
Fed Rcpts	5,469.2	5,518.3
G/F Match	842.7	842.7
Gen Fund	3,127.3	3,127.3
GF/MH	1,871.6	1,871.6

MHTAAR	614.7	600.0
Total Funds	11,925.5	11,959.9
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Citizens Foster Care Review Panel Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	296.3	296.8
I/A Rcpts	0.0	123.8
Invst Loss	0.5	0.0
Total Funds	296.8	420.6
PFT Positions	4.0	4.0
PPT Positions	0.0	0.0

Home Health Services Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
G/F Match	52.0	52.0
Gen Fund	1,576.3	1,576.3
I/A Rcpts	105.7	105.7
Total Funds	1,734.0	1,734.0
PFT Positions	3.0	3.0
PPT Positions	0.0	0.0

Significant Budget Changes

Protection, Community Services and Administration Various Increments and Other Adjustments. Budget totals for this component reflect the net of increases and decreases as follows: Several MHTAAR projects funded in FY1999 were not continued in the FY2000 budget. Associated reductions in MHTAAR funding are as follows: (\$200.0) General Relief; (\$50.0) Rural Job Development; (\$30.0) LTC Ombudsman Training Materials; and (\$75.0) Declining Income Study funding. One FY1999 MHTAAR project (Long-Term Care Development \$130.0) is continued in the FY2000 budget. One new MHTAAR project (Comprehensive Integrated Mental Health Plan \$12.5) is included in the FY2000 budget. A GF increment for General Relief Grant payments is included at \$150.0. An Interagency Receipts increment of \$186.5 brings on budget interagency support from the Division of Medical Assistance for the Long-Term Care Programs.

Senior Services Grants. Four Senior Services Grants components are consolidated into one component: Nutrition, Transportation and Support; Senior Employment Services; Home and Community Based Care; and Senior Residential Services.

Citizens Foster Care Review: \$123.8 I/A. This Interagency Receipts increment provides funding from the Department of Health and Social Services, Division of Family and Youth Services (DFYS), to conduct additional reviews of foster care case management.

Staff Changes

Protection, Community Services, and Administration (+ 1 PFT)

There are no new positions for FY2000. The increase of one PFT position is made to correct an error in the position count that occurred in the FY1999 budget.

Primary Services Provided

- Provide an alternative to institutional care for Alaska's seniors and adults with physical disabilities through a network of services.
- Grants administration for a variety of senior and adults with disabilities programs.

Customers

- Alaska seniors and their families
- Alaska adults with disabilities and their families
- Representatives and advocates of those populations, including the Legislature and Governor
- Communities in which services are provided
- Senior organizations and organizations for the physically disabled
- Service provider agencies
- State Division of Medical Assistance and Division of Public Assistance

Accomplishments

- Many more Alaskans now receive nutritious meals, necessary transportation, and other supportive services through Grant Programs: Senior Employment Services; Senior Residential Services; Home and Community Based Care; and Nutrition and Transportation Support Services.
- More Alaskans on Medicaid are now receiving long-term care in their homes or in community-based settings (about 600) than in nursing homes (about 485).
- The division has produced an educational brochure focused on access to home and community-based services for all Alaskans. Alaskans, through the brochure distribution and our new web site, now have access to current information about Long-Term Care options.

- Assisted Living Home Licensing training for 25 private Alaskan Assisted Living Home operators, was coordinated and held in Anchorage. These attendees received a Certified Administrator certificate as an Assisted Living Home administrator.
- 120 private Alaskan care coordinators received training regarding the current choices available to Alaskans in their communities and the types of assistance needed. It also allowed for networking across various Alaskan communities and service providers.
- A guardianship re-engineering study was completed in partnership with Adult Protective Services and the Alaska Mental Health Trust Authority. The report describes and analyzes issues relating to the accessibility of the guardianship systems and developed recommendations to simplify the process. A group will be formed to formulate recommendations for the Administration and Legislature, based on these study results.
- The Governor appointed the Citizen's Foster Care Review Board on December 2, 1997. The board hired a new review specialist and program coordinator. A strategic plan was completed, as well as the review of almost 200 cases in FY1998. The negotiation of a Memorandum of Agreement with DFYS was accomplished which will eliminate redundancy in reviews. An 18-hour training program was held in Anchorage for the first 40 new panelists in Anchorage.

Key Issues

- The Alaska Commission on Aging predicts that the senior population will increase from 26,000 in 1993 to more than 80,000 by the year 2015, an increase of over 200 percent. Without system changes the need for public expenditures for long-term care will rise from \$72 million in FY1997 to \$153 million in FY2005. The state system continues to be streamlined, but building long-term care home and community-based care services in all Alaskan communities must be a priority for the state.
- Assisted living rates, which supplement non-Medicaid eligible Alaskans at high risk of neglect/abuse, have not been increased since 1984. Payments do not currently cover the cost of care at Assisted Living homes. Payment rates must be raised in order to have adequate placements available for the 100 or more people in placement each month.
- The Citizen's Foster Care Review Board cannot be implemented statewide as required in statute at current funding levels. The board is attempting to begin expansion in the Fairbanks region. In FY2000, the Fairbanks program would continue expansion and a start-up program would be implemented in the Southeast Judicial District. Full implementation in the Southeast Judicial

District and expansion to the remainder of the state would require significant additional state funding.

Initiatives

- The division must build a division-wide quality program that provides vision and guidance for all of the client-centered activities in the division. Technical assistance, training, and on-site monitoring must be developed for all of the programs overseen. The program would include focusing on outcome measures, monitoring trends, and providing technical assistance and training before poor quality outcomes happen. This initiative is related to the Data Initiative discussed below.
- Too many Alaskans wait for service in the Medicaid waiver program for far too long; and Alaskan providers are also waiting too long for their Medicaid payments. Both of these problems are directly tied to the division's data system problems. All 14 database systems must be integrated into an interactive system. The first two steps have been completed: a needs assessment and a complete review of business processes. A Data Initiative project management team will begin the implementation phase of creating new application systems.
- The current Medicaid program provides personal care attendant (PCA) services through eight agencies and 110 independently employed PCAs in 110 Alaskan communities. The agencies have geographically exclusive grant agreements with the division. Oversight issues are a problem with the independent providers. Inadequate PCAs are available in both programs; therefore, services provided are often inadequate. The division, in partnership with the Department of Health and Social Services and advocacy groups, is working on a new plan in FY1999 for this program. A PCA summit has been held to determine the new guiding principles and service delivery model to help solve these problems. Improvements may require new resources in Medicaid for added program services and in the division for training funds.
- The Medicaid Long-Term Care Waiver Program is growing much more rapidly than staffing resources. The backlog has grown to three to six months. Additional staff resources and work on the Data Initiative will be necessary to more adequately meet the needs of seniors and vulnerable adults who wish to utilize home and community-based services.

NOTES



Division of Finance

David Essary, Director
david_essary@admin.state.ak.us

Telephone: (907) 465-3435
Fax: (907) 465-2169

Mission

Uphold the public's trust in the security, soundness, integrity, and stability of the state's financial systems through effective and efficient policies and compliance with statutory/regulatory fiscal procedures and generally accepted accounting principles.

Funding Summary

Division of Finance Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	5,131.3	5,138.6
I/A Rcpts	558.7	558.7
Invst Loss	7.3	0.0
Stat Desig	0.0	112.5
Total Funds	5,697.3	5,809.8
PFT Positions	47.0	47.0
PPT Positions	0.0	0.0

Significant Budget Changes

Finance: \$112.5 Des. PR. This increment will allow the division to receive and expend travel card incentive rebates.

Primary Services Provided

- Centralized statewide accounting for all three branches of government.
- Centralized statewide payroll for all three branches of government.
- Financial systems administration and security.
- Financial policy and procedures development.
- Travel policy and procedures development.
- Accounting and payroll system training.

Customers

- State agencies in all three branches of government and the University of Alaska
- Employees and former employees
- Vendors
- Public

Accomplishments

- Enhanced the statewide accounting system (AKSAS) to more easily accommodate

current and future electronic commerce initiatives such as financial electronic data interchange, purchasing cards, and travel cards.

- Increased access and usability of the state's comprehensive annual financial report by publishing it on the Internet.

Key Issues/Initiatives

- The Division of Finance plans to certify both the accounting system and payroll system as Year 2000 compliant by July 1, 1999. Testing of interfaces into AKSAS and AKPAY may continue after this date depending on remediation and testing schedules for agency systems which interface into AKSAS or AKPAY.
- A Software Requirements Specification for an automated time and attendance collection system has been developed by a local contractor. An automated time and attendance collection system could be a key element in efforts to implement efficiencies in state agency operations. The division will continue to work with state agencies to refine development costs and resource requirements to implement this system. Ultimately, a source of funding will have to be found before this project can proceed.
- The Division of Finance will continue to expand its use of electronic commerce by targeting vendors who are issued the largest number of warrants and converting them to electronic payments. Other vendors with payment issues that could be resolved by the use of electronic payments will also be targeted.
- The Division of Finance will complete the roll out of the statewide purchasing card program during FY2000. Once the roll out is complete, additional refinements and possible procedure streamlining will be addressed.
- If the statutory designated \$112.5 increment is approved, the Division of Finance will be working with a new travel card provider and state agencies to explore options in creating a technology framework for a managed travel environment. Through this technology framework, the state may establish internal control, management, and coordination of its travel program. Goals include savings in direct travel dollars and reduced indirect travel costs in the back office accounting and payment processes.
- Documented policy and procedures are critical to delivery of payroll, accounting, and financial reporting services to state agencies. The Division of Finance will continue to move forward in providing accounting and payroll policy and procedures through the most expedient method available. This will probably include printed procedures, on-line help documentation, and making this information available via the Internet.



Division of General Services

Marsha Hubbard, Director
marsha_hubbard@admin.state.ak.us

Telephone: (907) 465-5687
Fax: (907) 465-2189

Mission

Provide professional procurement training, purchasing services, inventory control, surplus property disposal, office leasing, facility management, and mail room services that assist state agencies to accomplish their public mission.

Funding Summary

Purchasing Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Gen Fund	1,018.0	1,061.1
I/A Rcpts	41.1	0.0
Invst Loss	2.0	0.0
Total Funds	1,061.1	1,061.1
PFT Positions	14.0	14.0
PPT Positions	0.0	0.0

Property Management Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Gen Fund	40.9	41.1
GF/Prgm	581.0	581.0
Surpl Prop	312.8	397.8
Invst Loss	0.2	0.0
Total Funds	934.9	1,019.9
PFT Positions	9.0	9.0
PPT Positions	0.0	0.0

Central Mail Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
I/A Rcpts	795.5	1,280.5
Total Funds	795.5	1,280.5
PFT Positions	5.0	6.0
PPT Positions	1.0	0.0

Leases Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Gen Fund	23,329.5	25,303.8
I/A Rcpts	8,605.0	10,427.6
Total Funds	31,934.5	35,731.4
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Lease Administration Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Gen Fund	415.6	375.4
I/A Rcpts	74.5	115.6
Invst Loss	0.9	0.0
Total Funds	491.0	491.0
PFT Positions	7.0	7.0
PPT Positions	0.0	0.0

General Services Facilities Maintenance Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
I/A Rcpts	0.0	2,589.7
Total Funds	0.0	2,589.7
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Significant Budget Changes

Property Management: \$85.0 Federal Surplus Property Revolving Fund. This increment is requested to fund replacement of the software inventory program used exclusively for the Federal Surplus Property Program (FSPP). The current software, SURDATA, will be rewritten and customized.

Central Mail: \$485.0 I/A. This increment provides authorization necessary for mail insertion and postage costs previously funded via unbudgeted RSAs as well as costs associated with the consolidation of mail services for the Departments of Corrections and Revenue and the Division of Motor Vehicles. All known costs of the Central Mail Room are included in the total FY2000

request. The Interagency Receipts increment does not reflect any increase in costs.

Leases: The GF increase of \$1,974.3 is comprised of a \$1,752.8 increment for increased lease costs and transfers several leases formerly included in various agency budgets totaling \$221.5. The transfer does not include increased lease costs. The Interagency Receipts increase is for additional increased lease costs which remain in other agency budgets.

Facilities Maintenance. A new component is created in the budget to segregate the facility maintenance budget for the Bank of America Building and the Property Management Warehouse (Viking Building). (See Appendix 7, page 103, for more detail.)

Staff Changes by Component

Central Mail (+ 1 PFT, -1 PPT)

One part-time position is changed to full-time and funded by Interagency Receipts.

Primary Services Provided

- Provide procurement leadership through training, consultation, and guidance to customer agencies including policies and procedures that foster a competitive acquisition process.
- Procure goods and services including leased office space that meet state agency needs.
- Provide facility management for statewide leased facilities and some state-owned facilities.
- Manage the state inventory system, dispose of state surplus property, facilitate statewide reutilization of surplus federal property, and provide centralized policy and procedures for improved property management.
- Provide central mail processing and distribution in Juneau including AKSAS, AKPAY, Longevity Bonus, Retirement, and Permanent Fund warrant processing.

Customers

- State agencies
- Political subdivisions
- Nonprofit organizations and minority owned and disadvantaged businesses qualified to receive surplus federal property
- Alaska vendors
- Commercial property owners
- Citizens of the state

Accomplishments

Property Management

- Captured more than \$1.45 million in state surplus sales for Alaska.
- Acquired and/or distributed approximately \$9.5 million in federally-donated assets.
- Secured state profits from federal surplus surcharges exceeded \$370,000.
- Achieved total savings from federal surplus distributions in excess of \$8.4 million.

Purchasing

- Purchased Bank of America Building. Established a contract for a private sector property management firm to provide the needed building services and run the daily operations of the building; continued negotiation with private building tenants for their early departure in order to make room for state tenants; prepared an overall building space plan for the accommodation of the new state agency occupants and put in place contracts for the implementation of physical moves during 1999.
- Awarded a natural gas contract for state facilities in the Anchorage, Mat-Su Valley, and Kenai/Soldotna areas; savings of \$468,144 are anticipated over the contract term.
- Awarded a federally-mandated drug and alcohol testing contract for all state employees required to hold a Commercial Drivers License.
- Presented procurement training classes to state employees and "How to do Business with the State" sessions to private vendors.
- Administered various statewide contracts covering supplies and services such as microcomputers, office supplies, heating fuel and gasoline, groceries, meats, car rental, copiers, laboratory equipment, laundry supplies, and pharmaceuticals resulting in millions of dollars of savings to the state.

Central Mail

- Consolidated the Juneau mail offices of the Departments of Revenue and Corrections, and the Division of Motor Vehicles into the Central Mail Service (CMS) operation. All three agencies reported substantial savings and improved service as a result of this effort.

Leases

- Reduced FY1998 lease costs by over \$500,000 on an annual basis through lease rate reductions in exchange for lease term extensions as provided for in AS 36.30.083.

- Remodeled underutilized Anchorage Data Center to accommodate a new mid-town Division of Motor Vehicle service center.

Initiatives

- In conjunction with the Procurement Advisory Council, implement the Procurement Officer's Certification Program connecting procurement delegations with demonstrated competencies required to carry out basic and specialized purchasing functions for state agencies. The program will include modules for training, testing, and certification.
- Based upon the evaluation of the Internet ITB Prototype for Quarterly Grocery Bids, expand the program to allow for Internet ITB issuance for fuels, rental cars, equipment, software, and other goods.
- Create an Alaska Vendor Work Group composed of representatives from the vendor and financial community to assist the division in identifying and implementing various facets of an electronic commerce program. An electronic commerce program will improve the state procurement process by:
 - automating duplicate and redundant tasks performed by state agencies so as to allow their under-staffed organizations to more effectively handle their current procurement responsibilities;
 - streamlining the ITB and RFP process for both vendors and state agencies;
 - automating an Internet-based Alaska Bidders Application program for vendors to enroll on the Alaska Bidders List, obtain on-line verification of Alaska Business Licenses, and to obtain information on qualifying for the Alaska Bidders and Product Preferences;
 - eliminating duplicative and costly bid preparation tasks for the vendors;
 - efficiently consolidating purchasing across departments to take advantage of volume discounting;
 - providing electronic deposit for state payments to the vendors in conjunction with the Division of Finance; and
 - providing a method for Alaska vendors to compete in the world of Internet on-line ordering without additional investment in technology.

NOTES



Information Technology Group

Mark Badger, Ph.D.
Chief Technology Officer
mark_badger@admin.state.ak.us

Telephone: (907) 465-2220
Fax: (907) 465-3450

Mission

Provide excellence in customer service in information technology through innovation, timely support, and implementation of technologies to assist State of Alaska departments in accomplishing their missions.

Funding Summary

Information Services Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Info Svc	19,775.4	20,269.9
Total Funds	19,775.4	20,269.9
PFT Positions	132.0	127.0
PPT Positions	0.0	0.0

Information Service Fund Front Section Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Stat Desig	55.0	55.0
Total Funds	55.0	55.0
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

ITG Facilities Maintenance Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
I/A Rcpts	0.0	23.0
Total Funds	0.0	23.0
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Significant Budget Changes

Information Services: \$494.5 ISF. This increment is needed to fund salary increases established by the state in FY1999 to keep pace with IT salaries in the private sector.

Staff Changes

Information Technology Group (-5 PFT)

Three PFT positions are deleted and two PFT positions are transferred to DOA-IT for a total reduction of five full-time positions.

Primary Services Provided

ITG products and services are used in all 15 departments, the Legislature, the Court System, and the University of Alaska. Two major information technology services account for some 93 percent of revenue and service focus:

- statewide computing: application support, systems support, and infrastructure integration for small, medium, and large applications
- communications: telephony, radio, networks, enterprise e-mail, LAN/WAN/PC desktop support services

ITG strives to provide customer solutions through innovative development, integration, and implementation of technologies, products and services that meet today's business needs. ITG, the State of Alaska's technology agency, combines the best practices of the private sector with a public service mission in managing the state's computing and communications facilities. As a business, the principles are bound by a vision to:

- change
- innovate
- develop strategic partnerships with industries that offer the state the greatest value for services rendered

Customers

- Citizens, through public electronic access
- State agencies, including the executive, legislative, and judicial branches of state government
- Rural communities through the Satellite Interconnect Project
- Indirectly, other governmental entities, local governments, the federal government, local schools, libraries, nonprofit entities, and individual citizens who rely on communication infrastructure or information through computing facilities

Accomplishments

- Worked with the Y2K Project Office to upgrade ITG's computer environments

with Y2K compliant products; provide a separate computer testing environment that allows agencies to safely test their statewide applications; assess the Y2K readiness of the state's telecommunications environment including telephones, data network, and life/health/safety communications systems such as radios, dispatch consoles, and pagers.

- Provided automated credit card acceptance process that can be used by any agency.
- Partnered with agencies to deploy the following web-based and Interactive Voice Response systems:
 - . DMV Vehicle registration and Vanity Plates
 - . Postsecondary Education Loan Status Reporting
 - . State Park Cabin Reservations
 - . Permanent Fund Dividend Application Status
 - . Occupational Licensing Renewals
 - . Child Support Payment Status
 - . Elections District Polling Locations
 - . Workplace Alaska
- Increased partnerships with private sector technology vendors in applications development.
- Enhanced citizen access to state government through improvements to the state's primary Internet web presence.
- Provided centrally managed data network and telephone services to the Legislature and Court System.
- Improved critical public safety and emergency medical communications along the railroad and highway system by partnering with the Alaska Railroad to complete conversion of the state's transmission capabilities from analog to digital technology.

Key Issues

ITG is at the forefront of a new type of government; one that is expected to be electronically accessible, reliable, accurate, secure, and low cost. To continue to make this expectation a reality, we know from customer agencies and citizens that delivering all of our core services beyond the Year 2000, providing seamless communications, and the ability to respond quickly to new communications demands are at the top of their interests. ITG will focus on these three important strategic areas through the following initiatives:

- ITG's primary focus will continue to be working closely with the Y2K Project Office, agencies, and private sector service providers to ensure the state's computing and communications systems that serve the public operate uninterrupted

through the Year 2000. Testing, remediation, and putting into place contingency plans for systems that may fail are expected to be the main emphasis.

- Continue to modernize the way ITG provides services through flexible computing environments that deliver cost effective services.

A key concern or issue that challenges ITG as staff pursue these strategic targets will be the ability to provide acceptable levels of service within agency budget targets. Over the past few years, ITG has focused on providing services by applying industry's "best practices" which uses the state's strengths in computing and desktop environments while reducing overall costs to customers. As a result of cost effective service offerings and increased reliance from state agencies on ITG services, use of these services and the demand for technical support has increased. A saturation point has been achieved in many service areas. Changes to take cost advantage of economies of scale have been made in previous fiscal years and steep growth particularly in data network bandwidth requirements are requiring increased spending levels to meet service demands. ITG will continue to work closely with agencies to ensure a clear understanding of costs and benefits of technology deployment.

Initiatives

- Continue to modernize the way ITG provides services through flexible computing environments that deliver cost effective services.
- Continue to deploy technology and services to enhance citizen access to state government services.
- Ensure bandwidth needs to serve state needs.
- Improve interoperability and efficiencies of the state's data network.
- Expand advanced telephone services to serve state agency needs.
- Increase partnerships with private sector technology vendors to enhance the state's ability to obtain cost effective, contractual services.
- Continue support for rural communications to ensure critical life/health/safety functions are provided.



Division of Personnel

Beverly Reaume, Director
beverly_reaume@admin.state.ak.us

Telephone: (907) 465-4430
Fax: (907) 465-2576

Mission

Work in partnership with state agencies to hire, retain, and promote a highly qualified and productive workforce for the citizens of Alaska by providing customers with leadership and a quality array of human resource services in compliance with laws and merit principles.

Funding Summary

Personnel Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	1,900.3	2,003.4
I/A Rcpts	224.0	201.1
Invst Loss	3.1	0.0
CIP Rcpts	75.5	75.5
Total Funds	2,202.9	2,280.0
PFT Positions	29.0	32.0
PPT Positions	4.0	0.0

Labor Relations Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	909.6	911.4
Invst Loss	1.8	0.0
Total Funds	911.4	911.4
PFT Positions	11.0	12.0
PPT Positions	1.0	0.0

Alaska Professional Development Institute Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
Gen Fund	0.9	0.9
GF/Prgm	111.1	111.1
I/A Rcpts	563.9	563.9
Total Funds	675.9	675.9
PFT Positions	4.0	5.0
PPT Positions	2.0	1.0

Significant Budget Changes

Personnel GF Increment: \$100.0. This increment is requested to fund support costs related to Workplace Alaska.

Staff Changes

Personnel (+ 3 PFT, -4 PPT)

Two part-time positions were changed to full-time during FY1999 to support the implementation of Workplace Alaska; two PFT positions were transferred from Labor Relations during FY1999 to support development of competencies and performance evaluation measures for the new classification structure. One PFT position is transferred to DOA-IT.

One PPT position is deleted and one PPT position is transferred to Labor Relations to provide contract negotiation support.

Labor Relations (+ 1 PFT, -1 PPT)

Two part-time positions are changed to full-time for contract negotiation support; two PFT positions are transferred to Personnel to support development of competencies and performance evaluation measures for the new classification structure; and one new position was added during FY1999 for contract negotiation support. This new position will be funded with the Contract Negotiation appropriation made to the Commissioner's Office in FY1999.

Alaska Professional Development Institute (+ 1 PFT, -1 PPT)

One part-time position was changed during FY1999 to full-time to meet existing workload and will be funded by Interagency Receipts.

Primary Services Provided

- Develop policies to ensure compliance with all relevant statute and regulation requirements.
- Protect and promote diversification of the state workforce.
- Provide a pool of qualified applicants to the executive branch departments.
- Develop policies and provide training and consultant services to increase employee productivity and foster employee growth.
- Maintain the state classification and pay structure.
- Represent the administration in labor contract negotiations.
- Respond to employee grievances and complaints on behalf of the Commissioner of the Department of Administration.
- Represent the State of Alaska in arbitration, mediation, and other employee dispute resolution procedures.
- Represent the State of Alaska at Alaska Labor Relations Agency hearings regarding unfair labor practices, unit clarification, and other matters.
- Establish and administer labor management committees.

Customers

- Executive branch departments
- Employees
- Applicants for state positions (all working-age residents are potential applicants)
- Human resources personnel
- Supervisors and managers

Accomplishments

Personnel

- Implemented Workplace Alaska, an on-line recruitment and hiring process for all bargaining units, completing the transition from the old register system to vacancy-based recruitment.

APDI

- Marketed, promoted, and trained State of Alaska hiring managers in the new Workplace Alaska on-line hiring system.
- Promoted and disseminated information about the IT Literacy Initiative (State of Alaska, University of Alaska, Gartner Group information technology training) to all state agencies.
- Partnered with Alaska Public Employees Association to train state supervisors in employee relations law policies, procedures, best management practices, and information technology.
- Continued to broaden training and organizational development training for employees in rural Alaska

Labor Relations

- Continued to reduce the active caseload backlog by proceeding to settlement or moving to arbitration.

Key Issues

Personnel

- Budget reductions in the past several years have so depleted Personnel staff that we have reached the point that we are unable to adequately staff the various functions we are mandated to provide. Specifically, we have inadequate resources to redesign the state's seriously outdated classification and compensation structure. The lack of resources has been exacerbated by the additional costs created by Workplace Alaska, i.e., an 800-phone line, newspaper advertising, and computer/software costs.

We have addressed the Workplace Alaska issue with a request for an operational increment to cover the enterprise costs of Workplace Alaska. During FY2000,

the division will work to determine the best solution to the classification and compensation problem. (See Appendix 8, page 104, for details.)

Labor Relations

- Negotiating contracts while maintaining the normal grievance/arbitration workload with limited staff.

During FY1999, the Labor Relations Section will be negotiating 12 separate contracts. The contract for Correctional Officers is new, requiring extensive negotiations. Some contracts may be contentious requiring considerable time at the table. Negotiations for each contract include two labor relations staff at the table, plus the behind the scenes effort to develop proposals, respond to proposals, and work with the Commissioner to develop policy across bargaining units. This activity is on top of the normal grievance/arbitration workload which now stands at 269 active cases. Only one additional staff member, a paraprofessional, was added for this effort which does not begin to offset the increased workload. For the last six months of FY1999, staff will be working long hours and will surely be very stressed. We anticipate that the grievance/arbitration caseload will be backlogged during this period, requiring extensive effort after negotiations to get back to an even workload.

Considering the current financial climate, we may encounter difficulty negotiating multiple year contracts. We could find ourselves back negotiating contracts again next year.



Division of Retirement and Benefits

Guy Bell, Director
guy_bell@admin.state.ak.us

Telephone: (907) 465-4471
Fax: (907) 465-3086

Mission

Develop, manage, and administer benefit programs to attract and retain qualified state employees and to extend those services to certain political subdivisions in an effective, efficient, and secure manner.

Funding Summary

Retirement and Benefits Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
I/A Rcpts	1.0	1.0
Ben Sys	2,673.0	2,721.5
FICA Acct	91.2	91.2
P/E Retire	3,613.3	3,981.3
Teach Ret	1,502.4	1,603.8
Jud Retire	24.0	24.5
Nat Guard	76.9	77.0
Total Funds	7,981.8	8,500.3
PFT Positions	90.0	99.0
PPT Positions	0.0	0.0

Elected Public Officers Retirement System Benefits Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Gen Fund	1,111.5	1,111.5
Total Funds	1,111.5	1,111.5
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Group Health Insurance

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
Ben Sys	10,553.3	10,553.3
Total Funds	10,553.3	10,553.3
PFT Positions	0.0	0.0
PPT Positions	0.0	0.0

Significant Budget Changes

The division is experiencing a need for additional staff and resources to address steady growth in retiree populations and a significant increase in the number of applications for disability benefits. Eight separate increments are proposed with funding from a combination of Benefits Systems Receipts and pension trust funds.

Staff Changes**Retirement and Benefits (+ 9 PFT)**

Seven nonpermanent positions are deleted and one PFT position is transferred to DOA-IT. Ten new PFT positions are added for FY2000 to address a number of issues related to growth in the retiree population. All of these positions will be funded by Benefits Systems Receipts.

Primary Services Provided

- Administer the state-sponsored retirement systems and defined contribution plans.
- Administer state-sponsored employee and retiree health benefits.

Customers

- 22,000 persons who are retired from the Public Employees' Teachers', Judicial, Elected Public Officers, and National Guard and Naval Militia Retirement Systems.
- 217 public employers in the Public Employees', Teachers', Judicial, Elected Public Officers, and National Guard and Naval Militia Retirement systems.
- 47,000 people currently employed and 12,600 people formerly employed by the 217 member employers in the Public Employees', Teachers', Judicial, Elected Public Officers, and national Guard and Naval Militia Retirement systems and their beneficiaries.
- 40,000 retirees and employees of the State of Alaska and 25 political subdivisions participating in the Group Health and Life Insurance Plan.
- 17,000 present and 11,500 former employees of the State of Alaska and 14 political subdivisions participating in the Supplemental Annuity Plan and Supplemental Benefits System.
- 5,300 present and 1,200 former employees of the State of Alaska participating in the Deferred Compensation Plan.

Accomplishments

- On-line computer services for active and retired members were enhanced.

- The employee benefits statement and open enrollment processes were combined to reduce the filing burden for benefits systems participants and contain costs.

EPORS

- Benefits were issued to 32 eligible retirees in FY1998.

Key Issues/Initiatives

- Develop more flexibility in the state benefits plans; develop an environment for more employee participation and involvement in the benefits they receive.
- Expand the content of informational materials to both employers and employees about issues related to planning for retirement.
- Implement a customer service improvement initiative.

NOTES



Division of Risk Management

J. Brad Thompson, Director
brad_thompson@admin.state.ak.us

Telephone: (907) 465-5723
Fax: (907) 465-3690

Mission

Protect the financial assets, operations, and employees of the State of Alaska from accidental loss through a comprehensive self-insurance program for normal and expected property and casualty claims of high frequency and low severity, combined with high limit broad form excess insurance protection for catastrophic loss exposures.

Funding Summary

Risk Management Component

	FY1999 <u>Authorized</u>	FY2000 <u>Governor's Request</u>
I/A Rcpts	21,955.0	22,405.0
Total Funds	21,955.0	22,405.0
PFT Positions	7.0	6.0
PPT Positions	0.0	0.0

Staff Changes

Risk Management (-1 PFT)

One PFT position is transferred to DOA-IT.

Significant Budget Changes

This increment provides for \$75.0 funding for increased claims costs (averaged over a five-year period [FY1994-FY1998] for Department of Transportation's Airport Liability) and \$375.0 for increased Department of Law attorney staff for Risk Management Litigation Claims.

Primary Services Provided

- Using contract independent claims adjusters and in-house defense counsel (RSA funding-Special Litigation [Torts] Section within the Department of Law), Risk Management, operating as the insurance carrier for each state agency, administers a comprehensive self-insurance program that promptly resolves property and casualty claims more cost effectively than through conventional commercial insurance programs.

- Annual premiums allocated by Risk Management are the maximum each agency is called upon to pay. This planning for known and catastrophic losses forestalls the need for the affected agency to seek supplemental appropriation or disrupt vital state services after a major property loss, adverse civil jury award, or significant workers' compensation claim.

Customers

- State departments protected from fiscal impact for casualty loss to aircraft, watercraft, buildings, equipment and their contents.
- State employees who suffer work injury: medical expenses, wage indemnification, and statutory disability benefits are paid.
- Alaskans who claim state operations/employees are legally responsible for their injury or property damage.
- Alaskan businesses/professionals who bid or enter contracts with state agencies.

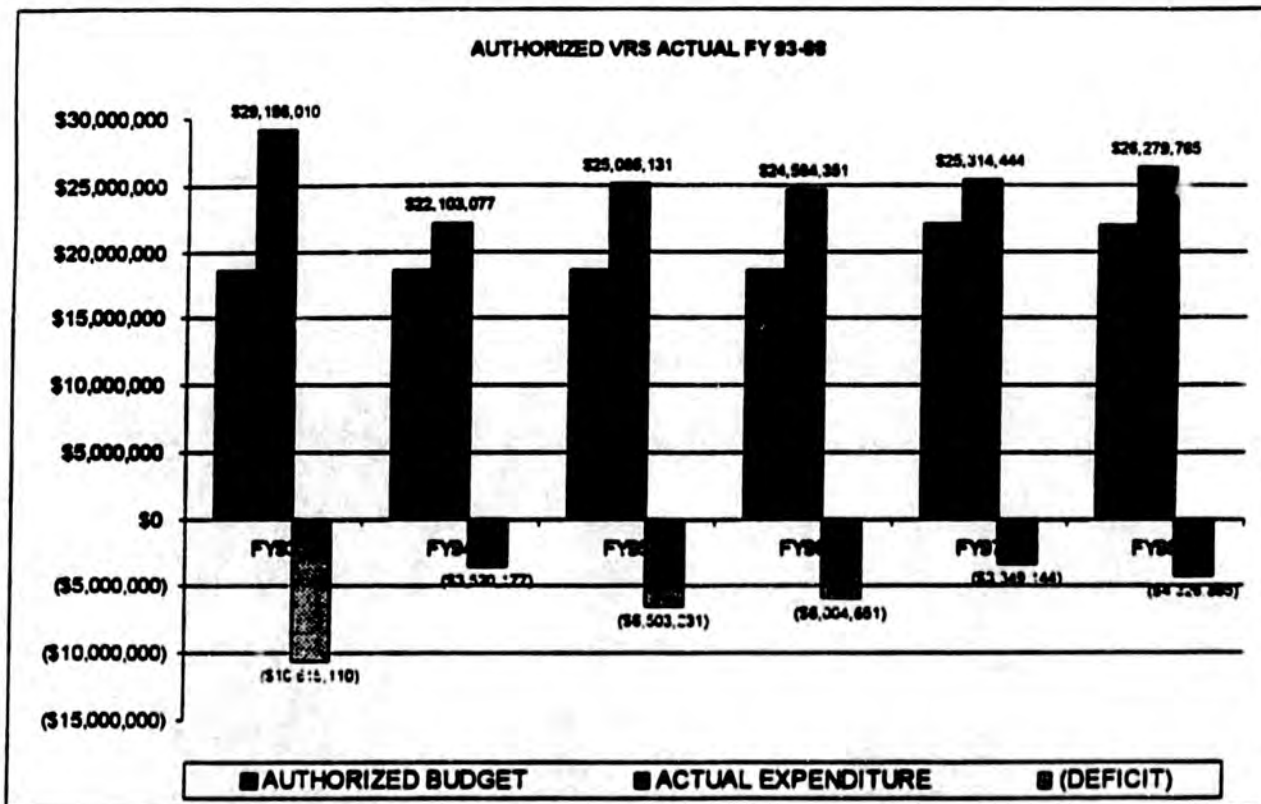
Accomplishments

- Sponsored independent professional assessments of state facilities with high workers' compensation loss patterns. Ergonomic adjustments made to work areas and job assignments have decreased new claims reported.
- Provided training classes and instructional material in light duty return to work programs, the interaction of the Alaska Workers' Compensation Act (AWCA) with Americans with Disabilities Act (ADA), and the Family and Medical Leave Acts (FMLA) to training managers.
- Improved the interactive on-line claims management information system interface between Risk Management, contract claims adjusters, and defense attorneys.
- Upgraded Risk Management Intranet web site:
 - Claims reporting procedures, forms and contact information
 - Safety information - security planning guidelines
 - Volunteer coverage agreement, claim reporting
- Healy Clean Coal Project: Risk Management developed and managed the owner-provided insurance program for AIDEA and all contractors:
 - Project savings close to \$5 million over conventional insurance premiums realized as of July 1, 1998.

Key Issues/Initiatives

- Cost of Risk Allocation remains insufficient to meet actual ongoing cost of risk obligations. Risk Management's annual appropriation of Interagency Receipts, based on "cost of risk" allocations, funds claim settlements and defense costs paid each year. Risk Management dips into the catastrophe reserve account for any large individual property or liability loss and whenever there is insufficient operating appropriation to meet ongoing claim obligations. The following exhibit displays authorized budget and actual expenditure figures for the last five fiscal years. Deficit sums have been drawn from the Catastrophe Reserve Fund. The FY2000 budget request has been increased incrementally. Should the FY1999 operating lapses be insufficient to refill the Cat Fund to its full \$5 million maximum level, additional costs will be incurred as a result of postponing settlement of claims.

	FY93	FY94	FY95	FY96	FY97	FY98
AUTHORIZED BUDGET	\$18,582,900	\$18,582,900	\$18,582,900	\$18,579,700	\$21,965,300	\$21,952,900
ACTUAL EXPENDITURE	\$29,198,010	\$22,103,077	\$25,086,131	\$24,584,351	\$25,314,444	\$26,279,765
(DEFICIT)	(\$10,615,110)	(\$3,520,177)	(\$6,503,231)	(\$6,004,651)	(\$3,349,144)	(\$4,326,865)



NOTES



Y2K Project Office

Robert Poe, Jr., Project Leader
bob_poe@admin.state.ak.us

Telephone: (907) 465-2200
Fax: (907) 465-2135

Mission

Assure that key business functions of the State of Alaska are not interrupted due to Y2K-related problems.

Funding Summary

Y2K Office Component

	<u>FY1999 Authorized</u>	<u>FY2000 Governor's Request</u>
I/A Rcpts	0.0	476.8
Total Funds	0.0	476.8
PFT Positions	0.0	6.0
PPT Positions	0.0	0.0

Staff Changes

Y2K Project Office (+ 6 PFT)

Six PFT positions are established in FY2000 to be funded with CIP Receipts.

Primary Services Provided

- Coordinate all Y2K efforts for the executive branch and focus those efforts on meeting the needs of mission-critical systems of state agencies.
- Set Y2K compliance standards consistent with law for all state agencies in the executive branch.
- Monitor the efforts of state agencies in the executive branch to meet compliance standards established under this order.
- Establish a remediation timetable and a risk management and contingency plan for the executive branch for Y2K efforts.
- Establish a Y2K clearinghouse for making Y2K preparedness information available to state agencies, the public, and entities outside of state government, and coordinate technical assistance to other affected entities in Alaska.
- Maintain ongoing contact with Y2K coordinators in state agencies.

- Provide information regarding resource needs of state agencies to address Y2K issues and analyze, coordinate, and present Y2K requests for appropriations to the Governor and the Legislature.
- Make monthly reports on the Y2K efforts and progress of state agencies to the Governor, Chief of Staff, Cabinet, and Legislature.

Customers

- All executive branch agencies as well as the University of Alaska and the Court System

Accomplishments

- Adopted life, health, safety, and economic wellbeing of Alaskans as Y2K criteria for identifying the most critical public services provided by executive branch departments.
- Established guidelines and standards for Y2K work in departments including the achievement of Y2K compliance in all critical automation systems, preparation of department contingency plans, and preparation of the state's emergency response capabilities.
- Created a Y2K monthly progress reporting system for all departments and executive branch agencies.
- Assisted departments in identifying Y2K problems and resource needs and prioritized funding needs, particularly in the areas of state facilities, transportation systems, and the state's mainframe computing environment.
- Established a statewide Y2K web site as a guide to Y2K readiness for Alaskans (see <http://www.y2000/index.htm>).
- Established a statewide outreach program for providing information and assistance to local communities, small and medium-sized businesses, the public, and others.

Key Issues/Initiatives

Alaska's Y2K effort has focused agency attention on only those systems that may impact the life, health, safety and/or economic well being of Alaskans. These systems have been labeled Mission Critical Business Functions (MCBF). The Y2K computer issue impacts many MCBFs. Fortunately, many state agencies took early action to remediate their large systems. However, many other MCBFs have not yet been remediated to be Y2K compliant and all of these MCBFs will require extensive testing in order to assure that the remediation will work.

Unfortunately, Alaska's Y2K Project Office has not been funded by the Legislature.

The Y2K Project Office has used a portion of the state's Risk Management Fund to pay for the most urgent Y2K efforts. But, without an adequate appropriation, Alaska will fail in its effort to be ready to weather the Y2K storm.

Alaska first encounters the Y2K problem on June 30, 1999, the change in the state's fiscal year from FY1999 to FY2000. Many MCBFs will be impacted at the date horizon. Without timely funding, Alaska's Y2K effort will fail.

NOTES

NOTES

APPENDICES

	Page
1 DOA: Functional Organization Chart	94
2 The Eden Alternative Program	96
3 Internal Services Fund Update	97
4 DOA-IT Update	98
5 Division of Motor Vehicles: Public Service	99
6 Longevity Bonus Phase Out	102
7 Facilities Maintenance	103
8 Workplace Alaska	104
9 Contract Negotiations	105
10 Alaska Oil and Gas Conservation Commission	106
11 Alaska Commission on Aging	109

Appendix 1

Department of Administration Functional Organization

Division Director and Phone Number	Services to State Agencies	Services to the Public	Services Internal to the Department
<u>DEPARTMENT MANAGEMENT</u>			
Commissioner's Office Robert Poe, Jr. 465-2200	Telecommunications Info Council	Public Information	Department Management
Administrative Services Sharon Barton 465-2277		Municipal Grants Procurement	Personnel, Fiscal, Payroll Property, Procurement, DOA-IT
<u>SERVICES TO THE PUBLIC</u>			
Alaska Longevity Programs James Kohn 465-4400		Pioneers' Homes Longevity Bonus	
Alaska Oil and Gas Conservation Commission Robert Christenson 793-1228	Collect, maintain, and analyze oil and gas exploration and production data	Regulate oil and gas drilling, production, and underground disposal of drilling waste	
Alaska Public Offices Commission Karen Boorman 276-4176		Regulation of Campaign Fin. Conflict of Interest Lobbying Legislative Financial Disclosure	
Motor Vehicles Kerry Hennings (Acting) 269-5559	Certified Records Expert Court Testimony Revenue Collection Treasury Receipt Accountability	Commercial Driver Licenses Drivers Licenses Vehicle Registration Vehicle Titles Identification Cards Administrative Hearings Motor Vehicle Dealer Reg. Municipal Tax Collection Insurance Driving Records Rural Alaska Mail-out Driver License Program Organ Donor Program Motor Voter Program Comm. Driving School Licensing Motor Vehicle Ownership Res. Snow Machine Registration Special Interest Plate Fee Collection and Disbursement	
Office of Public Advocacy Brant McGee 269-3500		Guardians Ad Litem Guardianship Services Legal Representation for Indigents	
Office of Tax Appeals and Administrative Hearings Shelley Higgins 465-5641	Administrative Hearings	Impartial hearings in tax and other administrative appeals	Procurement and Longevity Bonus Hearings

Department of Administration Functional Organization

Division Director and Phone Number	Services to State Agencies	Services to the Public	Services Internal to the Department
Public Defender Barbara Brink 264-4400		Legal Representation for Indigents	
Senior Services Kay Burrows 269-3665	Manage long-term care functions for the Division of Medical Assistance State unit of aging for Federal Office on Aging	Grants to Senior Services Providers LTC Ombudsman Adult Protective Services Assisted Living Licensing CHOICE Home Care Waiver Personal Care Attendant Long-Term Care Unit	
<u>SERVICES TO STATE AGENCIES</u>			
Finance David Essary 465-2240	Payroll Accounting Travel Policy Development Purchasing Card Management Electronic Vendor Payments Systems Management AKSAS and AKPAY Training Employee Services	Annual Financial Report 1099s, W-2s	
General Services Marsha Hubbard 465-5687	Purchasing Property Control Leasing and Facilities Central Mailroom Services	Surplus State Property Sales Surplus Federal Property Asst. Vendor Lists Bid Offerings	
Information Technology Group Mark Badger, Ph.D. 465-2220	Computer Services Telecommunication Services	Public Communications Services Grants and Technical Assistance to Public Radio/Television Grantees	
Personnel Beverly Reaume 465-4430	Eligible Hire Lists Classification and Pay EEOC Complaint Investigations Alaska Professional Development Institute Personnel Board Contract Administration Grievance Arbitration Contract Negotiations Investigations and Training	Recruitment	
Retirement and Benefits Guy Bell 465-4471	Group Health Insurance Retirement Programs SBS Benefits Supplemental Annuity Plan Deferred Compensation PERS/TRS Boards	Services to Political Subdivisions Retirement Programs SBS Benefits Group Health Insurance Deferred Compensation PERS/TRS Boards Supplemental Annuity Plan	
Risk Management J. Brad Thompson 465-5723	Property Insurance Workers' Compensation Tort Liability Protection	Claims Administration	Negotiate Insurance terms in all state contracts/ agreements
Y2K Project Office Robert Poe, Jr. 465-2200	Coordinate all Y2K efforts for the executive branch		

Appendix 2

The Eden Alternative Program

(To be fully implemented in all Pioneers' Homes by June 30, 2000)

The Eden Alternative is a framework for long-term care facilities developed by geriatrician William Thomas and gerontologist Judy Thomas. When implemented, this framework improves the quality of life of residents (and staff). The Eden Alternative seeks to eliminate the "three plagues of the Long-Term Care Institution." These are identified as loneliness, helplessness, and boredom. This is accomplished by providing residents with access to companion animals, the opportunity to care for other living things, and variety and spontaneity within an "enlivened environment." The ten principles of the Eden Alternative are:

1. Understand that loneliness, helplessness, and boredom account for the bulk of suffering among our frail elders.
2. The facility commits itself to surrendering the institutional point of view and adopts the Human Habitat model. This model makes pets, plants, and children the axis around which daily life turns.
3. The facility provides easy access to companionship by promoting close and continuing contact between the elements of the Human Habitat and the people who live and work within it.
4. The facility creates opportunities to give as well as receive care by promoting our elders' participation in the daily round of activities that are necessary to maintain the Human Habitat.
5. The facility imbues daily life with variety and spontaneity by creating an environment in which unexpected and unpredictable interactions and happenings can take place.
6. The facility deemphasizes the programmed activities approach to life and devotes these resources to the maintenance and growth of the Human Habitat.
7. The facility deemphasizes the role of prescription drugs in our elders' daily life and commits these resources to the maintenance and growth of the Human Habitat.
8. The facility deemphasizes top-down bureaucratic authority in the facility and seeks instead to place the maximum possible decision-making authority in the hands of those closest to those for whom care is given.
9. The facility understands that "Edenizing" is a never-ending process, NOT a program, and that the Human Habitat, once created, should be helped to grow and develop like any other living thing.
10. The facility is blessed with leadership that places the need to improve resident quality of life over and above the inevitable objections to change. Leadership is the lifeblood of the Edenizing process and for it there is no substitute.

Internal Services Fund Update

FY2000 rates have been developed in accordance with generally-accepted accounting principles (GAAP) and stringent federal guidelines which require that an internal service fund has no long-term profit or loss.

The department received a number of capital appropriations in FY1999 and has requested additional capital appropriations in FY2000 to be funded from the Information Services Fund (ISF). These requests are funded primarily through the depreciation component included in the rates. Once cash accumulates sufficiently to fund the capital appropriations, expenditures will be made.

Federal guidelines require that a consistent methodology be established for handling variances between revenues and expenses. OMB recommended in their April 1995 audit that over- or under-recoveries in the ISF in any particular year be rolled prospectively into rate development in future years. FY2000 rates are based on FY1998 actual costs, adjusted for planned changes in operation for FY2000. In general, the department over-recovered for some services in FY1998 and under-recovered in other services. One-third of the variance was factored into FY2000 rates, one-third of the variance will be factored into FY2001 rates, and one-third of the variance will be factored into FY2002 rates. Handling over- or under-recoveries over a three-year period helps prevent wide rate fluctuations from year to year and assists agencies with budget planning. Adjustment of future rates to compensate for past over- or under-recoveries has the effect of maintaining a fund balance with no long-term profit or loss. This method is in compliance with GAAP and satisfies federal guidelines for explanations of how variances will be handled.

Appendix 4

DOA-IT Update

Network computing is the new platform for most mission-critical applications. The Internet, and increasingly, Intranets, are fast becoming the electronic vehicles of choice in the new electronic workplace. In recognition of this picture, DOA established the Department of Administration Information Technology group charged to develop a program of selective centralization of planning, support, and investment to leverage the growth of information technology equipment, services, and staff.

Initial goals of the new program were:

- Year 2000 remediation.
- Create a single, logical network.
- Consolidate, coordinate, and standardize information technology deployment to maximize return on investment and minimize cost of ownership.
- Provide a consistent level of support and allow all users to access their own accounts easily from any DOA workstation in any of the 41 DOA locations.
- Prepare the department for the changing role of the worker in the workplace, i.e., dialup, roaming, traveling, training, long-distance workgrouping, PDAs, and new client server technologies.

The unit is entirely Interagency Receipts funded by divisions with costs allocated by the number of desktops and printers supported. Ten positions were transferred from divisions and three were new positions.

The unit is governed by a user group which sets department policy and working priorities for the IT team. In its first year of operation, substantial progress has been made in standardization of equipment and implementation of a common network. Support is generally better to all divisions.

Division of Motor Vehicles: Public Service

- DMV concentrated on improving public service in all areas of the division throughout FY1999. This effort has been successful in many areas and continues to be the focus for FY2000. Implementation of several programs has reduced the wait time at DMV offices. Wait time for road tests has been reduced from six to eight weeks to three or four weeks. Innovations have improved the telephone service and new technologies have enhanced the capability of obtaining routine information. DMV customers have been continually commenting on the improved service, complimenting staff and management. Overall complaints are down from previous years.
- The projects have been staffed and continue to be staffed by existing DMV personnel. DOA has provided ongoing resources with a full-time employee from ITG committed to data processing, personnel and financial guidance and support.
- Significant gains have been realized during 1998. These programs are continuing to expand and benefit the citizens of Alaska. Several new initiatives are in the planning stages dependent on resources due to limited staffing and revenue. DMV will not be seeking a budget increase for the expansion of existing services or the new initiatives. The continuation of service improvement is dependent upon the retention of existing funding and staff levels. The savings on the front line of the operation has equated into shorter wait times with no increase in staffing. To protect consumers and state revenue collection, DMV had to decrease front line staffing. These staff members were reassigned to audit documents for the protection of ownership and lien rights. The verification of state revenue and local tax collection duties from multiple working partners has increased with no additional staffing.

Major activity to date:

- **Dealer Titling Project:** The initial pilot project consisted of two vehicle dealerships issuing titles, registration, and plates direct to the customer and direct entry into the DMV computer system. This program has expanded from Anchorage to Fairbanks, Wasilla, and Juneau. There are 16 licensed and bonded dealerships currently partnering with DMV. DMV provides documents, plates, and training to the dealers and is readily available for resource information. This program will continue to expand throughout the state.
- **Emission Inspection Station Registration:** This program gives emission stations in Anchorage and Fairbanks the ability to renew registrations for two years if the customer's vehicle is in compliance with emission standards. This program has been in effect since February 1995. In 1998 the ability to renew trailers was added to this program. The program added several new working partners

in FY1999. Emission stations are currently processing 25 percent of the total registration renewals in the state. DMV supplies training and validation tabs to the stations. Verification of funds and auditing of renewals is currently staffed with one employee handling a volume of approximately 65,000 renewals yearly.

- **Contract Driver Testers:** Since 1995 DMV has been using commercial companies to give CDL road examinations. This was expanded to allow noncommercial road testing by licensed driving schools in 1997. The tester is allowed to charge the public a fee for this service. The average fee for a noncommercial road test is approximately \$35.00 while DMV charges \$15.00. In 1998 this program was expanded adding additional testers in Fairbanks through the Alaska Peace Officers Association.
- **Credit Card Use:** The use of credit cards went into full operation in January 1998. This opened the way for conducting business by Internet or by telephone. Credit card use is an enhancement for our customers. The convenience has been appreciated by the public. Credit cards also have allowed DMV to process large batches of work from dealerships with one total charge per batch instead of individual checks. This has been a time-saver for our processing units.
- **Interactive Voice Response (IVR) Renewal System:** In January 1998 the state made available a toll free IVR system that allows vehicle owners to renew registrations by telephone using a credit card. This system allows 24 hours a day, seven days a week service. The system automatically gets updates from emission test stations in Anchorage and Fairbanks so all customers who have a credit card can use this system. This system will be expanded to include snow vehicles. In 1998, 9,327 renewal registrations were completed using the IVR.**
- **Internet Services:** Registration renewal and vanity plate ordering services went on line in January 1998. In the twelve-month period ending December 1998, 5,741 registration renewals and 1,594 vanity plate transactions have been processed over the Internet.**

** DMV has been advertising these new services. A 30-second TV spot was produced at minimal cost with the help of ITG and our working partners. This commercial ran for one month and increased usage of the IVR and Internet. Inserts regarding the new services are included in the renewal notices. Notices are posted in all offices, notices on DMV documents where applicable and flyers were distributed regarding these services.

Educating the public to use these new venues is the key to success with these programs. A cost savings will not be realized until the public utilizes these services regularly. DMV is continually looking for ways to direct customers out of the lines in the offices to using these new services.

- **Snow Vehicle Registration:** HB 231, requiring snow mobile registration, went into effect September 24, 1998. DMV has partnered with dealers statewide to

register snow vehicles at the point of sale. To date there are 89 dealers collecting registration fees and forwarding to DMV for processing. Estimated registrations for this first season were 9,351.

- **Office Service Improvement:** A new mid-town DMV office was opened in Anchorage. This office was designed with workstations where customers can be seated. The lobby also has seating and a number system for customers who may have to wait. Self-service terminals were installed in two Anchorage offices with Internet access for customer's use. Employees direct customers to the Internet whenever possible. Additional self-service terminals are planned as the division upgrades computer equipment. Express lines for simpler transactions and drop boxes where customers can leave registration renewals are in place at the larger DMV offices.
- **Validation Tabs:** DMV acquired a validation tab printer from the 3M corporation at no cost to the state. The tab material is purchased from 3M and DMV can print validation tabs as needed. While there was no actual cost savings for the validation tabs, DMV now can print tabs on demand as needed by the field offices, over 180k to date. This has alleviated the need to go through the procurement process and estimate usage annually. This has eliminated shortages, overages, and guarantees the registration renewal validation tab will be available for all customers. The tab printer has also allowed the division to print decals for snow vehicles on demand.
- **Y2K Compliance:** DMV has made Y2K a top priority and is actively replacing equipment not in compliance and finalizing a contingency plan. A three-year plan has been in effect with all replacement equipment installations scheduled for completion by September 1999 depending on funding.
- **Employee Issues:** All Motor Vehicle Representative job class positions were reviewed. The pay ranges were upgraded to reflect the complexity of the work. This has alleviated the high turnover rate allowing for more fully trained employees available for public service.

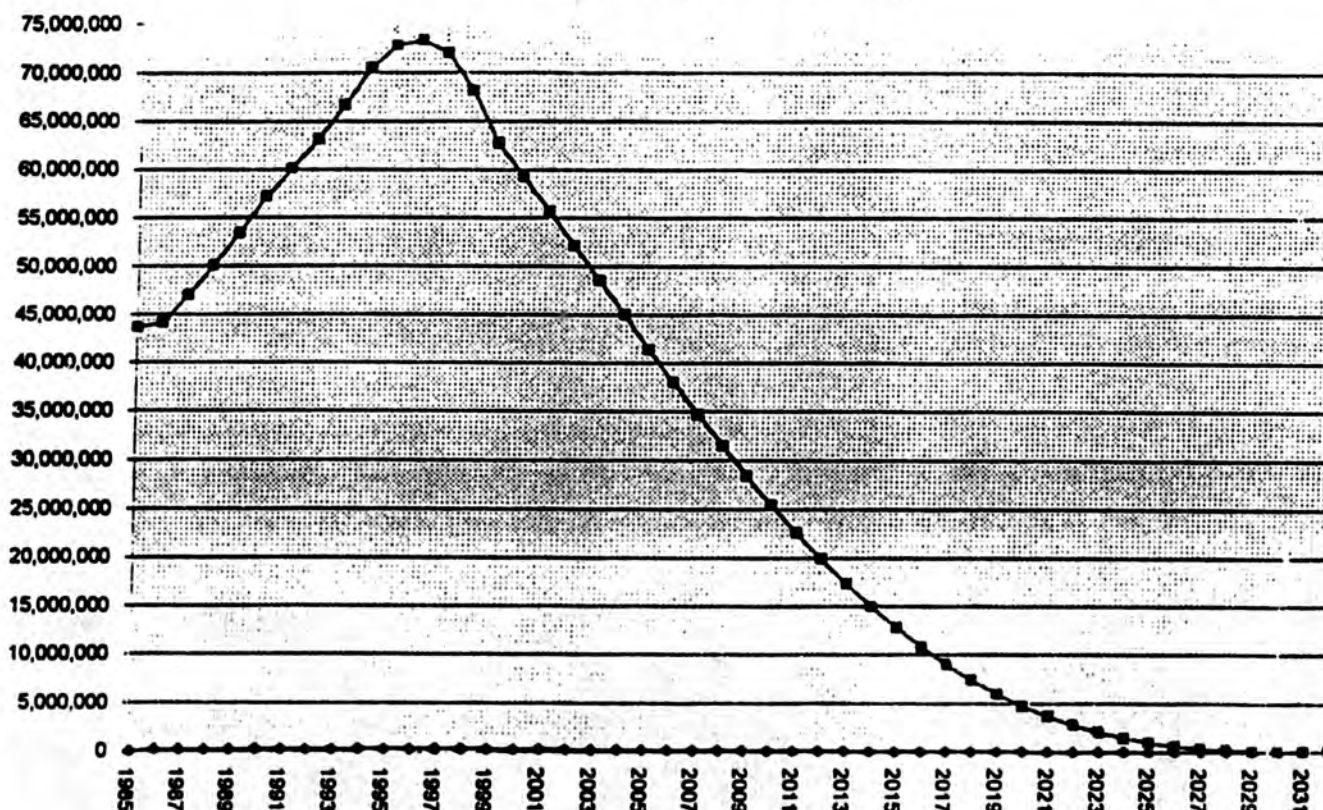
Appendix 6

Longevity Bonus Phase Out

On January 1, 1997, the Longevity Bonus Program was closed to new participants. As a result, the total annual payout is decreasing. The FY2000 Governor's budget includes a decrement of \$5,797.3. The decrement is based upon a projected decrease for FY2000.

Longevity Bonus projections are made from a projection model created for this purpose. The model provides a range of estimates from which budget decisions are made. The Governor and Legislature agreed that the low range projection, i.e., the projection showing the largest reduction in cost, would be the basis for the FY1999 Longevity Bonus budget. As of January 1999, it appears this low range approach is on target. We are closely monitoring Longevity Bonus expenditures during FY1999 and will update our projections should things change. The same low range projection is the basis for the FY2000 Governor's budget.

Longevity Bonus Program Phase-out (amounts from FY85 - FY98 are actual expenditures; amounts from FY99 on are estimates)



Facilities Maintenance

Four new BRUs have been added to the FY2000 operating budget to provide for facilities maintenance for General Services, Information Technology Group, Alaska Oil and Gas Conservation Commission, and Pioneers' Homes. These additions were made in accordance with AS 37.07.020(e) which requires that annual facility operations, maintenance, repair, and periodic renewal and replacement of components of public buildings and facilities be budgeted for separately from other proposed operating expenditures.

These BRUs will be funded entirely through Interagency Receipts. No increased funding was requested for facilities maintenance. This change in budget structure simply provides a means for the department to meet the new statutory requirement that facilities maintenance be separate from other proposed annual appropriations.

Appendix 8

Workplace Alaska

Workplace Alaska, the state's on-line hiring process, was fully implemented in all classified service positions in November 1998. In November, after an arbitrator determined that the State of Alaska had not violated the General Government Unit Agreement through the development and implementation of Workplace Alaska, remaining GGU positions in the Classified Service moved to Workplace Alaska and full implementation was achieved. Until that date, approximately 35 percent of classified service vacancies were using the new process. Approximately 724 recruitments were conducted using Workplace Alaska in 1998, 235 of which were in December alone. Approximately 206 of the total recruitments have resulted in a hire as of January 1999.

In July 1998 the Division of Personnel received the Eugene H. Rooney, Jr. Program Award for Workplace Alaska from the National Association of State Personnel Executives. The award was in recognition of outstanding achievement by a state personnel organization in improving the efficiency and effectiveness of state government.

Weekly advertisements in the Anchorage, Juneau, and Fairbanks newspapers and the 800-line announcing all classified service vacancies continue to reflect Workplace Alaska's and the division's strong customer service orientation and commitment. Costs associated with these two activities are expected to increase during the next year, after which they should stabilize (when full implementation will have been realized for a 12-month period).

During the past year Workplace Alaska added numerous enhancements, including an on-line Desk Reference, an email notification subscription service for bargaining unit members, and a screen for Job Service Centers to print hard copy Applicant Profiles and Job Qualification Summaries. Workplace Alaska was also moved to an NT platform with a backup server in an effort to stabilize the system. Employee Acquisition Information Technology staff continue to fine tune the system, adding improvements as needed, and are now working with recruitment staff to determine system information needs and reporting requirements.

Appendix 9

Contract Negotiations

The State of Alaska has twelve contracts covering state employees:

<u>Bargaining Unit</u>	<u>Contract Expires</u>	<u>Begin Negotiations After</u>
General Government (GGU)	6/30/99	12/1/98
Supervisor (SU)	6/30/99	12/1/98
Labor, Trades & Crafts (LTC)	6/30/99	12/1/98
Public Safety - Troopers	12/31/98	11/1/98
Public Safety - Corrections (new bargaining unit; new contract currently being negotiated)		
Inlandboatmen's (IBU)	5/31/99	11/1/98
Masters, Mates & Pilots (MMP)	5/31/99	1/1/99
Marine Engineers (MEBA)	10/31/99	Reopener 11/1/98
Confidential (CEA)	6/30/99	9/1/98
Alyeska Central School	6/30/99	12/1/98
Alaska Vocational Tech.	6/30/99	1/1/99
Mt. Edgecumbe	6/30/98	2/7/98

Appendix 10

The Alaska Oil and Gas Conservation Commission

The Alaska Oil and Gas Conservation Commission ("Commission") lacks sufficient staffing and funding to meet its current workload and statutory responsibilities.

Prior year budget cuts have reduced staffing to a level insufficient to timely meet operational demands for drilling permits, well sundry operations, development plans, and pool rules. The impact has crippled the Commission's ability to evaluate reservoir management practices and reduced inspection capability below minimum standards. Exacerbating the problem, the number of active wells and reservoirs that require Commission attention has grown dramatically and geographic area encompassed by the wells is approximately four times greater than a decade ago.

The rapid growth of oil and gas development in the state in the last two years alone has generated between 250 and 300 drilling permits annually. The Commission has not processed that many permits to drill annually since the Kuparuk development in the mid-1980s. However, during the mid-1980s, the Commission's budget was \$2.23 million and the staff of 26, including five inspectors, had responsibility for the surveillance and management of 41 reservoirs and a total of 1,867 active wells across the state.

Today, reductions have trimmed the budget to \$1.65 million (a 35 percent reduction unadjusted for inflation) and reduced the staff to 19 including four inspectors. The impact of these reductions coupled with the cumulative increase of active wells on the limited commission staff is more accurately reflected by the increased responsibility for the surveillance and management of activity in 70 reservoirs (a 70 percent increase) and 3,400 active wells (an 82 percent increase) today. (See chart on page 34.) The consequence of this is best illustrated by understanding the fiscal impact that reservoir surveillance has for the state. The primary goal of reservoir surveillance and management is to prevent waste and ensure a greater ultimate recovery of the resource. Every one-percent of oil and gas production maximized or lost (using FY1997 revenue figures), translates to \$16.8 million in state revenues.

Regardless of the level of new drilling activity, these 3,400 active wells will continue to generate work for the Commission in the form of applications for well workover and repair, inspections of safety valve systems and the mechanical integrity of the wells, as well as monitoring and evaluating monthly production and injection reports for purposes of reservoir surveillance. The current Commission structure is reflected in the organizational chart. The Commission needs at least two more positions (one engineer and one inspector) and an operating budget of \$2.5 million in order to address these critical functions. The Commission also needs a one-time \$300,000 for either building repairs or relocation expenses.

The oil and gas industry currently pays an oil and gas conservation tax in the amount of four mills per barrel of oil and per 50,000 cubic feet of gas. At one time the revenue from that tax constituted a dedicated fund for support of the Commission and any costs associated with membership in the Interstate Oil Compact Commission, now known as the Interstate Oil and Gas Compact Commission (see History of the Conservation Tax page 108). A subsequent repeal and reinstatement of the conservation tax ended the special status as a dedicated fund. For many years the conservation tax generated more than the Commission's authorized budget, but the revenue from the tax is now insufficient given the decline in production levels, even if it were dedicated to the Commission. The Commission cannot continue to rely on the General Fund for adequate funding and seeks to find a non-General Fund revenue source for these critical functions.

The Commission examined various funding models that allow for recovery of operating costs from respective user groups. Several state divisions have statutory authority that provides for their total operating budget to be funded by an annual fee or charge.

A simple plan for the AOGCC using these models, with the lowest possible administrative burden, would be most acceptable to all parties.

The only fee currently assessed by the AOGCC is the fee associated with the permit to drill a well. This does not come close to the cost associated with the approval of the drilling permit and more importantly, the permit to drill represents only a portion of the Commission's workload. So this fee is not a good basis for the new fee structure. After the well is completed it continues to generate work for the Commission for the life of the well until it has been abandoned and granted site clearance. The work demand comes in many forms, including applications for well workovers, evaluation of well data and logs, monitoring and evaluation of monthly production and injection reports, safety valve inspections and other inspections required by federal law for managing the Underground Injection Control (UIC) program. An annual per active well fee, therefore, is a better basis for a new funding structure.

We recommend a simple funding structure based on an annual fee to be assessed against each active well in the state be substituted for the current funding method. The annual well licensing fee would attach on the date the permit to drill is filed and end on the date the Commission approved the site clearance (or when the well is not drilled, upon the date the permit is cancelled). The Commission would develop their annual budget submission in a public forum similar to the model used by the APUC. Upon approval of the budget by the Legislature, the annual per active well fee would be established by regulation in an amount necessary to generate the approved revenues. For example, the FY2000 proposed budget of \$2.5 million would be allocated among the 3,400 active wells by a formula adopted in regulation. The objective will be to keep administrative costs as low as possible.

The following statutory changes are necessary to implement this plan:

1. Repeal the conservation tax in AS 43.57.010.
2. Add authority to charge a per well fee with the amount of the fee established annually in regulations in an amount to cover actual operating costs of the Commission.
3. Add AOGCC revenues to the list of Designated Program Receipts in AS 47.05.146(b).
4. Add authorization to establish an Oil and Gas Conservation Commission Fund within the General Fund.

History of the Conservation Tax:

1. The Oil and Gas Conservation Commission was established in 1955, prior to statehood. The legislation authorized an oil and gas conservation tax in the amount of 5 mills per barrel of oil or per 50,000 cubic feet of gas. It also created a conservation fund dedicated to funding the Commission and the expenses associated with membership in the Interstate Oil Compact Commission. The legislation also provided that all money remaining in the fund at the end of the fiscal year would remain in the fund to cover future operating expenses of the Commission.
2. Following statehood, the conservation fund continued as a dedicated fund, grandfathered as an exception to the state constitution.
3. The conservation tax was repealed in 1970, and the conservation fund account was repealed in 1971.
4. In 1973, the conservation tax was re-enacted and provided for deposit into the General Fund. The new tax only assessed oil at the rate of 1.25 mills per barrel, a rate one-fourth that which was established in 1955. In 1987 the tax was increased to 4 mills per barrel of oil and 50,000 cubic feet of gas, still one mill below the 1955 tax rate. Although the Governor's transmittal letter describes the purpose of the bill increasing the tax as "providing enough additional revenue to the state to cover the amount of the operating costs of the Alaska Oil and Gas Conservation Commission," the new tax was subject to the constitutional prohibition of dedicated funds.
5. The revenue generated by the conservation tax has steadily decreased as the level of oil production has decreased. Currently, the amount of the conservation tax would be insufficient to fund the needs of the Commission.

Alaska Commission on Aging

Alaska's statewide senior citizen community is, proportionately, the second most rapidly growing community in the country. Each of us confronts the question: how do we fully realize our potential and sustain our independence in the later years of our lives? The Alaska Commission on Aging engages Alaskans from across the state to ask these questions and work together to answer them. In turn, the Commission advocates for state policy, public and private partnerships, and citizen involvement that assists each of us to age successfully in our home community, or as close to home as is feasible. Our work involves planning, advocacy, grant making and administration, and interagency collaboration on issues affecting older Alaskans. The Commission was established under AS 44.21.200 in 1982 and is housed within the Division of Senior Services.

The Commission has broad-based responsibilities. During the past fiscal year, the Commission has reached out to inform Alaskans of the dramatic growth in the older Alaskan community. The Commission continues to expand this outreach and education with advocacy and service organizations statewide. The Commission funds and administers senior services grant programs and houses the Long-Term Care Ombudsman office. Grants for local delivery of senior services are funded through a mix of monies from the Older Americans Act, the State of Alaska, and the Alaska Mental Health Trust Authority (AMHTA). Grants funded by the Commission include Nutrition, Transportation and Support Services (hot meals, essential transportation and selective support services), and the Senior Employment Program, funded through the Older Americans Act and state monies. The Home and Community-Based Services grants (care coordination, adult day services, and in-home respite care) are funded by AMHTA and state funds. Senior Residential Services grants are supported solely by state monies. The Long-Term Care Ombudsman's office is also funded through the Alaska Commission on Aging. That office is responsible for investigating and resolving complaints concerning the health, safety, welfare or rights of Alaskans age 60+ residing in long-term care facilities. The office may also investigate and resolve complaints relating to older Alaskans' residential circumstances and services they receive through public assistance, public grant programs for services to seniors, public utilities, health care facilities, and health care providers.

Eleven Alaskans sit on the Commission: seven are gubernatorial appointees who serve four-year terms. The other four members are the Commissioners of the Departments of Administration, Health and Social Services, and Community and Regional Affairs, or their designees, and the Chair of the Pioneers' Homes Advisory Board.

Those Alaskans are:

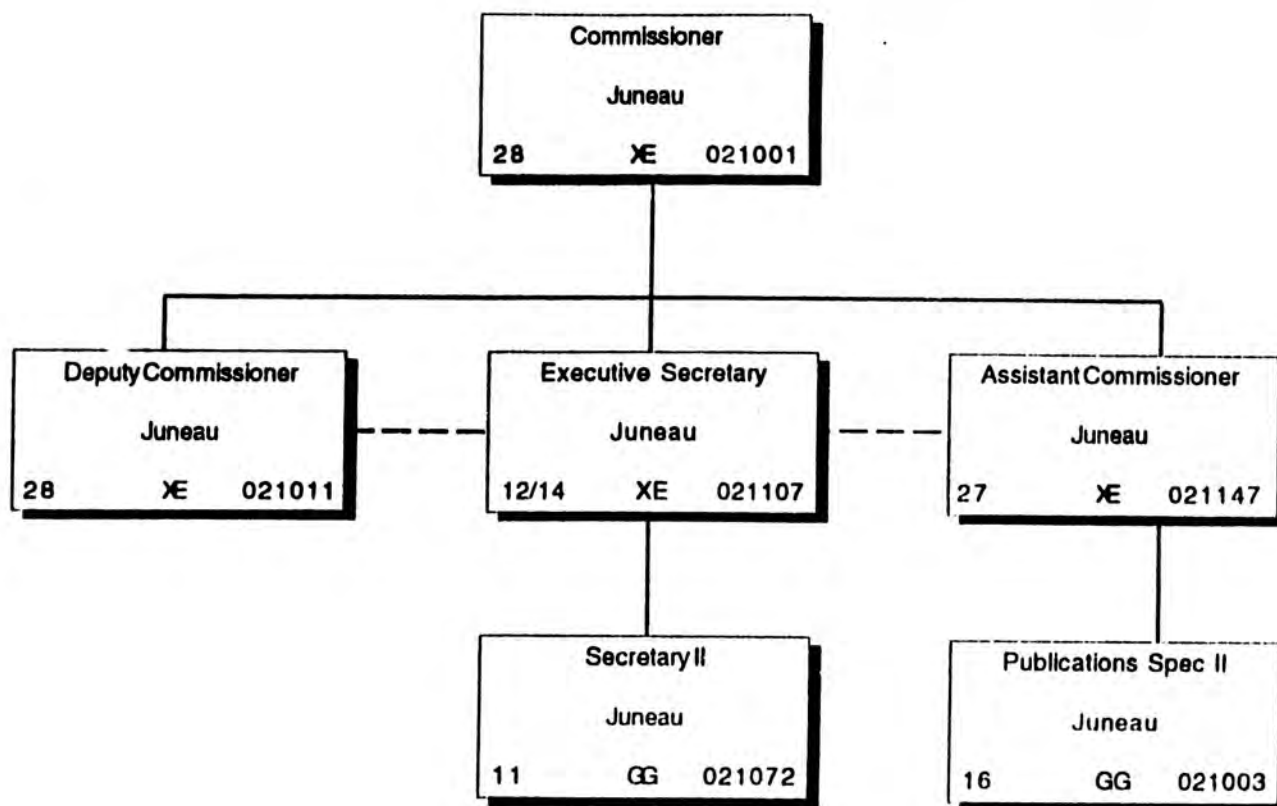
Alaire E. Stanton, Chair (Ketchikan)
Daniel K. Karmun, Sr. Vice-Chair (Nome)
Doris E. Bacus (Kodiak)
Peggy Burgin (Anchorage)
Jesse L. Gardner (Anchorage)
Marjorie J. Hays (Soldotna)

Donald Hoover (Fairbanks)
Ella Craig (Anchorage)
Alison Elgee (Juneau)
Jonathan Sherwood (Juneau)
Kim Metcalfe-Helmar (Juneau)

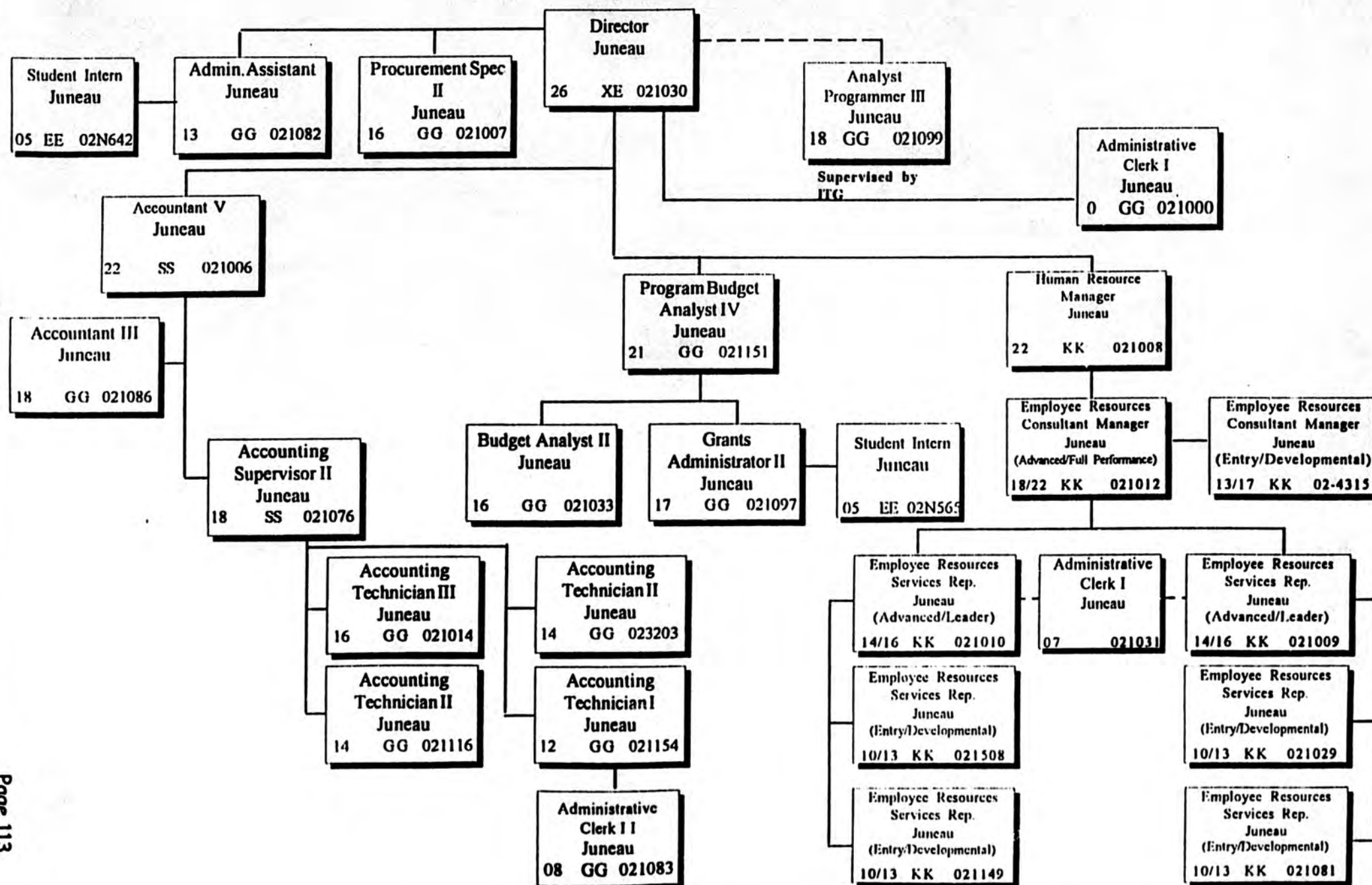
ORGANIZATIONAL CHARTS

	Page
Department Management	
Office of the Commissioner	112
Administrative Services	113
Services to the Public	
Alaska Longevity Programs	115
Alaska Oil and Gas Conservation Commission.....	123
Alaska Public Offices Commission	124
Motor Vehicles	125
Office of Public Advocacy	130
Office of Tax Appeals	131
Public Defender Agency	132
Senior Services	134
Services to State Agencies	
Finance	135
General Services	136
Information Technology Group	140
Personnel.....	144
Retirement and Benefits	147
Risk Management	148
Y2K Project Office	149

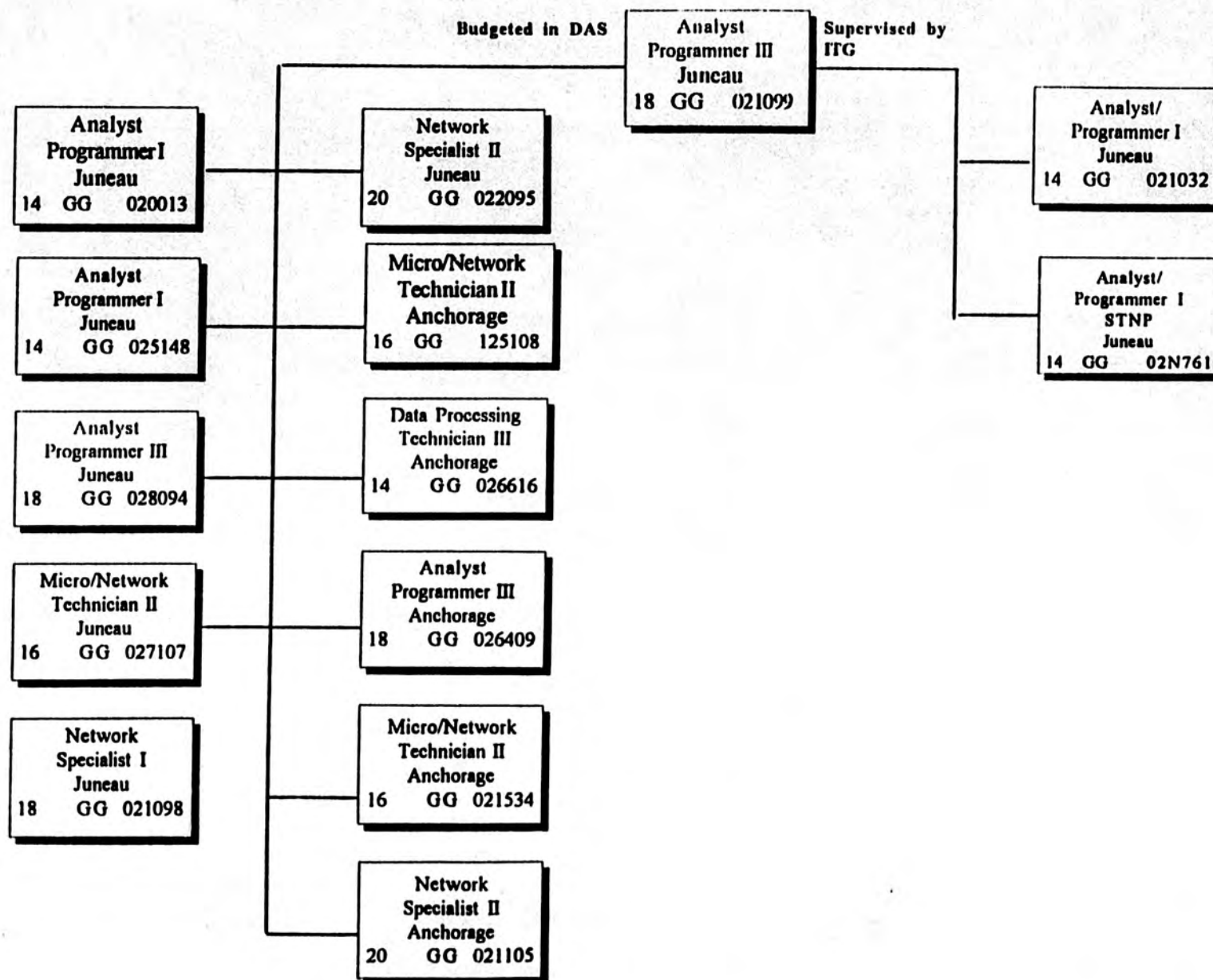
DEPARTMENT OF ADMINISTRATION
OFFICE OF THE COMMISSIONER



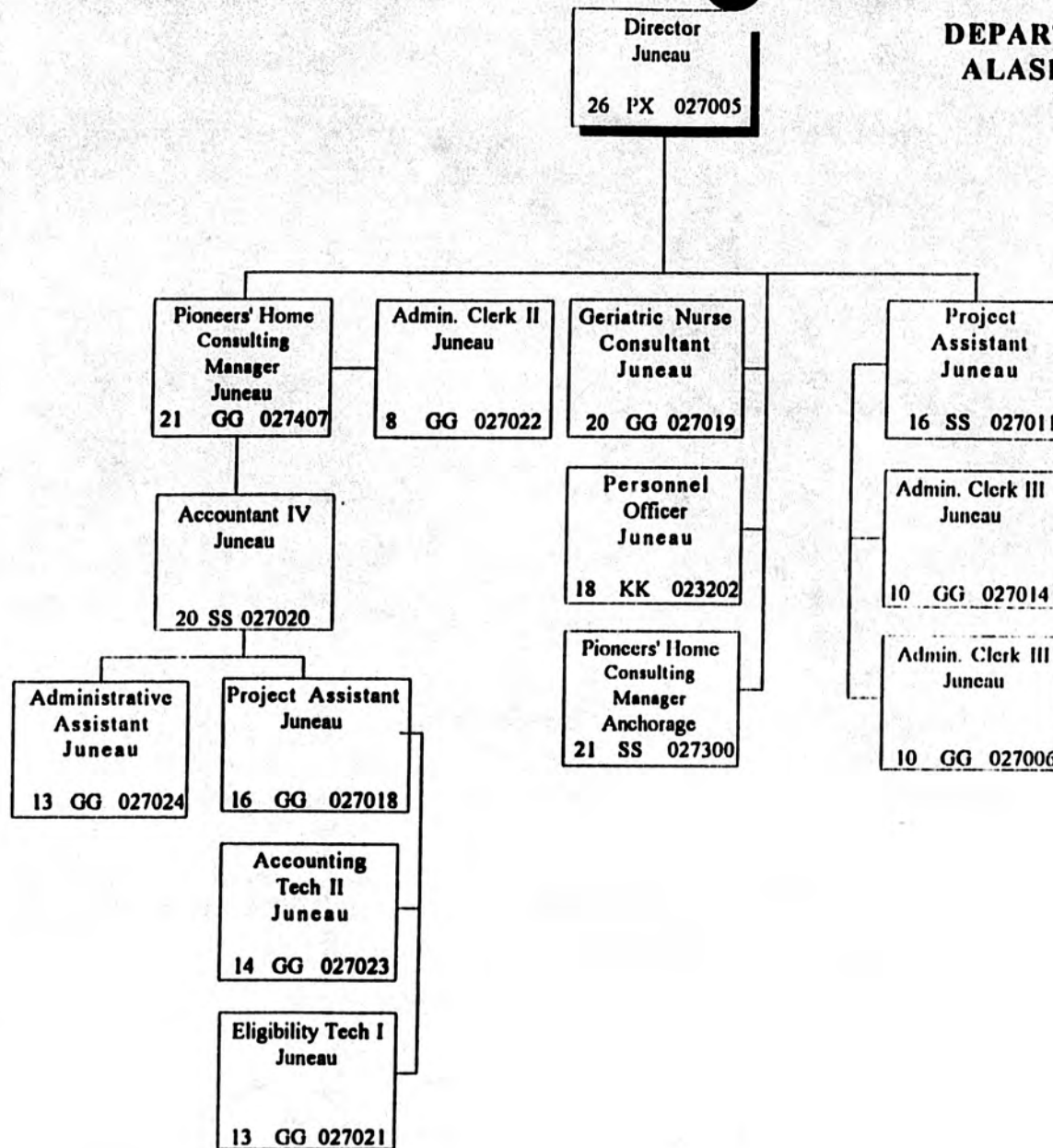
**DEPARTMENT OF ADMINISTRATION
DIVISION OF ADMINISTRATIVE SERVICES**



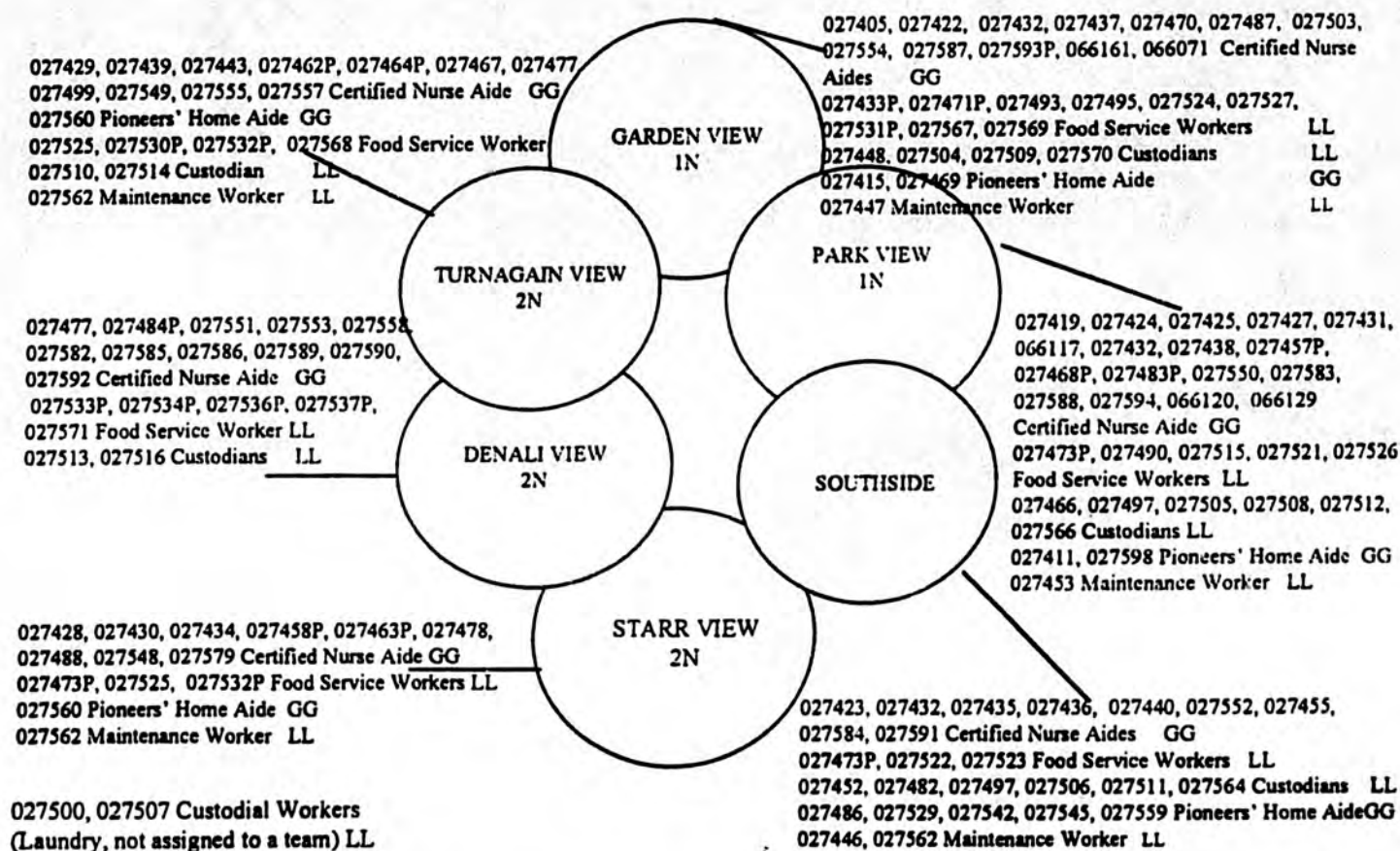
**DEPARTMENT OF ADMINISTRATION
DIVISION OF ADMINISTRATIVE SERVICES: DOA-IT TEAM**



**DEPARTMENT OF ADMINISTRATION
ALASKA LONGEVITY PROGRAMS**



Anchorage Pioneers' Home Self Directed Work Teams



CONSULTANTS TO THE TEAMS

027410, 027412, 027413, 027414, 027489, 027541, 027543, 027580 Nurse II

027416, 027417, 027418, 027420, 027421, 027544, 027546
 027547, 027577, 027581 Licensed Practical Nurse GG

Assisted Living Care Coordinator 027576 SS
 027556 Certified Nurse Aide (Scheduler) GG

027480 Accounting Clerk I GG	027496 Administrative Clerk I GG
027403 Administrative Clerk II GG	027459 Administrative Clerk III GG
027475 Project Assistant GG	027450, 027491, 027517, 027519, 027520 Cooks LL
027476 Administrative Clerk II GG	027572 Social Worker III GG
027596 Medical Records Assistant GG	027597 Medical Records Assistant GG

027502 Administrative Manager I SS	027474 Recreation Therapist II SS
027406 Procurement Specialist II GG	027445 Maintenance Mechanic LL
027595 Custodian Services Foreman LL	027485 Asst. Living Care Coordinator SS

027915, 027916 Chief Pharmacist SS
 027574, 027917 Pharmacy Assistant GG
 027578 Assistant Administrator SS
 027540 Pioneers' Home Administrator PX

**DEPARTMENT OF ADMINISTRATION
ALASKA LONGEVITY PROGRAMS
Anchorage Pioneers' Home Self Directed Work Teams**

Certified Nurse Aide New Positions	
02-#153	02-#154
02-#155	02-#155
02-#156	02-#157
02-#158	02-#159
02-#160	02-#161
02-#162	02-#163
02-#164	02-#165
02-#166	02-#167
02-#168	02-#169
02-#170	02-#171
02-#172	02-#173
02-#174	02-#175
02-#175	

Certified Nurse Aide Non-perm
02-M054
02-M055
02-M056
02-M056
02-M057
02-M058
02-M059
02-M060
02-M061
02-M062
02-M063
02-M064

Nurse II Non-perm
02-M050
02-M051
02-M052

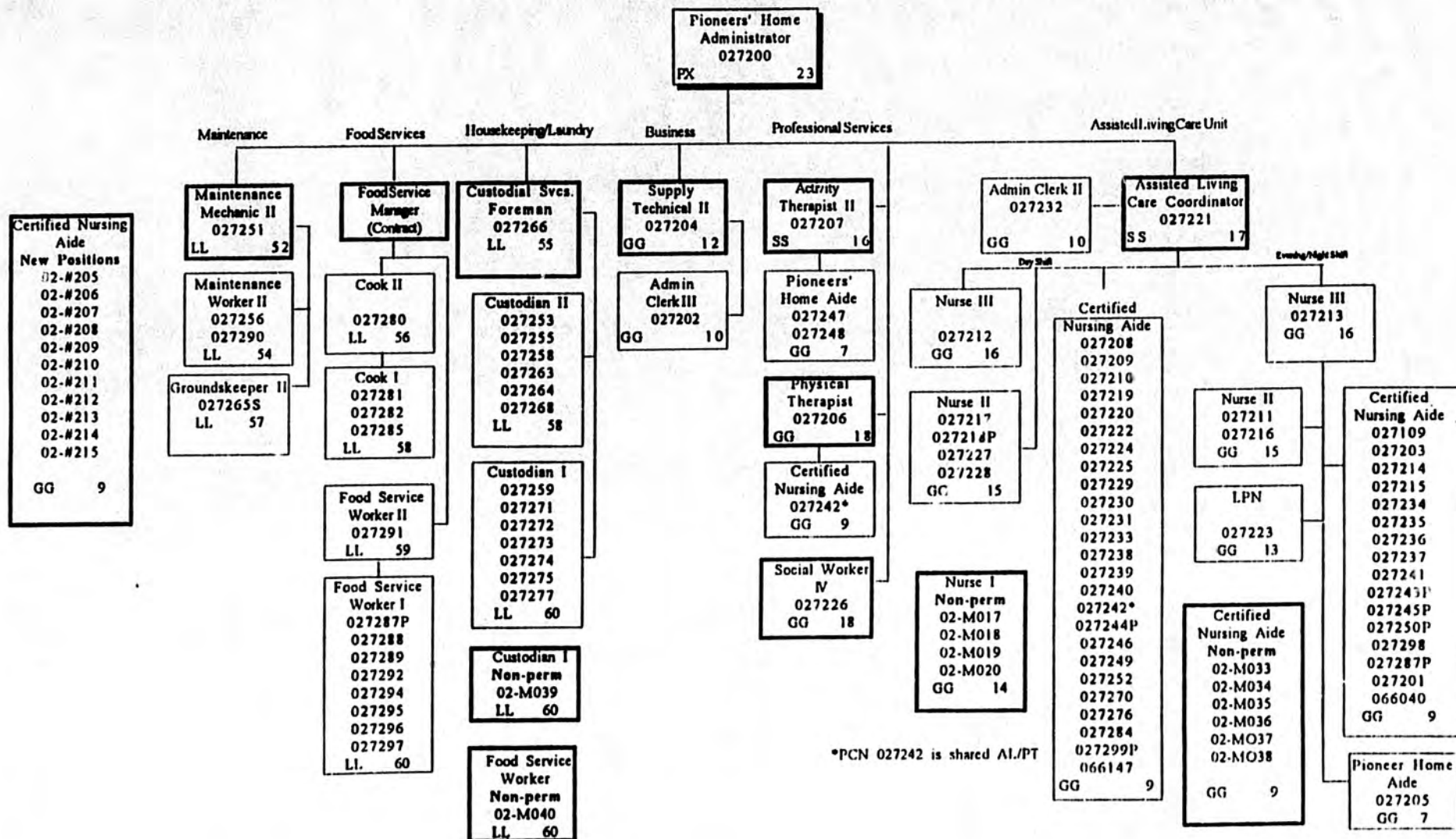
Nurse I Non-perm
02-M053

Custodian I Non-perm
02-M055
02-M056

Food Service Worker Non-perm
02-M067
02-M068

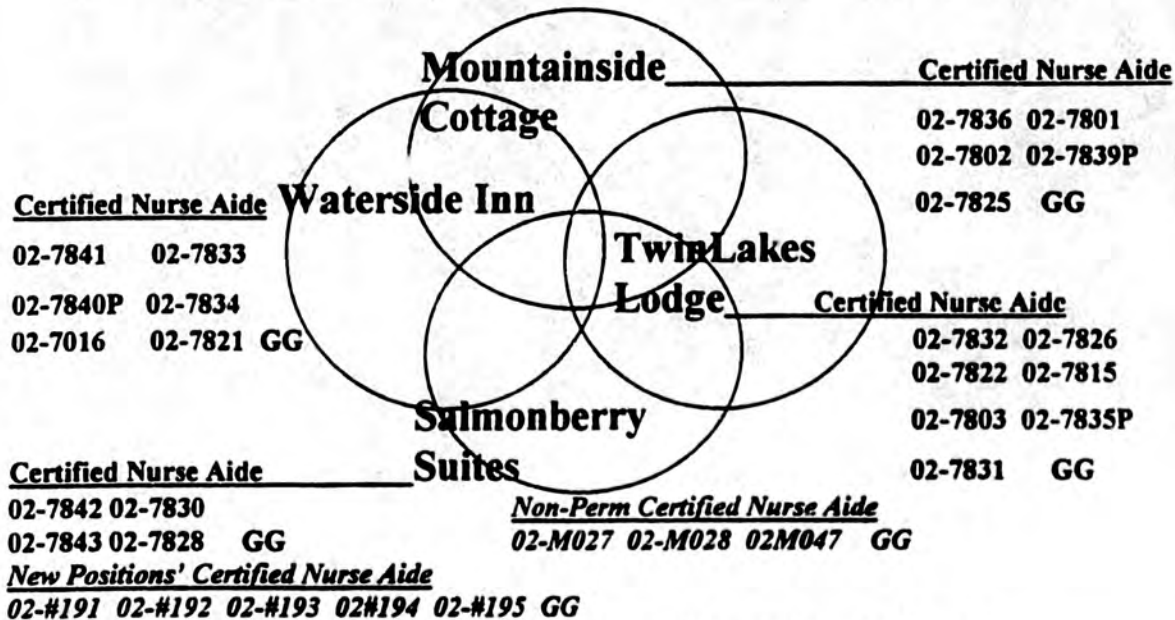
Note: 027502 oversees the office management for the Palmer and Fairbanks homes in addition to Anchorage.

**Department of Administration
Division of Alaska Longevity Programs
Fairbanks Pioneers' Home**



**Department of Administration
Division of Alaska Longevity Programs
Juneau Pioneers' Home**

Juneau Pioneers' Home Self Directed Work Teams



TEAM CONSULTANTS/ FACILITATORS

NURSE III	02-7816	02-7817	02-7818	02-7807
NURSE II	02-7820	02-7823P	02-7824P	GG
NON-PERM NURSE	02-M029	02-M048		GG

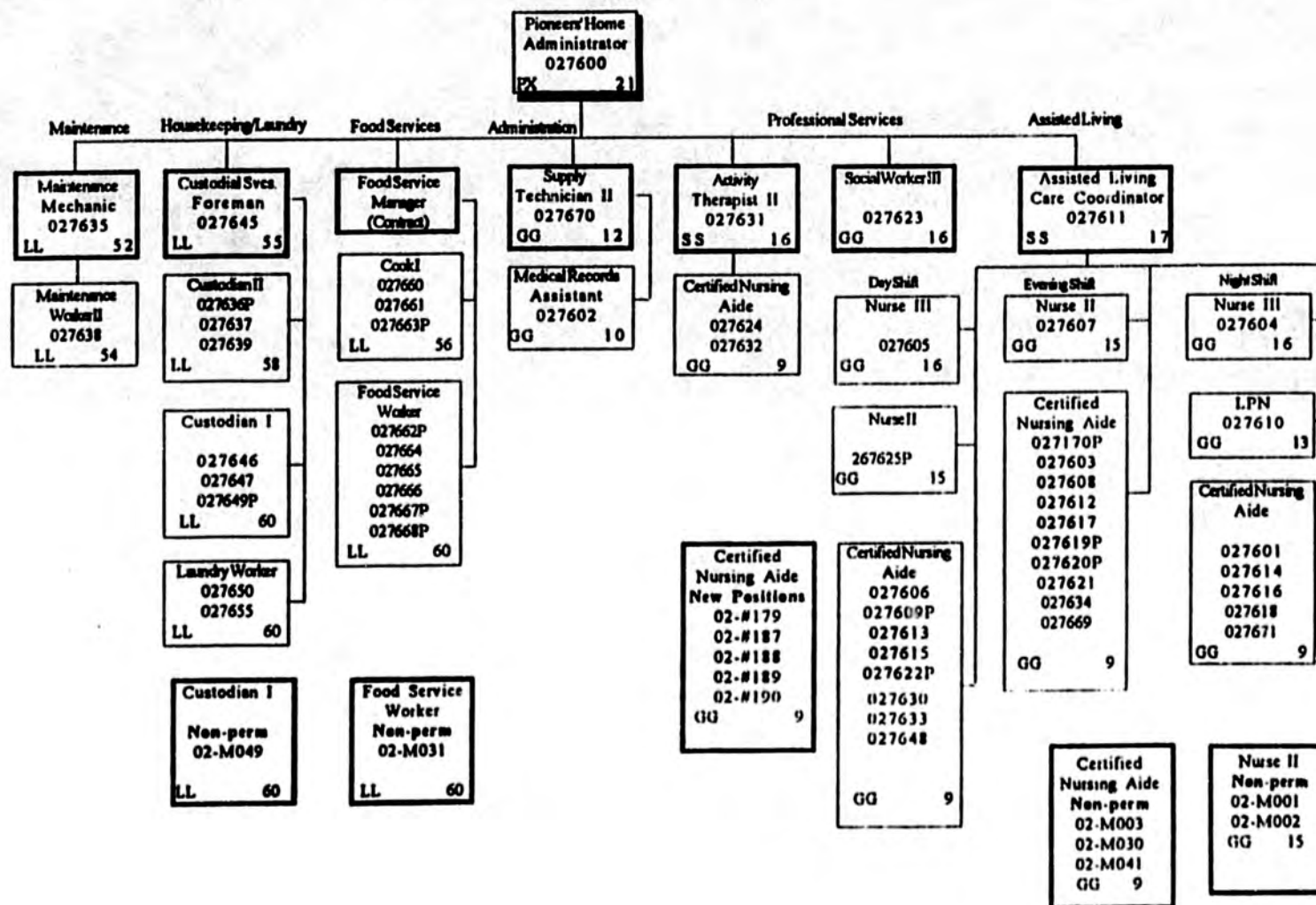
ASSISTED LIVING CARE COORDINATOR	02-7819	SS
RECREATION THERAPIST II	02-7812	SS
CNA (RECREATION SPECIALIST)		
02-7813, 02-7814, 02-7827	GG	
SOCIAL WORKER III	02-7805	GG
PHYSICAL THERAPIST	02-7811P	GG
CNA (PHYSICAL THERAPY SPECIALIST)	02-7829	GG

MAINTENANCE MECHANIC	02-7804	LL
MAINTENANCE WORKER II	02-7808	LL
CUSTODIAN II	02-7810	LL
MEDICAL RECORDS ASSTANT	02-7838	GG

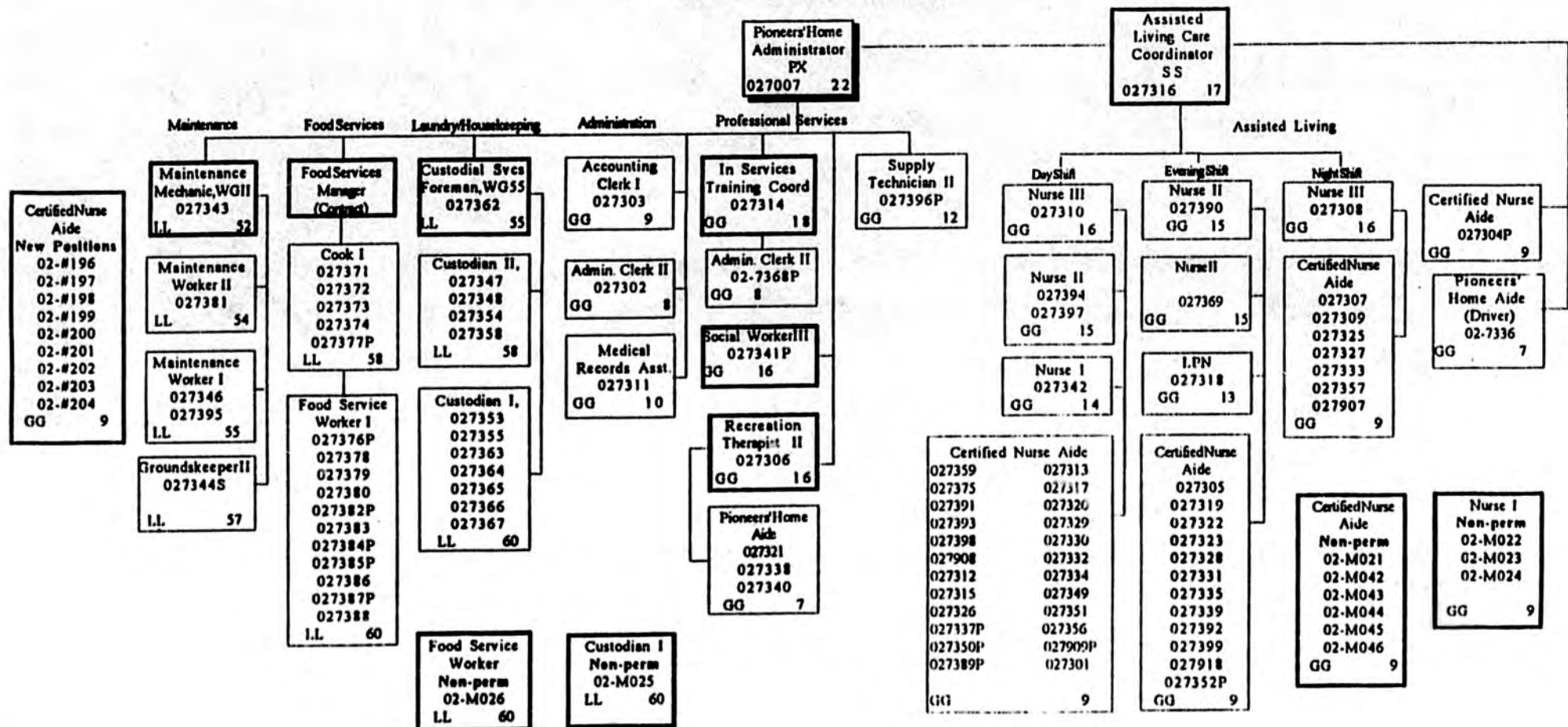
ADMINISTRATIVE ASSISTANT	02-7806	GG
PIONEERS' HOME ADMINISTRATOR	02-7800	PX

Housekeeping and Food service employees are contracted

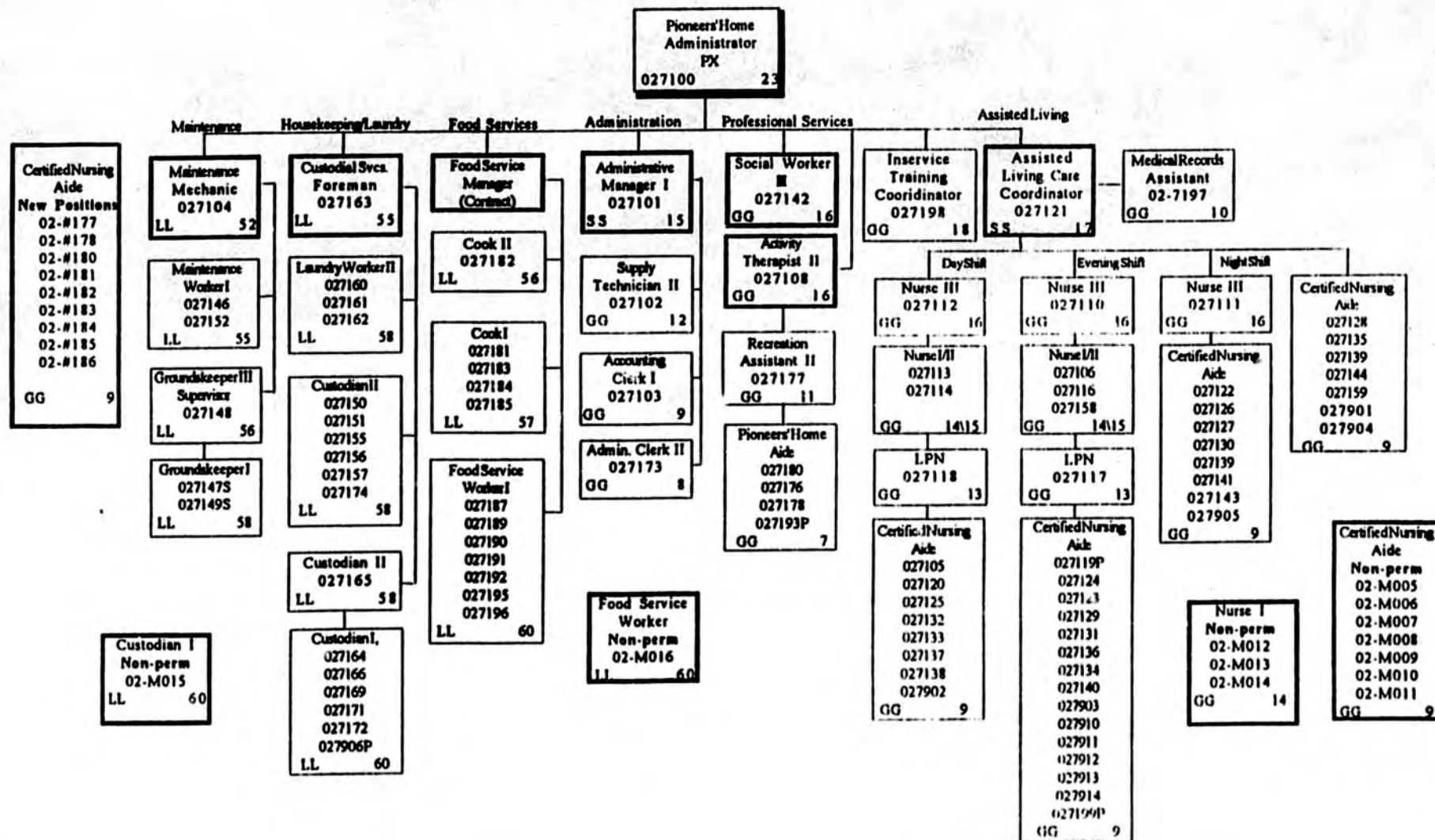
**Department of Administration
Division of Alaska Longevity Programs
Ketchikan Pioneers' Home**



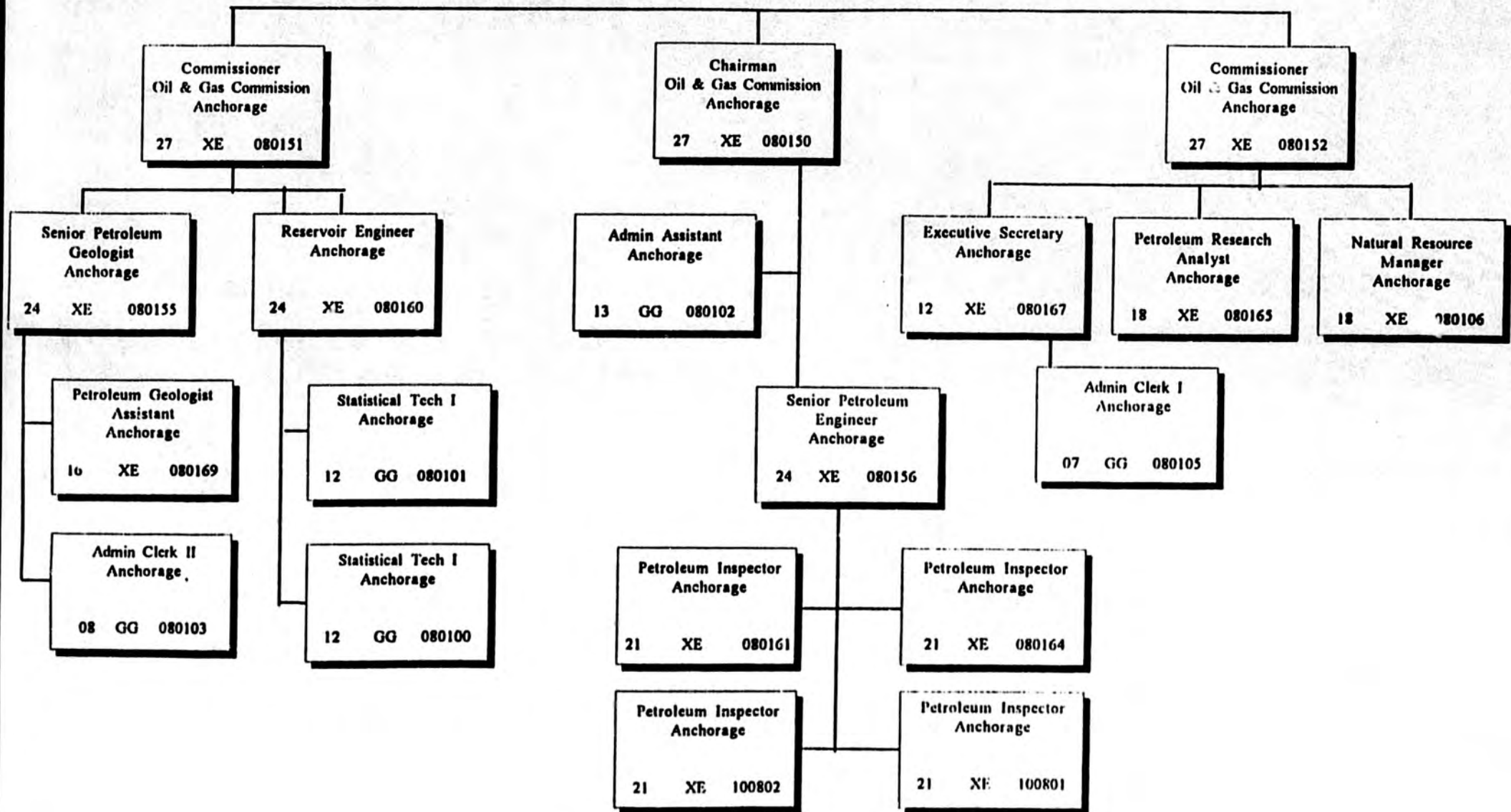
**Department of Administration
Division of Alaska Longevity Programs
Palmer Pioneers' Home**



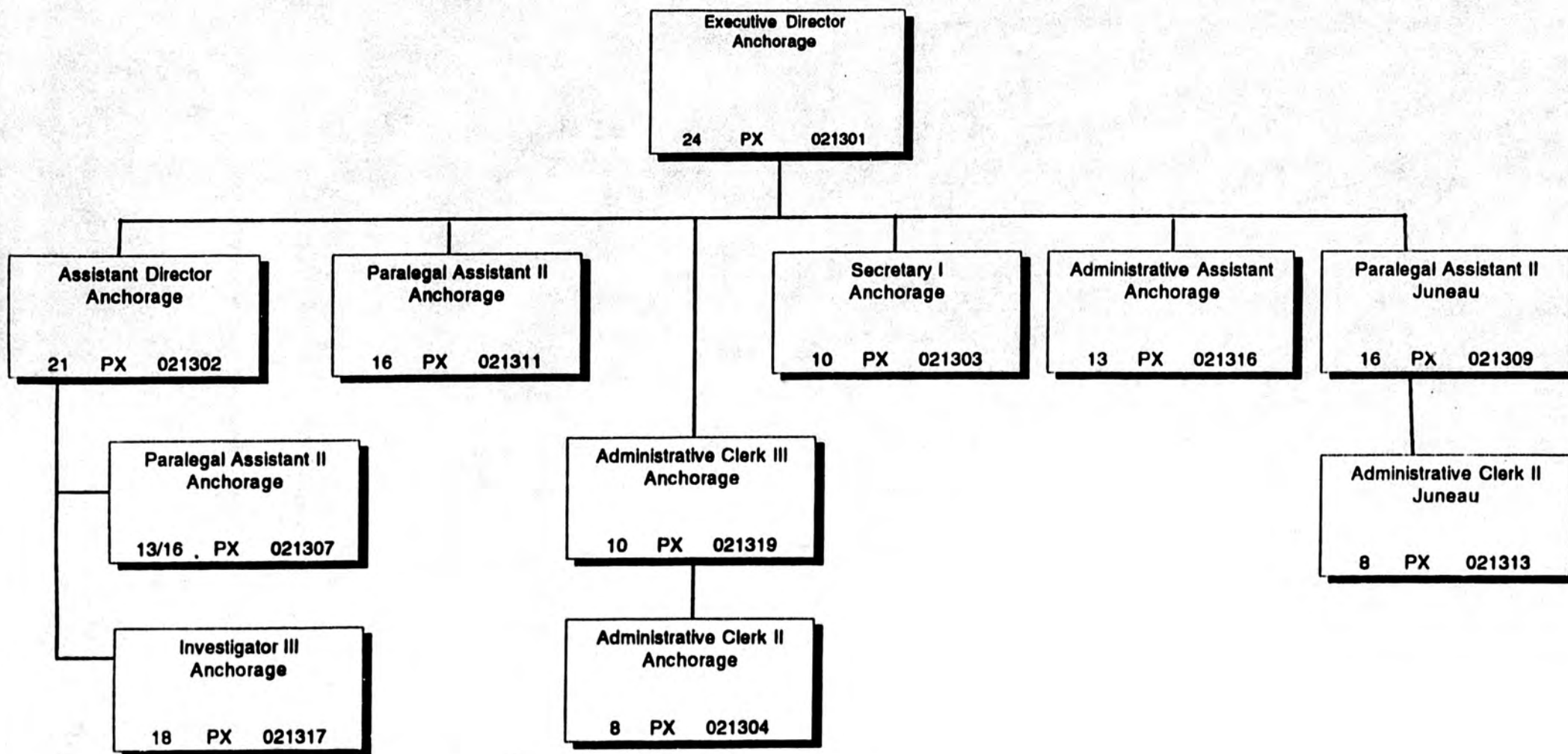
**Department of Administration
Division of Alaska Longevity Programs
Sitka Pioneers' Home**



DEPARTMENT OF ADMINISTRATION ALASKA OIL AND GAS CONSERVATION COMMISSION

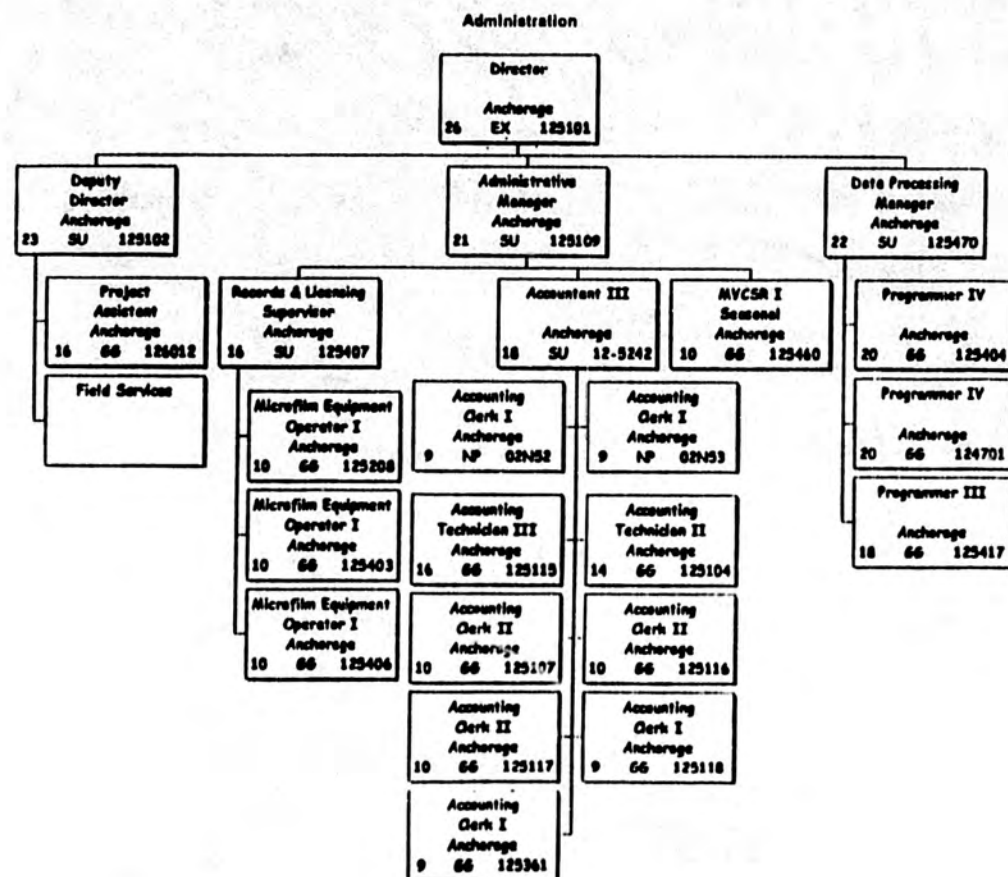


**DEPARTMENT OF ADMINISTRATION
ALASKA PUBLIC OFFICES COMMISSION**



Department of Administration

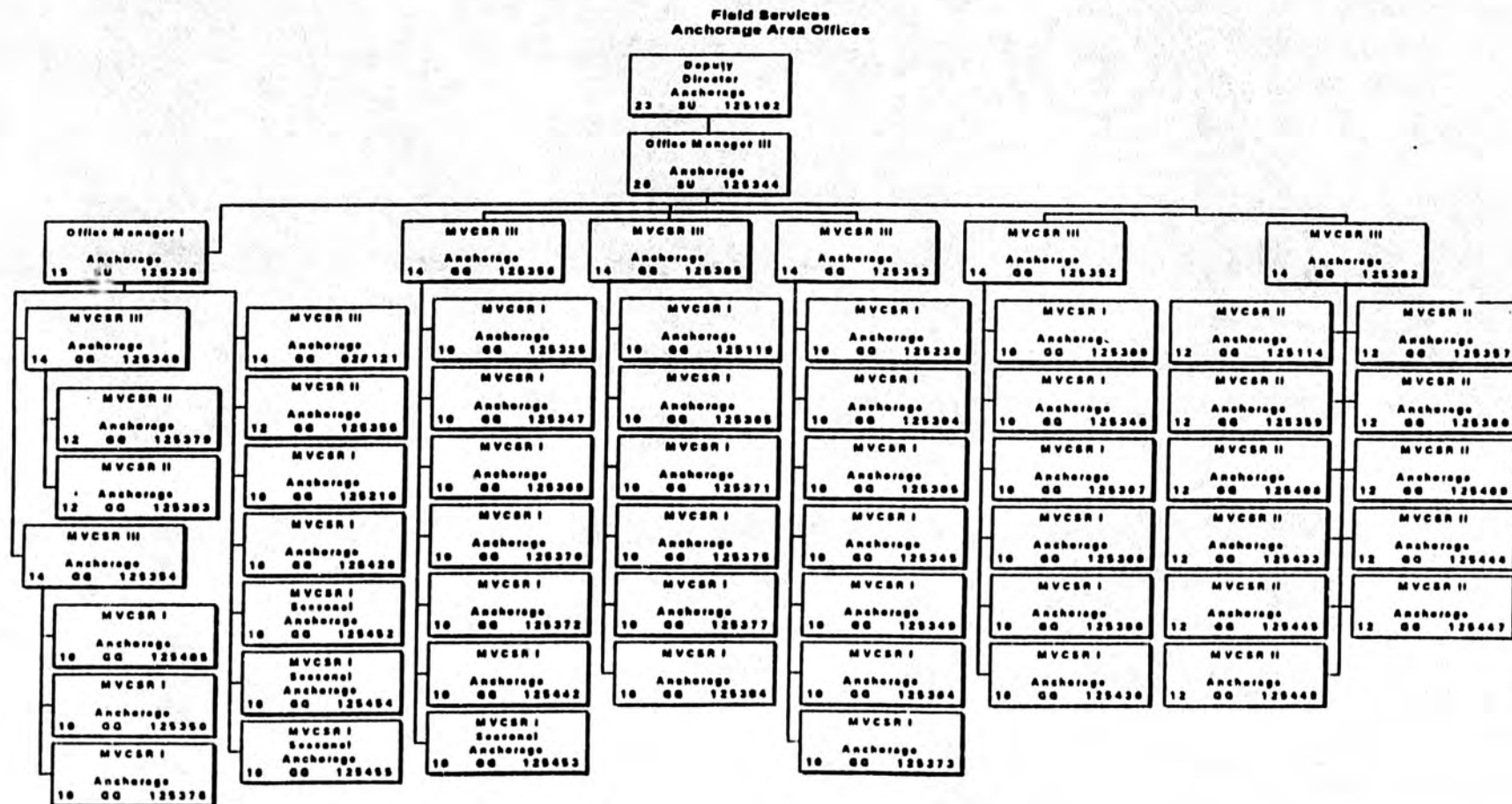
Division of Motor Vehicles



[illegible]

Department of Administration

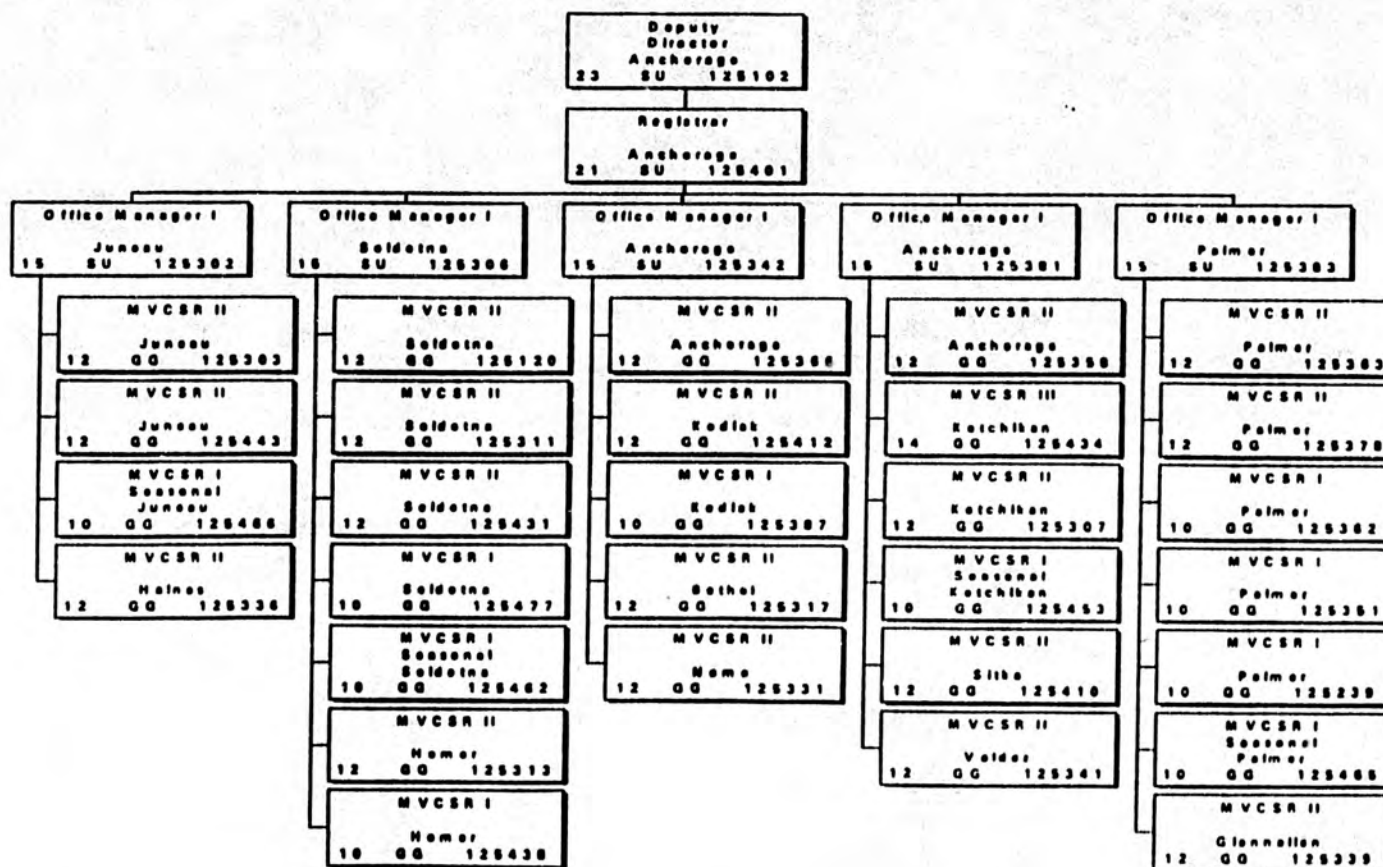
Division of Motor Vehicles



Department of Administration

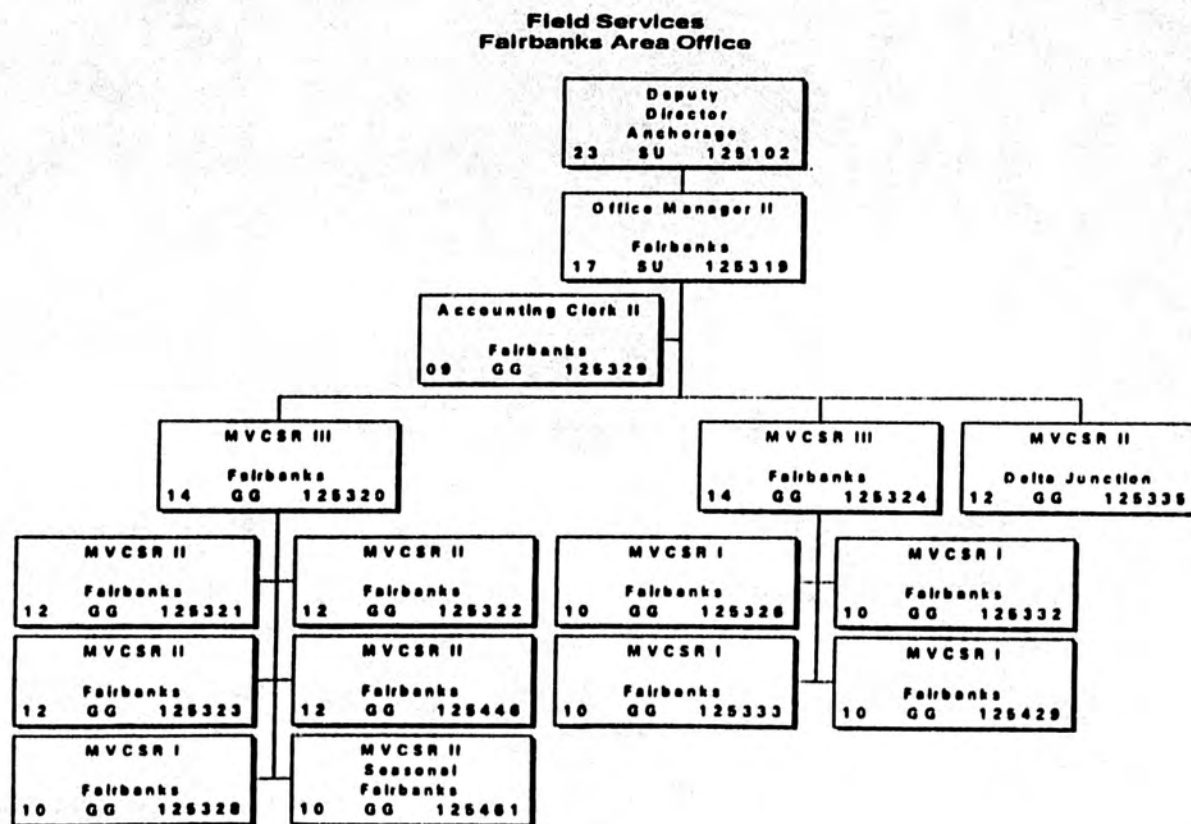
Division of Motor Vehicles

Field Services Medium & Small Offices Statewide



Department of Administration

Division of Motor Vehicles



DEPARTMENT OF ADMINISTRATION OFFICE OF PUBLIC ADVOCACY

Public Advocate
Attorney VI
26 PX 021600

ANCHORAGE STAFF ATTORNEYS

PUBLIC GUARDIAN SECTION

FAIRBANKS OFFICE

ADMIN/SUPPORT

Criminal

Civil

Anchorage

Crim/Civil

Anchorage

Supervising
Attorney IV
24 PX 021607

Supervising
Attorney V
25 PX 021608

Chief Public
Guardian
19 SS 021621

Supervising
Attorney IV
24 PX 021606

Admin. Manager II
17 SS 021601

Acct Technician II
14 GG 021632

Attorney IV
24 PX 021639

Attorney IV
24 PX 021645

Public Guardian
16 GG 021622

Public Guardian
16 GG 021626

Public Guardian
16 GG 021627

Attorney IV
24 PX 021611

Legal Secretary I
10 GG 021613

Legal Secretary II
11 GG 021603

Acct. Technician I
12 GG 021620

Attorney IV
24 PX 021646

Attorney III
22 PX 021609

Public Guardian
16 GG 021623

Public Guardian
Assoc.
12 GG 021641

Public Guardian
Assoc. (PT)
12 GG 021642

Attorney IV
24 PX 021614

Admin. Clerk I
7 GG 021631

Legal Secretary I
10 GG 021615

Attorney III
22 PX 021612

Assoc. Attorney II
22 PX 021604

Public Guardian
16 GG 021625

Public Guardian
Assoc.
12 GG 021640

Assoc. Attorney II
19 PX 021605

Legal Secretary I
10 GG 021602

Attorney III
22 PX 021610

Assoc. Attorney II
19 PX 021634

Public Guardian
16 GG 021635

Public Guardian
Assoc.
12 GG 021647

Assoc. Attorney II
19 PX 02#077

Admin. Clerk I
7 GG 021633

Attorney IV
Part-Time
24 PX 02#076

Assoc. Attorney II
19 PX 021637

Acct. Technician II
14 GG 021638

Public Guardian
16 GG 021655

Assoc. Attorney II
Part-time
19 PX 021644

Assoc. Attorney II
19 PX 021648

Acct. Technician I
12 GG 021643

Assoc. Attorney II
19 PX 02#079

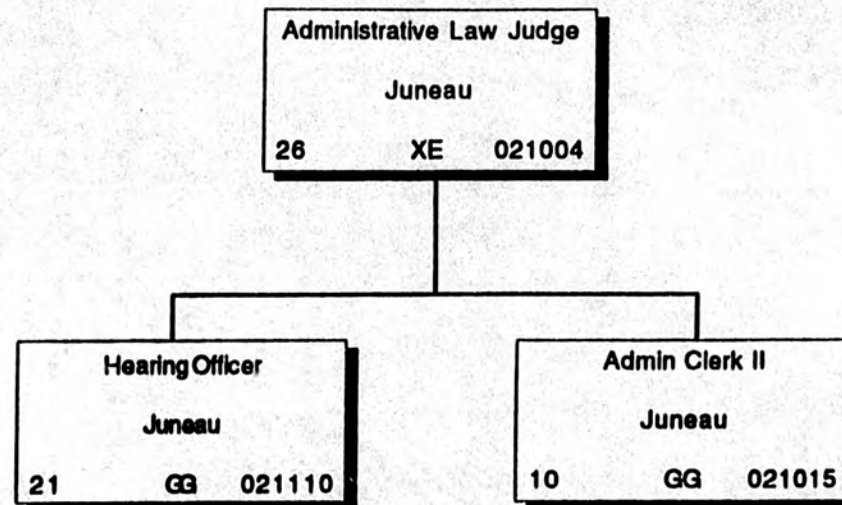
Attorney IV
Part-Time
24 PX 02#123

Attorney IV
Part-Time
24 PX 02#219

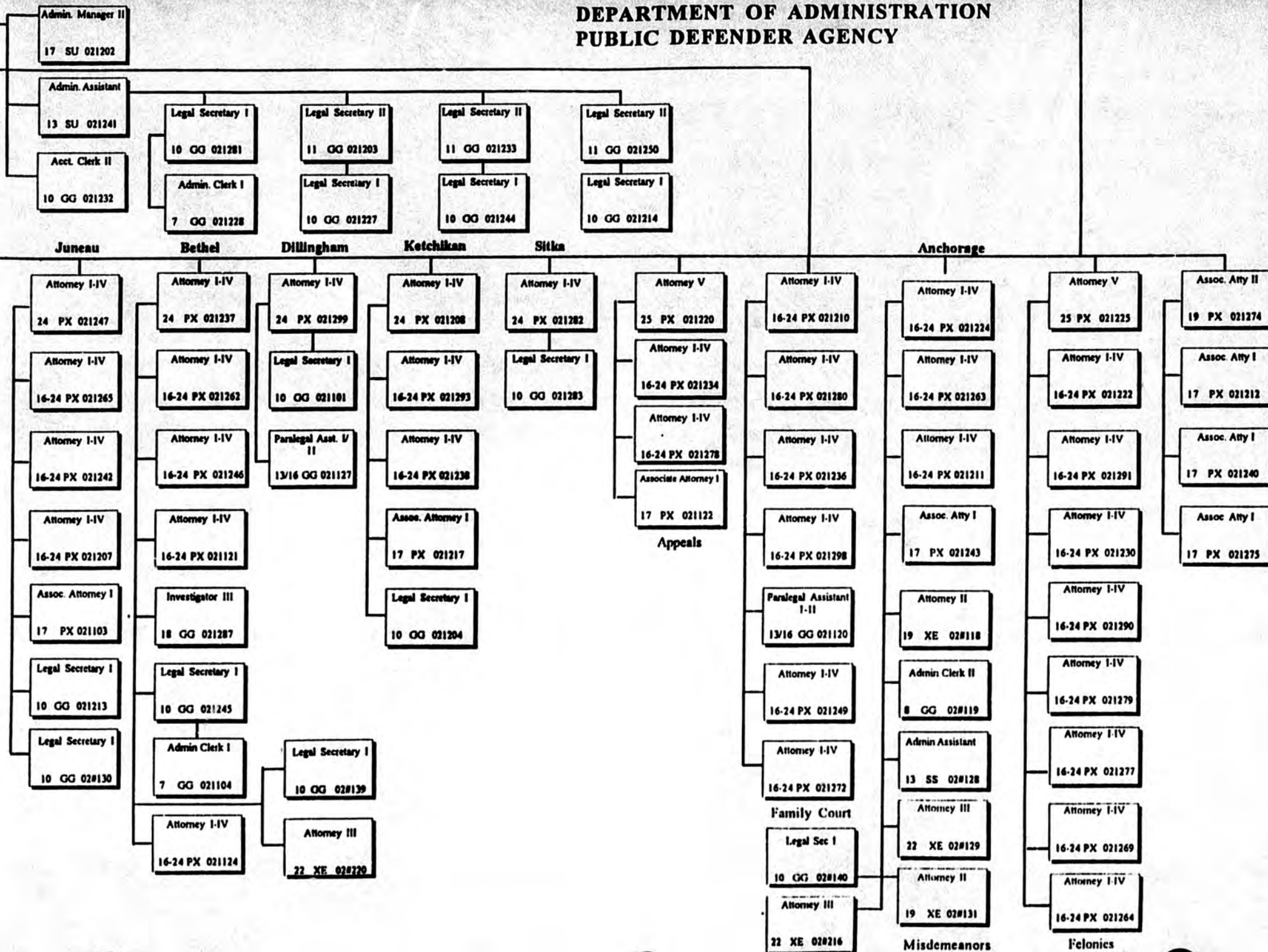
Full-Time Positions = 45
Part-Time Positions = 3
Total Positions = 48

Juneau

**DEPARTMENT OF ADMINISTRATION
OFFICE OF TAX APPEALS**



DEPARTMENT OF ADMINISTRATION PUBLIC DEFENDER AGENCY



DEPARTMENT OF ADMINISTRATION
PUBLIC DEFENDER AGENCY

26 PX 021226

Deputy Director
25 PX 021226

Fairbanks

Barrow

Kotzebue

Nome

Kenai

Palmer

Kodiak

Attorney V
25 PX 021206

Attorney I-IV
16-24 PX 021209

Attorney I-IV
16-24 PX 021216

Attorney I-IV
16-24 PX 021231

Attorney I-IV
16-24 PX 021235

Attorney I-IV
16-24 PX 021239

Attorney I-IV
16-24 PX 021611

Attorney I-IV
16-24 PX 021267

Attorney I-IV
16-24 PX 021276

Investigator III
18 GG 021219

Attorney III
22 XE 021221

Legal Secretary II
11 GG 021286

Legal Secretary I
10 GG 021205

Legal Secretary I
10 GG 021259

Admin. Clerk I
7 GG 021215

Paralegal Asst. II
16 GG 021288

Attorney I-IV
24 PX 021261

Attorney I-IV
16-24 PX 021295

Legal Secretary I
10 GG 021258

Attorney I-IV
24 PX 021256

Legal Secretary I
10 GG 021255

Attorney I-IV
16-24 PX 021117

Attorney I-IV
24 PX 021253

Investigator II
16 GG 021268

Legal Secretary
10 GG 021254

Attorney II
19 XE 021127

Attorney I-IV
24 PX 021251

Attorney I-IV
16-24 PX 021296

Attorney I-IV
16-24 PX 021223

Attorney I-IV
16-24 PX 021257

Attorney I-IV
16-24 PX 021109

Assoc. Atty I
17 PX 021289

Legal Secretary II
11 GG 021229

Admin. Clerk I
7 GG 021297

Attorney I-IV
24 PX 021284

Attorney I-IV
16-24 PX 021266

Attorney I-IV
16-24 PX 021292

Attorney I-IV
16-24 PX 021270

Attorney I-IV
16-24 PX 021118

Assoc. Attorney I
17 PX 021108

Legal Secretary II
11 GG 021271

Legal Secretary I
10 GG 021102

Attorney I-IV
16-24 PX 021123

Attorney I-IV
16-24 PX 021106

Attorney I-IV
24 PX 021218

Attorney I-IV
16-24 PX 021248

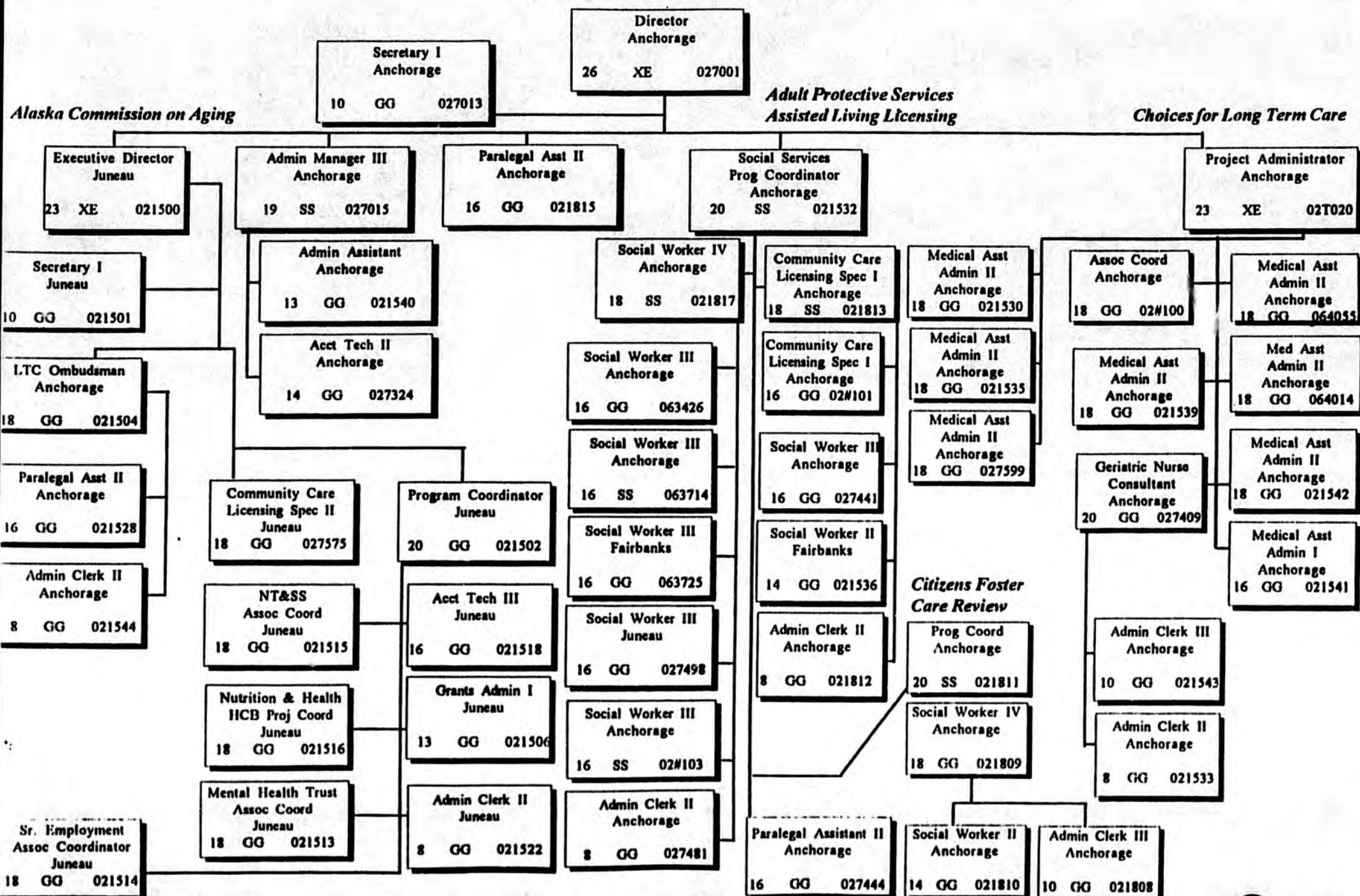
Investigator II
16 GG 021119

Legal Secretary I
10 GG 021273

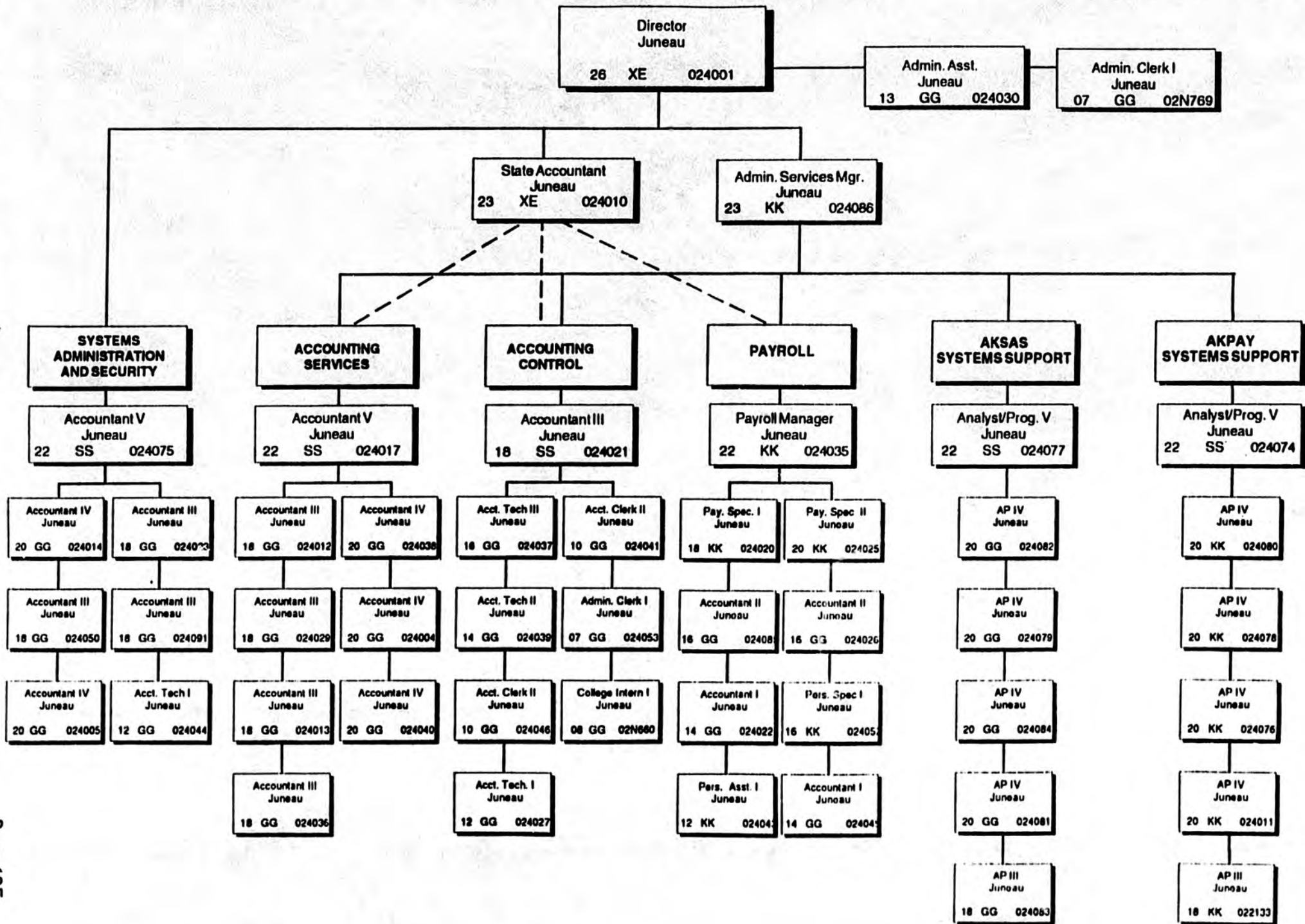
Legal Secretary I
10 GG 021138

DEPARTMENT OF ADMINISTRATION

DIVISION OF SENIOR SERVICES

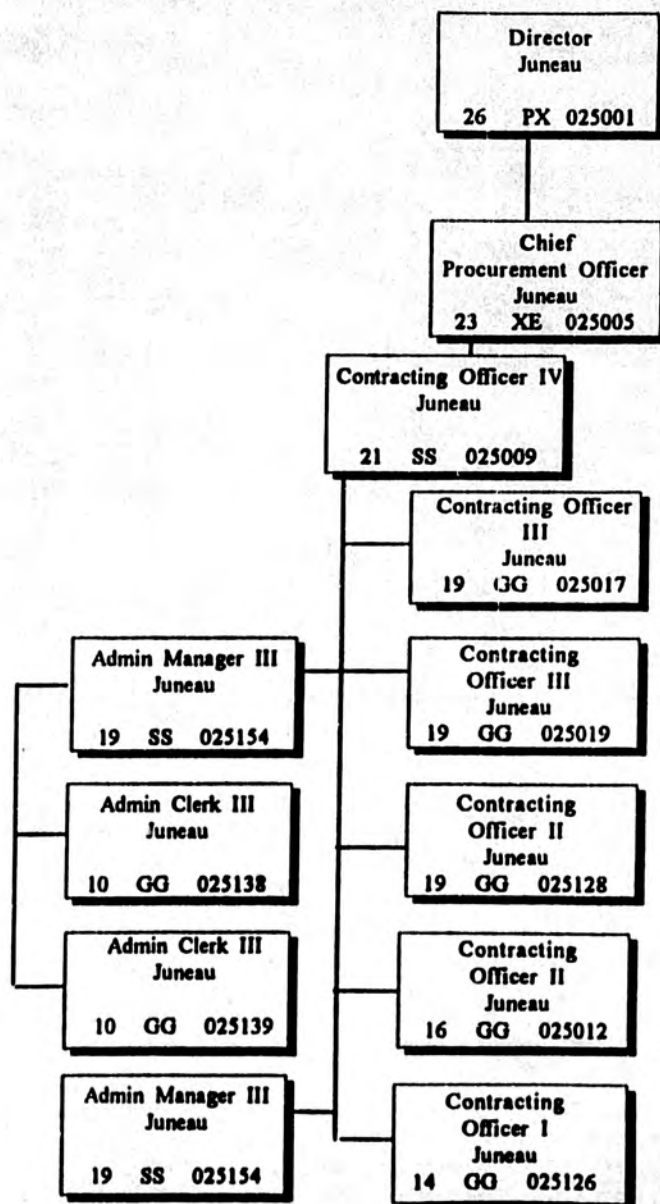


DEPARTMENT OF ADMINISTRATION DIVISION OF FINANCE



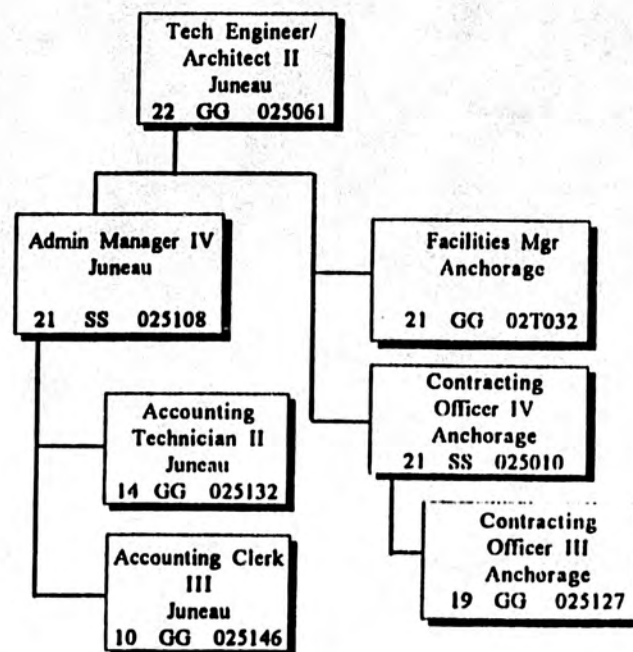
DEPARTMENT OF ADMINISTRATION
DIVISION OF GENERAL SERVICES

PURCHASING



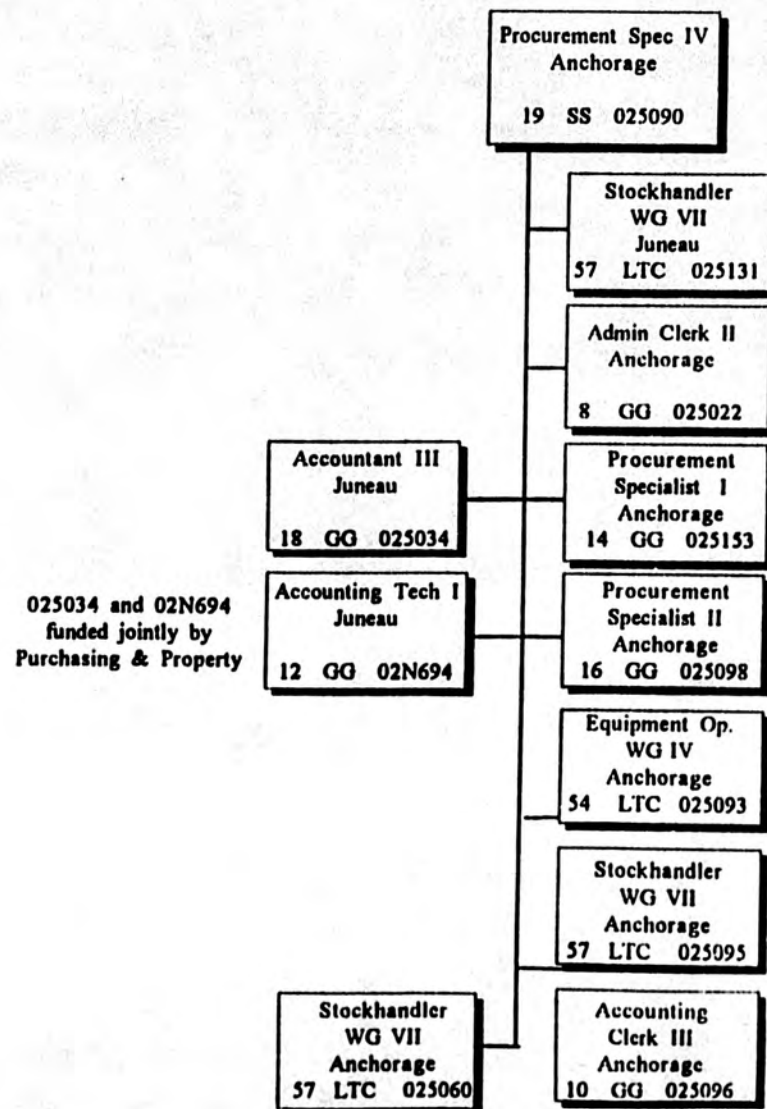
DEPARTMENT OF ADMINISTRATION
DIVISION OF GENERAL SERVICES

LEASING AND FACILITIES



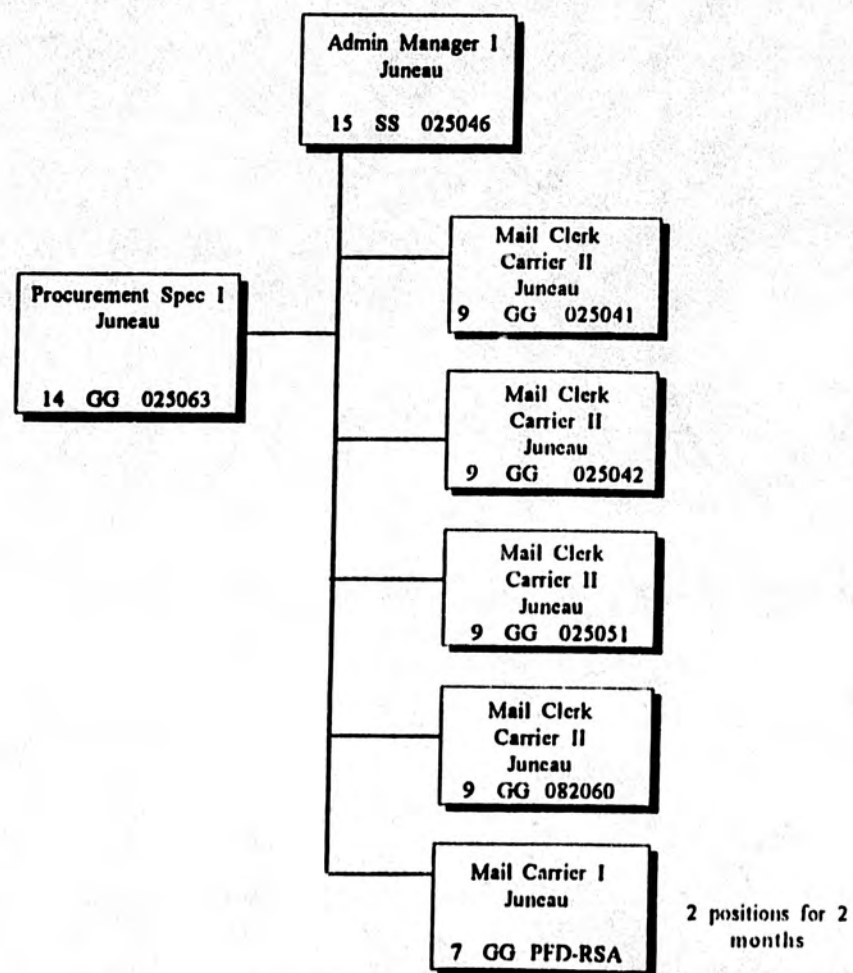
DEPARTMENT OF ADMINISTRATION DIVISION OF GENERAL SERVICES

PROPERTY MANAGEMENT

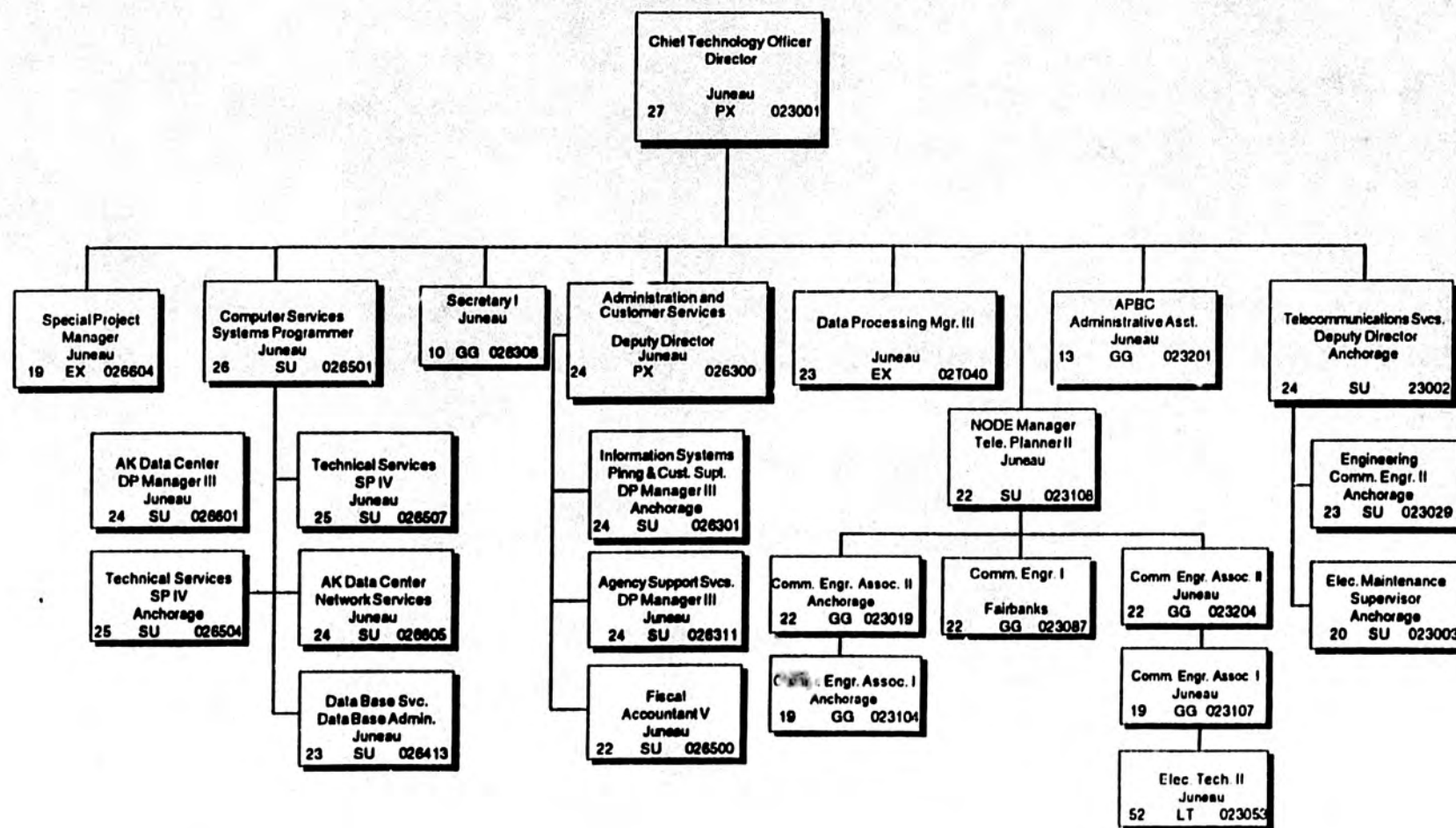


DEPARTMENT OF ADMINISTRATION
DIVISION OF GENERAL SERVICES

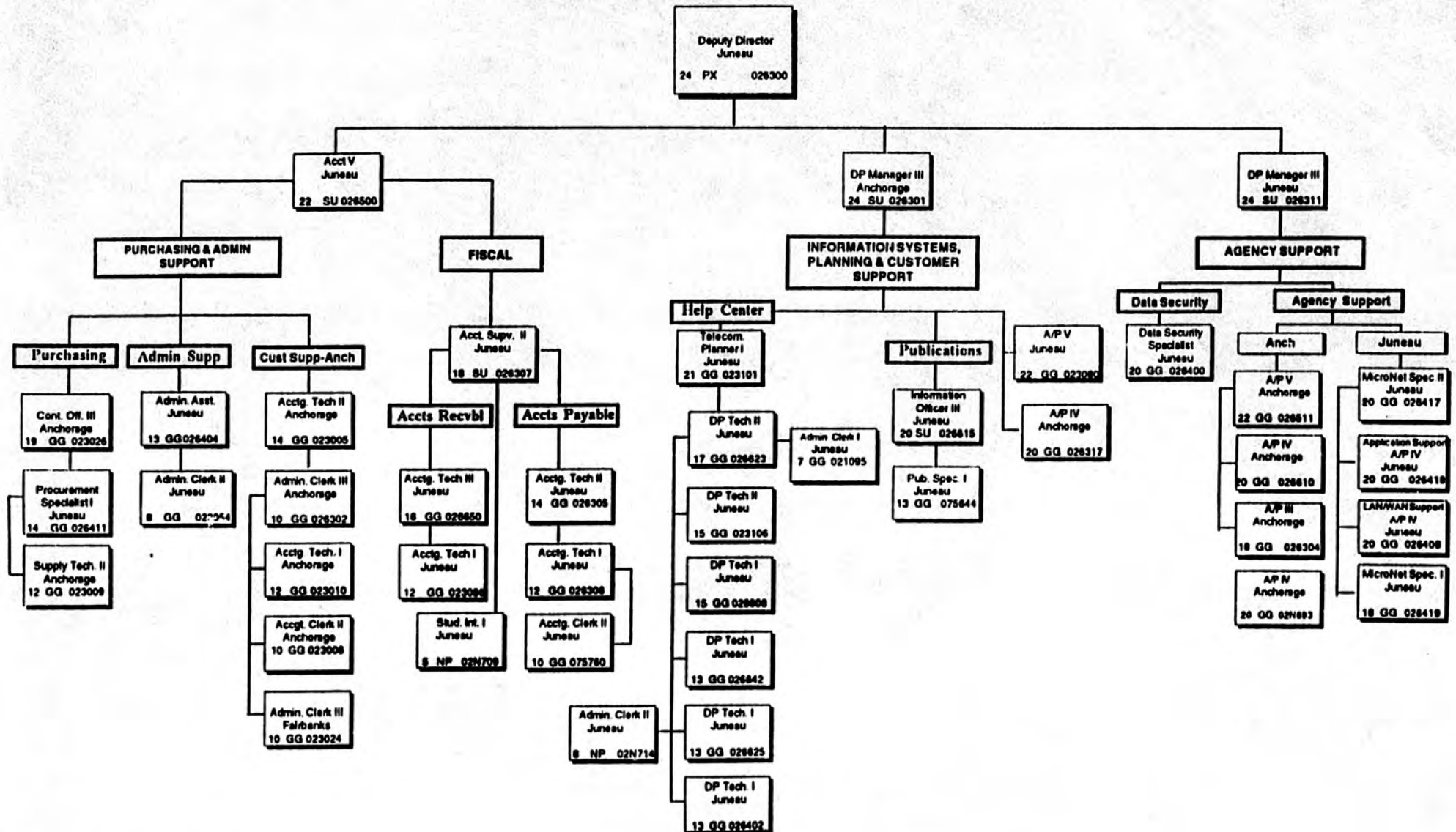
CENTRAL MAIL



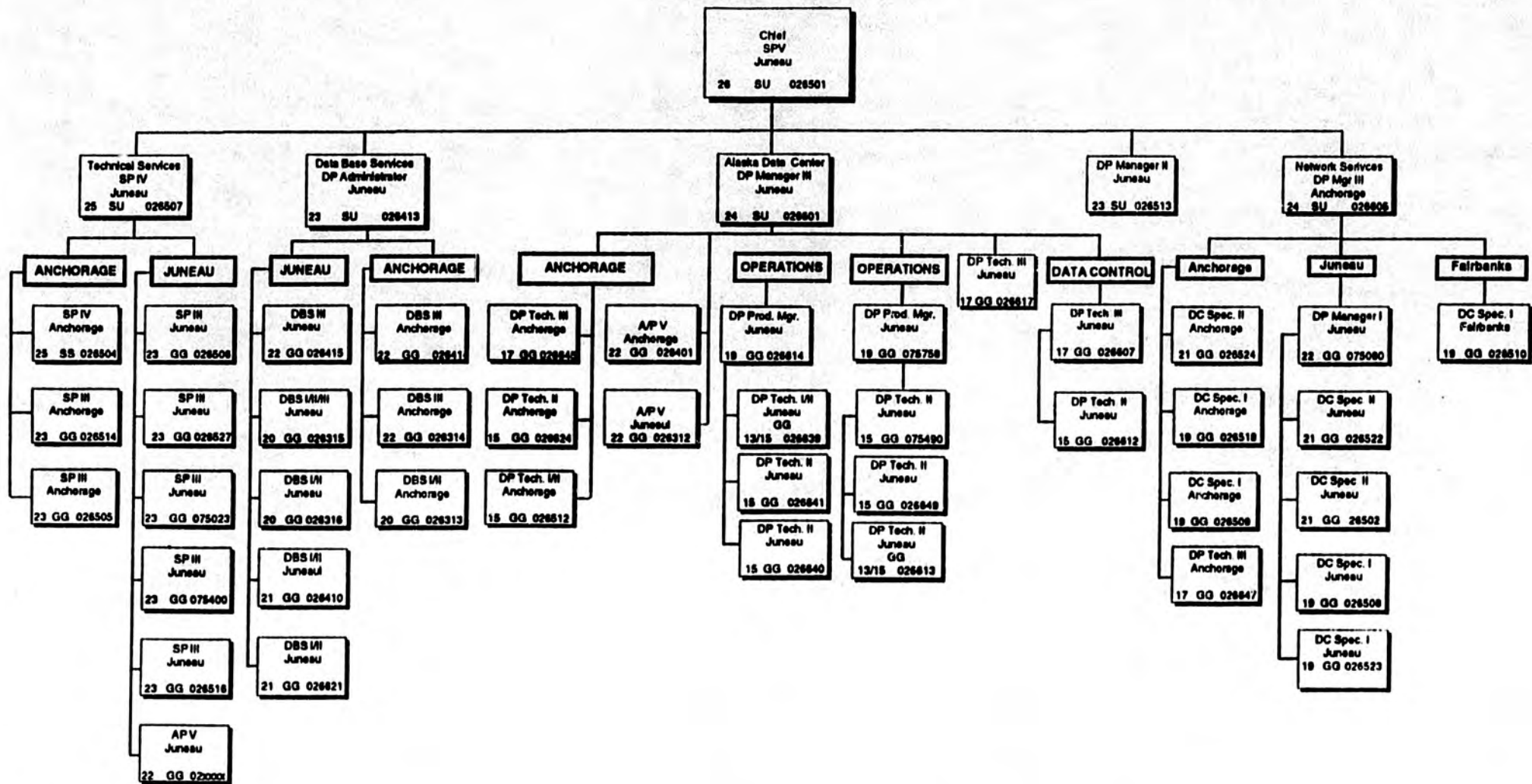
DEPARTMENT OF ADMINISTRATION INFORMATION TECHNOLOGY GROUP



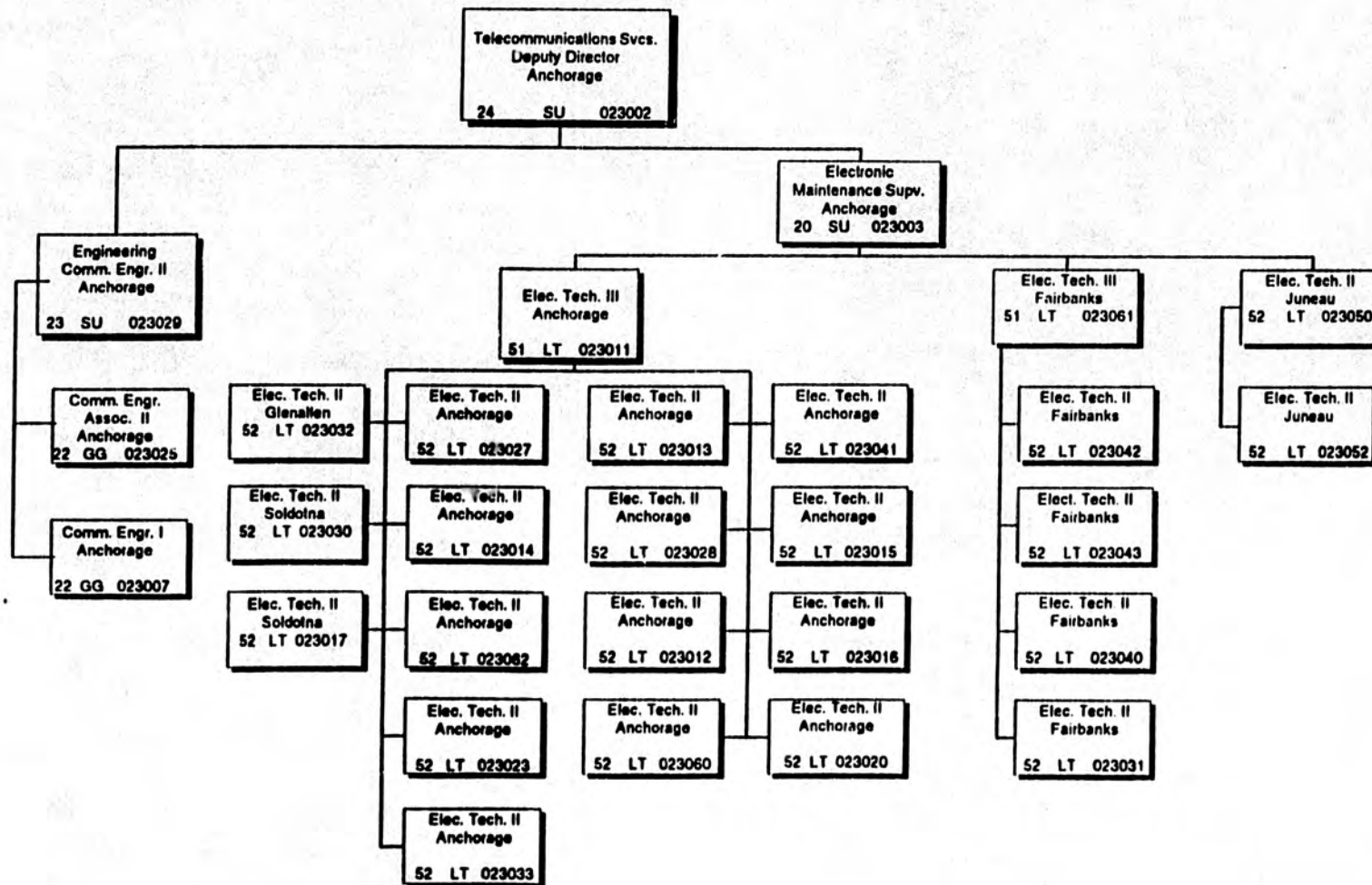
**DEPARTMENT OF ADMINISTRATION
INFORMATION TECHNOLOGY GROUP
ADMINISTRATION AND CUSTOMER SERVICES**



**DEPARTMENT OF ADMINISTRATION
INFORMATION TECHNOLOGY GROUP
COMPUTER SERVICES**

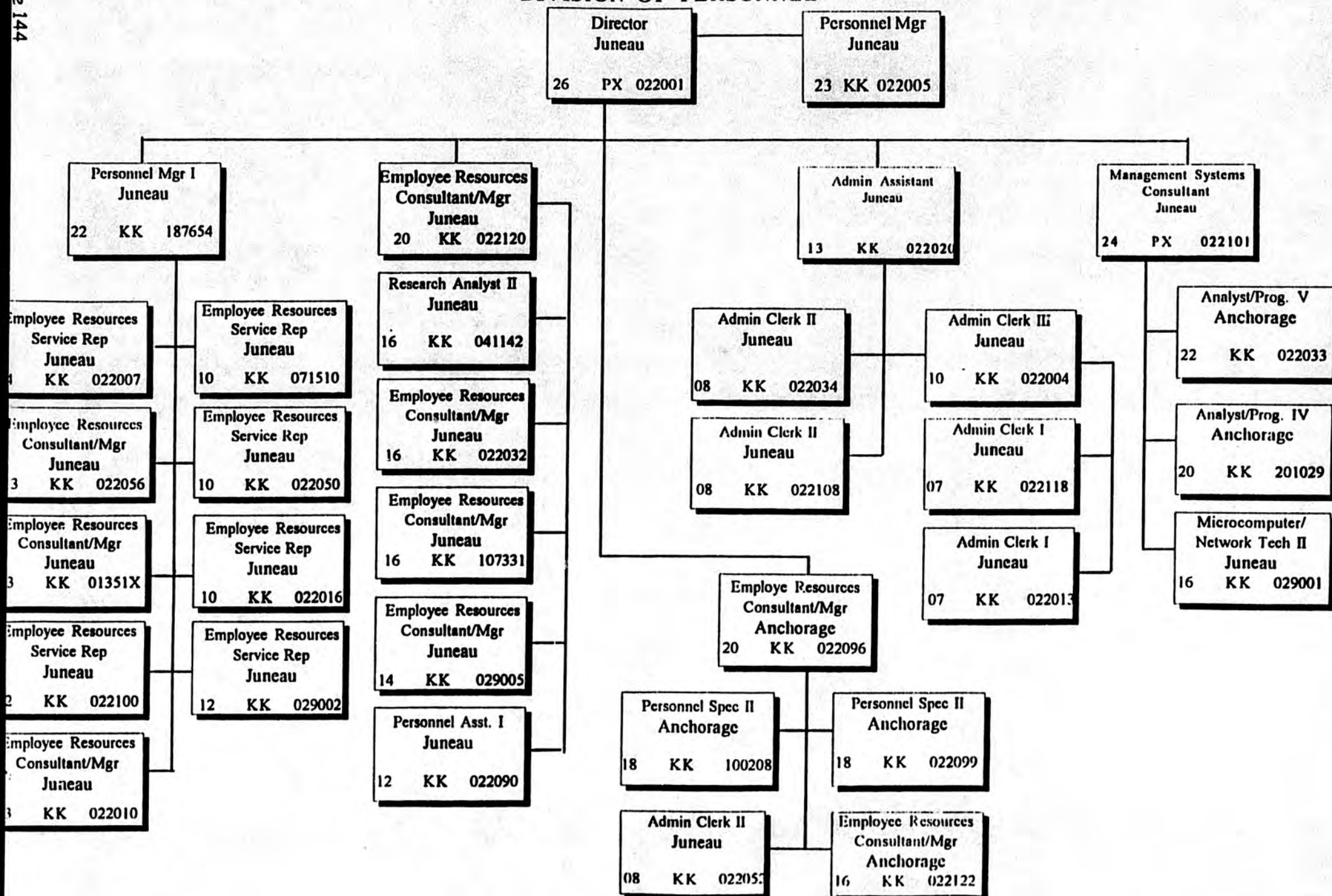


**DEPARTMENT OF ADMINISTRATION
INFORMATION TECHNOLOGY GROUP
TELECOMMUNICATIONS SERVICES**

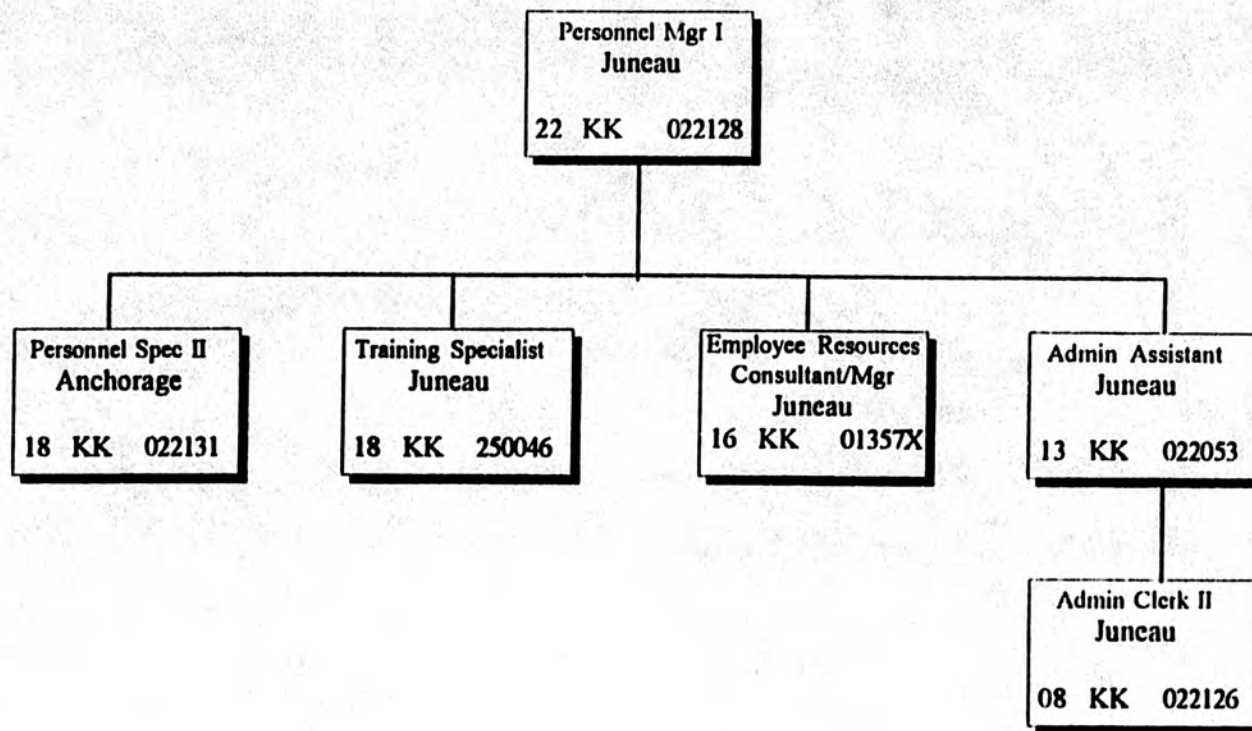


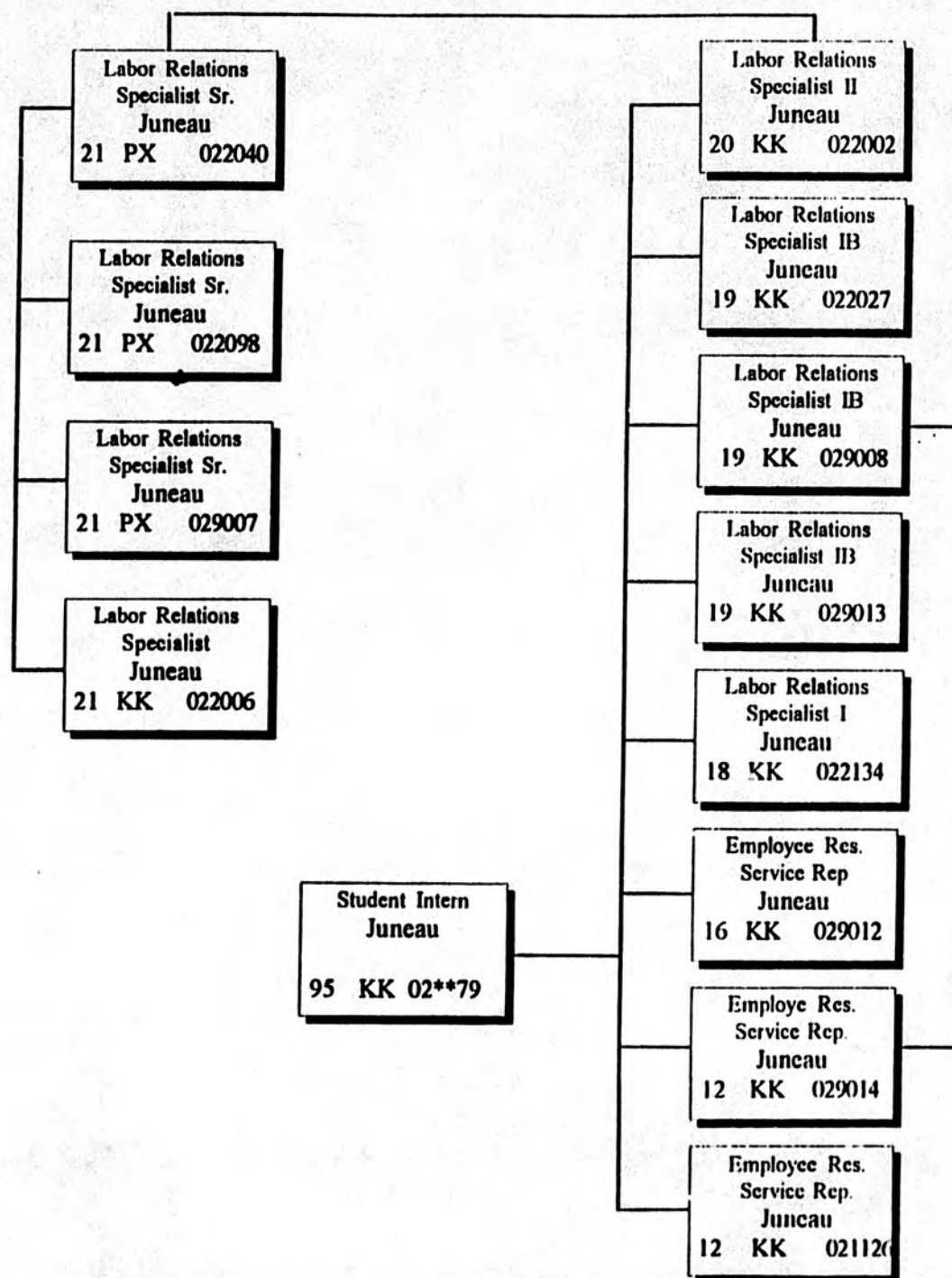
**DEPARTMENT OF ADMINISTRATION
DIVISION OF PERSONNEL**

Page 144

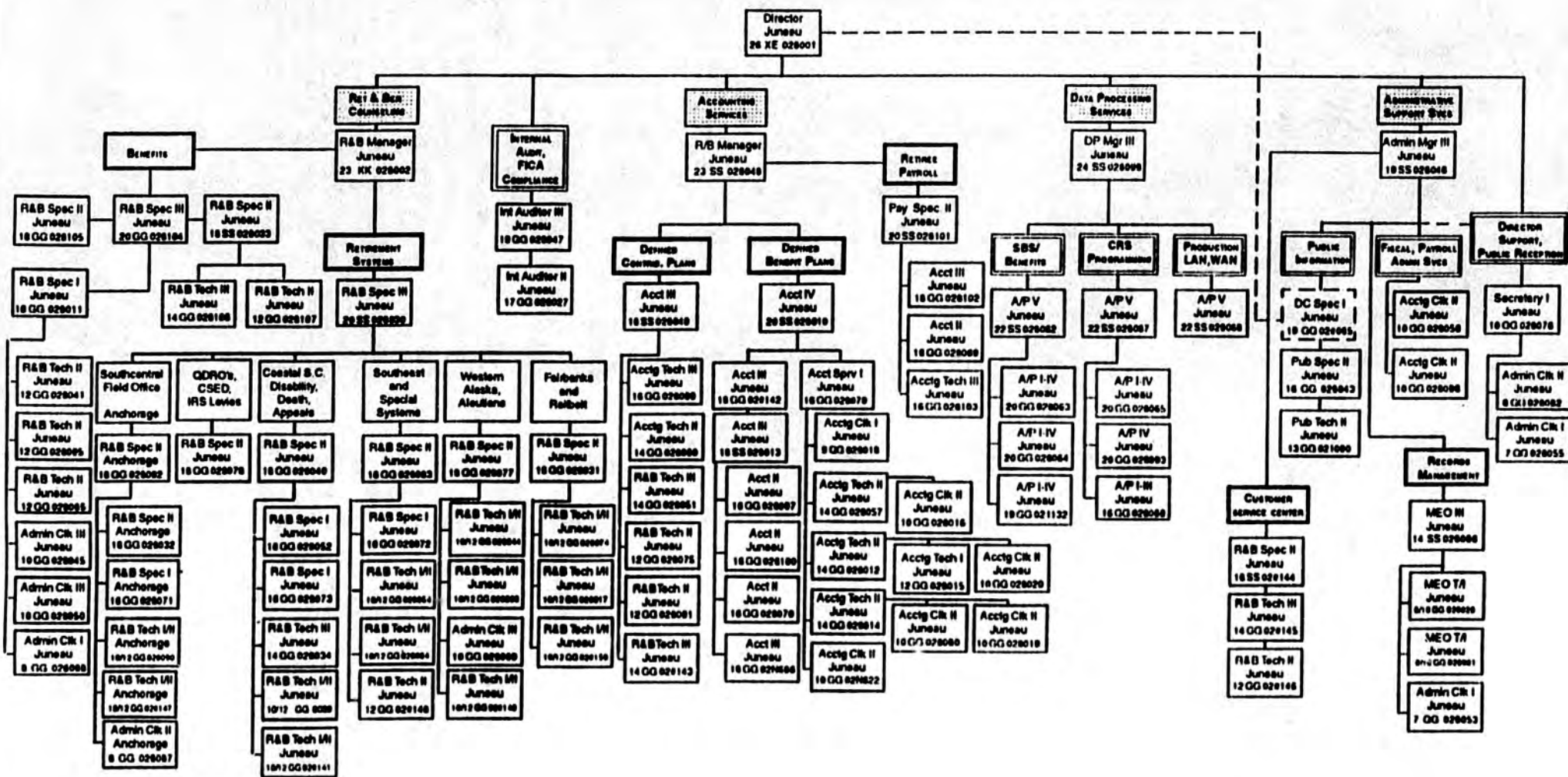


**DEPARTMENT OF ADMINISTRATION
ALASKA PROFESSIONAL DEVELOPMENT INSTITUTE**

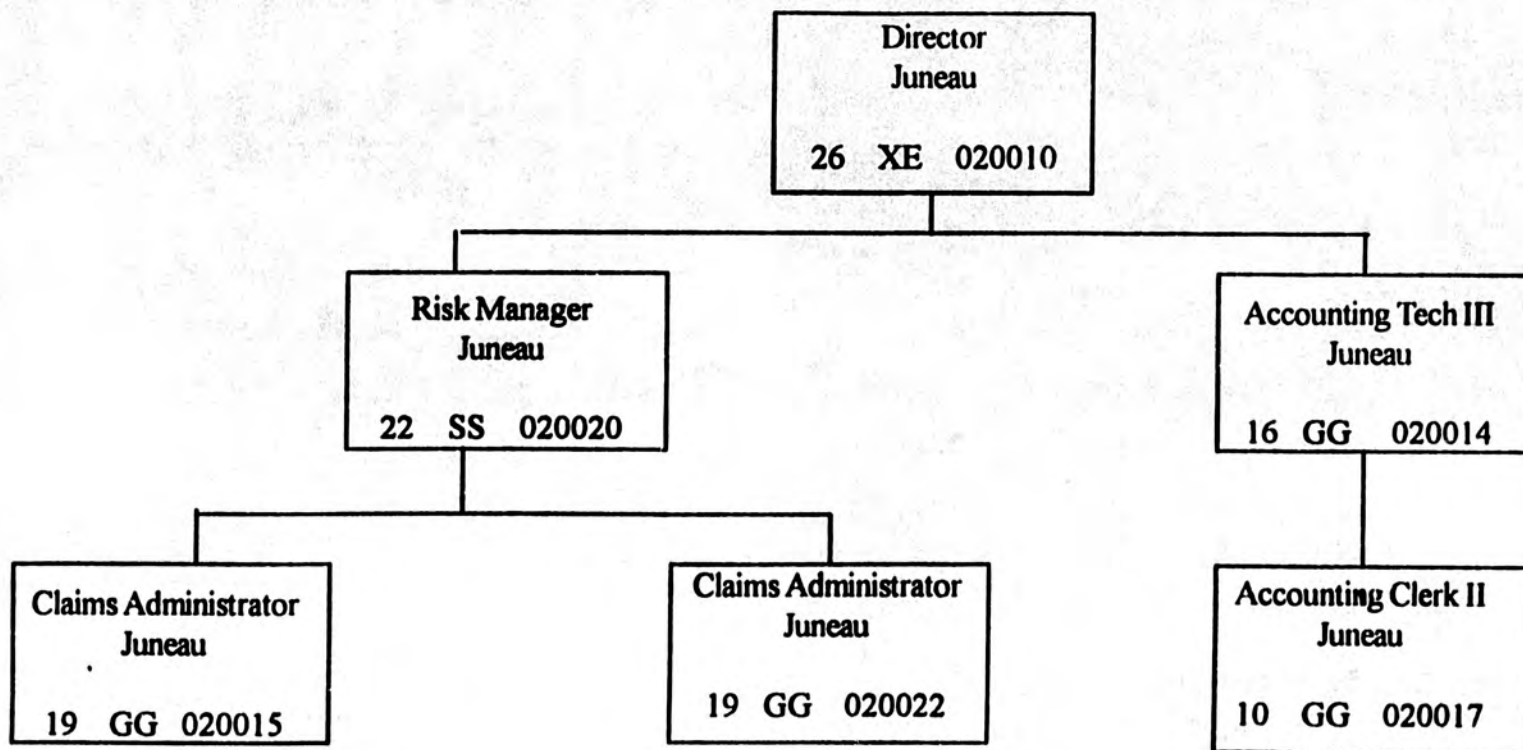




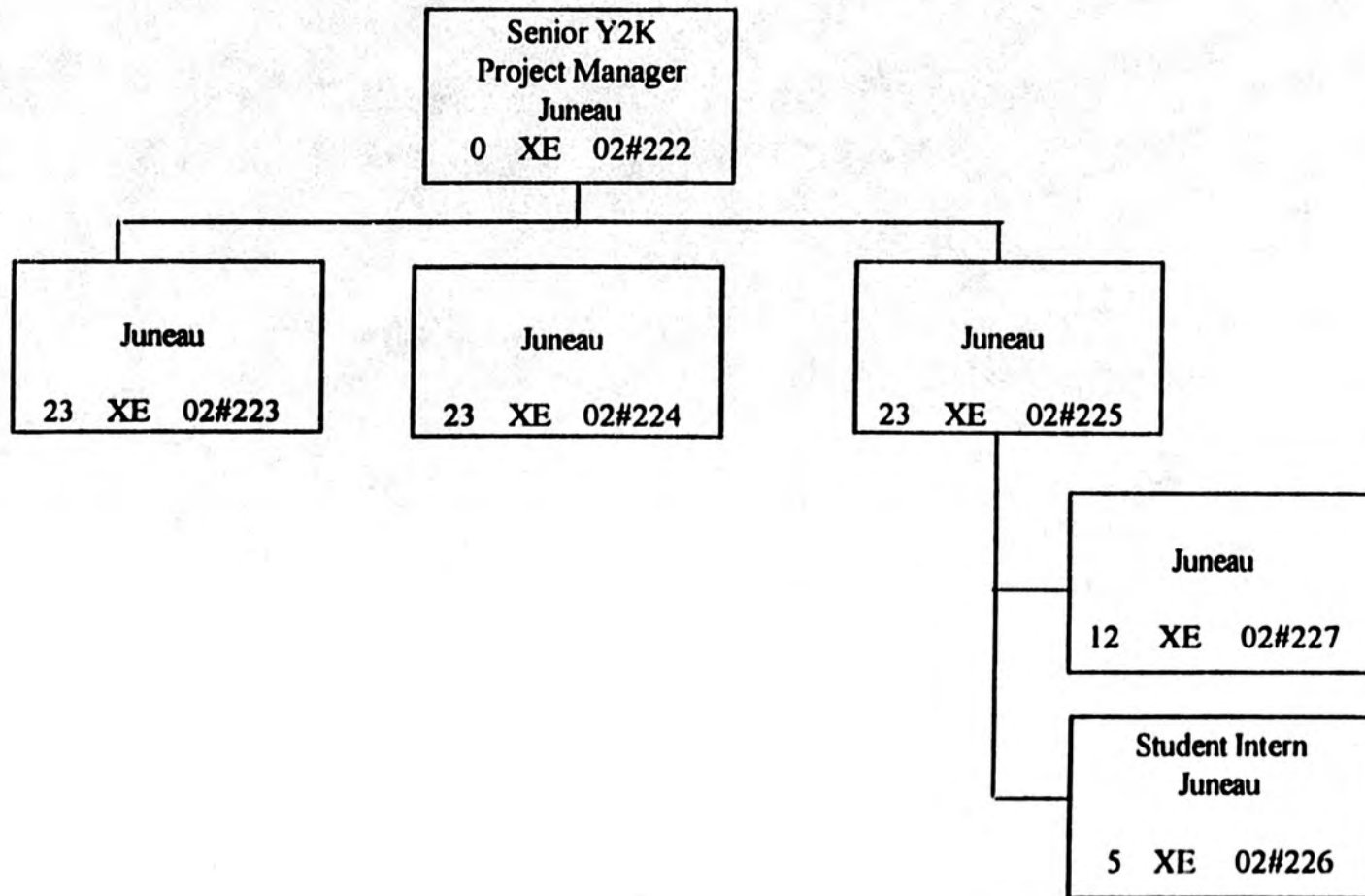
**Department of Administration
Division of Retirement and Benefits**



**DEPARTMENT OF ADMINISTRATION
DIVISION OF RISK MANAGEMENT**



**DEPARTMENT OF ADMINISTRATION
Y2K PROJECT OFFICE**





Tom Wagner, Lawyer
416 Harris Street #206
Juneau, AK 99801
Ph: 907-586-8011; Fax: 907-586-8012

Tuesday, October 5, 1999

Joe Henri, Chair
Committee on Privatization, Admin. Subcommittee
Anchorage, AK 99501

Re: Privatization of the public defender function

Dear Joe:

You have asked me on behalf of the subcommittee to examine whether cost savings could be achieved by privatizing part or all of the public defender function. Privatizing the public defender function would mean relying less of the staff attorneys of the Public Defender Agency and the Office of Public Advocacy (OPA) (both within the Department of Administration), and appointing more members of the private bar to represent indigent defendants in criminal cases or parents in Child in Need of Aid (CINA) cases. In my opinion, there are no cost savings to be achieved.

Currently, the Public Defender Agency is appointed by the court to represent indigent persons who are accused of crimes or whose children are the subject of Child In Need of Aid (CINA) proceedings. If the agency has a conflict of interest in a case, e.g., it already represents a key witness in another case and therefore owes that client a duty of loyalty that would conflict with a duty to the defendant in the new case, it withdraws from the case and OPA is appointed by the court to represent the person. OPA has some staff attorneys (12.25 FTE), and has contracted with private attorneys in Superior Court locations to handle such appointments at a fixed yearly fee. If the OPA attorney has a conflict, the court appoints members of the private bar, who are then paid by OPA at the rate of \$60/hr for in-court representation, \$50/hour for out-of-court work. Unless there are unusual circumstances, total payment in a case cannot exceed the ceilings set forth in 2 AAC 60.010.

It has been suggested that the court could appoint private attorneys to render public defender services without compensation, based upon attorneys' historic and professional tradition of rendering free or reduced-fee legal services to indigent persons. Some early cases indicated that, absent unusual circumstances, attorneys had no constitutional right to receive compensation in court-appointed cases, as distinct from rights conferred by statute or court rule. Jackson v. State, 413 P.2d 488 (Alaska 1966); Wood v. Superior Court, 690 P.2d 1225 (Alaska

Tom Wagner
October 5, 1999
Page 2

1984). Those cases were overruled, however, in DeLisio v. Alaska Superior Court, 740 P.2d 437 (Alaska 1987), in which the court held court appointment is a "taking" under the due process clause for which just compensation is constitutionally required. In short, the state cannot eliminate the cost of the public defender function by shifting it totally to court-appointed attorneys.

It does not appear there are significant cost savings to be achieved by privatization within the Public Defender Agency. Their staff attorneys are experts in handling the type of cases to which they are appointed. It would be much more expensive to hire private attorneys to do the same work, and most private attorneys do not have the same expertise. I am enclosing some information provided by the Public Defender Agency regarding their caseload and budget. In FY99, the agency handled 18,995 cases with a total budget of \$9,953,600, for an average expenditure per case of

Similarly, there are no significant savings to be made in the Office of Public Advocacy. OPA staff attorneys, like Public Defender attorneys, are experts at what they do and using them is significantly more efficient than hiring contract attorneys. The fixed-fee contracts are already awarded by bid to private sector attorneys, and the rates paid hourly attorneys are significantly below prevailing rates for private attorneys.

There may be reasons other than cost for considering privatization. For instance, some people believe all practicing attorneys should be familiar with criminal law and should represent indigent persons from time to time. Further privatization would not, however, save the state money.

Respectfully submitted,

Tom Wagner
Tom Wagner

ALASKA PUBLIC DEFENDER AGENCY
900 W. 5th Ave., Suite 200
Anchorage, AK 99501
(907) 264-4400; fax (907) 269-5476
barbara.brink@admin.state.ak.us

September 17, 1999

Tom Wagner
Legislative Committee on Privatization
By Fax: (907) 586-8012

Dear Tom:

Attached please find the charts and figures we discussed. The information about the recent huge increases in child protection cases is also included.

Also, I did review DeLisio v. State, 740 P.2d 437 (Alaska 1987). Our memories are not faulty. The Alaska Supreme Court held that members of the private bar could not be compelled to represent indigent defendants without "just compensation". "Just compensation" is fair market value, or the compensation received by the average competent attorney operating on the open market. Given the numbers of cases handled by my staff in comparison to the numbers handled by the average private practitioner, I believe there is data to suggest that privatization would be more costly than what the state spends now.

At any rate, if there is other information I can provide, please do not hesitate to call.

Sincerely,

Barb

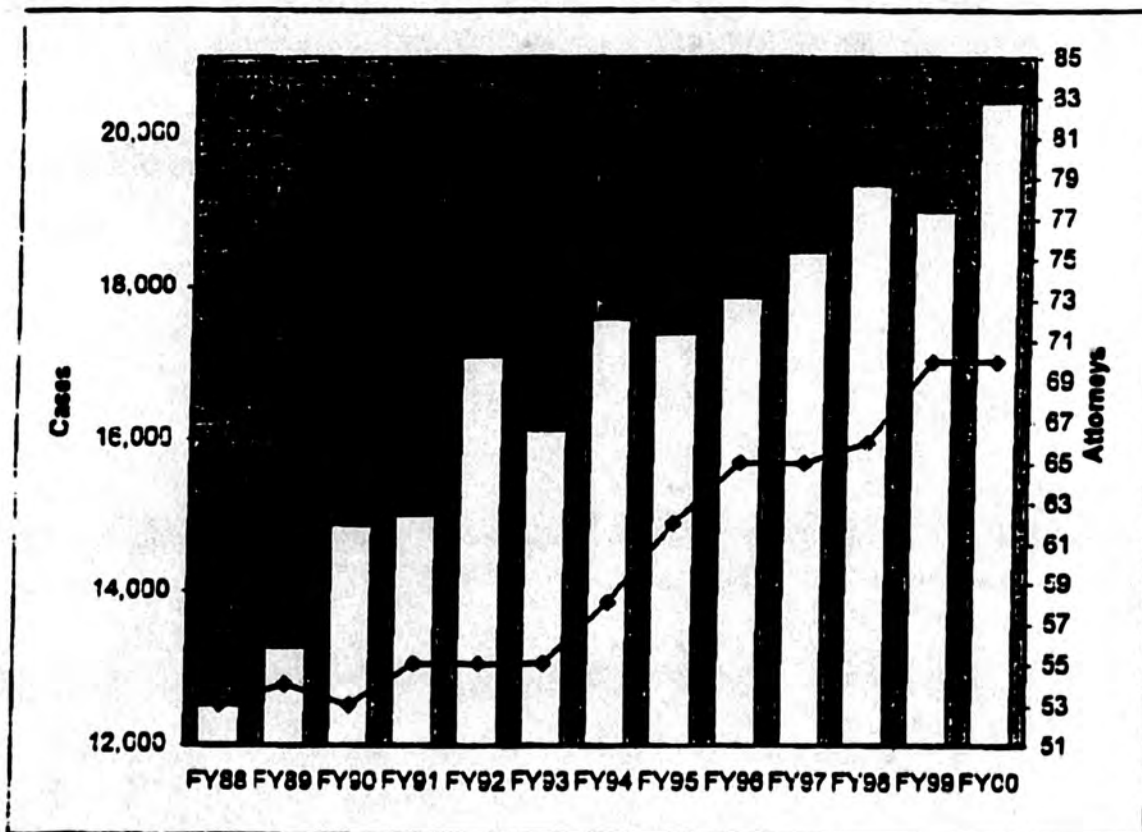
Barbara K. Brink
Public Defender

cc: Alison Elgee
Deputy Commissioner
Department of Administration

Public Defender Agency
Ten Year Analysis

CASELOAD SUMMARY

	Attorneys	Cases	Average Cost per Case	Year to Year Change in # Cases	% Case Increase	Cases Per Attorney	State Population	Per Capita Cost
FY88	53	12,524	490			236	535000	\$11.47
FY89	54	13,272	485	748	6%	246	538900	\$11.94
FY90	53	14,901	449	1,629	12%	281	553171	\$12.11
FY91	55	15,030	477	129	1%	273	569063	\$12.60
FY92	55	17,094	454	2,064	14%	311	586884	\$13.23
FY93	55	16,137	464	-957	-6%	293	596808	\$12.54
FY94	58	17,582	446	1,445	9%	303	600765	\$13.06
FY95	62	17,393	464	-189	-1%	281	601646	\$13.41
FY96	65	17,866	476	473	3%	275	604966	\$14.06
FY97	65	18,462	482	596	3%	284	609311	\$14.59
FY98	66	19,336	464	874	5%	293	621400	\$14.43
FY99	70	18,995	500	-341	-2%	271		
FY00	70	20,439	463	1,444	8%	292		



Sheet1

CASELOAD SUMMARY

	CASES	X 1000 EXPEND	ATTYS.	Staff	Avg. Cost /Attorney	/Case	Year to Year Change in # Cases	% Case Cases/ Increase Attorney	
FY88	12,524	6,138.1	53	35	115813	490			236
FY89	13,272	6,436.9	54	36	119202	485	748	6%	246
FY90	14,901	6,696.4	53	35	126347	449	1,629	12%	281
FY91	15,030	7,170.1	55	36.5	130365	477	129	1%	273
FY92	17,094	7,759.1	55	36.5	141075	454	2,064	14%	311
FY93	16,137	7,486.5	55	36.5	136118	464	-957	-6%	293
FY94	17,582	7,845.9	58	38.5	135274	446	1,445	9%	303
FY95	17,393	8,065.1	62	41	130082	464	-189	-1%	281
FY96	17,866	8,504.2	65	41.5	130834	476	473	3%	275
FY97	18,462	8,891.5	65	45	136782	482	566	3%	284
FY98	19,336	8,968.4	66	45	135885	464	874	5%	293
FY99	18,995	9,953.6	70	47	142194	524	-341	-2%	271
FY00	19,565	9,460.4	70	47	135149	484	570	3%	280

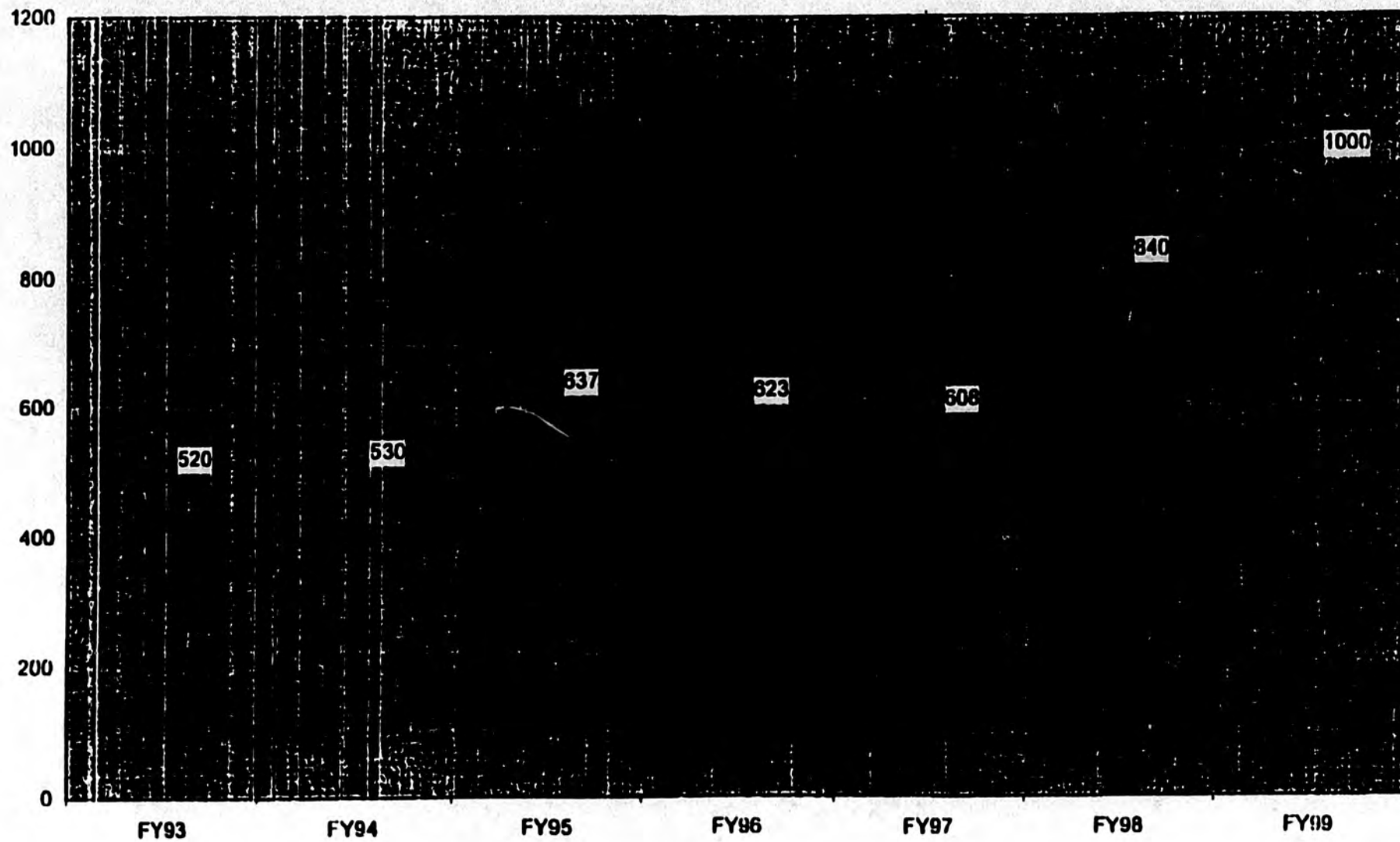
Caseloads for FY00 are projections based on current caseload growth.

Staff includes investigators, legal secretaries, paralegals, accounting and administrative staff for the entire agency.

New Appointments to CINA Cases								
	FY93	FY94	FY95	FY96	FY97	FY98	FY99	
Anchorage	188	203	352	343	290	430	558	
Barrow	10	12	18	28	10	14	32	
Bethel	71	70	49	25	55	43	77	
Dillingham		4	6	7	27	8	26	
Fairbanks	64	57	80	61	68	99	93	
Juneau	37	37	20	30	25	58	50	
Kenai	35	43	36	64	53	66	53	
Ketchikan	50	28	23	25	30	21	21	
Kodiak	7	17	7	6	10	20	11	
Kotzebue	20	19	12	10	24	49	16	
Nome	9	20	4	5	7	11	15	
Palmer	23	11	20	8	4	16	58	
Sitka	6	9	10	13	5	5	12	
	520	530	637	623	608	840	1000	

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

New
Appointments to CINA Cases



ALASKA PUBLIC DEFENDER AGENCY

PY 92 NEW CASES FILED

LOCATION	FELONY	MISDEMEANOR		PROMOTION REVOCATION			JUVENILE	CIMA	SANITY	SENTENCE APPEAL		MURDER APPEAL			PCR'S	PAROLE BOARD	SPECIAL APPT.	TOTAL
		City	State	Fel	Mis	Juv				Fel	Mis	Fel	Mis	Other				
Anchorage	1309		944	470	261	60	243	556	770	20		86	13	7	11	145	1	4970
Narrow	61		359	30	8	3	5	32	9									517
Methel	313		1093	131	214	19	62	77								3		1912
Hillingham	52		304	35	48	6	8	26					1		3			403
Fairbanks	378		1187	249	449	12	77	93	85	4	1	17	3	1	37	4	8	2603
Juneau	109		534	86	400		55	90	57	1		4			2	26		1326
Kenai	231		753	71	242	1	47	53			3	16	4		4	13	1	1439
Keichikan	112		505	64	101	10	31	21	78	3		3	1	1	37	3	1	987
Kodiak	58		256	33	50		15	11	17						1			441
Kotzebue	122		390	36	32		7	16	1							2		606
None	96		411	46	150	19	30	15	4	2		1		1	49			840
Palmer	286		1026	117	720	21	50	38		2		2	6	1	260	4	1	2550
Sitka	30	20	170	34	39	1	12	8	21						6			341
TOTAL	3159	20	7972	1410	2730	160	650	996	1050	12	4	111	24	11	626	200	12	18955

09/17/99 12:39 FAX 269 3476

AK PUBLIC DEFENDER INC

0006



C

Appendix C

Subcommittee for Privatizing State Government Department of Administration, Pioneer Homes

Privatization: Pioneer Homes

Recommendation: Privatize

Advantages

- **Defer services to a company whose core competencies are in line with service.**
 - Better care
 - Specialized in patient treatment, particularly Alzheimer's patients
- **Cost savings**
 - Lower operational costs
 - Flexibility in the management of personnel
 - Elimination of maintenance costs for buildings & facilities
 - Elimination of costs of updating equipment
 - Lower supply cost
 - National buying power
 - Standardization of consumables
 - Cost of facilities is eliminated when program ends in 2029
- **Revenue stream**
 - Sale of buildings, facilities and equipment
 - Source of revenue through additional taxation opportunities

Concerns

- **Labor Unions contractual obligations**
- **Less government control**
- **Commitment to provide services to elderly Alaskans, offset by paid services (subsidized by the state)**

**Subcommittee for Privatizing State Government
Department of Administration, General Services and Supply (Purchasing)**

Privatization: GS&S

Recommendation: May be a candidate for outsourcing however, modification of procurement laws to allow for easier procurement of supplies and services are a better solution.

Savings Opportunities could be achieved through

- **Lower operational activity costs**
- **Cost of goods through:**
 - **Standardization** - minimize options and maximize buying power
 - **Life cycle costing** - buying better, longer lasting products
 - **Increase product and service capabilities** by learning about products, services and processes that are available
- **Automation**
 - **EFT-Electronic Fund transfer** - to help minimize administrative costs
 - **EDI-Electronic Data Interchange** - to help minimize administrative costs
 - **Internet-Online ordering** (recommended)
 - **Accounting-Integrated internal compilations** - Establishing an integrated accounting and tracking system

Service Enhancements

- **Cost evaluations for customers**
- **Customer service evaluations to measure internal performance of agency**
- **Measurement** - measure vendor performance
- **Evaluation of buys** - evaluate purchase process after delivery
- **Accuracy of budgeting** - support departments in budget process
- **Continuous improvement** - continually looking for better ways to buy
- **Negotiations-Ability to negotiate with vendors**

Obstacles to Department Success

- **Too many laws to comply with**
- **Lack of systems technology**
 - **Product enhancements - keeping up with product enhancements**
 - **Keeping up with change**
 - **Product availability - new and better products**
 - **Services - new and better products**
- **Mandatory purchases & exclusion of procurement rules**
 - **Mandatory Purchase, Correctional Industries**
 - **Goods are often of lower quality and higher prices than private sector offerings**
 - **Products may be outdated**
 - **Agencies spend too much time trying to circumvent system anyway as products may not meet specific needs**
 - **Non-profit organizations**
 - **Often agencies go around the procurement process if non-profits can do the service or produce the product, price not considered**
- **Fear of protests-purchasing decisions or product approval may be affected because the buyer fears that a vendor may protest**
- **The current trend "Being fair to all potential vendors outweighs value" needs to be re-evaluated**

**Subcommittee for Privatizing State Government
Department of Administration, Information Technology Group**

Privatization: ITG

Telephony

Recommendation: Privatize Telephony

Advantages

- **Defer services to a company whose core competencies are in line with service.**
 - Quicker transition to new technology
- **Cost savings**
 - Lower operational costs
 - Flexibility in the management of personnel
 - Elimination of maintenance costs for buildings & facilities
 - Elimination of costs of updating equipment
- **Revenue stream**
 - Sale of buildings, facilities and equipment
 - Source of revenue through additional taxation opportunities

Concerns

- **Contract & technical compliance**
- **Service maintained to small (Bush) locations that may be less profitable**
- **Privacy issues**
- **Responsiveness to emergency situations**
- **Cultural issues between State and private sector business**
- **Labor Unions contractual obligations**
- **Financial stability**
- **Less government control**

Privatization: ITG

Information Services Group

Recommendation: Do not privatize the ISG; likely candidate for outsourcing:

- **Retain and control ownership of intellectual capital**
- **Maintain the integrity and confidentiality of the systems**
- **Outsourcing has many of the same benefits as privatizing with less loss of control**

Advantages

- **Preserve State ownership of highly customized mainframe systems**
- **High level of customization of mainframe systems**
- **More leverage when compared with privatization**
- **State maintains ownership of intellectual capital**
- **Similar services already exist in private sector**
- **Lower risk compared to privatization**
- **Outsourcing companies focus on savings**
- **Allows the State to focus on its core competencies**

Concerns

- **Services need to be performed within the State of Alaska, not Outside**
- **Cost of entry/transition**
- **Social & economic impact**
- **Less control than "insourcing"**
- **Breach in security**

Subcommittee for Privatizing State Government Department of Administration, Pioneer Homes

Privatization: Pioneer Homes

Recommendation: Privatize

Advantages

- **Defer services to a company whose core competencies are in line with service, perhaps linking homes geographically to other community providers.**
 - Better care through enhanced development of, and effectiveness in use of staff
 - Specialized in patient treatment, particularly Alzheimer's and other dementia patients
- **Cost savings**
 - Lower operational costs through use of appropriate resources required to serve resident needs
 - Flexibility in the management of personnel
 - Elimination of maintenance costs for buildings and facilities
 - Elimination of costs of updating equipment
 - Lower supply cost
 - National buying power
 - Standardization of consumables
- **Revenue stream**
 - Sale of buildings, facilities and equipment
 - Source of revenue through additional taxation opportunities

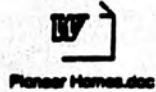
Concerns

- **Labor Unions contractual obligations**
- **Less government control**
- **Commitment to provide services to elderly Alaskans, offset by paid services (subsidized by the state)**

11/02/1999
3:59 PM

Nancy

From: Kimberly Krause [kkrause@capital-office.com]
Sent: Tuesday, November 02 1999 10:06 AM
To: sctd@alaska.net
Subject: Privatization



Here are the outlines from the Privatization meetings.

Lewis

kk



D

Appendix D

15 Oct. '99
Lewis Quinn

Subcommittee for Privatizing State Government
Department of Administration, General Services and Supply (Purchasing)

Privatization: GS&S

Recommendation: May be a candidate for outsourcing or modification of procurement laws to allow for easier procurement of supplies and services.

Savings Opportunities could be achieved through

- > Lower activity costs
- > Cost of goods through:
 - > Standardization
 - > Life cycle costing
 - > Product & service capabilities
- > Automation
 - > EFT-Electronic Fund transfer
 - > EDI-Electronic Data Interchange
 - > Internet-Online ordering
 - > Accounting-Integrated internal compilations

- Took up w/ Dir of Gen. Inv.
Should keep track of purchases besides
\$100,000 & immediately bid

Service Enhancements

- > Cost evaluations
- > Customer service evaluation
- > Measurement
- > Evaluation of buys
- > Accuracy of budgeting
- > Continuous improvement
- > Negotiations

Obstacles to Department Success

- > Too many laws to comply with
- > Lack of systems technology
 - > Product enhancements
 - > Keeping up with change
 - Product availability
 - Services

➤ **Mandatory purchases & exclusion of procurement rules**

➤ **Mandatory Purchase, Correctional Industries**

- Goods are often of lower quality and higher prices than private sector offerings
- Products may be outdated
- Agencies spend too much time trying to circumvent system anyway as products may not meet specific needs

➤ **Non-profit organizations**

- Often agencies go around the procurement process if non-profits can do the service or produce the product, price not considered

➤ **Fear of protests**

➤ **The current trend "Being fair to all potential vendors outweighs value" needs to be re-evaluated**

**APPLICATION OF PREFERENCES FOR
REQUESTS FOR PROPOSALS, INFORMAL PROPOSALS
INVITATIONS TO BID AND REQUEST FOR QUOTATIONS**

This list contains a brief summary of preference laws. These preferences may not be applied in exactly the same manner for all procurement processes. Please read applicable statutes and regulations for details. Before any preferences are applied, the procurement officer must first determine if the offer is responsive.

(1) 5% ALASKA BIDDER PREFERENCE AS 36.30.170(b)

Vendor must qualify as an Alaska bidder under AS 36.30.170(b), and may have to submit a completed Alaska Bidder's Preference form. If eligible, bid, quote or proposal price is reduced by five percent (5%).

The preference will be given to a person who: (1) holds a current Alaska business license; (2) submits a bid for goods or services under the name on the Alaska business license; (3) has maintained a place of business within the state staffed by the bidder, or an employee of the bidder, for a period of six (6) months immediately preceding the date of the bid; (4) is incorporated or qualified to do business under the laws of the state, is a sole proprietorship, and the proprietor is a resident of the state or is a partnership, and all partners are residents of the state; (5) if a joint venture, is composed entirely of venturers that qualify under (1) - (4) of this subsection. AS 36.30.170(b).

(2) ALASKA OFFEROR'S PREFERENCE AS 36.30.250 & 2 AAC 12.260(c) (d) & (e)

For proposals only. Vendor must qualify as an Alaska bidder under AS 36.30.170(b). If a numerical rating system is used to evaluate proposals, ten percent (10%) of total rating system (points) must be allocated to each eligible offeror.

(3) 15% EMPLOYMENT PROGRAM PREFERENCE AS 36.30.170(c) (g) (j) & (k)

Vendor must qualify as an Alaska bidder under AS 36.30.170(b), and may have to submit a completed Alaska Bidder's Preference form. Vendor is also required to add value by actually performing, controlling, managing, and supervising the services provided, or must have sold supplies of the general nature solicited to other state agencies, governments, or the general public.

If eligible, price is reduced by 15% percent of the lowest bid/proposal/quote price. A bid or quote eligible for this preference receives the award if it is not more than fifteen percent higher than the lowest priced bid.

(4) 10% ALASKANS WITH DISABILITIES PREFERENCE AS 36.30.170 (e) (j) & (k); AS 36.30.250
Vendor must qualify as an Alaska bidder under AS 36.30.170(b), and may have to submit a completed Alaska Bidder's Preference form. Vendor is also required to add value by actually performing, controlling, managing, and supervising the services provided, or must have sold supplies of the general nature solicited to other state agencies, governments, or the general public.

If eligible, price is reduced by 10% percent of the lowest bid/proposal/quote price. A bid or quote eligible for this preference receives the award if it is not more than ten percent higher than the lowest priced bid. A vendor cannot receive both an Alaskans with Disabilities Preference and an Employers of People with Disabilities Preference for the same procurement.

(5) 10% EMPLOYERS OF PEOPLE WITH DISABILITIES PREFERENCE AS 36.30.170(f) (j) & (k); AS 36.30.250

Vendor must qualify as an Alaska bidder under AS 36.30.170(b), and may have to submit a completed Alaska Bidder's Preference form. Fifty percent or more of the total number of employees must meet the definition of disabled and vendor must maintain that level of disabled employees during performance of contract. Vendor must add value by actually performing, controlling, managing, and supervising the services provided, or must have sold supplies of the general nature solicited to other state agencies, governments, or the general public.

If eligible, price is reduced by 10% percent of the lowest bid/proposal/quote price. A bid or quote eligible for this preference receives the award if it is not more than ten percent higher than the lowest priced bid. A vendor cannot receive both an Alaskans with Disabilities Preference and an Employers of People with Disabilities Preference for the same procurement.

(6) QUALIFYING FOR DISABILITY RELATED PREFERENCES AS 36.30.170 (g) (k)

The Department of Education, Division of Vocational Rehabilitation determines if qualifying entities are disabled, if employers have disabled employees equaling 50% of its total number of employees, if employment programs with disabled employees are eligible, issues certifications of eligibility, and maintains the respective lists.

A person must be on this list at the time the bid or proposal is opened and must provide a copy of certification letter in order to qualify for the 10% Alaskans with Disabilities Preference or 10% Employers of People with Disabilities Preference.

(7) USE OF LOCAL FOREST PRODUCTS AS 36.15.010

In a project financed by state money in which the use of timber, lumber or manufactured lumber is required, only timber, lumber or manufactured lumber products originating in this state shall be used unless the use of those products has been determined to be impractical, in accordance with AS 36.15.010.

(8) LOCAL AGRICULTURAL AND FISHERIES PRODUCTS PREFERENCE AS 36.15.050

When agricultural, dairy, timber, lumber, or fisheries products are purchased using state money, only those products harvested in Alaska, or in the case of fisheries products harvested or processed within the jurisdiction of Alaska, will be purchased, provided they are available, of comparable quality, and priced no more than seven percent (7%) higher than products harvested outside the state, or in the case of fisheries products harvested or processed outside the jurisdiction of the state, in accordance with AS 36.15.050.

(9) ALASKA PRODUCT PREFERENCE AS 36.30.332 and 3 AAC 92.010

An Alaska Product which meets the requirements of the solicitation's specifications and is designated as a Class I, Class II or Class III Alaska Product by the Department of Commerce & Economic Development shall receive a 3%, 5%, or 7% price preference in accordance with AS 36.30.332 and 3 AAC 92.010.

(10) 5% RECYCLED PRODUCTS PREFERENCE AS 36.30.324, .336, .337 & .338

The Department of Administration determines the minimum percentages of recycled contents that products must contain to qualify for the Recycled Products Preference and maintains a products list.

**Subcommittee for Privatizing State Government
Department of Administration, Information Technology Group**

Privatization: ITG

Telephony

Recommendation: Privatize Telephony

Advantages

- **Defer services to a company whose core competencies are in line with service.**
 - Quicker transition to new technology
- **Cost savings**
 - Lower operational costs
 - Flexibility in the management of personnel
 - Elimination of maintenance costs for buildings & facilities
 - Elimination of costs of updating equipment
- **Revenue stream**
 - Sale of buildings, facilities and equipment
 - Source of revenue through additional taxation opportunities

Concerns

- **Contract & technical compliance**
- **Service maintained to small (Bush) locations that may be less profitable**
- **Privacy issues**
- **Responsiveness to emergency situations**
- **Cultural issues between State and private sector business**
- **Labor Unions contractual obligations**
- **Financial stability**
- **Less government control**

Commission on Privatization and Delivery of Government Services

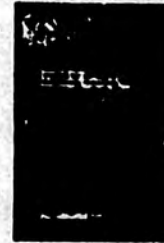


Department of Administration
Comprehensive Telecommunications RFP

Bob Poe, Commissioner
August 19, 1999

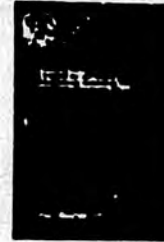


TIC Plan 1996



- "...a balance must be developed through partnership between the state and public telecommunications providers."

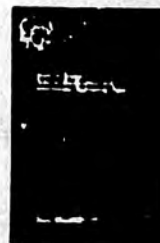
Guiding Principles Excerpts-- TIC Plan 1996



- **The State should be a stimulator of public telecommunications by serving as an anchor tenant.**
- **The state should be a stimulator as well as a facilitator of private-sector efforts.**
- **The State should be pro-active and pro-competition throughout these efforts.**



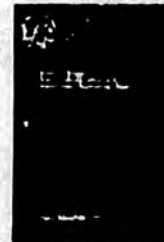
Guiding Principles Excerpts-- TIC Plan 1996



- The State should encourage partnership development.
- The state should ... encourage providers to develop cost effective enhancements, expansions of existing services, and provision of new ones.



Guiding Principles Excerpts-- TIC Plan 1996



- **The State should pursue the provision of highway emergency communication systems... State control of the system (can not be) compromised in a time of emergency.**
- **The State should consider contracting with providers ... in order to provide the needed communication links between it and its various business partners.**



Need for Advanced Telecommunications

- Many Alaskans will never be connected by a road system. Alaskans rely on telecommunications to connect to the world and the rest of Alaska
- Alaskans prefer to conduct business quickly, without bureaucracy
- Efficiencies can be gained through automation



Need for Advanced Telecommunications

- **Alaskans demand more be done with less**
- **To reach this goal the State is partnering with non-profits, other governmental entities and the private sector**
 - **One stop - Alaska Job Center Network**
 - **Education- distance learning - charter schools**
 - **Telemedicine -- tribal governments, Indian Health Service, private/public hospitals**
 - **Emergency Communications -- local governments, volunteers**
 - **Public Safety -- State troopers, local and federal government**
 - **Economic development -- AIDEA, Airport Communications**



Need for Advanced Telecommunications

- State Government continues to improve its services to the citizen through new automated systems:
 - Workplace Alaska
 - DMV Online
 - Online Public Notices
 - Fingerprint imaging, mobile data
 - Telemedicine, distance education



Need for Advanced Telecommunications

- **State owns an extensive microwave system --
State of Alaska Telecommunications
System(SATS)**
 - **State has been approached by private providers
and local governments to allow access to SATS**



Contracting Environment

- State contracts for more than \$20 Million annually for telecommunications services/equipment
- Telecommunications industry in Alaska continues to be more competitive

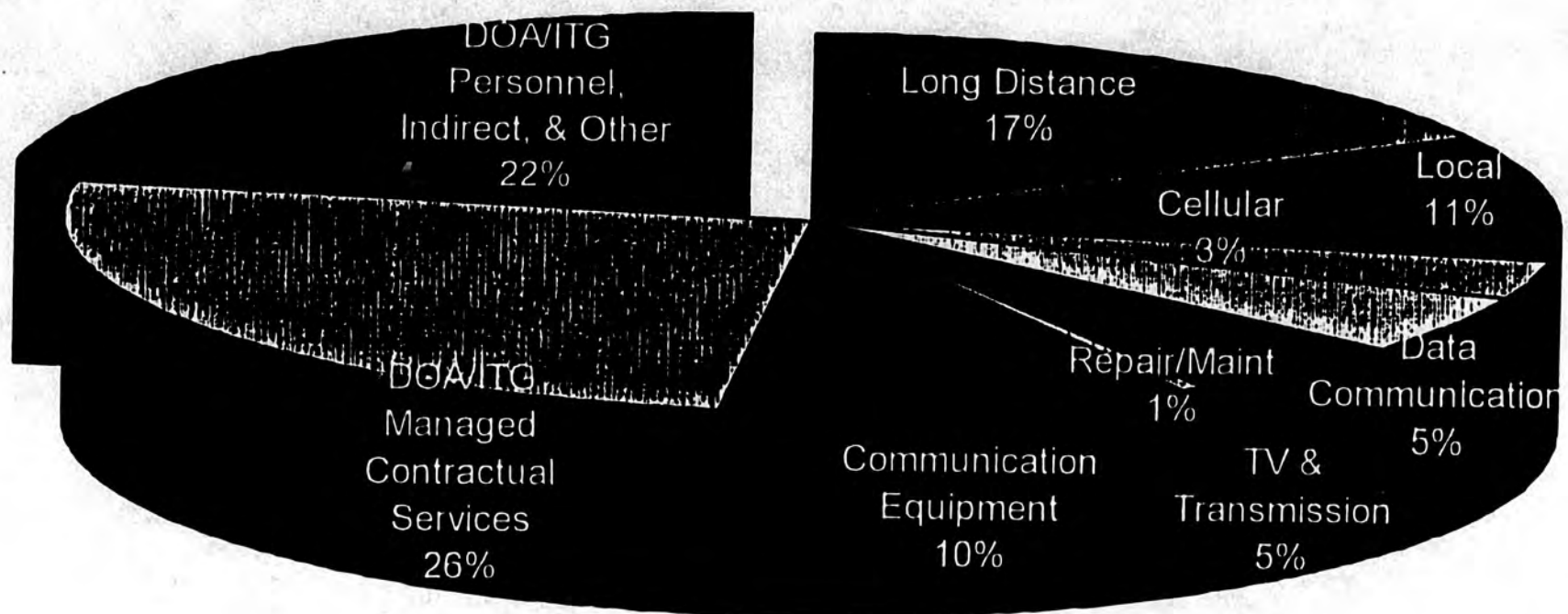


Contracting Environment

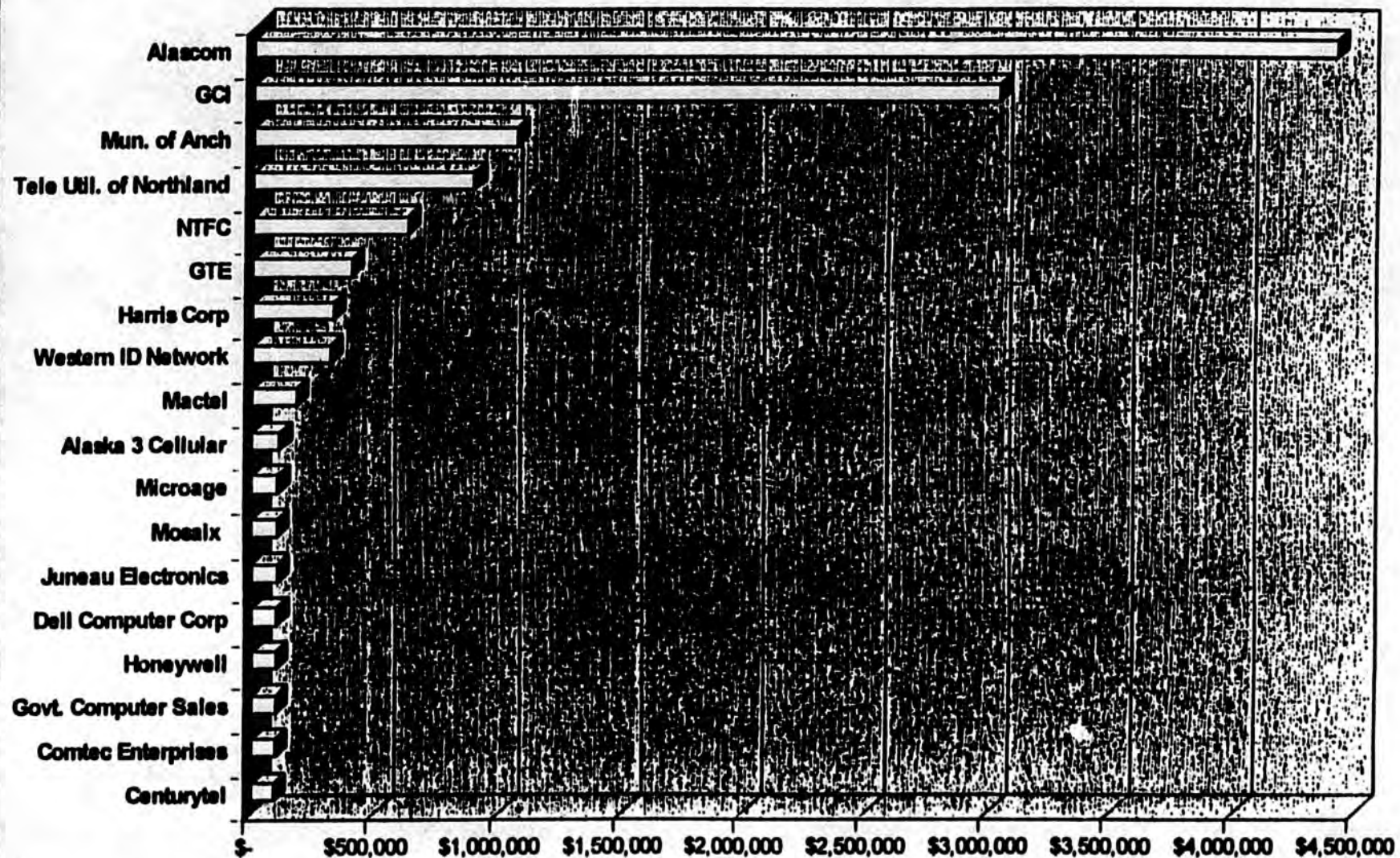
- The following multi-year contracts have or will expire within the next year:
 - Data communications(Frame relay)
 - Long Distance services
 - 800 or toll-free service
 - Local Phone moves, adds, changes
 - Telephone switch maintenance and repair
 - Internet Service

The Whole Ball of Wax

Annual State Telecommunications
Costs= \$26.6M

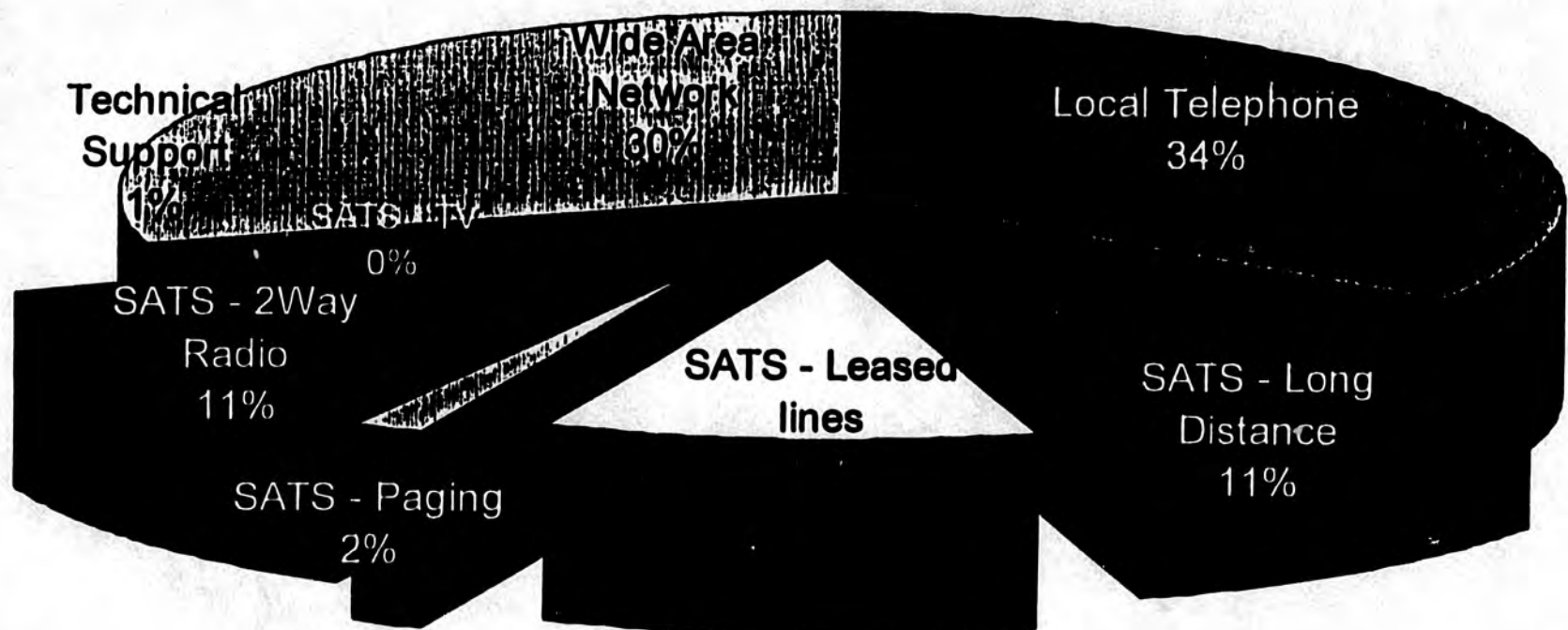


Who's Getting the Contracts Now?



Services Managed by ITG and Costs

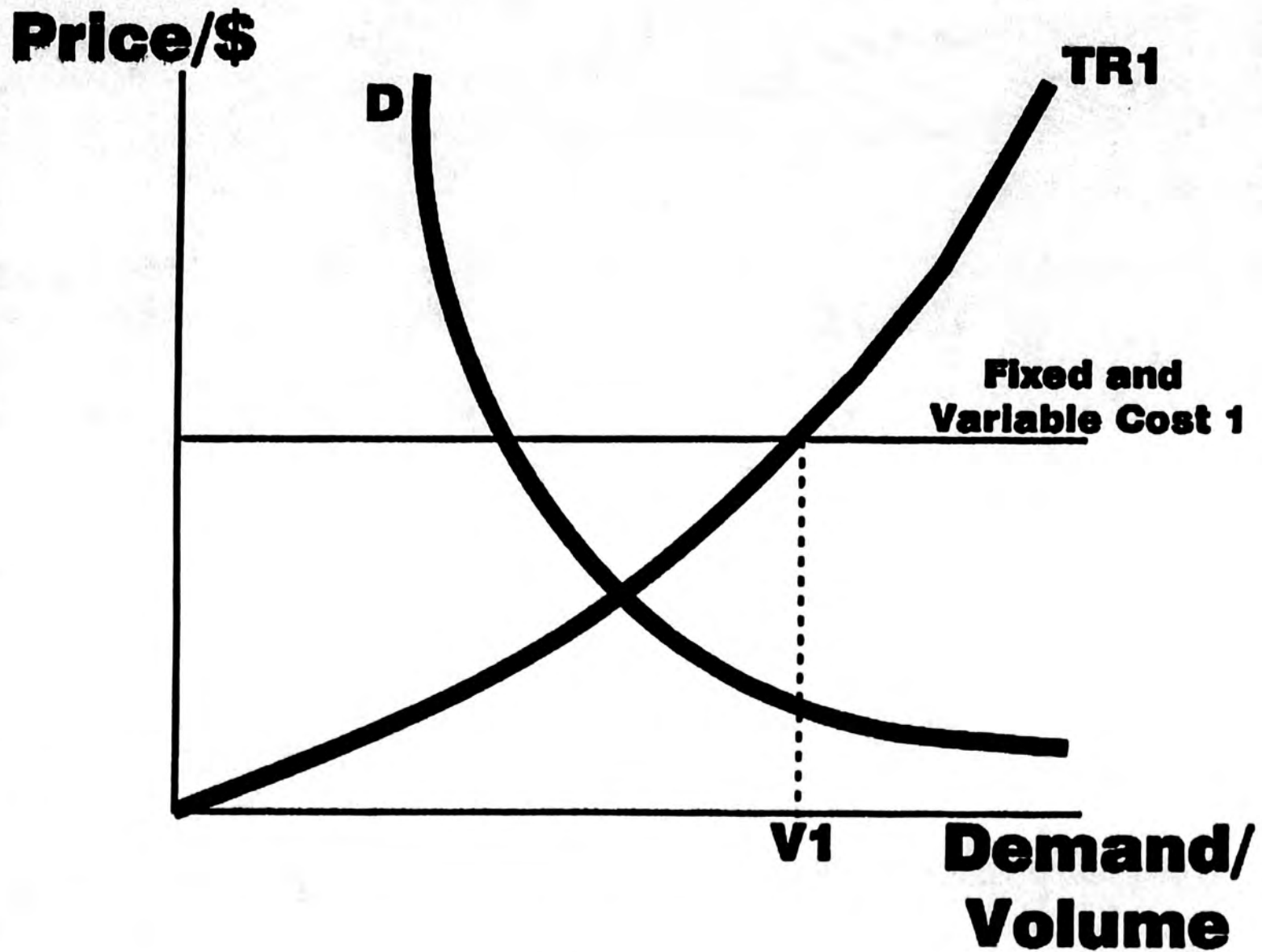
Annual DOA/ITG Costs=\$12.8M



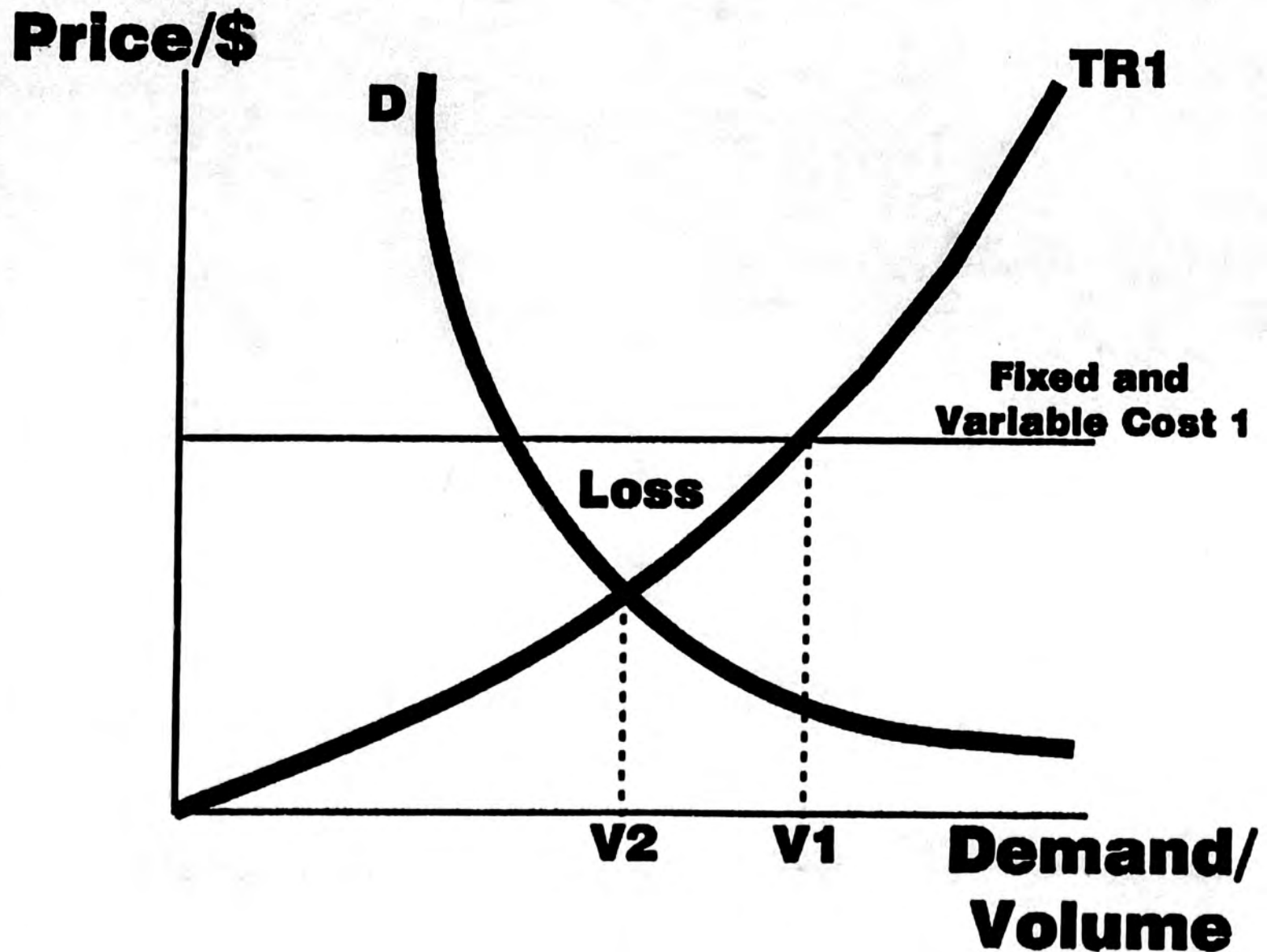
SATS Service Area Map



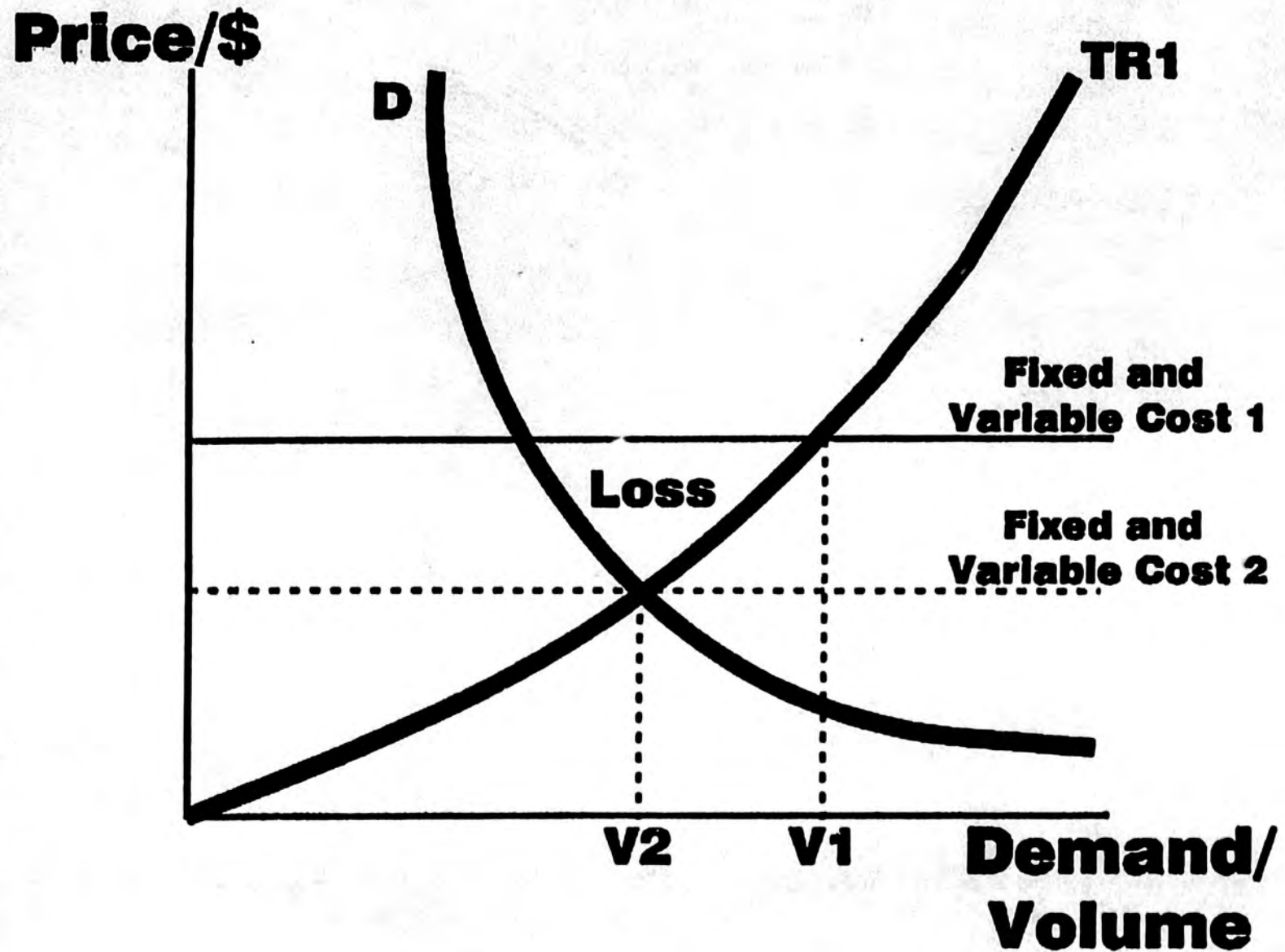
Options within current structure



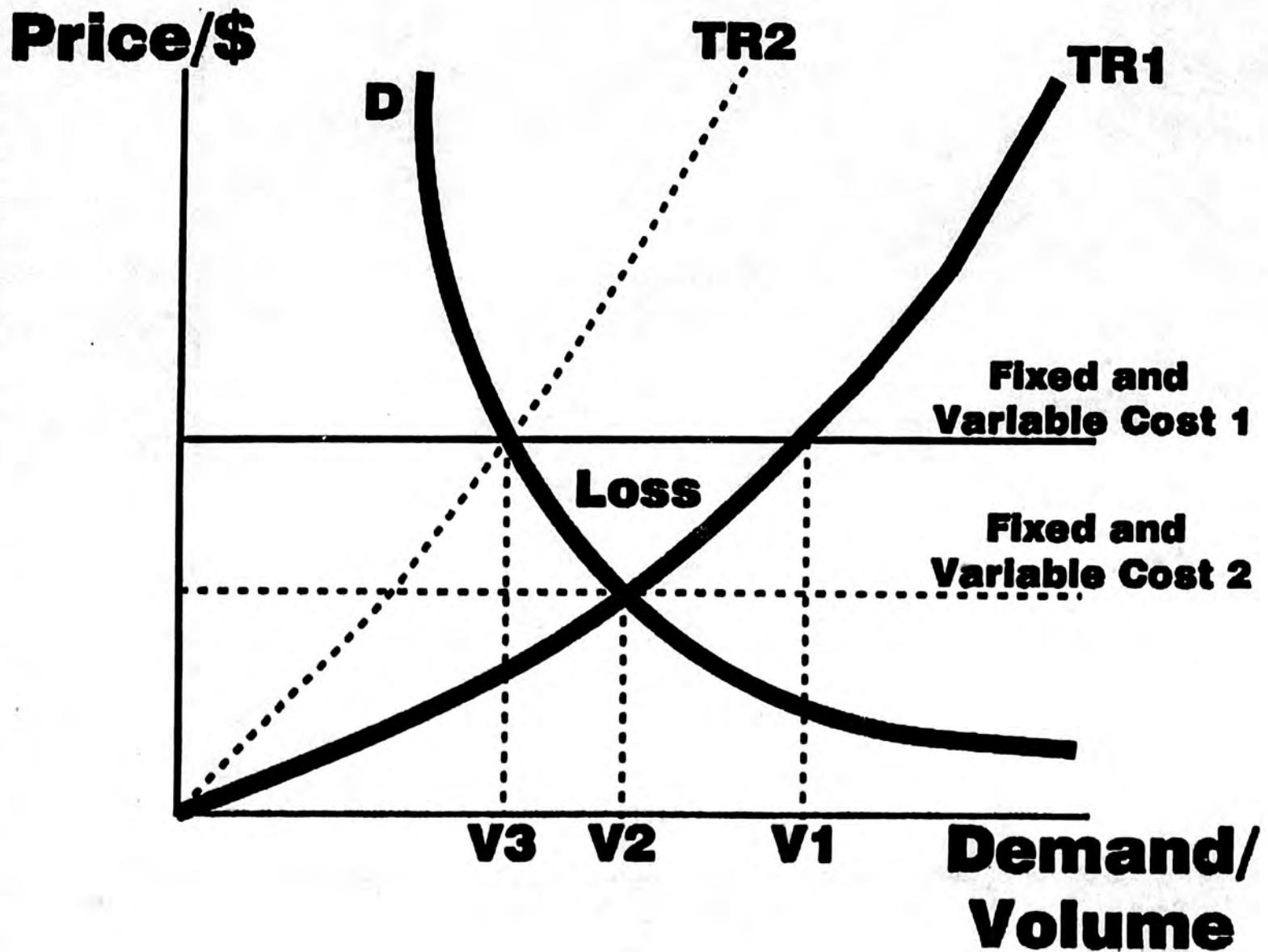
Options within current structure



Options within current structure



Options within current structure





Conceptual Process:

Develop comprehensive telecommunications Request For Proposal (RFP) for long term (3-5 years) contract.

- **Phase I: SATS inventory, assess land and legal issues surrounding allowable uses and sublease.**
- **Phase II: Establish budget, develop consultant RFP and contract with consultant to develop and execute RFP process.**



Conceptual Process:

- **Phase III:** Conduct multiple RFP work sessions with industry and state agencies to assure RFP meets bidder concerns/needs and that it has greatest likelihood to meet current and future state requirements.
- **Phase IV:** Award contract, complete conversion(s).



Conceptual Structure of Contract

- Successful bidder must provide complete range of telecommunication services currently needed or anticipated by the state over life of contract.
- Bidder can be one company or consortium.
- Bidder must factor use of SATS infrastructure in bid - any revenues earned from SATS will be split with vendor and state.



Conceptual Structure of Contract

- Any cost savings, below original bid, achieved over life of contract to be split with vendor and state.
- SATS remains under ownership of state.
- State employees will not be adversely affected by contract.



Required Outcome

- **Expanded partnership** with private sector to provide comprehensive telecommunications services.
- State should benefit from private sector flexibility in finding effective telecommunications solutions.
- Revenue sharing and cost reduction sharing offers state opportunity to benefit from continual efforts by vendor to increase profitability of contract.



Required Outcome

- Long term contract -- 3-5 Years.
- Agencies can focus on good solutions to business problems and leave bandwidth issues to telecommunications providers.
- Expansion of telecommunications capability in the state.
- State government will have access to best solutions to telecommunication needs.

Questions?



Commission on Privatization and Delivery of
Government Services

Department of Administration

Comprehensive Telecommunications RFP

Bob Poe, Commissioner

August 19, 1999



Privatization: ITG

Information Services Group

Recommendation: Do not privatize the ISG; likely candidate for outsourcing:

- Retain and control ownership of intellectual capital
- Maintain the integrity and confidentiality of the systems
- Outsourcing has many of the same benefits as privatizing with less loss of control

Advantages

- Preserve State ownership of highly customized mainframe systems
- High level of customization of mainframe systems
- More leverage when compared with privatization
- State maintains ownership of intellectual capital
- Similar services already exist in private sector
- Lower risk compared to privatization
- Outsourcing companies focus on savings
- Allows the State to focus on its core competencies

Concerns

- Services need to be performed within the State of Alaska, not Outside
- Cost of entry/transition
- Social & economic impact
- Less control than "insourcing"
- Breach in security

*From David Cattrill
15 Oct 99*

Appendix G

**Subcommittee For Privatizing State
Government Department of Administration**

Division of Finance

AKSAS accounting system is controlled within this Division. This is referred to as a centralized statewide accounting and payroll system. This centralized system for accounting and payroll may not be as centralized as the term refers. The following table shows the number of job types that are scattered throughout all the Departments of the State.

<u>Job Title</u>	<u>Number of Positions</u>
Accountants	119
Accounting Techs	228
Accounting Clerks	161
<i>Payroll Techs</i>	<i>2</i>

It appears that each department throughout the State government has its accounting clerks and accountants which process accounting transactions and payroll for each department feeding the information into the Division of Finance's AKSAS system.

Before investigating the benefits of out-sourcing the AKSAS system a detail study should be accomplished to see what and how accounting information flows from the departments to the Division of Finance. Some of the areas to be considered during the investigation would be identical, similar or a related task, functions, data collection and review of works schedules. May be possible to combine department accounting and payroll functions together to centralize activity and analyze the cost benefit or efficiency.

Once the detailed system is fully understood, then review overall activity for out-sourcing. Many not-for-profit, government entities and for profit companies are out-sourcing their accounting and payroll functions. The benefits of this action could be numerous. Out-sourcing should be considered if there is reduced costs, if employees can be re-deployed, better accounting practice could be achieved and there is increased performance. Also, out-sourcing eliminates recruiting and retention problems.

EG

**Subcommittee For Privatizing State
Government Department of Administration**

Division of Retirement and Benefits

Retirement and benefits activity has grown in private industry companies. Most middle to large businesses are now involved with employee benefit plans and programs. However, most businesses do not maintain the necessary employee tracking, calculation of benefits and the benefit plan updating themselves. These functions are out-sourced to companies which are experts in this field.

The subcommittee feels that some of the activities of Retirement and Benefits should be reviewed to determine if out-sourcing would be cost effective and improve reporting to the various plans beneficiaries.

To do this, the following are some items to be considered:

1. Identify what benefit plans are involved.
2. How is the numerous benefit calculations and reporting activity accomplished?
3. Are the benefit plans similar so that the various plans be combined?
4. What IT advancements, if applied to the benefit plans could improve reporting and reduce cost.
5. What companies in this business could perform the necessary reporting?

2. PURCHASE ALLIED EQUIPMENT:

Folder	Addressing Machine & Software	
Scales	Mailing Machines	Inserters

Estimated costs:

Purchase every 4 to 7 years @ \$120,000.00 to \$250,000.00 with service and software @ \$15,000.00 to \$30,000.00 per year. Or lease for approximately \$4,400.00 per month for 5 years.

3. OUTSOURCE MANY MAILROOM FUNCTIONS:

Folding	Printing
Inserting	Addressing
Barcoding/Sorting	Imprinting of Postage

ADVANTAGES:

- No Equipment Costs
- No Service Agreements
- Less Personnel
- Can Be Supplied in State Facility or in Vendors Location
- Postage Cost Control
- Fringe Benefits Reduced



STATE OF ALASKA MAILROOMS

Appendix H

Date
12/4/91

Jessie Hornum

Need to survey State mailrooms (Anchorage, Juneau, Fairbanks)

North Mail, Inc. cost to State \$5,000 (no charge if North Mail outsource is the solution).

Postal Discounts will average up to 22% if the State has the ability to barcode and the State has met Postal Regulations minimums per mailing.

1. TAKE IN MAIL FROM ALL DEPARTMENTS (Anchorage, Juneau, Fairbanks) & PURCHASE EQUIPMENT TO PROCESS PRE-ADDRESSED MAILPIECES.

Costs are—Per Location—and Equipment to accomplish this:

Automatic In-Motion Rate Selection	\$16,000.00—\$25,000.00
MLOCR Barcode Printer/Sorter	\$49,000.00—\$160,000.00
Software up-dates Quarterly	\$10,000.00—\$19,000.00 annually
Service Agreements	\$4,500—18,000 annually

Other recommended equipment:

Folding Machines	Bursting Machine
Digital Electronic Printing	Banding Equipment
Addressing Equipment	Tabbing Machine

OPTIONS:

A. Continue with under-equipped mailrooms with 4 to 7 years replacement of equipment.

Service Agreements	Rate Changes
Personnel With Backup Staff	Paying Too Much For Postage

B. Set up local State operated central mailrooms (Juneau, Anchorage & Fairbanks) with MLOCR barcode printers/sorters or have every database certified to print current barcodes. Then have the mailroom merge the mail for submission to the Post Office.

Estimated costs:

Up-Date all databases @1,200.00 per year
Purchase Equipment for \$100,000.00 plus \$9,000.00 per year for software updates or lease for \$3,800.00 to \$4,000.00 per month for 5 years.



Appendix I

09/23/1999
12:09 PM

Nancy

From: Marsha Hubbard, Director [marsha_hubbard@admin.state.ak.us]
Sent: Wednesday, September 22 1999 6:40 PM
To: Joseph Henri
Cc: Andree McLeod
Subject: Re: State Studies on Travel

Joe, here is the response I sent to Andree regarding her request. This really does cover our work on this issue. If you have other approaches you would like us to investigate we would be happy to do so. Thanks

Ms. McLeod:

Thank you again for your interest in efficiencies in State procurement. Over the years, the Division of General Services has made numerous attempts to establish convenient and cost effective contracts that help to hold down travel costs. For example, we currently have auto rental contracts in place with very favorable rates. We estimate that this contract saved us approximately \$750,000 in 1998.

Airfare is the biggest and most obvious target for savings. The State spends approximately \$12 to \$14 million per year on airfare, the vast majority with Alaska Airlines. When competition existed in the Juneau-Anchorage market, we purchased blocks of tickets at reduced rates. We also worked with Markair and Alaska Airlines, and eventually issued an Invitation to Bid (ITB) for city-pair fares in May of 1992. Unfortunately, neither airline responded to our ITB. Shortly after that, Markair withdrew from the market and filed for bankruptcy.

In 1993, we participated in a cooperative procurement with the National Association of Purchasing Officials (NASPO) for discount airfares. As a result, we benefitted from the discounts offered under a two year contract with Northwest Airlines between Anchorage, Seattle and Washington, DC. Unfortunately, Alaska Airlines again chose not to participate in that procurement.

In an attempt to generate competition in the Juneau-Anchorage market, we met several times with officials of Reno Air. Reno Air declined to enter our market and was eventually purchased by American Airlines.

We have also participated in several meetings with Alaska Airlines officials in an attempt to forge agreements to reduce our airfare expenditures. As Commissioner Poe mentioned in our meeting with the subcommittee, Alaska Airlines officials were not helpful and have little motivation to work with us to reduce our airfare costs.

Since such a high percentage of our airfare expenses are incurred on the Juneau-Anchorage route, and since Alaska Airlines is the only carrier servicing that route, our options for cost savings are limited. We have considered the idea of contracting for chartered flights, but have decided that the detrimental effects of removing our volume from the commercial throughput in Southeast Alaska would harm the citizens and communities that depend on regularly scheduled jet service in the State.

Another idea that we've considered over the years is consolidating on one, or several travel agents for all our business. As Commissioner Poe explained in our meeting with you, consolidating travel agents would provide several benefits to the State, including reduced costs. However, the effect on the many small businesses, and therefore, the

09/23/1999
12:09 PM

economy in Alaska has so far prevented us consolidating in this area.

I hope this answers your questions adequately. As you can see, we have gone to considerable efforts to reduce travel costs. Unfortunately, the lack of competition and unique nature of the travel business in Alaska limits our ability to make progress in this area.

Joseph Henri wrote:

> Dear Marsha,
> At the 19 August meeting of the Administration subcommittee on
> privatization, which you kindly attended, we discussed the state travel
> expense and possible ways to lessen it. You said that your division had
> done considerable research on the subject, but that it was probably archived
> by now. We would very much like to have that material available to our
> committee. Not knowing what volume of paper, charts, etc. we are talking
> about, I hesitate to ask you "to fax it." Would you please let me know how
> much material there is, and how we may access it. Thanks very much, Marsha.
> Kind regards, Joe Henri



Appendix J

11/09/1999
9:26 AM

Nancy

From: Bob Meiners [Bob_Meiners@law.state.ak.us]
Sent: Friday, October 15 1999 2:17 PM
To: Representative_John_Cowdery@legis.state.ak.us
Subject: Re: E-Mail contact for Andree McLeod

Alaska Dept. of Law

Good afternoon Andree! It was a pleasure speaking to you this morning. I found the OMB website where circular A-87 is located: <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a087/toc.html>

I am afraid I couldn't quite figure out how best to download it so I am hoping you can access it directly and pull off what ever portions you may need. Also, while I am on the subject, if you are really interested in talking to someone who knows all about these federal compliance issues, you might want to contact Nikki Rouget in Legislative Audit (or is it Leg. Finance?).

That said, I'm not sure I can cover (or remember) everything we discussed, but I'll try to summarize some of the main points:

First, the Department of Law currently uses an off-the-shelf case management / timekeeping & billing system called Javelan®. This system was developed and is supported by Barrister Information Systems, Inc. of Buffalo, NY (you can check out their website if your interested: <http://www.barrister.com/index.htm>) and replaced an aging mainframe application that had effectively exceeded its useful life and original design parameters. The new system went live and has been in use since January.

It had long been recognized by this department (and many of our client agencies) that our previous mainframe-based case management / timekeeping & billing system was woefully inadequate and in dire need of replacement. This same conclusion had also been reached by management and financial auditors from the Division of Legislative Audit, the Governor's Office of Management & Budget, the Conference of Western Attorneys General, and various outside consultants. In addition, the system was also plagued with the "Year-2000" problem and for this reason alone was in need of replacement.

Each of the parties referred to above recommended that the department replace this cumbersome antiquated system with a modern fully integrated case management / timekeeping & billing system that was capable of taking full advantage of the department's significant investment in desktop computing resources and client/server network technology.

Originally, our old system was designed to be used by only those sections within the Civil Division who worked for agencies that depended largely on federal reimbursement for their legal services. After a series of statewide federal compliance audits, the department's Civil Division was essentially forced to begin "full-time" timekeeping (i.e., where all attorneys and paralegals would maintain daily timesheets regardless of their principal client). Unfortunately, this added load to the system only compounded the pre-existing technical problems and design weaknesses.

Although the new system is far from perfect, it has vastly reduced the rate of data entry errors on the part of our timekeepers and significantly shortened the time in which we can complete our monthly billing cycle. A process that previously took from four to eight weeks to complete can now be done in less than two. In addition, custom management reports drawn from the SQLServer database can easily be prepared by "non-technical" people such as myself using Crystal Reports or other similar tools.

Please let me know if you have any other questions.

Bob Meiners, Deputy Director
Dept. of Law, Administrative Services Div.
Ph: 907-465-3676 Fax: 907-465-5419
E-mail: Bob_Meiners@law.state.ak.us

>>> Representative John Cowdery <Representative_John_Cowdery@legis.state.ak.us> 10/15 11:31 AM >>>
Bob,

Here is the e-mail contact for information to be sent to Andree McLeod.
Thank you for your time on this. I appreciate the way you articulated this complicated time-keeping system. If you would only put it down in

**Commission on Privatization and Delivery of Government Services
Department of Administration Subcommittee**

Recommendation:

Establish a cost accounting system that identifies all costs associated with tasks performed by state employees.

Rationale:

Direct and indirect costs for specific services can be tracked by the State of Alaska Accounting System (AKSAS), as long as the accounting structure is set up in such a way that the "right data falls into the right buckets." At this time, only DOT/PF uses the AKSAS, Time and Equipment monitoring system. Decision-makers must know the real costs of services. It's impossible to determine efficiency, cost effectiveness or cost benefit without accurate, factual, quantifiable, and verifiable information.

Barriers:

Non-standardized use of AKSAS accounting structures by various departments. Presently, each department has the option of defining accounting structures.

The State of Alaska Accounting system (AKSAS), Time and Equipment (T&E) automated system calculates the costs related to hours worked, equipment usage and other work units reported on timesheets, and distributes the cost through the AKSAS reporting structures according to the timesheet financial coding.

Labor costs are calculated for hours worked based on the payroll rates maintained in the statewide payroll system master file. In addition to the base wage rate (hourly salary), overhead rates can be established for benefits, insurance, etc.

Equipment costs are calculated for equipment use based on the applicable rate for the individual piece of equipment, in the equipment master file, which is maintained in AKSAS. Equipment master file records are created and maintained through on-line equipment maintenance by the agency.

Through management reporting, statistical and performance reports can be created using T&E data. Hours and other work units are maintained in AKSAS where they are available for display and for performing calculations.

Experienced governments have reported that detailed cost analyses are more time consuming and costly, but the payoff comes in their ability to better evaluate competing proposals and identify cost savings.

CED

COMMUNITY +
ECONOMIC

DEVELOPMENT

**COMMISSION ON PRIVATIZATION
AND
DELIVERY OF GOVERNMENT SERVICES**

**SUBCOMMITTEE REPORT
ON THE
DEPARTMENT OF COMMUNITY
AND ECONOMIC DEVELOPMENT**

NOVEMBER 18, 1999

**Subcommittee Members: Lee Wareham, Co-Chair; Craig Johnson, Co-Chair;
Chris Anderson, Jim Crawford, Rick Davidge, Dale Fox, Gene Furman,
John Haxby, J.D. Holmes, Henry Kim, Linda Leary, Steve Levi, Mel Nichols,
Justin Ripley, Steve Rouse, Jim Sanders, Dennis Schlotfeldt, Don Schroer,
Steve Smirnoff, Don Smith, Bob Southall, Kathryn Thomas, Ken Zong**

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT SUBCOMMITTEE REPORT

TABLE OF CONTENTS

DCED Departmental Information	1
DCED Subcommittee Recommendations	4
DCED Departmental Response to Recommendations	8

Appendices

Appendix K
SB 107

Appendix L
AS 36.30.322-338

Appendix M
Steve Rouse Memo dated October 25, 1999

Appendix N
Steve Levi Comments

Appendix O
DCED FY2000 Operating Budget Summary

Appendix P
DCED Items I - X

Department of Community and Economic Development

I. BRU and Component Names, FY 2000 Budget

<u>Regulatory Commission of Alaska</u>	<u>Regulatory Commission of Alaska</u>
<u>Insurance</u>	<u>Insurance Operations</u>
<u>Banking, Securities and Corporations</u>	<u>Banking, Securities and Corporations</u>
<u>Occupational Licensing</u>	<u>Occupational Licensing</u>
<u>Executive Administration</u>	<u>Commissioner's Office Trade and Development Administrative Services</u>
<u>State Facilities Maintenance</u>	<u>State Facilities Maintenance</u>
<u>National Forest Receipts</u>	<u>National Forest Receipts</u>
<u>Municipal Revenue Sharing</u>	<u>State Revenue Sharing Municipal Assistance</u>
<u>Local Government Assistance</u>	<u>Local Government Management</u>
<u>Community and Economic Development</u>	<u>Community and Economic Development</u>
<u>Tourism Development</u>	<u>Tourism Development</u>
<u>Alaska Science and Technology Foundation</u>	<u>Alaska Science and Technology Foundation</u>
<u>Alaska Tourism Marketing Council</u>	<u>Alaska Tourism Marketing Council</u>
<u>Investments</u>	<u>Investments</u>
<u>Alaska Industrial Development and Export Authority</u>	<u>Alaska Industrial Development and Export Authority Alaska Industrial Development Corp Facilities Maintenance Alaska Energy Authority Operations And Maintenance</u>
<u>Alaska Seafood Marketing Institute</u>	<u>Alaska Seafood Marketing Institute</u>
<u>Alaska Aerospace Development Corporation</u>	<u>Alaska Aerospace Development Corporation</u>
<u>Rural Energy Program</u>	<u>Energy Operations Power Cost Equalization</u>
<u>Circuit Rider Program</u>	<u>Circuit Rider</u>

III. Total Budget: \$126.2 million.
See Appendix O for details.

IV. Total Revenue:
See Appendix O.

V. Constitutional and Statutory Provisions governing Agency Operations:

Article X, Sections 12 and 14, AK Constitution
Section 14(c)(3), Public Law 92.203

50 CFR 657.20,	AS 25.27.244	AS 43.76.110-130
675.27, 676.24	AS 26.15	AS 44.33
AS 05.05	AS 27.09	AS 44.62
AS 05.10	AS 29	AS 44.81.270(d)
AS 06	AS 32.05	AS 44.83
AS 08	AS 32.11	AS 44.88
AS 10	AS 34.35	AS 44.99.100
AS 14.15.180	AS 36.30.332-338	AS 45.55
AS 14.17.140(2)	AS 37.17	AS 45.57
AS 14.40	AS 42.05	AS 45.77-98
AS 16.10.300-370,	AS 42.06	AS 46.03.375
500-560	AS 42.25.100-178	AS 46.13.020
AS 16.51	AS 42.45	
AS 21	AS 43.70	

VI. Agency Mission, Goals and Objectives: See Appendix P.

VII. Number of Employees: See Appendix O for details.

465 Permanent Full Time
10 Permanent Part Time
1 Non Permanent

VIII. Describe technology to perform mission: No unusual or extraordinary technology used.

IX. List Agency Contracts: There are innumerable contracts by the departments several divisions and agencies, and it is impossible to compile this information in a reasonable time.

X. Identify existing privatization practices:

ATMC and the transition into the ATIA

DIVISION OF TRADE AND DEVELOPMENT

Made in Alaska program-contracted out with the private sector by competitive bid
Japan trade representation- contracted out with the private sector by competitive bid

Korea trade representation- contracted out with the private sector by competitive bid
Taiwan trade representation- contracted out with the private sector by competitive bid
Russian trade representation- contracted out with the private sector by competitive bid

Research projects-such as the Halibut Farming Study
Computer map project-contracted out software programming

Occupational Licensing
Contracts out their exams for entry to occupations/renewals etc.

Division of Investments
Contracts out for technical assistance with the Alaska Business Development Center

Division of Tourism
Shared contractors with DTD in Asia
European contract representation

AIDEA-quasi public-private agency

ASTF-quasi public-private agency

AADC-quasi public-private agency

ASMI-quasi public-private agency, they also do contract representation in Asia and Europe



RECOMMENDATIONS

Department of Community and Economic Development Subcommittee

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

DIVISION OF TOURISM

Recommendation

Privatize tourism functions as envisioned by SB107 (CH 29, SLA99) (see Appendix K)

I. Pertaining to Alaska Tourism Information Association

- a. Development and approval of multi-year marketing plan to include domestic, international, and travel trade markets.
- b. Implementation of marketing plan to include production, placement and distribution for all markets and types of media, including the web.
- c. Fulfillment of consumer, travel industry, press and media information requests for all markets.
- d. Developing markets including international.
- e. Participation in domestic and international travel trade (i.e. NTA, Pow Wow, etc.).
- f. Market research including conversion studies and travel trend analysis.

II. Pertaining to the Division of Tourism

- a. Administration of fiduciary, contract and regulatory compliance issues involving the ATIA marketing contract
- b. Communication and coordination with outside governmental agencies.
- c. Implementation of rural tourism development and training programs, limited to traditional small business development functions.
- d. Leadership in State of Alaska inter-agency advocacy and coordination (i.e. Marine Highway, Fish & Game, DOT/PF).
- e. Administration of visitor statistics program as lead agency, with consultation from ATIA for marketing aspects of study.

III. Pertaining to the Alaska State Legislature

- a. Adequately fund State's share of "New Millennium Plan" budget (\$5 million).

Rationale

Every state in the nation and most countries in the world have some version of a Division of Tourism employing varying degrees of privatization in the quest for economic development. Of the 50 states, Alaska has fallen from a position of 7th to 29th since 1991 in total tourism spending. Reduced state investment has paralleled flat or declining performance in many sectors of Alaska tourism. It is critical to adequately fund tourism marketing efforts if we as a state hope to encourage positive economic development.

For over 25 years, statewide cooperative marketing has been accomplished through various private/public partnerships involving the industry and the Division of Tourism, most recently as a

three-way partnership between AVA, ATMC and DOT. Legislation was passed last session to further privatize this program by allowing the Division of Tourism to contract with a private trade association for marketing functions, thereby eliminating the ATMC and parallel marketing efforts administered by the Division. This "New Millennium Plan" calls for the formation of the Alaska Tourism Industry Association that would ostensibly be the organization contracting for all marketing functions. Significant State funding will be necessary in the formative years of ATIA, as it will take years to reverse the cumulative damage of diminished spending. Public funding is appropriately used to make participation affordable for the thousands of smaller Alaska businesses that depend heavily on cooperative marketing.

ALASKA FILM COMMISSION

Recommendation

There should be an Alaska Film Commission.

SEAFOOD MARKETING

Recommendation

All seafood marketing and promotion activities should be placed under Alaska Seafood Marketing Institute

INTERNATIONAL TRADE

Recommendations

1. A coordinating committee consisting of the heads of all state-funded organizations involved in international trade and the director of DTD should be formally established.
2. State-funded trade organizations should be strongly encouraged, where ever appropriate and practical, to carry out what amounts to 'interagency' contracts between each other, in areas of natural mission overlap, where the lead agency lacks an internal capability, and a sister organization possess it.
3. DTD should lay down its role of day-to-day trade assistance function in international trade and focus on trade policy, coordination and oversight of state-funded organizations, and critical government-to-government relations.
4. It is critical that DTD not be burdened with the role of micromanaging the activities of the state funded organizations.

MUNICIPAL AND REGIONAL ASSISTANCE DIVISION (MRAD) (LOCAL GOVERNMENT)

Recommendations

1. Department of Community and Economic Development, DCED, appropriately advise all local governments of the resources available to any municipality over the Internet and through a host of state and national trade and professional organizations.
2. Local communities should be encouraged to interact and share problems and solutions with similar communities in Alaska and other rural communities.
3. DCED contract out to the private sector some services that are now performed by personnel within its divisions.
4. MRAD shall adopt a budget objective to steer each community towards self-sufficiency in managing its own utilities.
5. DCED should privatize the National Flood Insurance Program consistent with national efforts. Damaged structures should receive one payment following a flood. Properties that are rebuilt in a "flood prone" location should not receive further assistance.

ECONOMIC DEVELOPMENT

Recommendation

1. Eliminate the Alaska Products Preference Program. (A.S. 36.30.322- 338) (see Appendix L,M)
2. Eliminate the Recycled Products Preference Program. (A.S. 36.30.322- 338) (see Appendix L,M)
3. Eliminate the Forest Products Preference Program. (A.S. 36.30.322- 338) (see Appendix L,M)

THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

Recommendation

Consolidate Alaska Industrial and Export Authority and Alaska Housing Finance Corporation.

Rationale

AIDEA is a state lender for commercial and industrial purposes. Its net worth as of June 30, 1999 was \$846,577,244. If the lending functions of AIDEA are transferred to the Alaska Housing Finance Corporation, the \$846,577,244 could be reappropriated to the General Fund or the Budget Reserve. The fact is that Alaska Housing Finance Corporation with a net worth over double the size of AIDEA, is sufficiently capitalized to handle both the capital requirements of AHFC and AIDEI functions.

With a \$5,074,700 BRU budget, the operational cost savings to the state are estimated to be half or **\$2.5 million** since the administrative functions that are duplicated would simply be eliminated. Lending functions, be they in the housing, commercial or industrial arenas, can and should be consolidated at AHFC. AHFC is well respected on Wall Street. Demonstrated by the smooth merger of the Alaska State Housing Authority a few years ago, AHFC can manage a merger of this size.

The transfer of the net capital of AIDEI does no violence bold holders of AIDEA. There may also be a potential of AHFC, with a stronger presence on Wall Street, of doing some bond refunding which may accelerate the pay off of current AIDEI debt and or lessen the cost. AIDEA, as a division of AHFC, can perform its total existing functions with no loss in service to its constituents.

Adoption of our recommendations create combined operational savings of an estimated **\$5.5 million**. Much greater, obviously, is the financial benefit to the state of transferring the excess capital of AIDEI into the General Fund or the Budget Reserve. The **\$846.6 million** can postpone by several years the necessity for either the reinstitution of income taxes or spending a portion of the earnings of the Alaska Permanent Fund on state government.

REGULATORY AGENCIES

THE DIVISION OF INVESTMENTS

Recommendations

The functions of these department personnel are similar to the functions of the Division of Investments personnel in the Department of Revenue. **We recommend consolidation of the divisions into one department.** We further recommend that the loan servicing functions of this division be put out for public bid to qualified seller servicers of Alaska Housing Finance Corporation. The savings due to the recommended consolidation of the divisions and the privatization of the functions of this division are estimated as **\$3 million**.



**Department of Community
and Economic Development**

Response to

Commission on Privatization and Delivery of

Government Services

Subcommittee Report



Tony Knowles, Governor

Department of Community and Economic Development

Office of the Commissioner

P.O. Box 110800, Juneau, AK 99811-0800

Telephone: (907) 465-2500 • Fax: (907) 465-5442 • TDD: (907) 465-5437

Email: questions@dc.ed.state.ak.us • Website: www.dced.state.ak.us/

November 17, 1999

Commission on Privatization and Delivery of Government Services
Senator Jerry Ward, Co-Chair
Representative John Cowdery, Co-Chair
716 West 4th Ave.
Anchorage, AK 99501

Re: DCED Response to Subcommittee Recommendations

Dear Commission Members:

The Department of Community and Economic Development submits these comments in response to the draft Subcommittee Report on the Department of Community and Economic Development that was received by the department on November 16, 1999. Because of the limited time given to the department for this response, it is necessarily only a preliminary response to the many recommendations made. I will be in attendance at the Commission meeting tomorrow, November 18, when these recommendations are scheduled to be taken up, and I will be available at that time to answer any questions and assist the commission in whatever way I can in its deliberations. I have organized our comments in the order the various agencies and divisions are addressed in the draft report.

TOURISM

We agree that State tourism functions should be carried out in the manner set forth in the new legislation, passed in 1999. The bill that was passed is fairly clear about the respective roles of the State of Alaska, through the Department of Community and Economic Development (DCED) and Division of Tourism. DCED is responsible for identifying components of the marketing plan and approving the plan. Pursuant to state statute, the Department will enter into a contract, *not a grant*, with a qualified trade association (QTA), to implement a tourism marketing plan. We anticipate that the Alaska Travel Industry Association (ATIA, incorrectly identified as the Alaska Tourism Information Association in the report) will be the QTA. This contractual relationship requires a reasonable amount of responsibility and oversight over the use of public funds including the identification of deliverables and performance measures. Many of the issues regarding implementation of the tourism program, such as

identification of deliverables and performance measures. Many of the issues regarding implementation of the tourism program, such as whether the QTA will choose to perform a particular function, will be addressed through the contract negotiation process. If there are any components of the plan that the QTA refuses to accept and perform as part of the contract, DCED can and will look elsewhere to have that portion of the plan conducted. Any speculation at this time on the results of the contract negotiations and the details of the respective responsibilities of the QTA and the state under that contract is premature at this time.

Tourism marketing in Alaska is currently primarily conducted via multiple contracts with the private sector. Under this new legislation, these contracts will be consolidated into a single contract with the QTA. There will continue to be the need for the Division of Tourism to conduct research, transportation and land use planning, and business and community tourism development technical assistance, especially in rural areas. These roles were clearly maintained in the legislation that was passed.

ALASKA FILM COMMISSION

The administration fully supports the continuation of an Alaska film program. As there has never been a "film commission" in Alaska, it is unclear whether or not this recommendation envisions anything different than the current structure.

SEAFOOD MARKETING

Implementation of this recommendation is impossible given current legal and practical limitations on the activities of the Alaska Seafood Marketing Institute (ASMI). Under federal law governing the funding of its export program, ASMI is permitted to operate overseas only in countries approved by the US Department of Agriculture. By statute, ASMI cannot promote the seafood products of a particular company, brand or region of the state. Also, because ASMI's board is comprised of representatives of several private seafood companies and fishermen engaged in all aspects of Alaska's fishing industry, ASMI cannot engage in activities that might arguably favor one company over another.

Therefore, ASMI's main focus and statutory mandate is seafood marketing and quality enhancement. ASMI promotes all species of Alaska seafood to retailers, food service (hotels, restaurants and institutions) and consumers in the United States and certain countries overseas. The organization promotes Alaska seafood in a "generic" manner, creating the opportunity for all industry members to sell through ASMI promotions.

In contrast, the main focus for DCED, through the Division of Trade and Development (DTD), is export promotion, which ASMI is precluded from doing. DTD works to connect Alaska exporters with overseas importers, primarily in Asia. DTD is able to work with individual companies as well as organizations seeking to market a "regional" brand of fish products. The division also works closely with individual companies to find markets for their value-added fish products through trade

shows, trade missions, catalogs, and visits to companies. All of these promotional activities would be eliminated if the proposed recommendation is implemented.

INTERNATIONAL TRADE

Virtually every state in America has a state-funded, state-conducted international trade program. The legislatures and administrations support strong international trade programs because they understand how important trade is to the economic well being of their states. A reduced or weakened trade program by the State of Alaska would automatically place Alaska companies at a competitive disadvantage to competitors from other states (and countries) who can call upon not only their own corporate resources but also strong support from their government trade agency.

The Division of Trade and Development (DTD) possesses unique capabilities to assist Alaska companies identify and pursue trade opportunities in the markets most important to Alaska. The division has three in-state trade specialists who focus their efforts on specific markets. Markets covered are Japan, Korea, China, Taiwan, Canada and Russia. DTD's specialists have knowledge on how to do business in these markets and can provide both information and assistance to companies seeking to initiate or expand exports to those countries. While there are several other organizations in Alaska that provide trade services, we are not aware of any other that provides the country-specific expertise provided by the division. Also, only official State representatives can provide government-to-government support often necessary for private industry to succeed in foreign countries.

Those who benefit most from these services are the small and medium size companies that are seeking to grow their business and expand into new markets. These are the companies that DTD works with on a daily basis. Typically, these companies lack the research and marketing resources of larger companies and thus rely upon the State to provide these important services.

It should also be noted that the efforts of DTD's in-state country specialists are complemented by the work of the State's contract trade representatives in Alaska's key export markets. It is an effective combination providing convenient in-state access to information and service matched with knowledgeable in-country assistance.

The State of Alaska has made a significant investment in developing these capabilities. The recommendation by the subcommittee that the State remove itself from day-to-day trade assistance by eliminating these functions would represent an unnecessary waste of money and years of gained expertise. It would serve to deny these services to the companies who need them most as they strive to be globally competitive. Further, the State has an obligation to provide services to all Alaskans, not only to those who are members of private membership organizations.

MUNICIPAL AND REGIONAL ASSISTANCE DIVISION

Two of the recommendations relating to the Municipal and Regional Assistance Division (MARAD), numbers three and five, are not consistent with the Department's understanding

of what was adopted by the sub-committee. Recommendation number three is that "DCED contract out to the private sector some services now performed by personnel within its divisions." Although this recommendation makes reference to the department and multiple divisions, this particular recommendation is under the heading of MARAD, and we therefore assume it relates to this division's activities.

A discussion around this issue did occur while the committee reviewed MARAD's operations. Initial discussion was favorable to the concept. However, when it was explained that less than 2 FTE's are associated with this service and that the division presently contracts with the private sector for such services, the recommendation was not adopted.

Recommendation number five is that the National Flood Insurance Program be privatized. Again, our understanding of what transpired was a discussion of the nature of the program, recognition that it was federal, and that the state had no ability to privatize the program. It was also noted that flood insurance is issued by private insurance companies.

Recommendation numbers one, two and four are consistent with the Department's understanding of what the sub-committee adopted and are endorsed by the department.

ECONOMIC DEVELOPMENT

The department does not object to the recommendations to eliminate the various Alaska product preference programs. However, it should be noted that this will not result in any budget reductions, since the department has no budgeted staff allocated to the programs at this time.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

The subcommittee never talked to AIDEA. It is clear that they do not have adequate information about AIDEA's programs (or the programs that AIDEA manages for AEA) and its outstanding bonds or financial covenants to make a recommendation to merge AIDEA into AHFC without having a serious negative impact. Assuming the purpose of the proposal is not to curtail the mission of AIDEA or AHFC, before the recommendation is seriously considered it needs to be studied fully.

The number the committee recommends that can be freed up for other purposes is AIDEA's net worth on its 1999 Financial Statements. Net worth does not correlate to liquidity. The actual liquidity that could be freed up, if any, depends on bond covenants and long term contractual arrangements. The two corporations have hundreds of millions of dollars of bonds outstanding. The bonds are held by investors in Alaska and throughout the Lower 48. If this level of cash were extracted, it could have a major negative impact on the corporations, including a potential rating decrease. This decrease would not only affect outstanding bonds, but would also affect any future issuances, which in turn would decrease the ability to finance future projects because of the higher cost of capital. In turn, it would negatively affect the fulfillment of the missions of the corporations.

Additionally, AIDEA is not a lender but is a financier and owner of business and industrial enterprises and industrial projects that create jobs for Alaskans and help diversify the economy. We also manage the State's energy programs and projects, both small and large.

DIVISION OF INVESTMENTS

Like the situation with AIDEA, we have never been afforded the opportunity to discuss the functions of the Division of Investments (ADI) with the subcommittee or any of its members. The recommendations of the subcommittee, therefore, are based on inaccurate information and misunderstandings of the functions and operations of the division.

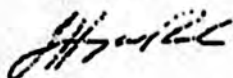
No Investments Division exists in the Department of Revenue. The Treasury Division in Revenue, which handles some investment functions for the State, does not perform direct lending and loan servicing. In fact, ADI currently services loans for the Treasury Division, as well as several other state agencies.

The operations of ADI are fully funded by the loan programs administered and serviced. The ADI administers and services primarily small business loan programs that were designed to strengthen and diversify Alaska's economic base through direct state lending in industries not adequately serviced by the private sector. Private sector financing is generally not feasible due to constraints on the types of collateral available or because of the high risk nature of these loans. These programs are unique to this division within state government; the Alaska Housing Finance Corporation, for example, is not a direct lender or loan servicer, instead using private banks to perform these functions with mostly home mortgages.

On several occasions, Alaska banks have been queried regarding the purchase of portions of ADI's loan portfolios, without much success. Private financial institutions are not interested in purchasing these loans because they involve high risk ventures, difficult to access collateral, junior lien positions, complicated statutory requirements, small loan amounts, risky credit histories, or federal reporting requirements. Therefore, privatization of this fully self-supporting service is impossible and would result in the elimination of this important economic development engine.

Thank you in advance for your consideration of these comments.

Sincerely,



Jeffrey W. Bush, Deputy Commissioner

Cc: Deborah B Sedwick, Commissioner
Mike Abbott, Office of the Governor



Appendix K

SB 107
(CH 29, SLA 99)

Department of Community and Economic Development Subcommittee

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

CS FOR SENATE BILL NO. 107(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered: 4/22/99

Referred: Rules

Sponsor(s): SENATE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to tourism and tourism marketing; eliminating the Alaska
2 Tourism Marketing Council; and providing for an effective date."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 * **Section 1. FINDINGS AND INTENT.** (a) The legislature finds that it is important for
5 the state to continue to work cooperatively with the private sector visitor industry to promote
6 Alaska as a tourist destination for the benefit of the citizens of the state.

7 (b) It is the intent of the legislature that all tourism marketing functions currently
8 performed by the Alaska Tourism Marketing Council and the Alaska division of tourism be
9 consolidated and performed under a contract with a single qualified trade association and that
10 the association provide a significant financial contribution to this cooperative tourism
11 marketing program, with the Alaska division of tourism performing primarily planning,
12 governmental coordination, and advocacy for tourism development.

13 * **Sec. 2.** AS 23.20.526(d)(8) is amended to read:

14 (8) in the employ of the state or a political subdivision of the state if

1 the service is performed by an individual in the exercise of duties

2 (A) as a judicial officer, the governor, the lieutenant governor,
3 a person hired or appointed as the head or deputy head of a department in the
4 executive branch, a person hired or appointed as the director of a division of
5 a department in the executive branch, an assistant to the governor, a chair or
6 member of a state commission or board, state investment officers and the state
7 comptroller in the Department of Revenue, [THE EXECUTIVE DIRECTOR
8 OF THE ALASKA TOURISM MARKETING COUNCIL,] an appointed or
9 elected municipal officer, any other elected official, the fiscal analyst of the
10 legislative finance division, the legislative auditor of the legislative audit
11 division, the executive director of the Legislative Affairs Agency, and the
12 directors of the divisions within the Legislative Affairs Agency;

13 (B) as a member of the Alaska Army National Guard or Alaska
14 Air National Guard or Alaska Naval Militia;

15 (C) as an employee serving on only a temporary basis in case
16 of fire, storm, snow, earthquake, flood, or similar emergency; or

17 (D) as an election official or election worker if the amount of
18 remuneration received by the individual during the calendar year for services
19 as an election official or election worker is less than \$1,000;

20 * Sec. 3. AS 36.30.850(b) is amended by adding a new paragraph to read:

21 (41) a tourism marketing contract awarded under AS 44.33.125.

22 * Sec. 4. AS 44.33.119 is amended to read:

23 Sec. 44.33.119. **Purposes.** The purposes of AS 44.33.119 - 44.33.135 [AND
24 AS 44.33.700 - 44.33.735] are to

25 (1) encourage the expansion and growth of the state's visitor industry
26 for the benefit of the citizens of the state;

27 (2) ensure that the economic benefits to be derived from tourism in the
28 state are retained in the state, to the greatest extent possible;

29 (3) ensure that a maximum number of residents of the state are
30 employed in the tourism industry;

31 (4) [PROMOTE COOPERATION BETWEEN THE STATE AND

1 PRIVATE SECTOR IN THE PLANNING AND EXECUTION OF A GENERIC
2 VISITOR MARKETING CAMPAIGN IN THE PUBLIC INTEREST;

3 (5) PROMOTE THE DEVELOPMENT OF VISITOR INDUSTRY
4 FACILITIES, BOTH IN THE PUBLIC SECTOR AND THE PRIVATE SECTOR,
5 THROUGH THE USE OF STATE RESOURCES, AS APPROPRIATE;

6 (6) ENSURE THAT THE VISITORS' EXPERIENCE IN THE STATE
7 IS AND CONTINUES TO BE SATISFACTORY AND LEADS TO WORD-OF-
8 MOUTH ADVERTISING AND RETURN VISITS TO THE STATE;

9 (7)] ensure that consideration is given in the development and
10 implementation of the tourism program to local community goals and objectives, to
11 impacts on existing private enterprises, and to impacts on recreational and subsistence
12 opportunities for the residents of the state;

13 (5) [(8)] promote the development of tourism opportunities throughout
14 the state, including along the highway system of the state, [INCLUDING] the marine
15 highway, and in rural areas of the state.

16 * Sec. 5. AS 44.33.120(b) is repealed and reenacted to read:

17 (b) The Alaska division of tourism shall

18 (1) cooperate with organizations in the private sector for the promotion
19 and development of tourism into and within the state;

20 (2) coordinate with municipal, state, and federal agencies for the
21 development of tourism resources in the state;

22 (3) promote and develop the state's tourist industry;

23 (4) cooperate with the private sector in the planning and execution of
24 a destination tourism marketing campaign under AS 44.33.125 that is in the public
25 interest;

26 (5) promote the development of visitor industry facilities, both in the
27 public sector and the private sector, through the use of state resources as appropriate;

28 (6) plan and advocate for tourism and tourism development in
29 coordination with the private sector, municipalities, state, and federal agencies;

30 (7) administer and evaluate the tourism marketing contract program
31 under AS 44.33.125;

1 (8) administer a visitor information center located in Tok; and

2 (9) conduct research related to tourism.

3 * Sec. 6. AS 44.33.120 is amended by adding a new subsection to read:

4 (d) During the term of a contract with a qualified trade association under
5 AS 44.33.125(a), the Department of Commerce and Economic Development may not
6 execute another tourism marketing campaign except as provided under
7 AS 44.33.125(b), (c), or (d).

8 * Sec. 7. AS 44.33 is amended by adding a new section to read:

9 Sec. 44.33.125. Tourism marketing contracts. (a) Subject to appropriations
10 for the purpose, the Department of Commerce and Economic Development shall, on
11 or before August 1 of each year, contract with a single qualified trade association for
12 the purpose of planning and executing a destination tourism marketing campaign. The
13 contract may be awarded only if the qualified trade association provides matching
14 funds equal to at least 30 percent of the costs of the marketing campaign described in
15 the contract. The marketing campaign may promote distinct segments of tourism, such
16 as highway tourism, seasonal tourism, ecotourism, cultural tourism, regional tourism,
17 and rural tourism. Before the contract is executed, the marketing campaign plan must
18 be approved by the department.

19 (b) The tourism marketing contract awarded under (a) of this section must
20 include essential components identified by the department and may include media
21 advertising, establishing and operating a system for responding to visitor inquiries,
22 publishing and distributing information regarding vacation planning, establishing and
23 maintaining Internet sites that provide tourism information, conducting market research,
24 and other activities related to tourism that the department may designate in the
25 contract. If the qualified trade association refuses a contract component requested by
26 the department, the department may award a contract to another person to perform that
27 component but only if the terms are not materially different from those offered to the
28 qualified trade association.

29 (c) A qualified trade association that has been awarded a tourism marketing
30 contract under (a) of this section has, while the contract is in effect, the right of first
31 refusal for every other tourism marketing contract offered by the department. The

1 qualified trade association is required to provide matching funds for a contract awarded
2 under this subsection only if matching funds are required by the contract offer. If the
3 qualified trade association refuses a contract offer under this subsection or fails to
4 accept the offer within a reasonable time, the department may award the contract to
5 another person but only under terms not materially different from those offered to the
6 qualified trade association.

7 (d) If, during the term of a contract awarded under (a) of this section, funds
8 from any source are appropriated to the department for tourism marketing activities in
9 addition to the funds already committed under the contract, the contract may be
10 amended to include the additional funds and the additional tourism marketing
11 activities. The department may require the qualified trade association to provide
12 matching funds in any amount for the additional funds, or the department may impose
13 no matching requirement for the additional funds. If the qualified trade association
14 refuses the additional funds, the department may use the additional funds to award a
15 contract to another person but only under terms not materially different from those
16 offered to the qualified trade association.

17 (e) The marketing campaign conducted under a tourism marketing contract
18 awarded under (a) of this section must be directed by a group within the qualified
19 trade association that is broadly representative of the various sectors of the visitor
20 industry in the state and whose members are

21 (1) involved in a visitor industry business or have experience in tourism
22 marketing; or

23 (2) officers or senior staff members of a state agency, a local
24 government, or a nonprofit enterprise established to promote the visitor industry.

25 (f) Materials produced and marketing information and tourism related data
26 generated by the qualified trade association under a contract awarded under (a) or (c)
27 of this section are the joint property of the qualified trade association and the
28 department. However, the qualified trade association may, but only for the purpose
29 of promoting the state, use, sell, or lease the materials, information, and data. In
30 addition, the qualified trade association may only permit the use by or sale to another
31 person of the materials, information, or data if the use by the other person is also for

the purpose of promoting the state. The qualified trade association may impose other restrictions on the right of another person to use the materials, information, or data. If a qualified trade association provides the right to use a mailing list generated under a contract awarded under (a) or (c) of this section, the list must be made available to every person at the same price, except that a person who is not a participant in the qualified trade association's marketing program may be charged an additional amount based on the amount of the qualified trade association's participation fee attributable to a participant's right of access to mailing lists. The qualified trade association retains all revenue generated by the association under a contract awarded under (a) or (c) of this section.

(g) A qualified trade association shall provide to the department, on request, materials produced and marketing information and tourism related data generated by the qualified trade association under a contract awarded under (a) or (c) of this section. The information and tourism related data provided to the department under this subsection are not public records under AS 09.25.100 - 09.25.220.

(h) A qualified trade association may not use money from a contract awarded under (a) or (c) of this section

(1) to lobby a municipality or an agency of a municipality or to lobby the state or an agency of the state, as those terms are defined in AS 44.99.030(b);

(2) to raise funds that will be used to lobby a municipality or an agency of a municipality or to lobby the state or an agency of the state, as those terms are defined in AS 44.99.030(b); or

(3) for administrative or overhead costs that directly support any effort to lobby a municipality or an agency of a municipality or to lobby the state or an agency of the state, as those terms are defined in AS 44.99.030(b).

(i) A qualified trade association may, pursuant to the performance of a tourism marketing contract awarded under (a) or (c) of this section, award a subcontract only on a competitive basis after providing adequate notice of the availability of the subcontract and considering all responses.

(j) In this section, "qualified trade association" means a private, nonprofit organization whose primary purposes include the promotion of tourism within the state

1 and encouraging tourists to visit the state and that has a statewide membership
 2 consisting of representatives of all major sectors of the visitor industry, including
 3 hotels, airlines, cruise lines, wholesale and retail travel agencies, visitor attractions,
 4 convention and visitors bureaus, bed and breakfast enterprises, wilderness lodges and
 5 outfitters, and charter operations.

6 * Sec. 8. AS 44.33.125(a) is amended to read:

7 (a) Subject to appropriations for the purpose, the Department of Commerce and
 8 Economic Development shall, on or before August 1 of each year, contract with a
 9 single qualified trade association for the purpose of planning and executing a
 10 destination tourism marketing campaign. The contract may be awarded only if the
 11 qualified trade association provides matching funds equal to at least 60 [30] percent
 12 of the costs of the marketing campaign described in the contract. The marketing
 13 campaign may promote distinct segments of tourism, such as highway tourism,
 14 seasonal tourism, ecotourism, cultural tourism, regional tourism, and rural tourism.

15 Before executing the contract, the marketing campaign plan must be approved by the
 16 department.

17 * Sec. 9. AS 44.33.135 is amended by adding a new subsection to read:

18 (c) A grant awarded under this section may not be used for tourism marketing.

19 * Sec. 10. AS 39.25.110(27); AS 39.50.200(a)(8)(G), 39.50.200(b)(49); AS 44.33.700,
 20 44.33.705, 44.33.710, 44.33.715, 44.33.720, 44.33.723, 44.33.725, 44.33.727, 44.33.730,
 21 44.33.733, 44.33.735; AS 44.66.010(a)(15); and AS 44.99.030(a)(14) are repealed.

22 * Sec. 11. Sections 1 - 7, 9, and 10 of this Act take effect July 1, 2000.

23 * Sec. 12. Section 8 of this Act takes effect July 1, 2002.

Appendix L

AS 36.30.322 - 338

Department of Community and Economic Development Subcommittee

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

Sec. 36.30.322. Use of local forest products.

(a) Only timber, lumber, and manufactured lumber products originating in this state from Alaska forests may be procured by an agency or used in construction projects of an agency unless the manufacturers and suppliers who have notified the commissioner of community and economic development of their willingness to manufacture or supply Alaska forest products

(1) have been given reasonable notice of the forest product needs of the procurement or project; and

(2) are unable to supply the products at a cost that is within seven percent of the price offered by a manufacturer or supplier of non-Alaska forest products.

(b) The provisions of AS 36.30.326 - 36.30.332 do not apply to procurements of timber, lumber, and manufactured lumber products or the use of those items in construction projects of an agency.

(c) During the period of performance of a state contract, the contractor shall maintain records showing efforts made in using Alaska forest products or evidence of Alaska forest products not being available or reasonably competitive. The contractor shall provide the records to the procurement officer on a periodic basis, as required by regulations adopted by the commissioner of community and economic development.

Sec. 36.30.324. Use of Alaska products and recycled Alaska products.

Alaska products shall be used whenever practicable in procurements for an agency. Recycled Alaska products shall be used when they are of comparable quality, of equivalent price, and appropriate for the intended use.

Sec. 36.30.326. Contract specifications.

Contract specifications for a procurement for an agency must include a provision that a bidder or offeror that designates in a bid or proposal the use of Alaska products identified in the specifications will receive the preference granted under AS 36.30.328 in the evaluation of the bid or proposal if the designated Alaska products meet the contract specifications.

Sec. 36.30.328. Grant of Alaska products preference.

In the evaluation of a bid or proposal for a procurement for an agency, a bid or offer that designates the use of Alaska products identified in the contract specifications and designated as Class I, Class II, or Class III state products under AS 36.30.332 is decreased by the percentage of the value of the designated Alaska products under AS 36.30.332.

Sec. 36.30.330. Penalty for failing to use designated products.

(a) If a successful bidder or offeror who designates the use of an Alaska product in a bid or proposal for a procurement for an agency fails to use the designated product for a reason within the control of the successful bidder or offeror, each payment under the contract shall be reduced according to the following schedule:

- (1) for a Class I designated Alaska product - four percent;
- (2) for a Class II designated Alaska product - six percent;
- (3) for a Class III designated Alaska product - eight percent.

(b) A person is not a responsible bidder or offeror if, in the preceding three years, the person has twice designated the use of an Alaska product in a bid or proposal for a procurement for an agency and has each time failed to use the designated Alaska product for reasons within the control of the bidder or offeror.

(c) The procurement officer shall report to the commissioner of community and economic development each contractor penalized under (a) of this section. The commissioner of community and economic development shall maintain a list of contractors determined not to be responsible bidders under (b) of this section.

Sec. 36.30.331. Delivery of supplies.

Supplies purchased under this chapter shall be delivered at a location within the state unless the department determines that a point of delivery outside the state would be in the best interest of the state. A bid or proposal involving the procurement of supplies must specify the delivery location and must state that the price is the

delivered price at that location.

Sec. 36.30.332. Classification of Alaska products.

(a) The commissioner of community and economic development shall adopt regulations establishing the value added in the state for materials and supplies produced or manufactured in the state that are used in a state procurement and establishing whether a product qualifies as a recycled Alaska product. The commissioner shall publish a list of the products annually. A supplier may request inclusion of its product on the appropriate list.

(b) Materials and supplies with value added in the state that are

(1) more than 25 percent and less than 50 percent produced or manufactured in the state are Class I products;

(2) 50 percent or more and less than 75 percent produced or manufactured in the state are Class II products;
and

(3) 75 percent or more produced or manufactured in the state are Class III products.

(c) In a bid or proposal evaluation a

(1) Class I product is given a three percent preference;

(2) Class II product is given a five percent preference;

(3) Class III product is given a seven percent preference.

Sec. 36.30.333. Procurement of paper.

Except as otherwise required under AS 36.15.050 , AS 36.30.322 - 36.30.332, and 36.30.334 - 36.30.338, when a state agency purchases paper, at least 25 percent of the quantity purchased must be recycled paper unless recycled paper is not available for the purchase or unless, after application of the procurement preference under AS 36.30.337, the recycled paper is more expensive than the nonrecycled paper.

Sec. 36.30.334. Identification of Alaska products.

An agency may identify specific Alaska products for use in making a procurement.

Sec. 36.30.335. Product preferences.

This chapter does not modify AS 36.15.010 and 36.15.020 regarding preference for Alaska forest products, or AS 36.15.050 and 36.15.060 regarding preference for Alaska agricultural and fisheries products, except as provided in AS 36.30.170 (b), (c), (e) - (h), and 36.30.337.

Sec. 36.30.336. Application.

Notwithstanding other provisions of this chapter, AS 36.30.322 - 36.30.338 apply to all procurements subject to this chapter, except as provided in AS 36.15.050 and AS 36.30.322 (b).

Sec. 36.30.337. Procurement preference for recycled products.

(a) In the evaluation of a bid or proposal for an agency procurement of products, the agency shall decrease the bid or proposal by five percent if the bid or proposal indicates that the products being purchased will be recycled products.

(b) A decrease made under (a) of this section is in addition to other preferences allowed for the procurement.

(c) The department shall establish the minimum percentage of recycled content that will qualify a product as a recycled product under (a) of this section.

Sec. 36.30.338. Definitions.

In AS 36.30.322 - 36.30.338

(1) "Alaska product" means a product of which not less than 25 percent of the value, as determined in accordance with regulations adopted under AS 36.30.332 (a), has been added by manufacturing or production in the state;

(2) "produced or manufactured" means processing, developing, or making an item into a new item with a distinct character and use through the application within the state of materials, labor, skill, or other services;

(3) "product" means materials or supplies but does not include gravel and asphalt;

(4) "recycled Alaska product" means an Alaska product of which not less than 50 percent of the value of the product consists of a product that was previously used in another product, if the recycling process is done in the state.

Sec. 36.30.339. [Renumbered as AS 36.30.337].

Repealed or Renumbered

Appendix M

***Steve Rouse Memo
Dated October 25, 1999***

Department of Community and Economic Development Subcommittee

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

MEMORANDUM

Date: October 25, 1999

To: Committee on Privatization and Delivery of Government Services

From: Steven L. Rouse, Executive Director, Make It Alaskan, Inc.

Re: Additional Suggestion in Review of DCED

I have a personal recommendation that may be relevant to the DTD report and consistent with our charge. This is in the same area of questions I had regarding MRAD i.e. changing and/or reducing the scope of the mandate or work responsibility and/or getting unattended programs or laws off the books.

Currently there are several programs that are not working and should be taken off the books. So, I would ask that we consider recommending eliminating Alaska Products Preference Program (APPP), Recycled Products Preference Program (RPPP) and Forest Products Preference Program (FPPP) or as an alternative contracting for administration (similar to the model now used with MADE IN ALASKA).

Please refer to page 26-28 of the Governor's Small Business Program Evaluation Task Force Report issued March 1997 which states: " evaluation indicated that programs such as APPP and FPPP are becoming obsolete".."
..."Alaska's many preference programs including APPP and FPPP, have created a maze for state purchasing agents creating confusion and inconsistent application of the programs between state departments... There appears to be little reason for such product preference programs at this time, even if funding and personnel were available. In review of APPP and FPPP the task force seriously questioned the need for these programs to continue."

The report also concluded there are no measures established for these programs and a previous survey done in 1995 concluded there was little benefit to the clients of these programs. Total budget savings of 5K-10K.

Appendix N

Steve Levi Comments

Department of Community and Economic Development Subcommittee

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

Steven C. Levi
Box 241467
Anchorage, AK 99524
Phone: 337-2021
FAX: 337-4485
Email: afsci@alaska.net

Generally speaking, the subcommittee on Department of Community and Economic Development (DCED) with the economic development focus came to three conclusions. First, DCED is being managed from a Chamber of Commerce perspective rather than with an eye to the nuts-and-bolts of how businesses are actually run. The department is top heavy with individuals who have limited, if any, actual business experience and particularly start-up operations. Alaska is the land of the small business yet there is little evidence the top level DCED personnel understand even basic small business survival requirements.

Second, there is an amazing amount of duplication of offerings of services, particularly in the field of international trade. Though DCED, in its response to Representative Cowdery's report, stated that each of the agencies/associations responsible for international trade were slightly different, from the perspective of the private sector, they are duplicative. Further, as DCED personnel do not have the nuts-and-bolts experience of operating small businesses, they do not have the business perspective to do their jobs effectively.

Third, and most important, careful examination of all of the reports submitted to this subcommittee convinced its members that the DCED does not have a clear focus as to what economic development is. The term is sprinkled throughout all of the paperwork and is thus a catchphrase rather than a statement of ongoing, quantifiable results. As presented it is paperwork, top level DCED personnel seem to feel that going to a meeting about economic development means that economic development has happened. As result, DCED appears to be all motion and no movement. DCED offered no proof that it had any success stories. In fact, some of the paperwork presented, most notably the Office of International Trade, failed to provide any information that it had done anything in the last two years!

Additionally, and unfortunately, the one program in DCED that should have been a prototype of what DCED should be doing had been cut. This was the Alaska Film Commission. The Film Commission was the epitome of how to leverage state dollars to service the private sector. The average film pumps \$100,000 a day into the private sector. With no Film Office, filmmakers now have limited access to Alaska. Further, the fact that the terminated Director of the Film Office was related to a staff member of John Cowdrey's staff makes it difficult for the subcommittee to recommend that the Film Office be re-instated without being subject charges of favoritism. However, we so recommend.

TO: DCED Subcommittee of the Commission on Privatization and Delivery of Government Services
FROM: Division of Trade & Development, DCED
DATE: November 3, 1999
RE: Minority Report by Steven C. Levi

In response to the Minority Report submitted by Steven C. Levi, we make the following observations:

1. Mr. Levi suggests DCED is managed from a "Chamber of Commerce perspective," with little experience in business. First of all, we are not sure what he means by a "Chamber of Commerce perspective," since the Chambers of Commerce in Alaska are totally made up of businesses, both large and small. Secondly, DCED managers and specialists have experience in both the government and private sector, from Commissioner Sedwick down. The wealth of experience available to Alaskans in the Division of Trade & Development has helped numerous Alaska businesses, large and small, whether just starting out or expanding. The role of government is not to do business – that is the private sector's job – it is to strengthen Alaska's economy and increase employment through the development of a diverse and self-sufficient private sector.
2. Mr. Levi suggests there is duplication and overlap by providers of trade services. Our experience suggests that the private sector companies that utilize these services are NOT confused, and, in fact, regularly call on the division or other trade entities based on their particular needs and their assessment of the relative strengths and capabilities of these trade organizations. In addition, there is enormous cooperation among these trade entities, which work as a team to take advantage of each organization's strengths and avoid duplication of services. International trade is very important to Alaska's economy, and if anything, Alaskans need more services to compete globally and increase trade, not fewer.
3. Mr. Levi suggests that DCED in general, and the Division of Trade & Development in particular, have no success stories and have failed to provide any information of having done anything in the last two years. It is possible Mr. Levi did not see the description of activities and sampling of accomplishments presented to the subcommittee (see attached). The accomplishments of the Division of Trade & Development include successful promotions, trade missions and trade shows, matchmaking, market intelligence, and other assistance to export-oriented Alaska businesses, and cover Alaska's major markets: Japan, Korea, Taiwan, China and the Russian Far East. In addition, the division serves the government-to-government

Page Two

and government-to-business functions that help Alaskans and Alaska businesses. Although state government is neither a buyer nor a seller, government can assist Alaska companies by introducing them to interested buyers in our major markets. Businesses using the services the Division of Trade & Development provides have expressed satisfaction with our services. And while the division cannot always track specific business deals (and businesses do not want to be required to give the government this type of information), evaluations from businesses indicate our work is making a difference for them. (See attached sampling of letters from private sector companies and newspaper articles)

4. In his comments Mr. Levi expresses concern that the state's budget is designed to hide staff and functions. I would like to assure Mr. Levi that the Division of Trade & Development consists of twenty-one staff in total – that includes the director, trade specialists, development specialists, administration and clerical staff. His concern that there is duplication in international trade staff is unwarranted: the state has three trade specialists, whose function is to assist Alaska businesses in Alaska's major markets – Japan and Korea, Greater China (Taiwan, the PRC and Hong Kong), and the Russian Far East and Canada. We know of no other local trade organization that has staff with country-

focused expertise to provide information and assist Alaska companies in their overseas endeavors. Again, no duplication.

5. Finally, Mr. Levi suggests the department is uncoordinated in its efforts. In fact, under Commissioner Sedwick, two formerly separate divisions (Office of International Trade and the Division of Economic Development) became the Division of Trade & Development in 1996. Together with the Division of Tourism, which must exist as its own division under state statute, we work as a well-coordinated team, benefiting Alaska's industries. In the past year, the Department of Commerce & Economic Development merged with portions of the Department of Community & Regional Affairs, creating the Department of Community and Economic Development. Under Commissioner Sedwick's leadership, the result is even more coordination among the state agencies involved in economic development: Tourism, Trade & Development, and the Municipal and Regional Assistance Division. This coordination will be very important in the "economic nuts and bolts of the bush," about which we share Mr. Levy's concern.

Steven C. Levi
Box 241467
Anchorage, AK 99524
Phone: 337-2021
FAX: 337-4485
Email: afsci@alaska.net

November 4, 1999

Thank you very much for the opportunity to respond to DCED's comments.

- 1) A "Chamber of Commerce" perspective is synonymous with networking, a productive mechanism in a 'big' city setting where business can be conducted in regular social settings. No such regular social settings exist for 'small,' 'very small' and 'bush' businesses.
- 2) While DCED may not be confused by the plethora of state, federal and nonprofit organizations that support international trade, 'small,' 'very small' and 'bush' businesses are – as are many urban small businesses.
- 3) If DCED has success stories, those should be introduced on the record along with specific quantification.
- 4) DCED is probably alone in believing it does not duplicate any service offered by the World Trade Center, Russian American Center, Small Business Development Center, Anchorage Economic Development Council, United States Department of Commerce, Alaska Seafood Marketing Institute, Alaska Fisheries Management Foundation, Institute of Social and Economic Research, Small Business Administration, Alaska Village Initiatives, or any of the other internationally-oriented nonprofits in Alaska.
- 5) DCED executive staff responding to my comments have clearly not spent enough time in the bush. Further, consolidation of bureaucracies does not mean increase of service; it usually means an increase in the complexity in the offering of the same service as before – along with an agonizingly long transitional period.

Steven C. Levi
Box 241467
Anchorage, AK 99524
Phone: 337-2021
FAX: 337-4485
Email: afsci@alaska.net

FINAL COMMENTS

One of the primary problems with any discussion regarding privatization is that the State budget is based on dollars in BRUs and not functions. Thus it is very hard to find the specific duplicative services. For instance, personnel whose duties include "economic development" are sprinkled throughout the budget but cannot be personally identified. This means that the overall economic development function is disjointed, uncoordinated and lacking in definition.

Another problem facing the privatization committee is that the state budget is designed by department, not function. This means that services cannot be rated and compared. The ideal state budget is designed like an onion with the most critical services at the center. The least critical services are on the outer layers. In lean times this kind of a budget is necessary because everyone knows which services are the first to be cut; the ones on the outermost layers of the onion-like budget. But the State of Alaska's budget is designed to hide staff and functions making the job of the privatization committee more of detecting than cutting.

In order to add a sense of reality to the bureaucratic process, the subcommittee suggests that the new department of Community and Economic Development be required to quantify the results of its service. Just saying that economic development has occurred does not mean that it actually has.

One of the great shortcomings in this administration is the lack of a long term plan or vision. The key to being a leader is saying "we are here and, in four years, we should be there." A comprehensive statement such as that would indicate to all employees where the state government is going. Without this administrative target, divisions and departments will feel perfectly justified in 'just doing business.' Ships don't leave port without destinations; bureaucracies should not be funded without specific long term goals.

Another day-to-day problem that became clear is that the department and its myriad of alphabet soup programs and divisions, is uncoordinated in its efforts. This makes getting anything substantive done like drinking tea on a subway. A good example is the confusion, lack of coordination and duplication clearly apparent in the field of international trade. Unless someone is well-versed in the differences between the United States Department of Commerce, World Trade Center, American Russian Center, and the Office of International Trade, their services are duplicative. And Alaskans are paying for three of these four functions.

Another clear and present problem that lay at the periphery of the purview of the subcommittee was the lack of creative, innovative ideas. None of the division gave any indication they were doing anything other than performing the same functions as their predecessors. This is particularly dangerous for this department because economic development is the heartbeat of any state and unless there is substantial change in economic nuts-and-bolts of the bush, Alaska will become a state with two destinies: an expanding, wealthy urban environment and a bush Alaska as backward as a Third World country. What is particularly frightening is that Alaskans are paying for that Third World status very handsomely.

Appendix O

Department of Community and Economic Development Items I-X

Department of Community and Economic Development Subcommittee

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

Appendix O

Department of Community and Economic Development

FY2000 Operating Budget Summary

The department's total FY 2000 operating budget, representing all funding sources, is approximately \$126.2 million. The department's unrestricted general fund budget is \$39.8 million.

The department's general fund budget falls into three categories: (1) general fund program receipts for self-supporting agencies and programs – \$18.5 million; (2) general fund match to match federal funds \$.6 million; and (3) grants and agency operations supported in whole or in part with unrestricted general fund appropriations – \$39.8 million.

The balance of the budget, \$67.3 million, is funded from non-general fund sources, including:

- Federal funds – \$18.9 million
- Power Cost Equalization – \$12.1 million
- Science and Technology Foundation Endowment earnings – \$9.5 million
- Interagency receipts – \$5.6 million
- AIDEA, AEA and AADC corporate receipts – \$4.8 million
- RCA receipts – \$4.7 million
- Loan funds – \$4.3 million
- State Employment and Training Program – \$3.4 million
- CIP receipts – \$1.5 million
- Statutory designated receipts – \$1.3 million
- International Trade and Business Endowment earnings – \$759.0 thousand
- Real Estate Surety funds – \$270.6 thousand
- Fisherman's fund – \$100.0 thousand
- National Petroleum Reserve fund – \$50.0 thousand

The Department has 465 full time positions; 10 part time positions; and 1 non-permanent position for a total of 476 positions at a cost of \$27.6 million. Funding sources for positions include:

- General fund/program receipts – \$8.9 million or 31.8%
- Unrestricted general fund – \$5.4 million or 19.7%
- RCA receipts – \$3.3 million or 12.0%
- Loan funds – \$2.8 million or 10.1%
- AIDEA receipts – \$2.0 million or 7.3%
- Interagency receipts – \$2.0 million or 7.3%
- CIP receipts – \$1.1 million or 4.0%
- Science and Technology Foundation Endowment earnings – \$929.8 thousand or 3.3%
- General fund match – \$04.5 thousand or 1.8%
- Federal funds – \$449.3 thousand or 1.7%
- International Trade and Business Endowment earnings – \$198.8 thousand or .8%
- Real Estate Surety fund – \$58.7 thousand or .2%

Grants to municipalities, unincorporated communities, non-profits, and others account for \$69.6 million or 55.2% of the DCED budget. Funding sources for grants include:

- Unrestricted general fund – \$28.8 million or 41.4%
- Federal funds – \$14.1 million or 20.3 %
- Power Cost Equalization – \$12.1 million or 17.4%
- Science and Technology Foundation Endowment earnings – \$7.7 million or 11.1%
- State Employment and Training Program – \$3.4 million or 4.9%
- Interagency receipts – \$2.9 million or 4.2%
- Other funds – \$485.4 thousand or .7%

Appendix P

Department of Community and Economic Development Items I-X

Department of Community and Economic Development Subcommittee

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

APPENDIX P

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

Mission:

To promote a healthy economy and strong communities.

Major Goals and Strategies

Strengthen rural communities

- Increase the capacity of local government to effectively provide essential public services by providing communities training and onsite technical assistance.
- Enhance the availability and quality of basic local government services by providing financial assistance that supplements local revenue generation (State Revenue Sharing, shared State Fisheries Business Tax, shared Federal National Forest Receipts, Federal Payment-in-Lieu-of-Taxes).
- Promote local economic development by providing technical and financial support for community infrastructure critical to economic development and small business startup.
- Provide assistance, through coordinated response projects, to communities experiencing sudden economic dislocation as a result of major economic disruptions.
- Improve the safety and cost effectiveness of energy sources for power generation and heating in rural Alaska by constructing and repairing bulk fuel storage facilities.
- Protect the State's investments in rural electric power systems through training of the local operators and administrators, and by providing technical and financial assistance to prevent disasters.

Work with rural communities and the private sector in creating new jobs for Alaskans.

- Ensure that residents of small rural communities in western Alaska get the maximum benefits from their participation in the Community Development Quota (CDQ) program, a fisheries development initiative.
- Facilitate the exchange of information between Alaska exporters and potential customers through business intelligence services and trade practice assistance.
- Partner with other state agencies, private businesses, ANCSA corporations, tribes, and local governments to identify and develop opportunities for rural, regional and local economic development.
- Work with the Governor's Jobs Cabinet in seeking solutions and strategies for improving the economic climate in rural Alaska.
- Help restore the financial health of the Alaska salmon industry by implementing recommendations from the Governor's Salmon Forums and the Salmon Cabinet work plan.
- Encourage new international and domestic air carriers to use Alaska as a passenger and freight delivery point.
- Increase the use of Alaska's highways and roads by independent visitors.
- Develop and implement targeted tourism programs and identify and assist in developing new tourism opportunities to expand Alaska's tourist season and increase visits to rural Alaska.

Marketing Alaska—Sell Alaska's goods and services throughout the world.

- Raise national and international awareness of Alaska as a tourist destination and increase the consumption of Alaska seafood products through generic and targeted marketing.
- Continue the Governor's Business Opportunities Program under which the Governor, Commissioner and other Alaskans visit corporate boardrooms to solicit investment in Alaska.
- Participate in special promotions and presentations, trade shows and seminars to raise the visibility of Alaska as a good place to do business.
- Organize and conduct business trade missions to expand product sales in current markets and develop new markets.
- Make information on Alaska's economy, goods and services, investment opportunities, and departmental databases available on the Internet.
- Expand the public's ability to obtain department services through the Internet.

Maintain a fair and consistent business regulatory environment in the state.

- Assist businesses and consumers by placing the database of licensed professionals, corporations, and insurance carriers on the Internet, including information about disciplinary actions.
- Expedite the conversion of Alaska's telecommunications industry from a monopoly-based to a competitive, market-based industry structure, while guaranteeing universal access to service.
- Create simple, self-explanatory securities, corporations, insurance, and occupational licensing applications and forms available on the Internet to reduce requests for staff assistance.

CED: AKRR

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

**ALASKA RAILROAD CORPORATION
SUBCOMMITTEE REPORT**

NOVEMBER 30, 1999

**Subcommittee Members: Lee Wareham, Chair;
David Cottrell, Gene Furman, John Haxby, Don Schroer, Samantha Wilson,**



PRIVATIZATION SUBCOMMITTEE ON THE ALASKA RAILROAD

PROPOSED RECOMMENDATIONS

1. The legislature shall cause to be issued a Request for Proposals for the purchase or operating lease of the Alaska Railroad. The RFP may offer for sale the ROW and shall offer for sale other land, equipment and assets necessary for operation of the railroad. The RFP shall exclude land that is not necessary for rail operations.

- **The ARRC shall pay all costs associated with the preparation and advertising of the RFP.**
- **The RFP shall be advertised for not less than six months.**
- **The RFP shall be prepared in accordance with statute by qualified counsel and with oversight and guidance by an RFP Preparation Committee composed of:**
 - An appointee of the Governor**
 - An appointee of the Senate President**
 - An appointee of the House Speaker**
 - An appointee employed by the Alaska Railroad**
 - A private sector appointee of the Governor**
 - A private sector appointee of the Senate President**
 - A private sector appointee of the House Speaker**
- **Criteria for mandatory acceptance of a respondent's proposal shall be included in the RFP to ensure that a proposal will be accepted if it meets the prescribed criteria.**
- **The RFP shall stipulate that if the purchaser ceases operation of the railroad then ownership and control shall revert to the State of Alaska.**
- **The sale shall be effected with existing labor contracts in place.**
- **Proposers must stipulate that railroad employee pension benefits will be maintained on par with existing plans.**
- **ARRC shall make all operating and financial information available to prospective respondents.**
- **The evaluation team shall be identified in the proposal and subject to confirmation by the Legislature. They shall be required to avoid ex parte communication with prospective proposers. Not more than one of five evaluators shall be employed ARRC. Not more than one member shall be from outside Alaska.**

- The evaluation team's selection of a successful proposer, if any, shall be ratified by the legislature.

2. The Alaska Railroad shall offer to sell land presently leased to leaseholders to the leaseholders for fair market value.

3. The Alaska Railroad shall offer to sell for fair market value all land that is non-essential to railroad operations and is non-revenue generating.

4. The Alaska Railroad shall implement a vegetation control program including use of herbicides. (See Appendix A)

Appendix A

Alaska Railroad Response to Information Request on Herbicides dated November 24, 1999

ALASKA RAILROAD CORPORATION SUBCOMMITTEE

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

Re: Information Request on Herbicides
Date: Wed, 24 Nov 1999 11:45:24 -0900
From: "Ernie Piper" <PIPERE@akrr.com>
To: <Marco_Pignalberi@legis.state.ak.us>

1. The direct cost for vegetation control on the Alaska Railroad is approximately \$900,000 for 1999, which includes burning, hot water, brush cutting, and use of other on-track equipment such as a spreader, undercutter, or ballast regulator. Some of the maintenance work is not entirely attributable to uncontrolled vegetation, but it is substantially a result of fouled ballast. This also includes fines levied against us by the FRA for failing to adequately control vegetation. The alternative methods aren't good enough.
2. To repair the cumulative cost of damage caused by 15 years of uncontrolled vegetation would require a minimum of \$1.2 million in work.
3. In all states (with the possible exception of Vermont, which is changing its policies) right of way vegetation control is largely achieved with the use of herbicides of varying kinds. Most states with large-scale agriculture industries have more substantial regulatory control of herbicide use, which actually makes it easier for companies to use it. Because of fairly complete public oversight, the public is more comfortable with herbicide use. Alaska has a very limited regulatory program, and, ironically, I think this gets in the way of both state and private agencies when they consider using herbicides. Again, ironically, there is more Roundup sold on a May weekend at Eagle Hardware than would have been used in the entire 1999 ARRC program, had we been allowed to proceed.
4. So-called "alternative" methods of control do not work, and have been proven not to work not only in Alaska but in other states and provinces as well. People not familiar with the subject put this in the category of, "Well, if we can put a man on the moon, we MUST be able to . . . etc." But the fact is, our space program notwithstanding, no consistently effective non-chemical control has been developed to solve the most pressing problems faced by railroads by vegetation.
5. Mr. Wareham asked if we would net about \$2 million more if we were allowed to use herbicides. We would certainly net more, but more on the order of \$750,000. The reason is, that if we were able to free up maintenance crews from vegetation control work, we would move them on to other pressing maintenance projects. Where we would save actual money is on direct costs of contracting for ineffective methods year after year. An herbicide program would cost about \$120,000 a year, as opposed to the cost of flaming, steaming, hand-pulling, etc.

>>> Marco Pignalberi <Marco_Pignalberi@legis.state.ak.us> 11/22/99 10:09AM >>>
Ernie,

This is Andree McLeod using Marco Pignalberi's e-mail address.

The Alaska Railroad Subcommittee of the Commission on Privatization and Delivery of Government Services would like to make a positive recommendations concerning herbicide use by the railroad.

In support of this recommendation, we would like some backup.

How much money is used for the herbicide project? What are the costs and benefits of the using herbicides? What do they do in other states?

Please include anything that would justify the use of herbicides. Thank you for your prompt attentions to this request

Andree



Alaska Railroad Corporation

Committee on Privatization, December 8, 1999

The Alaska railroad provides this committee a good example of how state entities that operate as a private business can save the state money. ARRC is basically already privatized – the State owns all the “shares” of the corporation.

The Alaska Railroad is a self-sustaining, self-performing asset that doesn't require ongoing operational or capital state subsidies.

Other than the initial \$22.7 million needed to purchase the railroad, and the \$10 million used for start-up money, the ARRC has never had to ask the State for operating or capital dollars.

Alaska Railroad employees are not on the state retirement and benefits system. They are not paid for by the state payroll.

It seems like a best case scenario – the State owns a valuable transportation corridor, 36,000 acres of land, and the only full service railroad in the nation operating both freight and passenger service -- and it doesn't cost the State a dime.

Under state ownership, the State has the ability to expand the rail line system with federal government assistance for resource development.

Under private ownership, these grants would not be available for capital programs and upgrades.

Privatization would jeopardize federal grant money. Our professional staff advises the following:

1) If ARRC was sold to a private company, the federal funds that are currently earmarked for ARRC would evaporate due to the fact that the corporation would no longer be a publically owned instrumentality or agency of the state of Alaska which was a precondition to receipt of the grant money. It is a fundamental legal principle that public funds are not to be used for private benefit. That is why the FTA and FRA do not give grants for capital improvements to privately owned railroads.

2. With regard to the FRA money that has already been received and spent by ARRC, it is my opinion that in the event ARRC is sold to a private entity, we would have to reimburse the FRA for most if not all of the federal funds received in the past pursuant to section 208 of the standard FRA grant agreement.

The subcommittee's report on privatizing the Alaska Railroad begs answers to the following questions.

1) Why sell a performing asset and an important transportation corridor and in the process endanger important user groups and businesses that serve Alaskans?

Putting the Alaska Railroad through the process of seeking potential buyers -- even if the railroad isn't sold -- brings much uncertainty to our operations and capital developments and inhibits business with our customers.

Employees become uncertain about their jobs. Better to have employees worried about serving our customers rather than whether or not the railroad will be sold and they will lose their jobs.

Our customers become concerned about the longevity of the railroad and question the stability of their long-term contracts. They also become less apt to invest capital to expand their operations if they cannot depend on the railroad for the transportation that is necessary for that investment.

i.e. Williams Energy investing \$60 million to expand their refinery in North Pole.

"The uncertainty regarding ownership of the Alaska Railroad could have been a real factor in our decision to invest \$60 million for our refinery expansion and the discussions today certainly have an impact in our future decisions," said Jeff Cook -- Williams Energy.

Federal grants become jeopardized and non-existent.

An RFP process will cost the Railroad between \$500,000 and \$1 million to implement -- not to mention the amount of time ARRC employees will have to spend on the process.

2) Why should we sell the railroad? No one has really defined the intent behind privatization and the consequences of private ownership.

**Public support is high to keep the railroad as a state asset
Sale could result in non-Alaska control of a valuable transportation corridor.**

- 3) What stipulations will be placed on companies bidding for the railroad?
ie. Will potential buyers be required to continue passenger service
and the Hurricane turn whistle stop?
ie. Will potential buyers work to keep the coal export window open?

4) What does the State gain by selling the railroad?

5) What does the State lose by selling the Alaska Railroad?

The subcommittee never looked at these questions to determine whether selling the Railroad would be in the best interest of all Alaskans.



**Fiscal Year 1997-1998 Management
Performance Audit**

Public Review Document—Final

November 1997

**Prepared for:
The Alaska Railroad Corporation**

Contents

→ **Introduction**

**Section I. Scope of the Audit and Personnel
Involved**

**Section II. Update of ARRC's Financial and
Operating Performance**

Section III. Findings of the Management Audit

Section IV. Issues and Recommendations

Appendixes

Appendix A. Safety Database

Appendix B. Resumes

Introduction

This report contains the results of Mercer Management Consulting's seventh annual management audit of the Alaska Railroad Corporation (ARRC).¹ Mercer performed the audit in September and October of 1997 under a contract with the ARRC Board of Directors in response to statutory requirement A.S.42.40.270. The ARRC Board is required to have an annual performance audit conducted by a recognized railroad management expert to ensure that the railroad is being efficiently managed and operated.

This draft contains the following four sections:

Section I: Scope of the Audit and Personnel Involved

Section I reviews the topics covered by previous audits and this year's audit, describes the principal members of the audit team, and lists those on the railroad and its Board who were interviewed.

Section II: Update of ARRC's Financial and Operating Performance

Section II contains a review of the overall financial performance of the railroad using data that has been tailored for and by Mercer so that ARRC's current performance can be compared with past performance as well as that of other railroads.

Section III: Findings of the Management Audit

This section contains Mercer's findings in the areas of railroad activity specifically selected for review and includes the key observations and concerns of the audit team.

Section IV: Issues and Recommendations

This section examines the actions that management has taken on last year's audit observations and recommendations and then presents additional observations and recommendations based on this year's audit.

¹ Mercer Management Consulting was formerly Temple, Barker & Sloane/Strategic Planning Associates.

Contents

Introduction

→ **Section I. Scope of the Audit and Personnel
Involved**

**Section II. Update of ARRC's Financial and
Operating Performance**

Section III. Findings of the Management Audit

Section IV. Issues and Recommendations

Appendixes

Appendix A. Safety Database

Appendix B. Resumes

Section I: Scope of the Audit and Personnel Involved

Subject Areas and Approach

This year's management audit is the seventh annual audit undertaken by Mercer. Prior audits have covered a variety of topics; a summary of these is provided in Exhibit I-1.

For the current audit, Mercer concentrated on two topics:

- A review of the railroad's safety and personal injury record. This review was requested by the railroad's audit committee, as management is concerned about an increased number of personal injuries at ARRC.
- An examination of the proposed locomotive acquisition program, which envisions the dramatic step of replacing ARRC's relatively old locomotive fleet with new state-of-the-art locomotives. Because of time limitations with respect to the replacement decision, Mercer provided a preliminary review of the proposed program in a letter, sent approximately one week after the visit of the Mercer team. This audit report includes the information from that preliminary review together with some additional observations.

Because of the level of effort required to fully evaluate these two topics, the report does not provide detailed analyses on any additional areas, except maintenance-of-way.

Inspection trips that were undertaken included riding the Express and the Whittier Shuttle and hi-railing over the track where recent federally funded tie and ballast projects had been undertaken.

Exhibit I-1
Focus of Previous Management Audits

Audit Year	Primary Topics Covered
FY 1991-1992	- For the first audit, Mercer developed a basic understanding of the railroad and its organization, operating characteristics, efficiency, markets, and physical condition. - Special attention was given to examining the railroad's physical plant and maintenance, understanding MOW practices and procedures, and observing the railroad's physical condition. This included an inspection of the main lines by a professional track engineer.
FY 1992-1993	- Analyses of the prior year were updated and Mercer reviewed the many management changes that had taken place since the last audit and assessed their likely impact on all aspects of the railroad. - A detailed examination was made of the railroad's marketing/sales organization, the Mechanical Department, and the condition of rolling stock. The team also inspected the property from Fairbanks to Anchorage using the business car and took a hi-rail trip from Whittier to Anchorage.
FY 1993-1994	- In addition to updating analyses from the prior years' audits and reviewing continuing management changes, Mercer made a brief examination of the expected financial impact of the Seattle barge service, which ARRC management took over in March 1993. - As a major revamping of the railroad's information systems was under way, two railroad information systems experts joined the audit team to look at the railroad's MIS plans and progress.
FY 1994-1995	- Mercer examined the financial impact of the new Seattle barge service arrangement that ARRC had established with Crowley Marine and looked at options available to help lessen the financial burden of the arrangement. - The Marketing and Sales organization was assessed to determine its adequacy for meeting the challenges facing the railroad and market opportunities were evaluated. The audit team also analyzed the effectiveness of the Passenger Department.
FY 1995-1996	- Mercer conducted a special examination of the condition of the railroad's track and structures and assessed the effectiveness of the Engineering Department to adequately and efficiently maintain the railroad. - The audit also described the most essential future maintenance requirements of the railroad, together with recommendations as to how this might be best achieved.
FY 1996-1997	- The audit team undertook a special review of the railroad's passenger services. The increased importance of this business, plus the recent appointment of a new director to manage it, suggested that this was an appropriate time for an in-depth review. - Mercer also examined the impact of management changes involving newly recruited personnel as well as changes in responsibility for top management staff.

Members of the Audit Team

The principal members of the audit team were Robert Waldner, Alan Dustin, and Hollis Henderson (resumes are presented in Appendix B). Their roles were as follows:

Mr. Waldner organized the inspection visit and interviewed key members of the railroad's management. He brings to the audit effort a broad national and international background in operations, planning, and marketing. He has assisted railroads, other transportation carriers, financial institutions, government agencies, and users of transportation in a large variety of management assessment studies, including extensive operational reviews of freight and passenger railroads in North America and abroad.

Mr. Dustin focused his efforts almost entirely on the personal injury review. He also interviewed key members of management. His personal injury knowledge stems from his experience as CEO of several railroads; in that capacity, he made personal injury reduction a major priority. He has also been a major contributor to the personal injury observations contained in past Mercer audits of ARRC.

Mr. Henderson is a well known railroad industry expert on locomotives and other mechanical equipment. He also has experience with facility maintenance. He has undertaken numerous special studies for Mercer worldwide and brought to this audit a wealth of experience on the mechanical, engineering, and personal injury issues covered.

Railroad Personnel Interviewed

The audit was conducted on the property of ARRC between September 10 and September 13, 1997. The first day entailed an inspection of the Fairbanks mechanical facilities, a ride on the Express from Fairbanks to Denali, and a hi-rail trip south to Anchorage. Over the remaining three days, the Mercer team met with key management in the various areas being studied and undertook an inspection trip to Seward and Whittier.

Following is a list of those individuals interviewed:

- | | |
|----------------------|--|
| • James Blasingame | Vice President, Corporate Affairs |
| • Tom Brooks | Chief Engineer |
| • Thomas Cannon | Business Development & Transportation Analyst |
| • Frank Coletta, Jr. | Manager, Health and Safety |
| • Joshua Coran | Chief Mechanical Engineer |
| • David Eagle | Vice President, Real Estate |
| • George Erickson | Vice President, Marketing, Sales, and Transportation |

- Don Freestone Manager, Locomotive Operations
- Deborah Hansen Manager, Passenger Business Unit
- John Kincaid Chief Mechanical Officer
- Rick Leggett General Roadmaster
- Dale Lindsey Board Member
- Evan McKinney Vice President, Maintenance and Engineering
- Patrick Shake Transportation Superintendent
- Bill J. Sheffield President and CEO
- Steven Silverstein Senior Director, Freight Services

Contents

Introduction

**Section I. Scope of the Audit and Personnel
Involved**

→ **Section II. Update of ARRC's Financial and
Operating Performance**

Section III. Findings of the Management Audit

Section IV. Issues and Recommendations

Appendixes

Appendix A. Safety Database

Appendix B. Resumes

Section II: Update of ARRC's Financial and Operating Performance

This section, as in previous audits, provides an overview of ARRC's financial and operating performance and compares it with performance in prior years.

Financial Performance

ARRC had another good year in 1996, posting record earnings for the second straight year (see Exhibit II-1). The modest improvement in 1996 earnings over 1995 earnings was due entirely to investment activities, including increased interest income and decreased interest expense, which together offset a slight decline in contribution from railroad operations and real estate.

ARRC's results from operations have leveled off but continue to benefit from recent efforts to reduce costs. Also for the second year in a row, ARRC's operating ratio (operating expenses as a percentage of operating revenues) fell below 95 percent. Although this is an improvement over previous years, it should be noted that even small expense increases would quickly erase this operating contribution.

The results of ARRC's real estate activities are more disappointing from the viewpoint of their unfulfilled potential. In Mercer's previous audits, this potential has been noted by management and substantial growth in real estate earnings has been projected, yet relatively little earnings growth has actually occurred. Some modest growth did occur in real estate revenues in 1996, but this was more than offset by expense increases.

Exhibit II-1
Financial Performance of ARRC – 1980-1996
(\$000)

	1980	1985	1990	1991	1992	1993	1994	1995	1996	Percent Change				
										1980-85	1985-90	1990-95	1995-96	
Operating														
Operating Revenue	\$ 25,544	\$ 57,092	\$ 61,913	\$ 61,773	\$ 61,840	\$ 56,920	\$ 51,844	\$ 60,177	\$ 62,195	123.5%	8.4%	-2.8%	3.4%	
Operating Expenses	\$ 33,187	\$ 55,413	\$ 59,904	\$ 59,630	\$ 62,427	\$ 62,822	\$ 57,934	\$ 56,072	\$ 58,187	67.0%	8.1%	-6.4%	3.8%	
Operating Ratio	129.9%	97.1%	96.8%	96.5%	100.9%	110.4%	111.8%	93.2%	93.6%					
Income from Ops.	\$ (7,643)	\$ 1,679	\$ 2,009	\$ 2,143	\$ (587)	\$ (5,902)	\$ (6,090)	\$ 4,105	\$ 4,008	0.0%	19.7%	104.3%	-2.4%	
Non-Operating														
Real Estate	\$ 1,687	\$ 4,095	\$ 3,718	\$ 3,592	\$ 3,616	\$ 3,799	\$ 3,941	\$ 4,568	\$ 4,435	142.7%	-9.2%	22.9%	-2.9%	
Other Income	\$ 124	\$ 1,920	\$ 879	\$ 436	\$ 509	\$ 544	\$ 222	\$ 206	\$ 429	1448.4%	-54.2%	-76.6%	108.3%	
Other Exp. (Interest)	0	\$ (561)	\$ (2,066)	\$ (1,729)	\$ (1,189)	\$ (1,114)	\$ (1,256)	\$ (1,008)	\$ (663)		268.3%	-51.2%	-14.4%	
Net Income	\$ (5,832)	\$ 7,133	\$ 4,540	\$ 4,442	\$ 2,349	\$ (2,673)	\$ (3,183)	\$ 7,871	\$ 8,009		-36.4%	73.4%	1.8%	

Note: Operating revenues and expenses have been adjusted to include reimbursables as credit to expenses rather than as revenues. This is the normal practice in railroad accounting.

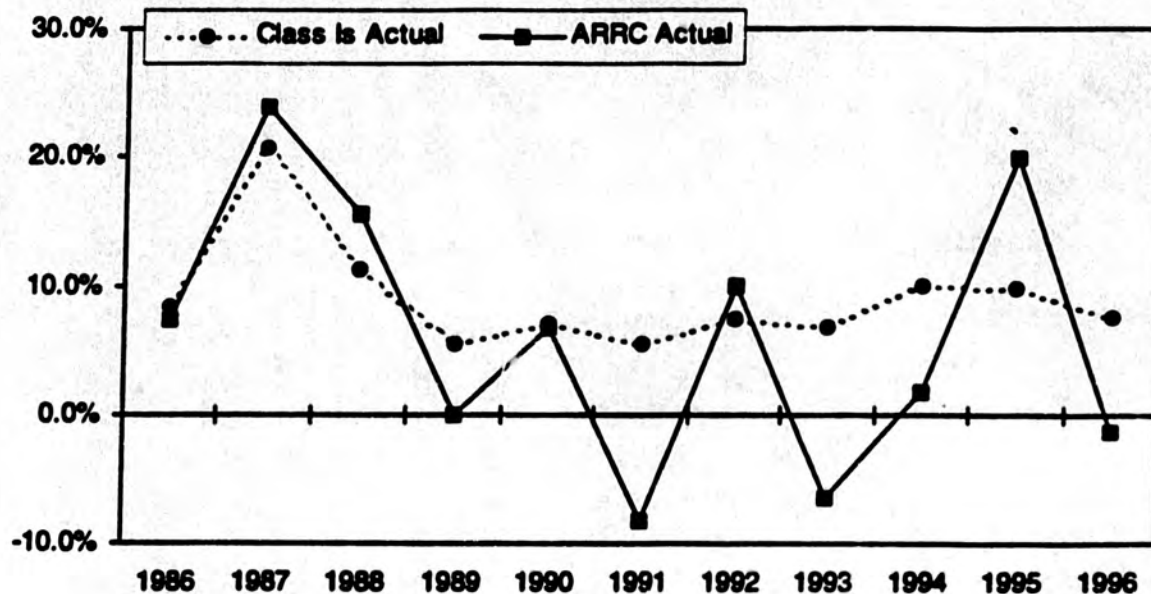
Employee Productivity

The railroad industry has been and continues to be under pressure to reduce costs in order to compete effectively with other transportation modes. Obtaining substantial improvement in employee productivity has been a key element of most railroads' cost reduction strategies. The major U.S. Class I railroads, for example, have improved employee productivity an average of 9 percent a year over the past 10 years (see Exhibit II-2).

The major Class I railroads have made a considerable commitment to improving employee productivity and are considered to be the pacesetters for the industry in this regard. In using the Class I railroads as a benchmark to evaluate ARRC's level of employee productivity improvement, Mercer recognizes that the comparison may be slightly distorted, since ARRC's figures include both passenger and freight employees. However, since 85 percent of ARRC's revenues are freight-related, the effect of the passenger component, in our judgement, is not sufficient to offset the overall trend, which indicates that ARRC's level of productivity improvement per year is actually declining versus that of the Class Is'. Over the 1986 to 1996 period, ARRC's employee productivity improved by about 6 percent a year on average. If we examine only the period from 1990 to 1996, however, we find that productivity improvement averaged only about 4.5 percent per year (half that of the Class I railroads).

Since many of the methods used by the Class I railroads to enhance employee productivity are unrelated to whether a railroad hauls freight or carries passengers, it is not likely that the passenger component of service is responsible for ARRC falling so far below the Class I benchmark. Some of the difference is likely to be remedied by projects currently under way, such as the locomotive fleet upgrade. Mercer believes, however, that ARRC will need to take a more extensive look at the factors that are holding employee productivity down if it wants to achieve a more aggressive level of improvement.

Exhibit II-2
ARRC Staff Productivity versus U.S. Class I Railroads – 1986-1996
 (percent annual change in average revenue ton-miles per employee)



Contents

Introduction

Section I. Scope of the Audit and Personnel Involved

Section II. Update of ARRC's Financial and Operating Performance

→ Section III. Findings of the Management Audit

Section IV. Issues and Recommendations

Appendixes

Appendix A. Safety Database

Appendix B. Resumes

Section III: Findings of the Management Audit

This section presents the basic findings of Mercer's review of the railroad. Each year, Mercer's audits generally focus on one or two topics, rotating among major functional areas. This approach has allowed us to examine most railroad activities in detail over time. Additionally, Mercer provides every year a somewhat less intensive review of other elements of the railroad's functions.

This year, ARRC requested that we specifically focus our efforts on two areas:

- A review of the reasons underlying the persistent occurrence and recent alarming increase in employee personal injuries during the past two years
- A review of the proposed locomotive replacement program, which represents a dramatic change in fleet composition with little precedent on other railroads of ARRC's size and operating characteristics

Safety Review

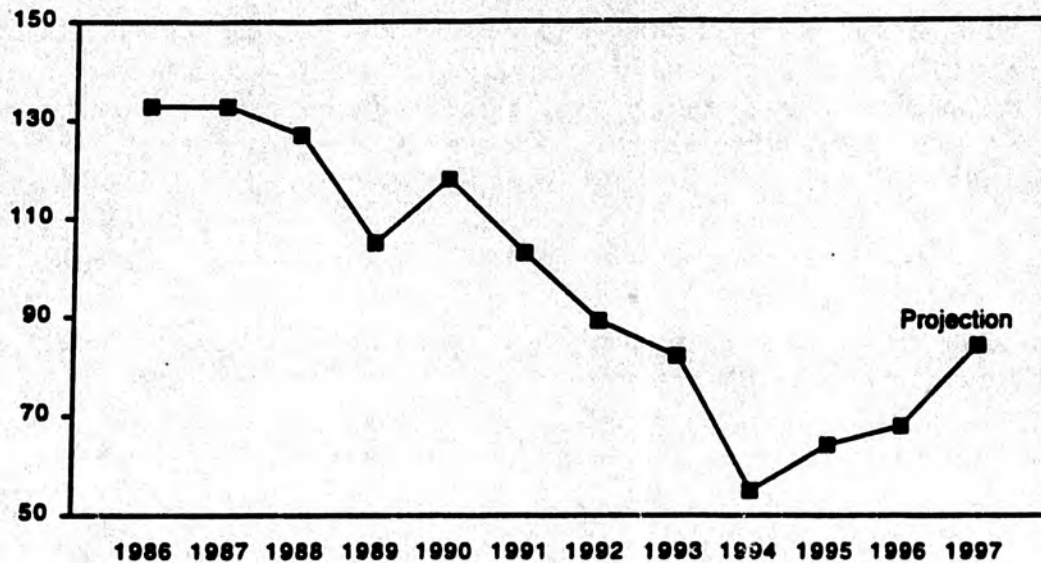
Overview

Mercer recognized that a persistent personal injury problem existed on the railroad during our first audit in 1991. We reported at the time that there appeared to be a "lack of commitment from top-level management, low morale, and a low priority given to safety in the line departments," and offered several recommendations.

Late in 1991, a number of changes were made in top management and the commitment to safety was significantly strengthened. The president of ARRC placed a much more intensive and aggressive emphasis on personal injury prevention activities and this attitude permeated throughout the entire organization. Consequently, continuous improvement was made in reducing total injuries up until mid-1996. During 1996, the incidence and severity of employee personal injuries increased; in 1997 thus far the situation has become even worse. Mercer believes that it is most appropriate for ARRC to be very concerned about this alarming rise in injuries.

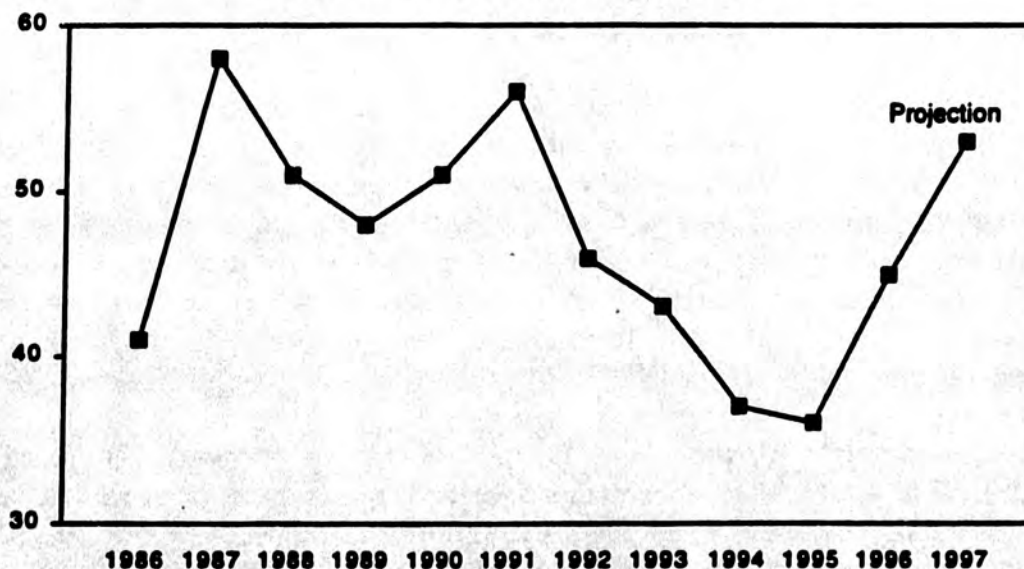
Exhibits III-1 through III-3 provide an overview of employee personal injury statistics for 1986 through 1997 using the three most common methods for reporting personal injuries: total incidents, FRA "reportables," and injuries resulting in lost time. As shown, the total number of personal injuries declined dramatically through 1994 and those that were classified as FRA "reportables" nearly kept pace. Lost time injuries, however, did not follow this downward trend.

Exhibit III-1
Annual Number of Total Incidents
 (fourth quarter of 1997 is projected)



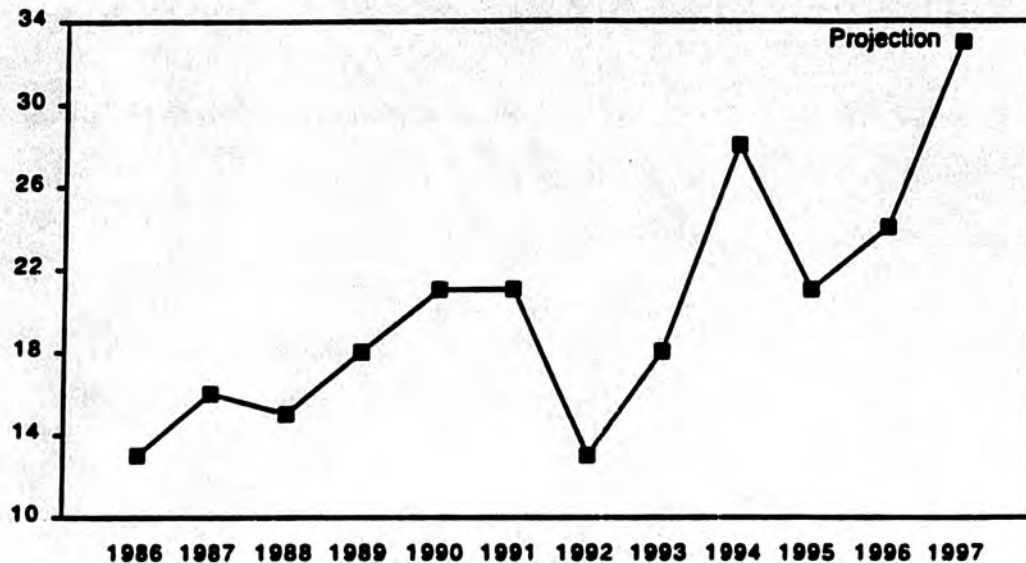
Note: Projected 1997 was based on actual results over the first nine months projected to twelve months, assuming the same injury rate occurs during the last three months of the year.

Exhibit III-2
Annual Number of FRA Reportable Injuries
 (fourth quarter of 1997 is projected)



Note: Projected 1997 was based on actual results over the first nine months projected to twelve months, assuming the same injury rate occurs during the last three months of the year.

Exhibit III-3
Annual Number of Lost Time Injuries
 (fourth quarter of 1997 is projected)



Note: Projected 1997 was based on actual results over the first nine months projected to twelve months, assuming the same injury rate occurs during the last three months of the year.

Methodology

To better understand the problem and to identify possible steps that might be taken to reduce injuries, Mercer undertook a comprehensive review and analysis that included:

- Interviews with the president and CEO, a board member, operating vice presidents, department heads, health and safety manager, and administration leaders
- A review of the safety rule manual, personal injury and investigation report requirements, safety programs, external evaluation of employee perceptions of ARRC personal injury program and activities, FRA statistics, and proposed measures to be implemented
- Development of a database that catalogues all personal injuries from January 1, 1995, through September 30, 1997
- Gathering statistics on the three measures of personal injury reports from 1986 through 1997

Database Development

To properly assess the nature of personal injuries sustained by employees at the railroad, Mercer compiled a detailed database of personal injuries for first quarter 1995 through third quarter

1997. To compile the database, Mercer undertook a detailed review of each individual personal injury report and then assessed the likely cause of injury.¹

- **Factual Information** – Mercer's database includes the following information about each incident, obtained from individual personal injury reports:

1. Employee name, age, occupation, and department and date of incident
2. Years of service in present occupation
3. Seriousness of injury (lost time, FRA, or non-reportable)
4. Number of lost time and/or light-duty days
5. Type of injury (sprain, cut, etc.)
6. Body part affected (head, shoulder, back, etc.)
7. Supervisor's name

- **Probable Cause Information** – Considerable time was devoted to categorizing each incident according to probable cause and preventability. This was the most challenging aspect of developing the database, as it required a detailed review of all of the factors and information available. Unfortunately, a number of the reports provided insufficient detail, so that some guesswork was required. In developing causal factors, Mercer drew upon the combined expertise and experience of the members of the Mercer team, including the team's knowledge of ARRC operations.

The following criteria were used to categorize each personal injury into what Mercer considers to be meaningful groupings and to determine the common sense reasons for most incidents. An assessment was made for injuries in two of the categories, "work practices" and "unsafe conditions," to determine if ARRC could have possibly prevented the injury.

- **Carelessness:** Personal injury could have been prevented through the exercise of more care in performing duties, and the injury occurred either because the employee did not know any better, did not use good judgement, or was not paying attention.
- **Work Practices:** Injury occurred when performing routine duties. Culpability was often shared between the employee and the railroad. In some cases, improper work practices were followed and/or wrong tools used.
- **Unsafe Conditions:** Injuries caused by an event beyond the control of the employee; some of these, however, could have been prevented by the railroad.

¹ Appendix A provides an excerpt of the database, showing the information used for statistical analyses. This excerpt includes all of the information discussed under "factual information" and "probable cause information" except employee and supervisor names and employee occupations.

- **Non-event:** Personal injury reports that could not be traced to any particular causal activity by the employee, such as a slip, trip, fall, etc. Some represented a recurrence of a prior injury.

Reportable Injury Measures

Mercer examined personal injury rates on the basis of the three measures most commonly used to evaluate a railroad's performance with regard to the success of its personal injury prevention activities:

1. **Total incidents** – Includes all instances of personal injury experienced while on duty, regardless of the level of severity.
2. **Federal Railroad Administration (FRA) reportable injuries** – FRA reporting criteria require that an incident be reported to the FRA if:
 - a. Time is lost due to the injury
 - b. Light duty is required
 - c. Medical treatment is required beyond first aid
 - d. Certain medication is prescribed

For FRA reporting purposes, it is not necessary that an employee lose time. It is mandated that railroads report personal injuries in the prescribed manner and that audits be performed to ensure compliance. FRA criteria provide a wide latitude as to the seriousness of the injury; based on the criteria, a reportable injury can range from one that is very serious or a fatality to a very minor one that requires only over-the-counter medication. Mercer believes the real value of the FRA's "reportable" requirements is that they provide a consistent method for reporting by all railroads and can thus be used for benchmarking purposes to compare railroad performance.

3. **Lost time injuries** – Those injuries that cause an employee to lose time from regular duties, regardless of the number of days lost. This is also considered an FRA "reportable."

Overall Comparison of ARRC with Peers

Mercer began its analysis by comparing the number of FRA reportable injuries per man-hours worked for ARRC and its peer railroads. As shown in Exhibit III-4, ARRC has usually ranked toward the bottom of the group in the past 10 years and has never placed any better than the mid-point on this measure. ARRC's ratio of reportable injuries per man-hours did however decline from 1991 through 1994, before rising again. A look at the first six months of 1997 shows a large increase in the ratio, thus dropping ARRC to the bottom of the ranking for the first time.

Exhibit III-4
Reportable Injuries for ARRC and Peer Railroads

Year	ARRC Ranking	Total Railroads in Class	Reportable Injuries per 200,000 Man-Hours	Total Hours Worked (000)	Total Reportable Injuries
1986	7	13	4.54	1,808	41
1987	12	16	11.18	1,037	58
1988	17	22	9.63	1,059	51
1989	13	20	8.49	1,130	48
1990	16	26	8.83	1,155	51
1991	17	27	9.69	1,156	56
1992	12	24	7.73	1,191	46
1993	14	20	7.50	1,147	43
1994	10	19	7.24	1,022	37
1995	15	21	7.58	946	36
1996	16	20	8.47	—	44
1995 (6 mos.)	18	20	9.04	—	21
1996 (6 mos.)	12	20	6.02	—	15
1997 (6 mos.)	19	19	9.90	—	25

Detailed Analysis of Recent Personal Injury Trends

Mercer analyzed overall trends in personal injuries in detail for the first quarter of 1995 through the third quarter of 1997. In our analysis, we sought to understand whether there were discernible patterns or trends that might help to explain changes in injury rates. Some of the questions we examined included:

- How has the level of personal injuries varied in each reporting category, i.e., in terms of total injuries, FRA reportable injuries, and lost time injuries?
- Have causal factors for injuries changed over time?
- Are there any trends in the number and type of injuries by department?
- Can the level of injury be related to length of work experience?

Our assessment of personal injuries along four dimensions is presented below.

Assessment of Personal Injuries In Each Reporting Category

Mercer found that injuries at ARRC have trended upward in all three personal injury reporting categories, although the jump in lost time incidents was not as large as FRA reportable and total incidents during the second and third quarters of 1997 (see Exhibit III-5). Personal injury

numbers in all three categories did not really start to climb until sometime during the second quarter of 1996. The relatively low numbers for 1995 were a result of the Mechanical Department's excellent safety performance during that year.

Exhibits III-6 through III-8 present the reporting for each of the three measures by quarter, with a projected number for the fourth quarter of 1997. Changes in the number and seriousness of injuries since mid-1996 are particularly evident when looked at this way.

Exhibit III-5
Breakdown of Employee Injuries by Measure
(1Q95 through 3Q97)

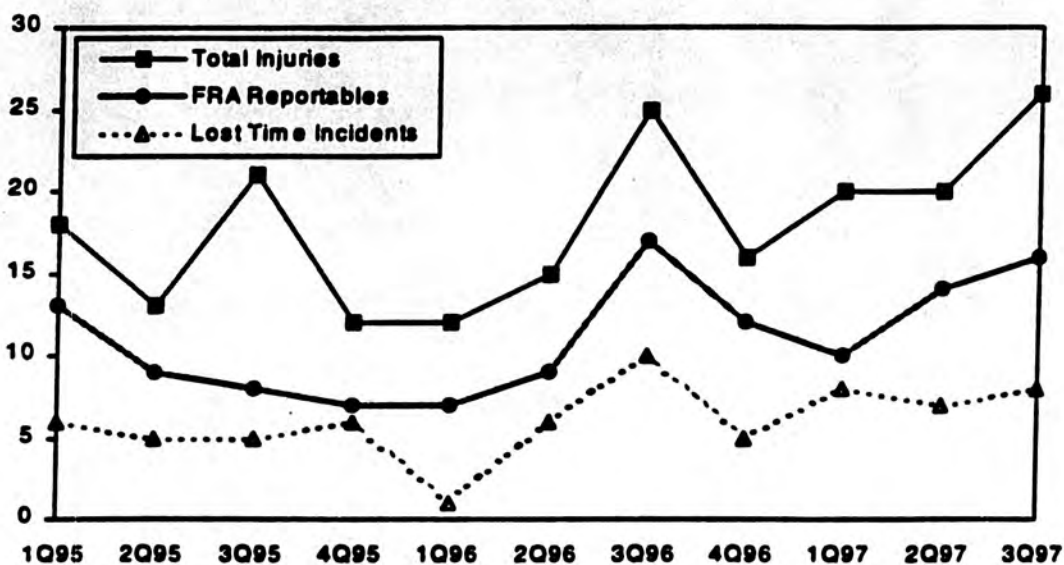


Exhibit III-6
Total Employee Injuries by Quarter
(1Q95 through 3Q97)

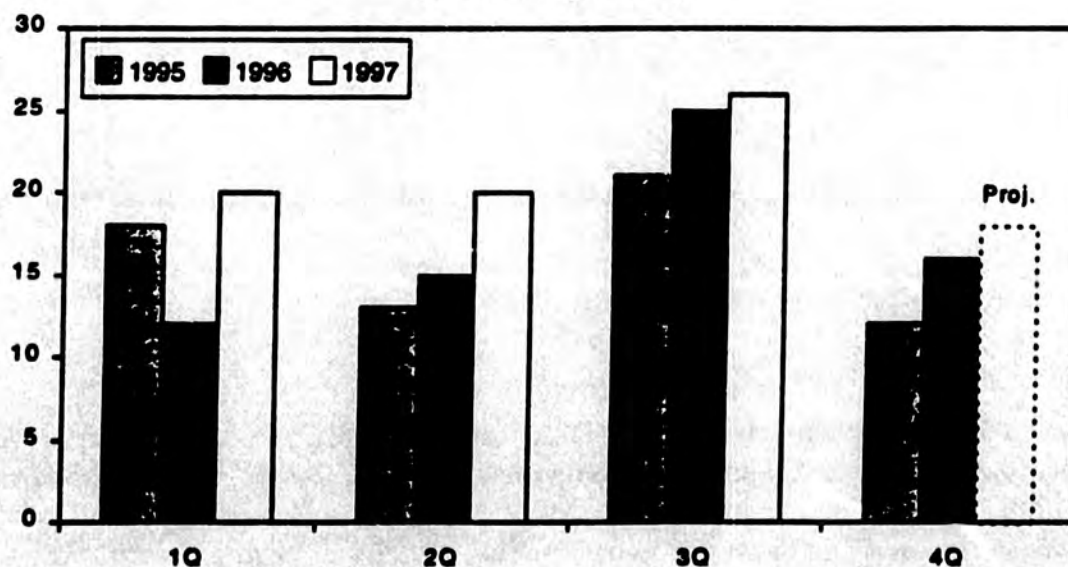


Exhibit III-7
FRA Employee Injuries by Quarter
 (1Q95 through 3Q97)

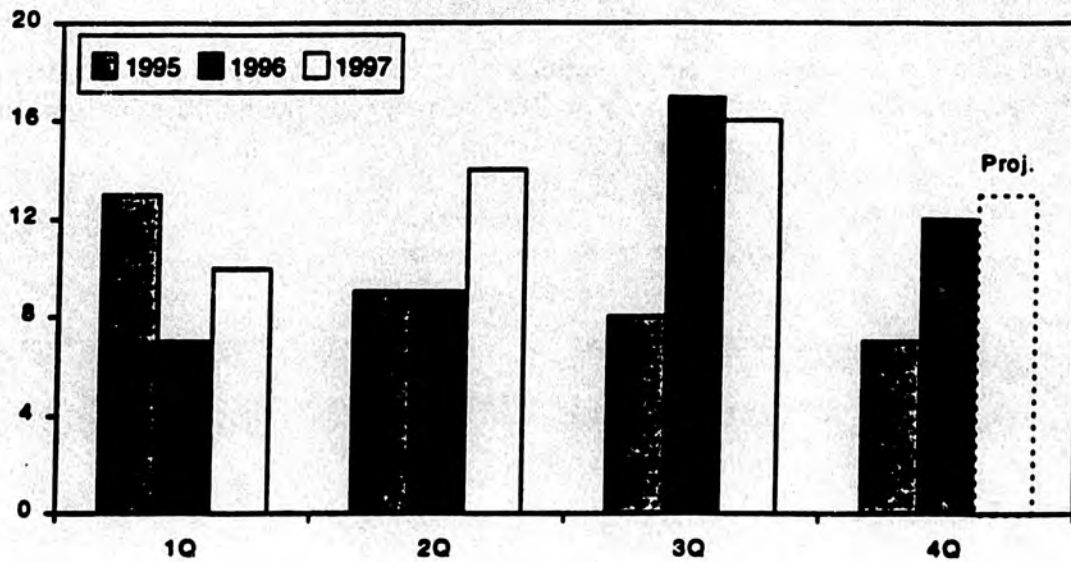
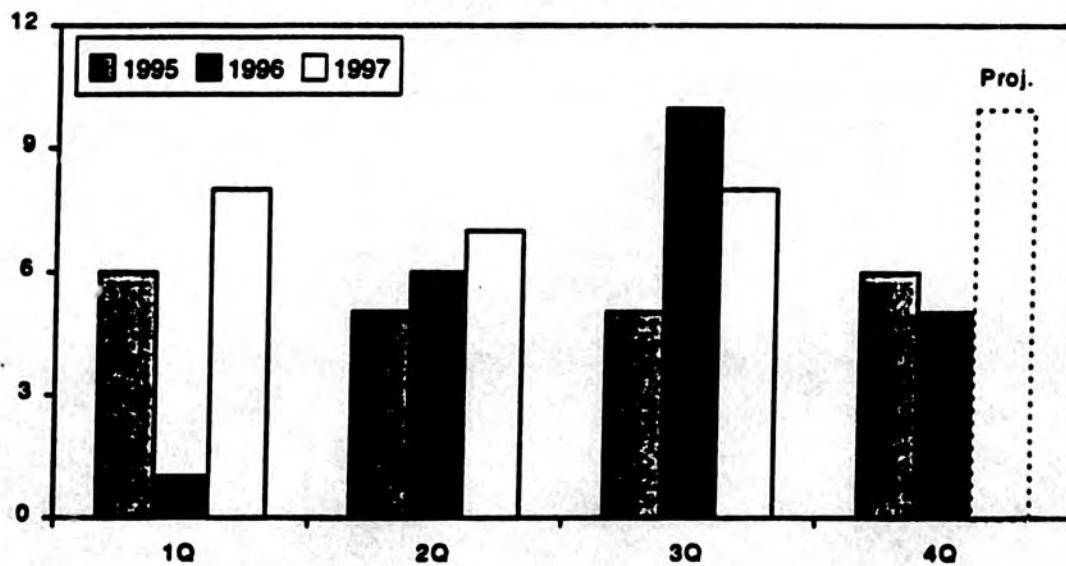


Exhibit III-8
Lost Time Employee Injuries by Quarter
 (1Q95 through 3Q97)



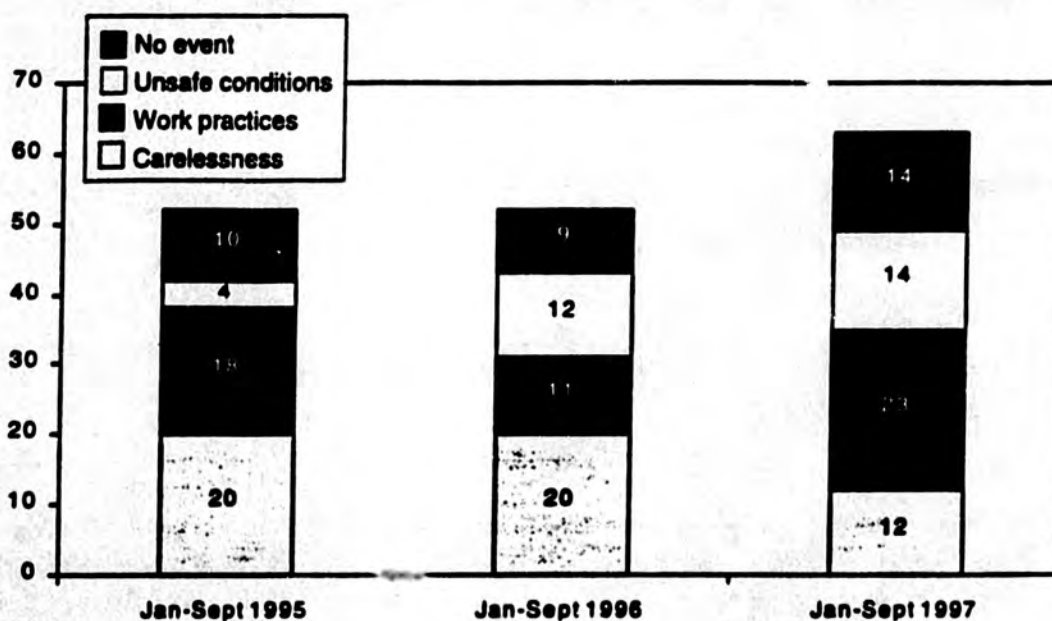
Primary Causal Factors for Personal Injuries

As discussed above, Mercer divided causal factors for injuries into four categories: carelessness, work practices, unsafe conditions, and non-events. We found that for the first nine months of 1995, 1996, and 1997, those personal injuries attributed to carelessness on the part of the employee declined, while those due to a non-event (usually involving an employee with a pre-

existing physical condition) increased. These trends are evident in Exhibits III-9 and III-10, which provide a breakdown of total and lost time personal injury incidents classified by cause.

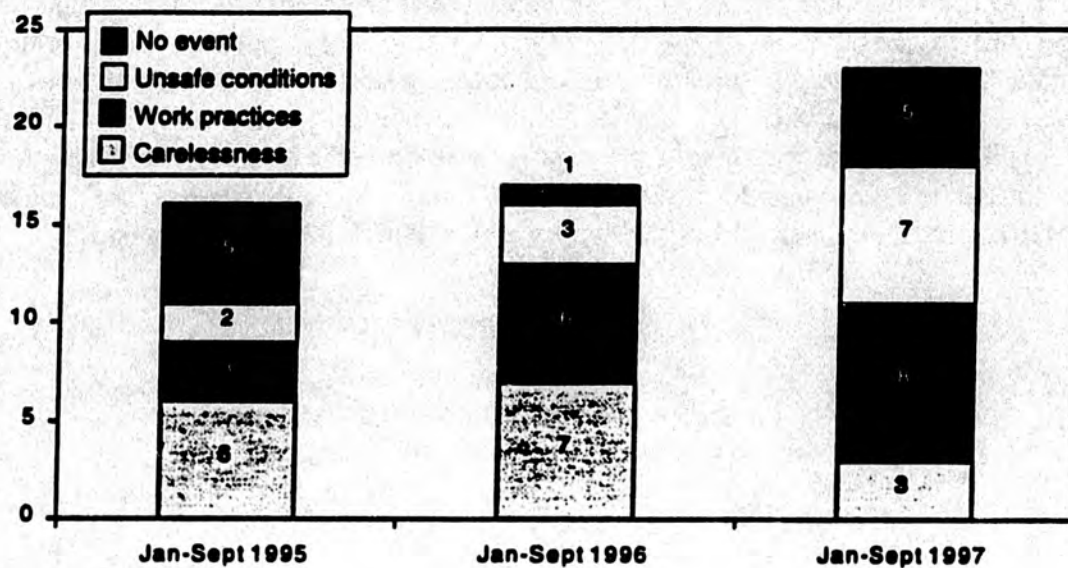
Mercer also finds troublesome a significant increase in the number of injuries due to work practices and unsafe conditions. We believe that a number of incidents related to these factors could have been prevented by the railroad. As shown in Exhibit III-11, lost time days attributable to unsafe conditions in particular have increased tremendously, which points to a need for ARRC to be more diligent and responsive to problem areas on a timely basis. Most of the lost time days due to unsafe conditions in 1997 were the result of slips, trips, or falls due to wet floors or steps, ice in an authorized walkway, or depressions in the ground.

Exhibit III-9
Analysis of Total Incidents by Cause
(first nine months of each year, 1995-1997)



Preventable Incidents			
Unsafe conditions	2	8	8
Work practices	5	1	2

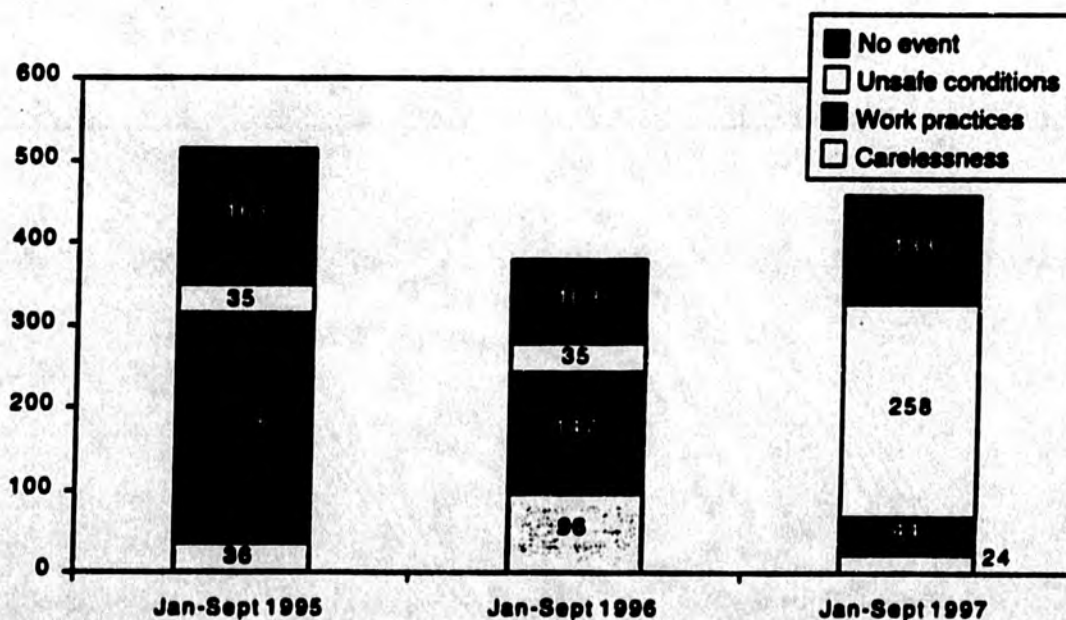
Exhibit III-10
Lost Time Incidents by Cause
 (first nine months of each year, 1995-1997)



Preventable Incidents

Unsafe conditions	-	2	4
Work practices	1	1	-

Exhibit III-11
Lost Time Days by Cause
 (first nine months of each year, 1995-1997)



Personal Injuries by Department

Mercer assessed how injuries have varied by department over the past three years and found some interesting trends:

- **The Passenger Department has experienced a particularly alarming increase in injuries, especially in view of the small size of this department relative to the operating departments (see Exhibits III-12 and III-13).**
- **The Engineering Department's incident rate has markedly improved; this is even more notable in light of the major track rehabilitation programs undertaken by the department in 1996 and 1997.**
- **The Mechanical Department, on the other hand, after an excellent showing in 1995, has seen its incidents rise in 1996-1997.**
- **Transportation is also showing an increased level of total incidents in 1997.**

When serious employee injuries are assessed by department (in terms of number of lost time incidents and total lost time days), it is apparent that the Transportation Department has experienced a tremendous increase in serious injuries. Although the Passenger Department's level of total injuries increased this year, these incidents for the most part have not resulted in lost days. Both Mechanical and Engineering, on the other hand, show a reduction in serious incidents for 1997. These trends translate into a decline in total average days lost per incident overall. See Exhibits III-14 through III-16.

Exhibit III-12
Total Employee Injuries by Department
 (1Q95 through 3Q97)

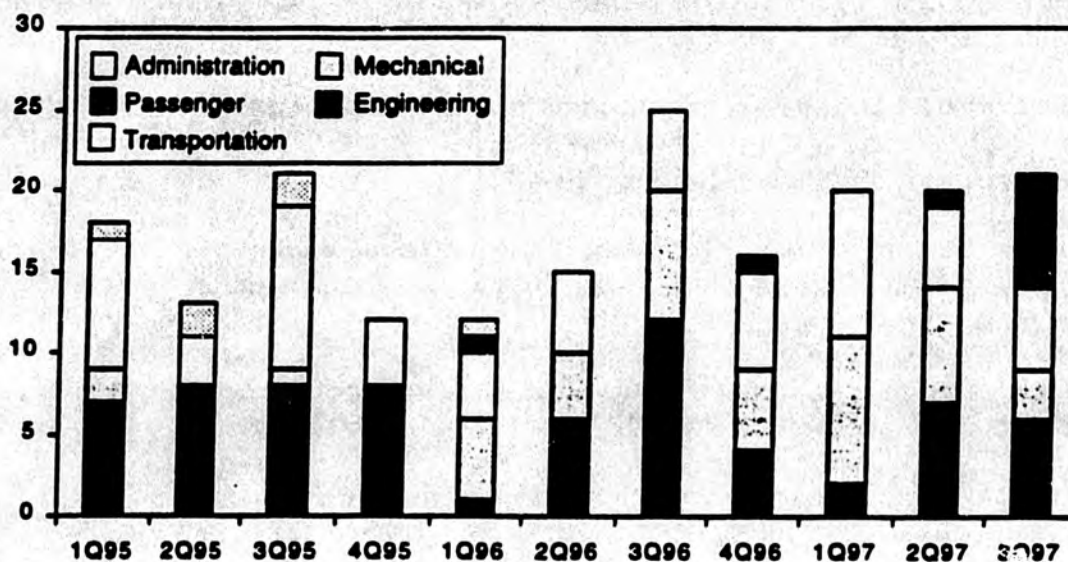


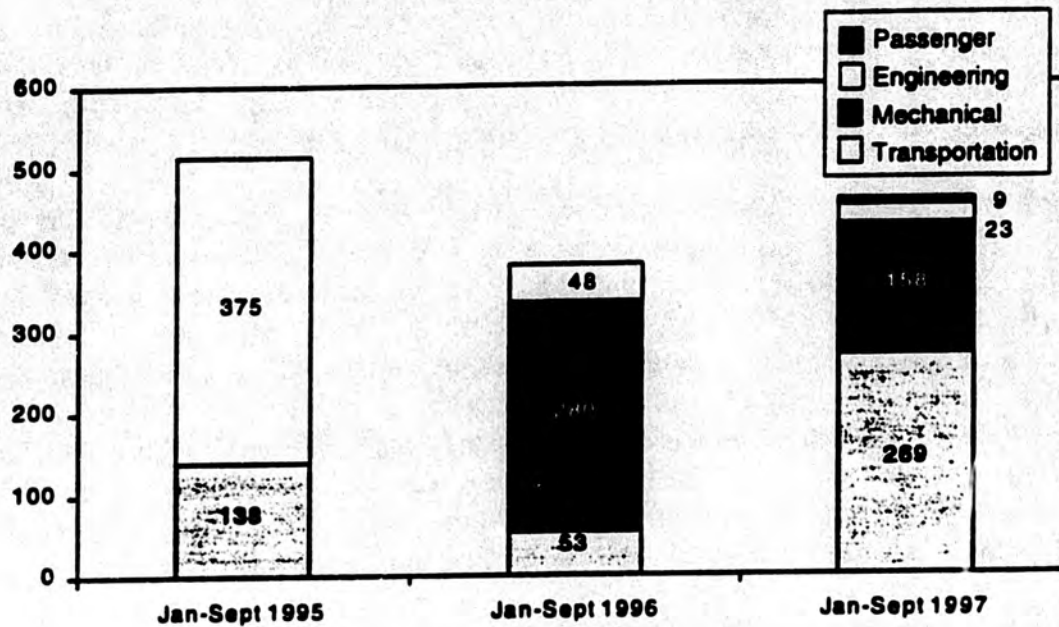
Exhibit III-13
Total Incidents by Department
 (First nine months of each year, 1995-1997)

Department	First Nine Months			Trend
	1995	1996	1997	
Passenger	0	1	8	↑
Administration	5	1	0	↓
Transportation	21	14	21	↑
Mechanical	3	17	19	↑
Engineering	23	19	15	↓

Exhibit III-14
Lost Time Incidents by Department
 (First nine months of each year, 1995-1997)

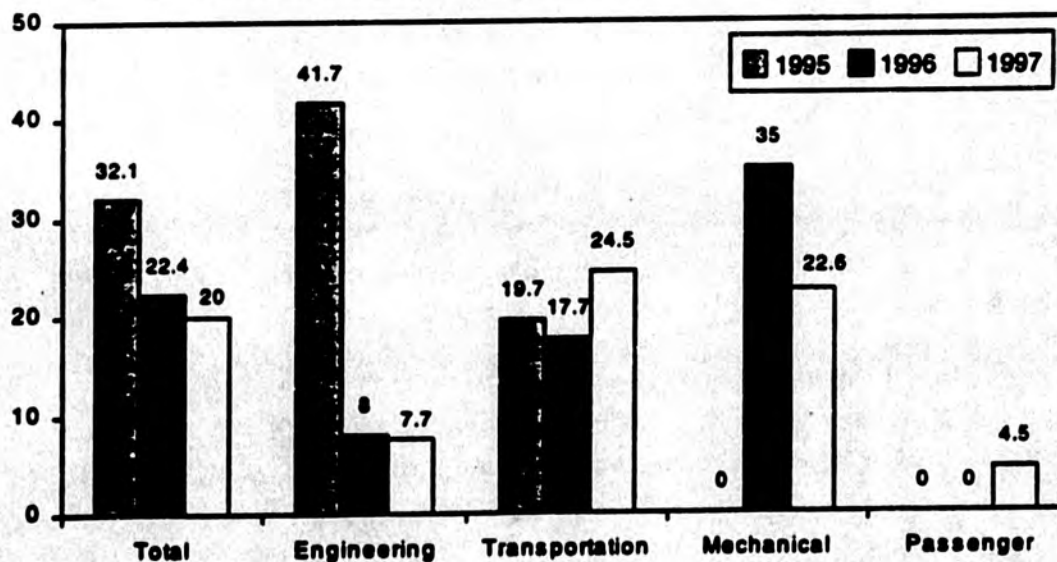
Department	First Nine Months			Trend
	1995	1996	1997	
Passenger	0	0	2	↑
Administration	0	0	0	-
Transportation	7	3	11	↑
Mechanical	0	8	7	↓
Engineering	9	6	3	↓

**Exhibit III-15
Lost Time Days by Department**



Note: Administration had no lost time days in this period; Passenger had no lost time days in 1995-1996; Mechanical had no lost time days in 1995.

**Exhibit III-16
Average Days Lost per Lost Time Incident**



Personal Injuries by Length of Experience

Mercer looked at length of work experience to see if there was some relationship between injury rates and how long an employee had been on the job. We divided employees into "new" employees (those with two years or less of work experience at ARRC) and all other employees (more than two years of work experience).

Suprisingly, we found a most significant development regarding the number of personal injuries involving employees with less than two years of service during the third quarter of 1997 (see Exhibit III-17). From mid-June to the end of August this year (only 2 ½ months), 16 out of 22, or nearly three-fourths of all incidents, were incurred by a "new" employee. This is certainly a "new" phenomenon! Eight of the new employees who experienced injuries appear to have had some type of pre-existing physical condition, which could well have contributed to the occurrence of their injuries or may have been the sole cause. Of the 10 injuries attributable to work practices and the 4 assigned to no event, 9 injuries appeared related to a physical condition of the employee that greatly increased his/her risk (see Exhibit-18). These "physical condition" incidents point to a serious lack of adequate screening during the hiring process.

When new employee incidents are looked at by department, they appear to be relatively well dispersed among the three operating departments and the Passenger Department (see Exhibit III-19). However, the ratio of incidents experienced by new employees in the Passenger Department was much higher than for the operating departments, if one considers the much smaller relative size of the Passenger Department. Surprisingly, the Engineering Department, which had the most new employees in 1996 and 1997, had an injury rate for these employees close to that of the other three departments in 1997.

As shown in the right-hand box of Exhibit III-19, there was a significant jump in the third quarter in injuries to new employees. The Transportation, Engineering, and Passenger groups were primarily responsible for this increase.

Exhibit III-19 also shows the number of personal injuries in each department for all remaining employees over the three-year period. It is interesting to note that total incidents for "experienced" employees (those with more than two years of service) have actually been trending downward.

In summary, length of employment is a major factor in ARRC's recent increase in personal injuries. As shown in Exhibit III-20, all of the increase from 1995 to 1997 occurred among new hires. For all other employees, three fewer incidents are actually expected in 1997 than occurred in 1995.

Exhibit III-17
Employee Injuries by Length of Service
 (1Q95 through 3Q97)

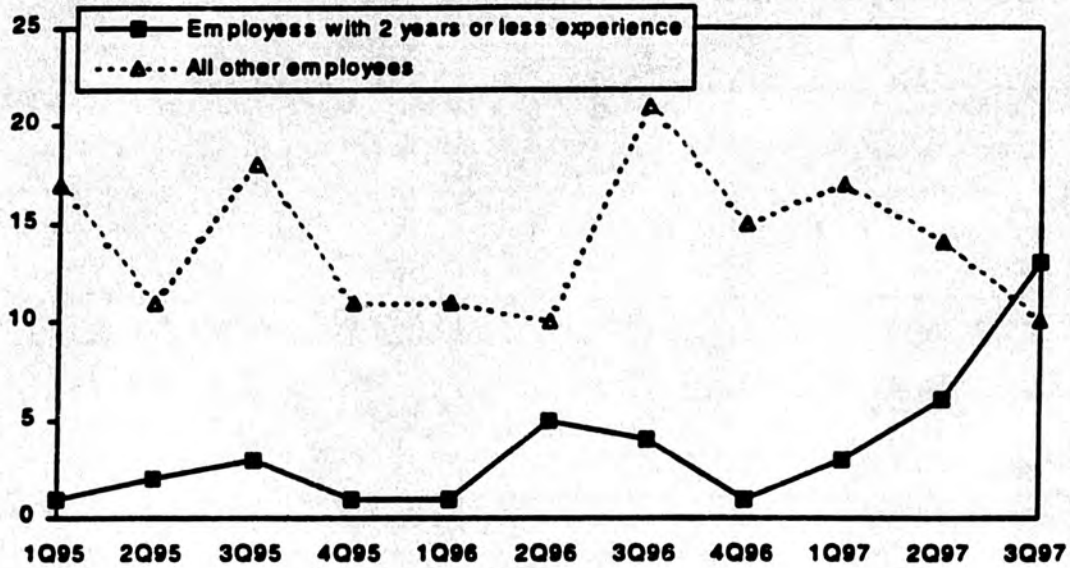


Exhibit III-18
Total Incidents by Cause for Employees With Two Years or Less of Service
 (1Q95 through 3Q97)

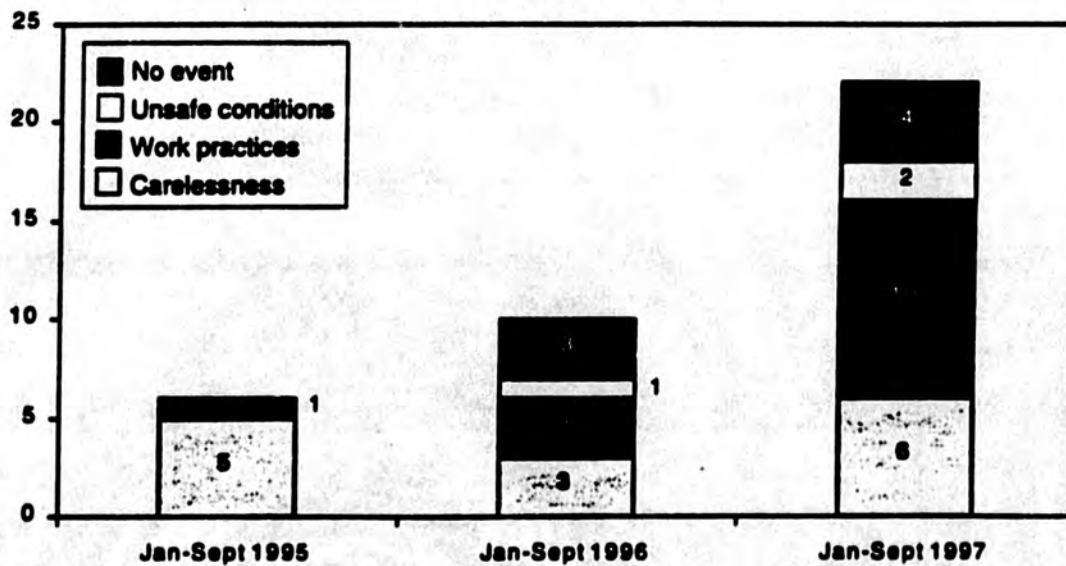
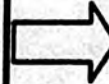


Exhibit III-19
Total Incidents by Department and Length of Service

Two Years or Less Service

Department	First Nine Months		
	1995	1996	1997
Passenger	0	0	5
Administration	1	1	0
Transportation	0	1	6
Mechanical	1	1	5
Engineering	4	7	6
Total	6	10	22

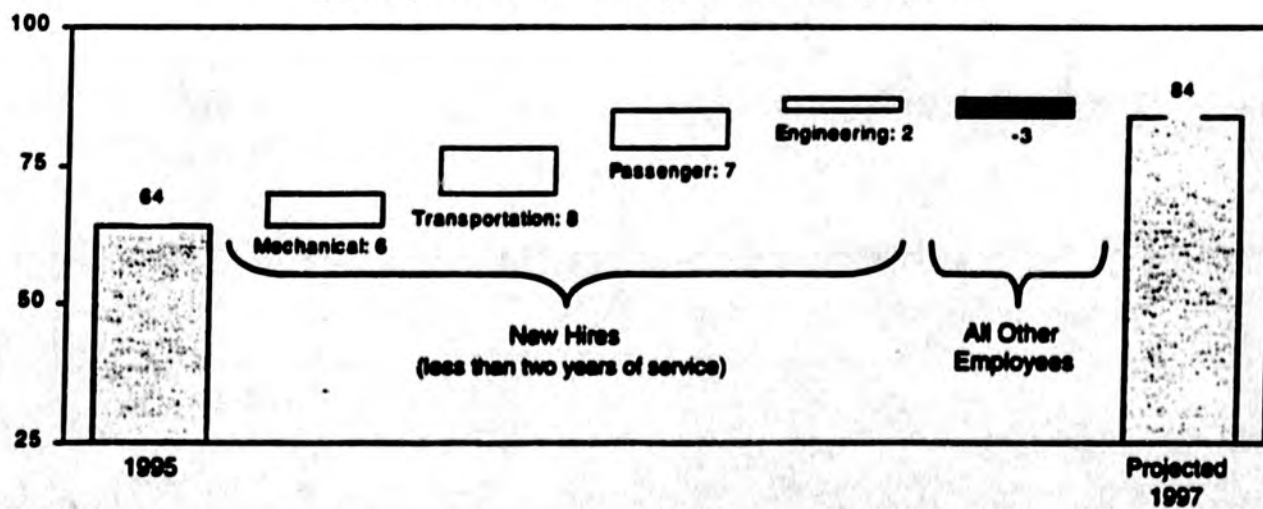


1997		
1Q	2Q	3Q
0	1	4
0	0	0
1	1	4
2	2	1
0	2	4
3	6	13

More Than Two Years Service

Department	First Nine Months		
	1995	1996	1997
Passenger	0	1	3
Administration	4	0	0
Transportation	21	13	15
Mechanical	2	16	14
Engineering	19	12	9
Total	46	42	41

Exhibit III-20
Change in Total Incidents for 1995 versus 1997
 (by length of service and department, 1997 projected)



Mercer's Evaluation of ARRC's Safety Record

Based on Mercer's evaluation of total and lost time injuries and worker's compensation payments, there is room for improvement in ARRC's safety record. It is clear that such improvement is possible, based on the lower levels of injuries sustained by employees prior to 1996, as well as the lower rates sustained by ARRC's peers.

In terms of achieving an overall reduction in the number of injuries, determining exactly "what went wrong" can be complicated and frustrating, as the concept of safety involves many complex and interrelated factors. Our assessment focused on three areas that generally impact a railroad's safety and personal injury prevention record:

- Whether there are inherently unsafe conditions and practices in evidence at the railroad
- Whether safety administration and injury prevention programs (including screening, orientation, training, review, and monitoring) are adequate and properly administered
- Whether employee and management attitudes are having an impact on the level of injuries

Inherent Safety of Railroad Conditions and Work Practices

From a physical standpoint, the railroad appears to provide a safe place to work for those areas within ARRC's control. A review of the type of injuries incurred from 1995-1997 generally confirms this. The several injuries that did involve unsafe conditions appear due to wet floors and steps and icy conditions.

The railroad also appears to be following through on correcting problem areas that have been reported by employees. The most apparent deficiency in the railroad's efforts to correct such problems is the lack of a formal procedure for response and remediation once an unsafe condition or practice has been reported. Although well-defined instructions exist for reporting a problem, there appears to be no process in place to:

- Acknowledge receipt of information provided by a employee
- Provide a follow-up report (within a specific time frame) that explains the status and/or action taken

Mercer also found some evidence of injuries resulting from improper work practices. It appears that these work practices are condoned by management. In some cases, improper tools and equipment were used, sometimes as a shortcut, sometimes because "we've always done it that way." A process to review and monitor work practices to ensure compliance with proper methods and procedures appears to be lacking.

Safety Administration and Injury Prevention Programs

Administration of Safety Programs: Mercer assessed the Safety Manager's roles and responsibilities (see Exhibit III-21) and evaluated the effectiveness of safety management based on the following factors:

- The ability of the Safety Manager to act in the capacity of a neutral, independent inspector and observer in the workplace, for the purpose of detecting unsafe work practices, conditions, and employee activities and then handling any problem areas with the appropriate operating personnel.
- The quality of the relationship between the Safety Manager and the operating departments, which are essentially his customers; whether he makes himself available to assist them in their personal injury prevention activities and acts in a sensitive manner when matters involve sharing responsibility with the line department managers.
- The effective use of information from a safety database to identify aberrations, trends, etc. and to refine or customize safety programs to address problem areas.

Exhibit III-21

Responsibilities of the Health and Safety Manager

Safety programs	Work with the operating departments to plan, develop, and implement
Safety training programs	Oversee development and presentation
Safety inspections	Inspect the workplace environment regularly for all aspects of ARRC operation and handle safety concerns for correction as appropriate
Emergency response plans	Participate in development, implementation, and evaluation
Reporting	Keep the CEO fully informed of the overall safety situation on the railroad and advise the CEO on matters involving safety
Other support	Provide technical support on safety standards and other administrative support as required

The current Health and Safety Manager appears to be fulfilling his responsibilities in general, including participating in the implementation of a wide variety of safety programs. His effectiveness, however, has been stymied by ARRC's failure to fully identify what his role should be within the organization. In addition to this lack of a defined role, Mercer identified the following as the most serious deficiencies in the management of health and safety at ARRC:

- The relationship of the Safety Manager and the operating department managers is poorly defined and ripe for potential conflict. The duties and responsibilities of the Manager overlap that of the line managers, with the Safety Manager acting as an overseer rather than as an advisor.

- The duties of the Safety Manager require a high level of diplomacy and patience and the establishment of good relationships with line departments. Interviews indicated that for the most part, the line departments consider the Safety Manager to be more of a critic of their operations and a policeman overseeing their activities rather than an ally in the effort to reduce personal injuries.
- The reporting and investigation of personal injuries is inadequate (see further discussion below).
- The data that are collected on the underlying reasons for personal injuries are sparse. There is no uniform database available for performing detailed analyses of trends and changes in the number and type of personal injuries.

Safety programs: ARRC probably has had more diverse safety programs in recent years than most railroads its size. It is Mercer's impression that the various types of safety meetings, committees, outside assistance, and focused activities that have been used should have contributed considerably to a good safety culture. Although Mercer is not able to evaluate the effectiveness of these efforts (as we are not in a position to measure employees' responses), it appears that, on the basis of the rise in personal injuries, the safety culture is not benefiting from these programs.

Mercer did observe that certain safety rules are not consistently being complied with or are being overlooked by supervisors; in particular, safety rules related to proper protective gear (clothing, eyewear, hard hats, footwear, etc.) This is of concern, as first line supervisors are key in ensuring that safety programs and rules are followed. If first line supervisors do not fully embrace safety programs or don't practice safety initiatives on a day-to-day basis, employees will soon detect the lack of interest and develop a lax or negative attitude toward safety programs. If supervisors condone the violation of a safety rule or don't enforce compliance, the importance of the rule is diminished and employees may be confused as to its applicability.

New employee selection and training: ARRC appears to lack an aggressive and effective selection and training program for new employees. The high level of injuries among new employees at the railroad particularly demonstrates the importance of having a focused program to prepare new employees to do their jobs in an acceptably safe manner. Also lacking is a follow-up program to oversee and monitor new employees' progress.

Training for experienced employees: Mercer found that training for experienced employees at the railroad is also lacking. Training for more experienced employees fulfills a number of functions: it reinforces earlier training, helps employees maintain a heightened awareness about safety, and ensures employees are up to date on the latest safety information and problem areas. Continued safety training and reinforcement of the railroad's safety philosophy also demonstrate management's commitment to safety and concern for workers' well being, thus helping to create a bond of trust and confidence between employees and management and possibly improving employee morale.

Management safety training: First-line supervisors and middle managers also require safety training. They need to know how to carry out the railroad's safety policies

effectively, including the fundamentals for dealing with subordinates on safety issues. Far too often, supervisors and managers are promoted from the ranks with little or no training in this area.

Apparently, the formal training program and the position of training manager were discontinued several years ago. We are gratified to learn that training sessions are scheduled this fall for 20 non-agreement first line supervisors; continuing and expanding this training for all levels of management would be worth considering. We also understand that the Health and Safety Manager is developing a program related to repetitive motion and carpal tunnel syndrome injuries.

Reporting and investigation: Mercer found some deficiencies in ARRC's personal injury reporting and investigation process. We consider such a process to be one of the most important elements of an effective personal injury prevention program. A proper procedure would address the following:

- An accurate initial report containing all of the pertinent information available at the time
- A comprehensive investigation that would be conducted by the supervisor, including causal factors and what might have been done to prevent the injury
- A close-out report assigning a definitive cause and the steps taken to prevent a recurrence, if any.

When a derailment occurs, there is usually a significant effort made to determine a definitive cause so measures can be taken to prevent a recurrence. Personal injuries are no different and should be treated in the same manner.

Mercer received copies of all documents in the possession of the Health and Safety Manager for injuries that occurred between January 1, 1995, and September 30, 1997. It was disappointing to find that a preponderance of the reports did not go beyond the initial reports submitted by the supervisor. The following critical information was missing in many of the reports:

- Cause of the incident
- What might have prevented the incident
- What steps were taken to prevent a recurrence
- Whether there was a pre-existing physical condition that might have been a factor
- Whether proper procedures were followed
- Whether proper tools and appliances were used
- If an inspection was made of the implement used, such as switch, hand brake, vehicle brake, etc.

- Whether there were any extenuating circumstances, such as the weight of the individual
- If any disciplinary action was taken
- If protective gear such as safety glasses, footwear, gloves, knee pads, etc. was used or available

With all of the instruction, training, and other efforts ARRC has undertaken to prevent injuries over the past several years, it is difficult to accept the poor quality of information available. The lack of critical information represents a significant gap in proper investigation procedures. Mercer can only assume that since reports do not contain complete information, they are either not being reviewed by department heads or there is a lack of interest in following up to obtain more complete information on incidents. Or, perhaps subsequent documentation is not being provided to the Health and Safety Manager.

There has been some improvement since new FRA forms came into use this year, but much more needs to be done in this area if a comprehensive and useful database of incidents is to be maintained. Since departments average only about 2 or 3 incidents a month, a complete investigation and close-out report would not represent a significant increase in work. Thorough reporting could, however, help reduce overall injuries if more were known about the causes and circumstances of each incident.

Management and Employee Attitudes on Safety

The safety record of any organization is subject to a key intangible: the attitudes of employees. This is particularly the case for a railroad, where exposure to potential injury is inherent in the business. Current social standards, which have tended to shift the responsibility for injury prevention from employees to management, has made the issue of employees' attitudes and expectations in regard to safety more important than ever. Management's response must be to provide better leadership, clearly defining expectations for employees in regard to their job functions and their responsibilities for safety. If safety is indeed the "most important element in performing duties" as stated in the Safety Manual, all levels of management – from the CEO on down – must provide consistent focus and direction in ensuring a safe operation.

Mercer found several factors have contributed to weaken management's leadership in setting expectations about safety:

- Key changes in top management positions over the past six years have interrupted and continue to affect the consistency of personal injury prevention efforts, as the priority given to safety is to some extent based on the interest level of each "new" manager. These changes also disrupt the relationships between management and employees that usually help reinforce attitudes and perceptions about safety.
- The changes in top management, combined with a lack of sufficient recognition and support, may be affecting middle and first-line managers' abilities and motivation to adequately carry out their personal injury prevention responsibilities. Mercer believes

there may be some confusion among middle and line managers regarding the goals and objectives of the railroad and the amount of support they can expect to receive in resolving disciplinary and personal injury issues.

- Management does not appear to have a clear understanding regarding the extent and causes of personal injuries at the railroad. Without knowing where and when incidents are occurring (e.g., which departments are most affected, whether less experienced employees have more injuries), it is difficult to develop appropriate solutions. None of the managers Mercer interviewed had a ready explanation for the increased number of personal injuries.
- Management has been unable to clearly define employees' responsibility for their own safety. For example, most of the management staff appear to share the opinion that employees do not accept responsibility when an injury is solely the fault of the individual. By comparison, when employees were asked in the "Perception" survey (conducted by Northwest Safety Management, Inc.) if they were held accountable for actions that impact the safety of their work areas, *all* of those questioned said "yes." In fact, the results of the survey disclosed a rather large gap between the railroad's objectives and employees' perceptions of those objectives.

Mercer also found that poor employee morale could be contributing to the safety problem. In each of the years Mercer has conducted its audit, the question of low morale, poor employee attitudes, and distrust of management has often been mentioned in connection with personal injury discussions. This concern seemed most prevalent in mid-1996, at the height of labor negotiations. Since then a number of factors that contribute to employee morale have gotten better – including settlement of labor issues and improvements at the railroad – so it is disturbing to find that poor morale continues to be an issue.

Some factors that may be contributing to this morale problem include a lack of communication and poor management-employee relationships, with employees as a result feeling less invested in the railroad. Staffing reductions in past years may also be contributing to the situation, as the remaining employees have had to deal with changing job requirements and new responsibilities.

The most direct evidence of the impact of poor morale is an increase in those injuries that are beyond the railroad's ability to control, i.e., injuries that cannot be attributed to specific events or that may be linked to an employee's pre-existing physical condition. In the first nine months of 1997, for example, almost 50 percent of total incidents were of these types (15 incidents were not event specific and another 14 were due to a physical condition complaint, such as back pain, etc.). The level of injuries in these two categories can be difficult for a railroad to manage, because:

- The recognition of what constitutes an injury has changed to include not only acute injuries that result from specific events (broken bones, cuts, bruises, etc.) but also unspecified or chronic conditions that surface or are aggravated when an employee is working.

- Legislation and changed attitudes have made it more difficult for employers to consider the physical limitations of an employee; the burden is now on the employer to prove that a physical condition disqualifies an individual for specific work.
- It has become somewhat more acceptable in society to claim an injury at work when it is not entirely certain that the injury was the responsibility of the employer or was actually related to work on the railroad.
- Poor morale can lead to a general attitude of indifference among employees and the loss of accompanying peer pressure to "play by the rules," thus opening the door to many incidents that would either not have happened or that were actually due to activities performed away from work.

Review of Proposed Locomotive Acquisition

Overview

ARRC plans to take the unprecedented step of replacing a large portion of its relatively old locomotive fleet with new state-of-the art locomotives. This move will both simplify and rejuvenate ARRC's fleet, which will shrink from 50 locomotives of six different types to 30 locomotives of just three types. The new fleet will include 16 technologically advanced SD70MAC six-axle AC locomotives, 10 rebuilt or recently overhauled four-axle GP38s, and 4 MP15 switch engines. The new SD70s will be the workhorses of the fleet and will be used on the key long distance trains that account for two-thirds of the train trips operated annually by ARRC (see Exhibit III-22).

The benefits of this replacement plan are expected to flow through all phases of railroad operations. The following are the primary benefits specifically projected by management:

- Upgrade the overall quality of the fleet to ensure higher levels of reliability under the harsh operating conditions faced by ARRC
- Reduce the basic costs of locomotive maintenance, since
 - The size of the fleet will be reduced and standardized around a few locomotive types
 - High-maintenance locomotives will be replaced with locomotives that are inherently less costly to maintain
 - The total miles of locomotive use will be substantially lowered, since fewer of the more powerful SD70MACs will be needed per train
- Reduce the costs of inventory and facility assets required to support the locomotive fleet, by reducing spare parts inventory needs and eliminating obsolete maintenance facilities
- Lower other operating costs such as fuel and sand use

Exhibit III-22
Summary of ARRC Train Trip to Be Powered by SD70MACs
 (based on 1996 train trips)

Train No.	Direction	Name	Total Annual Trips	Trips to Be Powered by SD70MACs
Freight				
110	N	Sew-Anch Frt	31	-
110	S	Anch-Sew Frt	32	-
118	N	Port-Anch Frt	1	-
118	S	Anch-Port Frt	1	-
120	N	Whitt-Anch Frt	161	-
120	S	Anch-Whitt Frt	158	-
130	N	Anch-Fbx MAPCO	363	363
130	S	Fbx-Anch MAPCO	366	366
135	N	Anch-Fbx FOX	130	130
135	S	Fbx-Anch FOX	122	122
140	I	Palmer Turn	27	-
150	I	Gravel-AGG	61	61
155	I	Gravel-AS&G	123	123
157	I	Gravel-CPP	109	109
175	I	Nenana Turn	1	-
175	N	Nenana-Fbx	1	-
175	S	Fbx-Nenana	2	-
181	I	SUNEEL	119	119
183	I	SUNEEL	119	119
188	I	North Coal	134	134
188	N	North Coal	7	7
190	N	Other Nth Frt	18	-
190	S	Other Sth Frt	22	-
191	I	Other Turns	21	-
191	N	Other Nth Frt	1	-
191	S	Other Sth Frt	1	-
Passenger				
210	I	Seward	114	-
220	I	Shuttle	269	-
230	N	Nth Express	158	158
230	S	Sth Express	160	160
240	I	Hurricane	64	-
290	I	Misc.	46	-
290	N	Misc.	11	-
290	S	Misc.	10	-
Total			2,983	1,971
SD70MAC Trains as % of Total				66.5%

Source: ARRC 1996 train performance statistics, prepared by Bruce Carr.

- Improve locomotive utilization, as the high reliability of the new locomotives plus their overall increased availability will permit faster turnaround times between runs

Since the proposed acquisition will result in a smaller and easier-to-maintain fleet, management anticipates that the railroad's locomotive maintenance facilities can be substantially modified in the future. The facilities currently have more capacity than needed to maintain the existing fleet and are old, obsolete, and inefficient compared to modern facilities.

ARRC also studied the impact of the locomotives on the track structure and concluded that because of the radial trucks, the impact would be negligible. In fact, less rail wear is anticipated due to the improved tracking of the SD70 trucks. The only major track changes required will be additional rail anchors.

Mercer's Assessment of Proposed Acquisition

Mercer is aware of no other railroad of ARRC's size that has replaced such a large portion of its fleet with new locomotives. Other than its original conversion from steam to diesel locomotives and the 1950s rail replacement program, this is the largest capital program ever undertaken by ARRC.

The decision to replace a large part of the fleet was in part influenced by the need to make a long-term change in the total cost of doing business. Over the past several years, ARRC has struggled to improve its productivity and lower its costs in order to be more competitive in the transportation marketplace. The high costs of operating and maintaining an aging locomotive fleet was an obvious target, as new locomotive technology offers many cost benefits not previously available.

In Mercer's view, ARRC's fleet replacement plan will impact nearly every facet of rail operations. The economics projected by management are for the most part limited to lowering maintenance costs, but in our opinion the ability to improve train operations and to rationalize maintenance facilities will yield large additional benefits that have yet to be quantified.

Our assessment examined the following aspects of the fleet replacement plan:

- Rationale for fleet replacement
- Pulling power of the smaller fleet
- Impact on reliability and availability
- Impact on locomotive maintenance costs
- Impact on maintenance facility requirements
- Alternative locomotive maintenance and financing options
- Impact on inventory costs

- Use of SD70MACs on passenger trains
- Impact on track

Rationale for Fleet Replacement

The decision and rationale for the purchase of the new locomotives appears to be sound. The costs to maintain the current fleet have risen by 43 percent in the past six years, from \$3.0 million in 1990 to \$4.4 million in 1996, while other ARRC operating costs declined by 12 percent. This trend is only expected to worsen, since some maintenance has been deferred and the railroad will eventually have to deal with this. In particular, ARRC has done fewer overhauls than it should have and the overhauls completed have been of a lower quality than is usually recognized as sufficient in the industry.

The railroad could attempt to upgrade the current fleet on its own, but doing so could take many years. The railroad would also be handicapped by using locomotives that could not be upgraded at an economical cost with the newest technology; ultimately, ARRC would be relying on obsolete assets.

Pulling Power of the Smaller Fleet

While the plan calls for a substantial reduction in the number of units operated by ARRC, the effective pulling power of the new fleet should be equal to that of the current fleet. The plan projects a 40 percent reduction in the number of locomotives, from 50 units to 30 (excluding MP15 switch engines, road haul locomotives will be reduced from 46 to 26). The horsepower of the road haul locomotives will decline by 31 percent, from 127,250 hp to 84,000 hp, but the fleet will produce the same or more pulling capability (tractive effort) at normal speeds and with higher levels of reliability and availability (see Exhibit III-23).

Test results by the manufacturer and the Association of American Railroads indicate that the traction effort could be as much as 10 percent more than that expected by ARRC; if this is the case, the total tractive effort of the road haul fleet could increase by 5 percent or more than current tractive effort.

Impact on Reliability and Availability

The new fleet should ensure a high degree of reliability. It is true that the railroad has made great progress in recent years in improving reliability and it is estimated that the fleet experiences less than one failure per locomotive per year; this compares well with industry standards. This performance, however, comes at a relatively high cost and, as noted above (and mentioned in prior audits), ARRC's locomotive maintenance cost per unit-mile is high. The new locomotives have a high level of reliability incorporated into their design and recent full service agreements between the manufacturers and railroads have called for 95 percent reliability in over-the-road operations.

Management acknowledges that the availability of the new locomotives will be far superior to that of the present fleet due to their larger fuel tanks, greater cold weather adaptability, and greater reliability. Management, however, does not show any improved utilization from this advantage, except to the extent that the new MAPCO oil train will be expanded without any further locomotive acquisitions. With the increased availability of the new fleet, there should be other opportunities to use the SD70MACs even more efficiently to cover trains otherwise scheduled to be pulled by the GP38s.

Exhibit III-23
Planned Changes in Tractive Effort for Road Haul Fleet
 (current numbers for 1997)

Locomotive Type	Number in Fleet		Tractive Effort (lbs)	
	Current	Projected	Current	Projected
GP38-2	8	10	482,000	614,000
GP9	1	0	52,500	—
GP35	3	0	186,720	—
GP40-2	19	0	1,235,000	—
GP49	9	0	607,500	—
Leased ¹	6	0	195,000	—
SD70MAC ²	0	16	—	2,400,000
Total	46	26	2,758,720	3,014,000

¹ Leased locomotive tractive effort is calculated at 65,000 pounds of force per unit for six months per year.

² Mercer assumed 36% adhesion, 150,000 pounds per unit, which is within the adhesion rate claimed by the manufacturer. An even more conservative estimate of 30% adhesion, 137,000 pounds per unit, would still result in a total fleet tractive effort of 2,806,000 pounds.

The ARRC should also consider how the new locomotives could be used to reduce waiting time between runs. The new locomotives have the capability for faster turnaround, due to their larger fuel tanks and adaptability to cold weather. At a minimum, they will be available for running the occasional extra train to relieve excess tonnage.

Impact on Future Locomotive Maintenance Costs

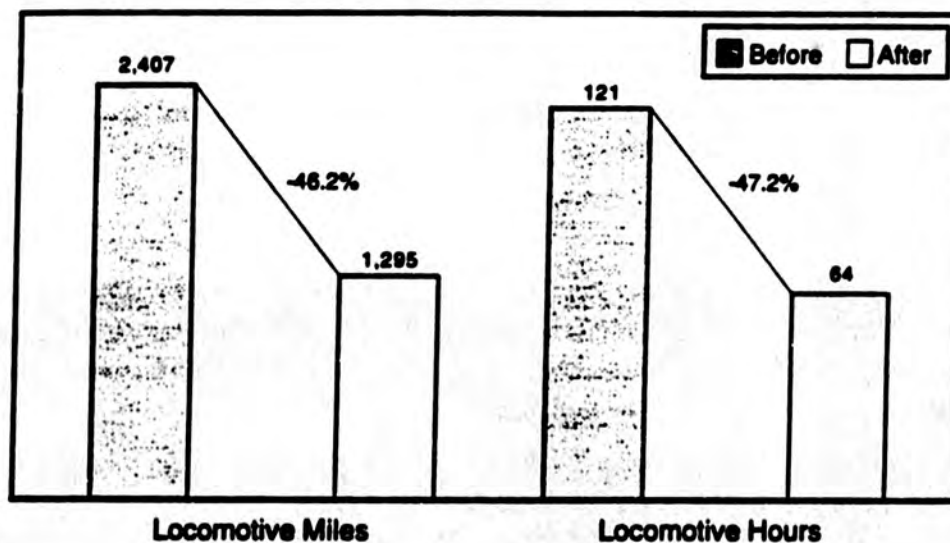
Lower locomotive maintenance costs will be the most important direct economic benefit of the new fleet. These costs will decline in direct proportion to the reduction in miles traveled by the new fleet as compared to the current fleet. Mileage will decline because fewer of the new

SD70MAC locomotives will be required per train, given their higher per unit² horsepower and traction. The average number of locomotives per train will be reduced from 4 to 2.1 units per train. Since the SD70MACs will account for 84.4 percent of total train miles and 94.5 percent of gross ton-miles, locomotive unit miles can be expected to decline by more than 40 percent (see Exhibits III-24 through III-26).

Exhibit III-24
Physical Characteristics of the Locomotive Acquisition

	Trains Slated for SD70MACs	Percent of Total Trains	All Other Trains	Total Trains
GTM's (millions)	2,264	94.5%	131	2,395
Train Miles	605,129	84.4%	111,469	716,598
Avg. Miles Per Train	307		106	237
Avg. Hours Per Train	16.2		10.7	15.2
Avg. Train Speed	19.0		9.9	15.7

Exhibit III-25
Changes in Locomotive Use for Trains Slated for SD70MACs
(miles and hours in 000s)



²The word "units" as used in this context is synonymous with locomotives. The usual officially defined railroad locomotive is one unit, or more than one when operated with interconnecting controls so that all of the individual units can be operated as one locomotive.

Exhibit III-26
Total Impact of Acquisition on Locomotive Miles and Hours

	Trains Slated for SD70MACs	Percent of Total Trains	All Other Trains	Total Trains
Locomotive Miles				
Before	2,406,966	93.2%	175,996	2,582,962
After	1,295,031	88.0%	175,996	1,471,027
% Change	-46.2%		0.0%	-43.0%
Locomotive Hours				
Before	120,883	73.3%	44,102	164,985
After	63,790	59.1%	44,102	107,892
% Change	-47.2%		0.0%	-34.6%

The impact of the new locomotives on ARRC's overall train operating productivity is expected to be impressive (see Exhibits III-27 and III-28). For example, the gross tonnage hauled per locomotive unit-mile will increase by 75.6 percent (to 1,628 tons), bringing ARRC much closer to the productivity achieved by the U.S. Class I railroads (which haul an average of 1,800 tons per locomotive unit-mile). ARRC will accomplish this with an average of only 2.1 locomotive units per train, significantly fewer units than used by the Class Is, which average about 3 locomotives per train.

Exhibit III-27
Productivity Changes for Trains Slated for SD70MACs

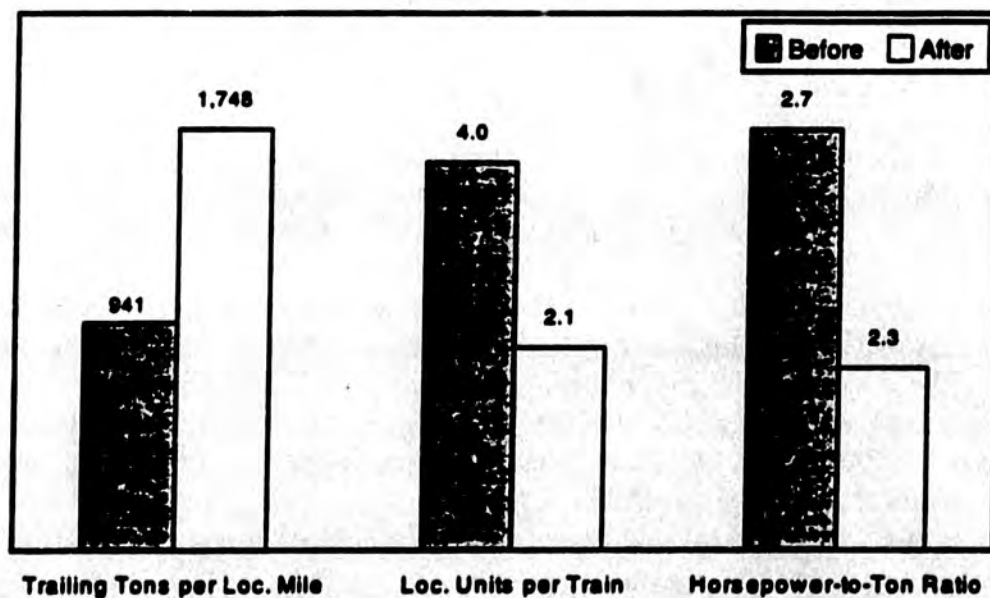


Exhibit III-28

Total Impacts of Acquisition on Productivity

	Trains Slated for SD70MACs	All Other Trains	Total Trains
Trailing Tons per Locomotive Mile			
Before	941	745	927
After	1,748	745	1,628
% Change	85.9%	0.0%	75.6%
Locomotive Units per Train			
Before	4.0	1.6	3.6
After	2.1	1.6	2.1
% Change	-46.2%	0.0%	-43.0%
Horsepower-to-Ton Ratio			
Before	2.7	--	--
After	2.3	2.7	--
% Change	-16.3%	--	--

ARRC should expect to obtain additional savings, as the new locomotives will be less expensive to maintain compared to the current fleet. While the new locomotives require certain minimum inspections as designated by the FRA, they can be expected to require far less frequent repair because of inherent design features:

- The locomotives have fewer major components; for example, solid-state electronics have replaced complicated electrical apparatus (including contractors and relays)
- On-board modern diagnostic equipment is standard, thus enabling quick identification of problems and resolution with minimal time and effort
- Components are longer lasting; for example, the AC traction motors do not have carbon brushes and the overall inherent design provides for twice the life as DC motors, wheel life is double, and the diesel engine has longer life components as well

Maintenance costs will also be minimized because the new locomotives are covered by a warranty that will cover all major work and some miscellaneous problems for the life of the warranty. The only work not covered would be problems due to the railroad's negligence and normal servicing and inspection (including FRA required inspections and other usual requirements, it is estimated that servicing and inspection work represent about 20 percent of the current budget). The costs for the routine inspections to meet industry standards also will be lower, as daily trip inspections will be done by the locomotive engineer. This change should reduce inspection costs by a significant amount.

In addition to the cost reductions noted above, the reduction in the number and types of locomotives will obviously have a substantial impact on costs. In particular, the reduction of locomotive types will allow for greater standardization of components and work procedures.

Another key element in support of the cost of purchasing the new locomotives will be the much smaller workforce required for locomotive maintenance and the reduction in associated labor cost.

The only reservations Mercer has on the cost savings anticipated by management are as follows:

- We believe that the costs contained in the pro forma analyses overestimate the costs that ARRC will experience for the first several years. The costs used appear to be based on longer-term experience.
- The costs used for the SD70MACs do not fully reflect the longer service life of the major components; for example, it is assumed that the wheel sets of the SD70s are replaced at the same rate as GP38 wheel sets, while in actuality the SD70 wheel sets should have double the life.
- The costs to maintain the GP38s in the past have been somewhat understated, as materials were drawn from an inventory that was valued at no cost when the railroad was purchased by the state. Future GP38 costs have not been adjusted to include the full cost of materials as inventory is replenished.
- The railroad is planning to raise the status of its GP38 fleet, making the GP38 the only road locomotive type in addition to the SD70MAC and thus will need to ensure that these locomotives maintain a high level of reliability. The railroad, however, has no plans to upgrade this fleet other than to rebuild and convert two GP40 into GP38 type locomotives. In addition, the maintenance costs assumed for the GP38s may not be sufficient to maintain them at the level necessary for the high level of reliability that will be required.

Impact on Maintenance Facility Requirements

Mercer concurs that the program will drastically alter the type and number of facilities needed for locomotive maintenance. ARRC has considerable surplus locomotive facility maintenance capacity already and this will grow to unacceptable levels with the purchase of the new locomotives. The following factors will be important:

- The SD70MACs will require less servicing at facilities, as the daily inspections will be performed by the locomotive engineers and larger fuel tanks will permit less servicing.
- Expected maintenance repairs will occur far less frequently.
- Warrantied repairs to the new locomotives could be performed by the manufacturer at facilities of his choosing; the desire to keep costs to a minimum might lead the manufacturer to perform the work elsewhere. For example, EMD has hired a contractor to do warranty work in the lower 48 states.

A net result of these changes is that ARRC may be placed in the position of being unable to economically repair locomotives according to modern standards, since the volume of

maintenance and repair work will be insufficient to warrant installing modern tooling and to ensure economies of scale in production processes and inventory turnover. Unless it is willing to financially support an increasingly obsolete and underutilized maintenance plant, ARRC will have no choice except to take drastic action in revamping its locomotive maintenance practices.

Alternative Locomotive Maintenance and Financing Options

Management has not fully explored all of its options for financing and maintaining the proposed locomotive fleet. Management did examine several purchase financing arrangements, but did not explore options that many other railroads have considered, such as full-service leasing, financial leveraged leasing, and maintenance under extended warranty. As noted above, ARRC will have difficulty providing its own maintenance at a competitive cost because of its relatively small fleet and the reduced complexity of repairs needed on the smaller fleet.

Impact on Inventory Costs

ARRC currently has a locomotive inventory with a stated value of \$4.5 million plus additional shop floor inventory, all of which will be greatly reduced with the purchase of new locomotives. Additional benefits will include much lower associated materials handling and administrative costs.

Use of SD70s on Passenger Trains

The least beneficial use of the new locomotives will be to use them on the passenger trains. GP38 locomotives are capable of handling passenger trains at 49 mph as well as SD70MAC locomotives. The SD70MACs are really more suitable (in terms of tractive effort per unit) of hauling heavy freight trains.

Impact on Track

The railroad industry has had little experience using SD70MACs or similar locomotives on the type of track structure used by ARRC. Almost all of ARRC's track is jointed rail of 115 pound weight, while the main line rail used by other railroads that have purchased such locomotives is primarily much heavier continuous welded rail (132 pound rail is a common standard). It is therefore difficult to evaluate ARRC's plan on the basis of experience at other railroads. That experience, however, can be partially extrapolated to ARRC's conditions. The following observations of anticipated engineering impacts are based on the experience of the Mercer team plus limited discussions with other railroads and manufacturers:

- The forces exerted on the track structure by the new locomotives when starting on grades and sharp curves could reach unacceptable levels, particularly on angle bars and bolt holes. The railroads contacted by Mercer are sufficiently concerned to add additional anchors, and where they have jointed rail, they use longer 6-hole angle bars.

- From discussions with several major railroads, the general feedback is that the SD70s are easy on the track structure in most respects. The principal problem is on turnouts of number 8 or smaller, where the torque forces of these locomotives can be excessive and cause potential derailments. One of the railroads undertook a detailed stress analysis to determine the limits of the different types of forces on rail and concluded the torque forces were the most critical.

Review of Rolling Stock Repair Facilities

ARRC provides rolling stock maintenance and servicing at two locations, Anchorage and Fairbanks, both of which have relatively old facilities. The Anchorage facility is the major provider and consists of a group of connecting or adjoining facilities: locomotive shop, car shop, MOW shop, and support shops. The support shops provide traditional functions such as wheel repair, axle and roller bearing work, electrical equipment repair, and sheet metal and pipe repair. At Fairbanks, two basic shop buildings are used for freight car and locomotive maintenance.

The shops of both facilities were designed several decades ago, at a time when ARRC had substantially more equipment than it now owns. For example, in 1980, ARRC had almost twice the number of revenue freight cars as it does now (1,700 versus 872) and a quarter more locomotives (63 versus 50). The maintenance work done by ARRC has also been influenced by railroad industry trends; the railroads are maintaining fewer cars (and, in some cases, locomotives) themselves and sending more work to specialty shops and other kinds of contract facilities, such as those owned by lessors. ARRC's shop activity has been further reduced since it uses some leased locomotives and its major customer, MAPCO, provides its own tank cars.³

ARRC will be stressed financially should it try to maintain the new locomotive fleet using its current rolling stock maintenance facilities:

- The tools, machinery, and work methods now in use at these facilities are archaic and inefficient. Although ARRC could manage when it had a relatively old fleet, maintaining and repairing its new locomotive fleet will require a radically different approach.
- The current obsolete setup of the buildings at both facilities and the need to set up new machinery, tooling, and employee training to maintain the SD70MACs will make it prohibitively expensive to maintain the new fleet using the current shop facilities.
- The Fairbanks locomotive shop is clearly not suitable or needed for its current primary purpose (to work on power assembly change-outs during the winter months using cross-function staff). The quality of work suffers from poor housekeeping and there should be plenty of shop capacity in Anchorage to handle this work.⁴

³ ARRC services and performs minor repairs on over 300 tank cars provided by MAPCO. Most of the heavy repairs needed by the tank cars are performed by contract shops elsewhere in the United States.

⁴ At Fairbanks, the Mercer team observed engine parts haphazardly placed in containers and finished machined engine surfaces damaged because of improper handling.

The car shops at Anchorage and Fairbanks are adequate for their workloads. The housekeeping is very good, the buildings are heated and well lighted, and adequate tooling is available. The primary problem observed by Mercer was the approach to repairing the MAPCO tank cars, which is on an "as needed" basis rather than a periodic (or mileage) basis. The use of these cars for moving an environmentally sensitive product such as petroleum justifies a more aggressive approach to maintenance.

Review of Engineering

In 1993, the Engineering Department was given special attention in Mercer's review. Of concern was the level of expenditures required to maintain the railroad, deferred tie replacement, and the condition of rail and ballast. In past audits, Mercer has pointed out the potential deterioration of track structure due to excess weed growth, particularly on the south end of the railroad. This audit briefly covers all of these issues except expenditures, which have been distorted due to the special capital programs of the last two years.

Ties

Mercer has pointed out in past audits the potential crunch the railroad will face as it is compelled to replace a large number of ties installed by the federal government in the 1950s. The average age of the railroad's ties is now 32 years, far beyond acceptable standards. Since ARRC's rail ties have an estimated life of 45 years, the overall average age of ARRC's ties should be about one-half the average life of an individual tie, or 22.5 years. This translates into a potential backlog of over 300,000 ties in need of replacement.

During the last two years, ARRC has obtained federal financial assistance in installing nearly 180,000 ties. While this is a great improvement over its recent installation record, the railroad has only installed 235,000 ties in total over the last eight years, or 29,375 ties a year. Since Mercer expects that a normal rate of tie replacement for a railroad of ARRC's size would be 43,000 ties replaced annually, ARRC is replacing ties at a rate 30 percent below normal.

With these observations in mind, it is clear that ARRC will need to continue to devote a sizeable portion of its capital resources to tie replacement. Assuming a backlog of 300,000 ties plus normal replacement requirements, ARRC will require an average annual expenditure of \$6 million to \$7 million for ties over the next 10 years.⁵

Rail

Most of ARRC's track is made up of 115-pound jointed rail, with most sections in standard 39-foot lengths. Joints are mostly 4-hole angle bars and there is very limited use of 6-hole bars.

⁵ This assumes that 30,000 of the backlog ties would be replaced each year in addition to about 43,000 at the normal rate. The cost assumes current installation costs with the normal ballast and surfacing that accompanies a tie program.

ARRC's rail was installed by the federal government in the 1950s along with the tie investments noted above. While the rail on the south end of the railroad (south of Anchorage) has received relatively low total tonnage over the years, the north end has received significant tonnage, and at certain locations, particularly in areas with many curves, significant wear is evident. The railhead on 10 to 14 degree curves is about 50 percent worn, particularly on the inside (low) rail. Mercer found evidence of potential rollover conditions due to worn rail at certain locations.

Rail replacements during the last six years have averaged about 2.5 track miles annually. At this pace, ARRC's rail would be replaced in about 200 years. Given current and projected volumes of traffic and the increasing use of heavier-loading cars of 90 to 100 net tons, the railroad will be faced with the need to replace its rail at a faster rate. Mercer's estimate is that ARRC's rail should be replaced at the rate of four track miles annually, with a progressive upgrade program to heavier rail weight. An aggressive rail maintenance program, including periodic rail grinding, would postpone extensive replacement for about 40 years.

Ballast

During the last ten years, ARRC has been using an average of 52,000 cubic yards of ballast per year. In 1997, approximately 80,000 yards will be used. Mercer has observed evidence that past levels of ballast use have been inadequate, particularly with respect to the lower quality of ballast used. Particularly noticeable was inadequate ballast between Dunbar and Fairbanks on the north end and Portage to Seward on the south end of the railroad. Even between Denali and Cantwell where the audit team saw new ballast, the rock was mostly on the surface and not sufficiently tamped under the cross-ties.

Vegetation Control

Vegetation control is needed throughout the ARRC right-of-way. Uncontrolled growth of brush and trees creates hazards and accelerates the deterioration of the grade and subgrade. Some of the major problems are:

- Sight reduction of the locomotive engineer at road grade crossings
- Restricted vision where track and other maintenance gangs are working along the right-of-way
- Improper footing for train crews, resulting in sprained ankles, knees, and pulled muscles
- Dry brush and weeds, which pose a fire hazard for the surrounding area (including ties, bridges, and non-railroad property such as forests and dwellings)
- Restriction of proper drainage which, in turn, causes accelerated track, road bed, and tie deterioration

The efforts of most railroads to control vegetation have been subject to public concern over the environmental impacts of the herbicides that are used. Railroads in the lower 48 states have been

largely successful in being able to use herbicides. The following survey of 25 large and small railroads shows the extent of use and types of herbicide used (Exhibit III-29).⁶

Exhibit III-29
Use of Herbicides by Selected U.S. Railroads

Railroad	Total Miles	Miles Treated	Miles Not Treated	Reason Not Treated	Chemicals Used
Ann Arbor	54	54	0		Contractor supplied
Arizona & California	248	0	248	Desert	None
Bangor & Aroostook	421	421	0		Contractor supplied
Bessemer & Lake Erie	355	355	0		Contractor supplied
CP Rail - Soo Line	5,139	5,139	0		Mostly Roundup
CSXT	6,000	6,000	0		Roundup, Oust, 2-4-D, Garland
Conrail	7,241	7,241	0		Roundup, Oust, 2-4-D
Cedar Rapids & Iowa City	55	55	0		Arsenal, Oust, 2-4-D
Dakota, Missouri Valley & Western	364	304	60	Track out/serv.	Quest, Oust, Karmex
Great Miami & Scioto	65	65	0		Contractor supplied
Idaho Northern & Pacific	220	220	0		Roundup, Oust, 2-4-D, Escort, Telar
Illinois Central	2,687	2,687	0		Arsenal, Oust, 2-4-D
Indiana & Ohio	453	453	0		Contractor supplied
Iowa Interstate	552	552	0		Contractor supplied
Kansas City Southern	2,955	2,955	0		Arsenal, Oust, 2-4-D
Maryland & Pennsylvania	25	25	0		Contractor supplied
Nebraska Central	340	340	0		Oust, Crovar, 2-4-D, Roundup
New Hope & Ivyland	18	18	0		Contractor supplied
Providence & Worcester	200	190	10	Mass. Law - public water supply	Contractor supplied
Red River Valley & Western	710	710	0		Roundup, Karmex, 2-4-D
South Branch Valley	53	53	0		Contractor supplied
Texas, Oklahoma & Eastern	86	86	0		Includes Arsenal
Wisconsin Central	3,000	800 (as needed)	2,200	Budget constraints	Contractor supplied
Wisconsin & Southern	600	600	0		Contractor supplied - includes Roundup
Yorkrail	16	16	0		Contractor supplied

Note: Mileages for CSXT and CR are for specific regions for which information could be obtained.

⁶ Mercer contacted a large group of railroads for this survey. The twenty-five railroads shown were those that responded.

Contents

Introduction

**Section I. Scope of the Audit and Personnel
Involved**

**Section II. Update of ARRC's Financial and
Operating Performance**

Section III. Findings of the Management Audit

→ Section IV. Issues and Recommendations

Appendixes

Appendix A. Safety Database

Appendix B. Resumes

Section IV: Issues and Recommendations

This section recaps the answers received from management with regard to the recommendations submitted with last year's audit. It also contains new recommendations resulting from our findings during this year's audit.

A. Actions Taken on Last Year's Audit Report Recommendations

In the FY 1996-1997 management audit, Mercer listed 30 recommendations in nine functional areas of the railroad. In view of our primary focus on Passenger Services, about half of the recommendations were related to this department. Management agreed with 25 of the recommendations and did not respond to the other five. The five recommendations which drew no response involved the Passenger Department, information service, safety, and labor relations.

Passenger Operations

With increased patronage, new pull contracts, new management, and a projected bright future for tourism in Alaska, the Passenger Department is gearing up to exploit its potential for growth. All of Mercer's recommendations from last year's audit were agreed with; one was not responded to.

- The 1997 business plan, together with the initial draft of a five-year plan and initiatives, has been completed. Mercer's suggested guidelines were included and some have been implemented. Organizational and managerial changes have been made to improve the department's ability to carry out the plan.
- The train dispatching system is being planned and constructed to include the "conflict check" feature as well as an improved communication and a GPS/Collision Avoidance (Positive Train Separator) system. A project manager is overseeing the program.
- Passenger train on-time performance has significantly improved due to more focused accountability, improved track conditions, and the establishment of definitive performance objectives.
- Passenger Department managers and staff are riding trains more frequently and plan to further escalate their train riding during the 1998 season.
- Train crew size will be reduced where it is prudent to do so and other reductions will be negotiated. As train crews are optimized, operation and safety duties will be transferred to trained on-board passenger services personnel.

- Train crews are now reporting directly to the Passenger Department for all matters involving passenger trains.
- Automated ticket vending machines are being considered for use at certain locations.
- Plans are being developed for joint functions with pull companies. Pre-season planning, post-season evaluation, and joint depot planning have been initiated. Potential strategies are being evaluated to enhance the profitability of both the pull services and ARRC's own offerings on a long-term basis.
- An accelerated capital improvement program has been implemented to improve facilities at each station. Anchorage has been the focus of significant improvements.
- Top management wants to ensure that the entire railroad organization understands its commitment to the railroad's passenger service. To that end, management will seek to clarify its objectives with regard to this service and then obtain buy-in across the organization to ensure its success over the long term.
- A more effective budgeting and cost control process and improved financial analysis is being developed. The Director of Passenger Services and the Chief Financial Officer are focusing on the measurement of passenger service profitability.
- Existing food service and cleaning contracts have been renegotiated to reduce costs, increase profitability, and ensure that performance objectives are met.

Management

Management agreed with the four recommendations made in this area:

- The new CFO will explore possible approaches to more closely monitor financial objectives.
- Some improved measures and management reports are now in place. Each group is accountable for developing its reports and measures in line with stated plans, goals, and objectives. Transportation Managers are now accountable through a performance-based Quality Improvement Process (QIP).
- The Authorization for Expenditure manual has been updated. Training will be provided for everyone involved in the process. Methods have been established to control project costs.

Human Resources

Mercer's two recommendations in this area were accepted.

- The Vice President, Finance and Administration, has begun to examine the most appropriate means to fulfill the services provided by Human Resources.
- The most aggressive program to date for formalized training and benchmarking was put in place in 1996. This program has been made available to virtually the entire staff, especially in Transportation.

Engineering

Management agreed with the one recommendation.

- On the first day of 1997, the accounting system was changed to follow a more basic tracking plan. This will provide an audit trail and database to identify what is spent where and for what purpose.

Mechanical

The one recommendation was accepted.

- In late 1996, the Mechanical Department began looking at the operating costs for each function of work. They are developing direct, overhead, and other elements of expense to enable the composite cost to be determined for each activity. This cost can then be compared to other sources and be used for benchmarking purposes.

B. New Observations and Recommendations

This section contains Mercer's recommendations, most of which are driven by the findings and discussion in Section III of this report.

Personal Injury Prevention

Reducing New Employee Injuries

- 1.) The Passenger Department needs to work more intensively on controlling personal injuries among its staff (especially for new employees).**

During 1997, the Passenger Department experienced a much higher number of incidents in proportion to its total staff, especially among employees with less than two years of service.

- 2.) The time and quality of new employees' orientation and training should be increased.**

There has been a marked increase in personal injuries among new employees not only in the Passenger Department but in the Transportation and Mechanical departments as well.

- 3.) Periodic reviews of new employees' performance need to be conducted for the first two years after an employee is hired.**

The first two years of work appear to be critical in the development of proper injury prevention practices and safe work habits.

- 4.) ARRC should develop a more effective program to screen new employees for physical problems that could prevent them from carrying out their duties without incident.**

The current hiring process is deficient. A high percentage of the new employees who experienced personal injuries in 1997 were found to have physical conditions that either caused the injury or contributed to it. Mercer understands that a specific program to screen employees must conform to acceptable employee hiring standards and legal requirements.

- 5.) ARRC should provide closer monitoring of new employees.**

Supervisors need to keep better tabs on new employees. ARRC could consider a formal "mentoring" program that uses volunteers to help advise new employees. A mentoring program would involve assigning a responsible and experienced employee to each new hire within his or her work group.

Enforcing Safe Work Practices

- 6.) **ARRC should take steps to ensure that safe work practices are established and followed.**

To ensure unsafe work practices don't persist, especially in controlled environments such as the shop facilities, a qualified person should regularly visit each shop to inspect the tools and equipment used and the methods and practices followed in performing all of the tasks carried out in the shop. This person could be from the ARRC or some other railroad. Where problems are found, corrective steps should be taken and information provided to all employees. Monitoring must then be instituted to ensure compliance.

- 7.) **ARRC should ensure that all safety rules are consistently enforced.**

In some cases, rules now in effect are not always complied with; this gradually reduces the respect employees have for vital safety rules. Rules that cannot be reasonably enforced should be modified or eliminated.

- 8.) **A formal process should be initiated for employees to report unsafe conditions and practices.**

This process would include developing a report format for employees to use and ensuring that an appropriate and timely response is made to employees who do submit reports. Some employees who have submitted suggestions in the past have expressed frustration over the lack of response or level of corrective action taken (if any).

Safety Administration and Injury Prevention Programs

- 9.) **ARRC should redefine the responsibilities of the safety manager to reinforce his role as a supporting resource and eliminate any potential conflict in responsibilities.**

As currently defined, the responsibilities of the safety manager conflict with the responsibilities of department managers. Steps should be taken to encourage a closer working relationship between the safety manager and the operating departments.

- 10.) **Assistance should be provided to the safety manager to ensure adequate safety monitoring during peak seasons.**

The significant increase in all levels of activity during the summer months could be much better monitored with the addition of a part-time safety assistant.

- 11.) **A comprehensive training program should be considered for all levels of management and for other employees in key areas of responsibility.**

The lack of adequate training appears to have contributed to the current personal injury problems. The type of training should be customized to meet the most pressing needs of the railroad.

- 12.) ARRC should establish continuing dialogue with peer railroads to share information on personal injury experience and prevention activities.**

Other railroads in the United States are conducting their operations in essentially the same manner as ARRC, with varying results in terms of personal injury experience. A regular exchange of information on personal injury and safety should assist ARRC in developing more effective programs along the lines of those used successfully on other railroads to reduce injuries.

- 13.) ARRC should regularly participate in the Safety Section of the Association of American Railroads (AAR) to gather information on personal injury performance and prevention nationwide.**

Information available from AAR can help ARRC understand trends and experience in the railroad industry as whole.

Improving Personal Injury Tracking and Evaluation

- 14.) ARRC should establish a comprehensive personal injury database for use by all departments.**

This database should provide sufficient information that managers can evaluate where corrective action must be focused and what types of safety programs ought to be considered.

It is most important that absolute causal factors be properly identified and classified as part of the database. For example, knowing about the specific factors that lead to injury or that injuries are occurring primarily among certain groups (e.g., new employees) is key to establishing corrective actions that will effectively redress the problem. Each department should be able to access the database so that it can analyze its own personal injury experience and develop appropriate remedial actions.

Improving Reporting and Investigation

- 15.) The reporting, investigation, and "close-out" on incidents must be formalized and much more complete.**

Full information on each incident is an essential element in developing effective personal injury prevention programs. The reports that Mercer reviewed for the past three years were often far from complete and seriously lacking in the information required to formulate prevention programs.

Improving Morale

16.) Management needs to develop a more open, trusting relationship with employees.

Improving employee morale and attitudes could go a long way toward improving the railroad's safety record. Some ways to do this include more honest, two-way communication, regularly acknowledging employee contributions, and encouraging a greater level of interest and participation by employees in the railroad as a whole.

A variety of approaches should be considered, including the following:

- Open forums might be conducted at key locations such as Anchorage, Seward, and Fairbanks for employees and their families. These informal discussions about the railroad could include brief statements from key managers about all aspects of the railroad (good and bad), question periods, etc. The CEO, VPs and department heads (as well as the local Board member and local management supervisors) should participate. A brief video of the railroad could also be shown at such forums, as many employees and their families probably are not familiar with the "big picture" of what is happening at ARRC. Such a video could show the canyon and track improvements, new locomotives to be acquired, dock improvements, etc.
- All managers should make it a point to increase the frequency of trips out on the railroad to increase their visibility, improve communications, and provide an opportunity for dialogue with employees at all levels.

17.) Top management needs to provide greater support to middle and lower managers.

First-line managers are key to a successful injury prevention program. Special effort at the highest levels of management needs to be made to resolve the concerns of these managers and provide them with the support they need to effectively carry out injury prevention programs.

18.) ARRC should develop a program to recognize employees who have excellent safety records or who have acted in a manner that has contributed to safe operations.

Personal recognition is an important incentive. It can make employees feel more involved in the railroad's progress in reducing injuries. The current safety program does not appear to include this type of recognition.

- 19.) ARRC should consider establishing a friendly "competition" between departments to improve personal injury performance.**

Using the ratio of number of incidents per 200,000 man-hours as a measure of performance, an annual competition could be established between the three major departments. The incentive could be, for example, an engraved "trophy cup," which would go to the winning department for the year, and would then pass the following year to the next department to win. Awards could also be made at an annual safety luncheon, with appropriate staff invited and recognized for their contributions to safety at the railroad.

Other Suggestions

- 20.) ARRC might consider a professional safety review, such as that provided by DuPont.**

An independent review by a recognized railroad consulting firm in the field of safety would provide a more detailed diagnosis of the causes of ARRC's current injury prevention problems and offer the best approaches to reducing injuries.

New Locomotive Fleet

- 21.) Special locomotive engineer instructions and training must be established for proper train handling of the SD70MAC locomotives; train handling should be monitored using the train's on-board microprocessor control.**

The high tractive effort of the new locomotives will warrant careful control in how they are handled over certain vulnerable locations in the railroad's track structure.

- 22.) Detailed stress testing should be performed to measure track forces caused by the new locomotives to determine the level of longitudinal and lateral stresses.**

If a problem is indicated, the following corrective actions should be considered where excess strain on track occurs:

- Modify engineer train handling instructions as necessary
- Consider a rail welding program at critical locations
- Replace 4-hole angle bars with 6-hole bars
- Place additional rail anchors and upgrade tie condition as needed at critical locations

23.) ARRC should investigate alternative financing and ownership options, particularly the advantages of leasing the GP38s and having them rebuilt and maintained by the lessor.

24.) ARRC should upgrade sidings that are substandard, particularly on the Anchorage to Fairbanks route.

Certain sidings are clearly inadequate for use by the new locomotives.

25.) The planned use of the new locomotives on the Express and Suneel trains should be reexamined.

It is more difficult to justify the use of the new locomotives on these trains.

26.) ARRC should program additional funds for rebuilding the eight GP38s within the next five years.

With a smaller fleet, the GP38s will play a more critical role in providing service than is now the case. The fleet will require higher levels of availability than is obtainable from ARRC's current plans for these locomotives. Planned maintenance costs should also be reexamined to ensure that they are sufficient, given the higher levels of reliability that will be required.

Mechanical Department

27.) The Fairbanks locomotive maintenance shop should be closed.

ARRC has surplus locomotive maintenance shop capacity now and will have even greater surplus with associated costs in the future with the acquisition of the SD70MAC locomotives.

28.) ARRC needs to provide better maintenance for the MAPCO tank cars.

The MAPCO tank cars are now repaired on a defect-card basis. The continuation of this exception-type approach could expose the railroad to unacceptable risk, particularly given the growth in this business segment and the plan to accomplish much of this growth by better utilizing the existing fleet. Mercer recommends that arrangements be made with MAPCO to establish a periodic (or mileage) basis for inspection and repair as necessary.

Engineering Department

29.) ARRC should continue the program of replacing 60,000 crossties per year for the next six years.

ARRC's program for tie replacement has been lagging in recent years and

while federal assistance in 1996 and 1997 has helped restore a more normal replacement cycle, a relatively high level of tie replacements needs to be continued.

- 30.) Rail replacement is needed at a rate of 4 track miles per year. Rail grinding is needed every 3 to 4 years rather than every 5 to 6 years. Improvement in rail joint maintenance is needed as well.**

With the heavier per car loadings now used by ARRC (compared to lighter loadings just a few years ago) and the expected increase in petroleum traffic, a more aggressive rail maintenance program appears to be warranted.

- 31.) ARRC needs to be using 80,000 cubic yards of ballast per year.**

In recent years, ARRC has used an average 52,000 cubic yards of ballast annually. To maintain an adequate infrastructure, a higher level of use is recommended.

- 32.) ARRC should develop a program of vegetation control for the right-of-way.**

Poor vegetation conditions are clearly a hazard and add to the cost of infrastructure maintenance.

Contents

Introduction

**Section I. Scope of the Audit and Personnel
Involved**

**Section II. Update of ARRC's Financial and
Operating Performance**

Section III. Findings of the Management Audit

Section IV. Issues and Recommendations

Appendixes

→ **Appendix A. Safety Database**

Appendix B. Resumes

Appendix A: Safety Database: Injury Reporting for 1997

Employment Date	Incident No.	Date of Incident	Dept.	Age	Level Of Severity				Injury Type	Area Affected	Causal Factor				Physical Condition	Back Problem
					NR	LT Days	FRA	LD Days			Careless	Work Practice	Unsafe Cond.	No Event		
Oct-74	1	3-Jan	M	40		18			Strain	Back			1		1	1
Dec-74	2	30-Jan	T	51		106			Strain	Arm & Shoulder			1			
Aug-85	3	31-Jan	M	55			1		Pain	Hand & Arms				1	1	
Jun-84	4	6-Feb	M	53			1	30	Fracture	Thumb			1			
Mar-75	5	9-Feb	T	42	1				Pain	Back		1			1	1
Aug-74	6	10-Feb	T	46	1				Pain	Back			1		1	1
Apr-84	7	12-Feb	M	58	1				Bruse	Hand	1					
Jun-73	8	13-Feb	T	49		21			Pain	Back				1	1	1
Sep-86	9	13-Feb	M	50	1				Bruse	Wrist	1					
Jul-74	10	18-Feb	M	43		16			Hernia	Hernia		1			1	
Mar-85	11	18-Feb	M	52	1				Pain	Wrist		1				
Jul-74	12	19-Feb	E	46		8			Strain	Back		1			1	1
Mar-76	13	24-Feb	E	48	1				Pain	Neck				1		
Jun-82	14	24-Feb	M	51		60				Various			1			
Sep-87	15	26-Feb	T	56	1				Strain	Arm			1			
Mar-86	16	26-Feb	T	40		85			Pain	Back				1	1	1
May-80	17	6-Mar	T	36		1			Bruse	Foot			1			
Aug-72	18	13-Mar	T	54	1				Pain	Back			1			1
Feb-87	19	21-Mar	M	53	1				Strain	Shoulder	1				1	
May-75	20	21-Mar	T	41	1				Strain	Back			1			1
Aug-86	21	4-Apr	E	26		12			Bruse	Knee	1				1	
May-80	22	6-Apr	T	35		2			Strain	Leg		1				
Apr-83	23	8-Apr	M	45	1				Pain	Hand		1				
Oct-82	24	10-Apr	M	49			1	11		Arm				1	1	
May-80	25	16-Apr	T	39	1				Pain	Knee			1			
Oct-83	26	22-Apr	E	31	1				Eye	Eye	1					
May-81	27	24-Apr	T	60		24			Strain	Knee			1		1	
May-85	28	30-Apr	T	54		5			Strain	Shoulder		1			1	
Feb-82	29	2-May	M	48		5			Strain	Back		1			1	1
Jul-77	30	6-May	E	41			1		Strain	Back		1			1	1
May-87	31	7-May	T	40	1				Strain	Knee		1				
Feb-75	32	7-May	M	53	1				Bruse	Hand			1			
May-87	33	18-May	P	46		5			Fracture	Elbow	1					
Mar-82	34	27-May	M	43		22			Strain	Shoulder				1	1	
Mar-82	35	30-May	E	39			1		Pain	Hand		1				
Mar-83	36	3-Jun	E	37	1				Cut	Nose		1				
Jun-86	37	18-Jun	E	32			1	1	Pain	Arm		1				
Mar-87	38	19-Jun	M	34			1	35	Strain	Back		1			1	1
May-80	39	23-Jun	E	37			1	2	Pain	Toe	1					
Oct-86	40	25-Jun	M	55			1		Strain	Thumb	1					
Mar-87	41	7-Jul	P	30			1			Various				1		
May-86	42	8-Jul	P	19			1		Strain	Hand	1					
May-86	43	14-Jul	E	31			1	2	Cut	Arm		1				
Aug-75	44	15-Jul	M	46		1			Pain	Knee		1				
Dec-86	45	25-Jul	M	27					Strain	Elbow		1			1	
Apr-86	46	28-Jul	T	43		19	1		Strain	Knee			1			
Jun-87	47	30-Jul	E	28	1				Pain	Abdomen		1			1	
Apr-81	48	1-Aug	T	38		2			Strain	Neck				1		
Apr-87	49	4-Aug	E	51			1	9	Strain	Knee		1				
Jun-83	50	5-Aug	P	45	1				Strain	Back		1			1	1
Apr-87	51	13-Aug	P	27	1				Pain	Hand				1	1	
May-87	52	13-Aug	E	32		3			Strain	Shoulder				1	1	
Aug-87	53	13-Aug	T	28		1			Cut	Shoulder			1			
May-86	54	15-Aug	P	22	1				Strain	Back		1			1	1
May-86	55	20-Aug	P	39		4			Strain	Back		1			1	1
Apr-87	56	24-Aug	T	33	1				Strain	Ankle	1					
Mar-88	57	30-Aug	P	51	1				Strain	Foot				1		
Apr-88	58	31-Aug	T	28			1		Strain	Wrist	1					
Apr-84	59	2-Sep	M	61		7			Strain	Knee	1				1	
Sep-87	60	5-Sep	T	56			1	5	Pain	Knee				1	1	
May-82	61	11-Sep	E	50	1				Strain	Grn				1	1	
May-83	62	16-Sep	E	50			1		Strain	Back				1	1	1
Aug-80	63	22-Sep	T	50		3			Pain	Hand		1				

Appendix A: Safety Database: Injury Reporting for 1996

Employment Date	Mercer Incident No.	Date of Incident	Dept.	Age	Level Of Severity				Injury Type	Area Affected	Causal Factor				Physical Condition	Back Problem
					NR	LT Days	PRA	LD Days			Careless	Work Practice	Unsafe Cond.	No Event		
Sep-74	1	2-Jan	M	44	1				Pain	Hand	1					
Jul-73	2	2-Jan	M	47	1				Pain	Groin	1					
Mar-84	3	4-Jan	M	46			1		Cut	Knee	1					
Jun-81	4	14-Jan	M	33			1	4	Pain	Back				1		1
Jul-80	5	3-Feb	T	26		1			Pain	Knee			1		1	
Jun-80	6	5-Feb	T	38			1		Cut	Eyebrow	1					
Jun-89	7	18-Feb	P	25			1		Pain	Back			1			1
Aug-73	8	23-Feb	M	42			1	5	Cut	Hand			1			
Apr-81	9	24-Feb	T	41	1				Pain	Back			1			1
Jan-86	10	26-Feb	A	37			1		Pain	Back			1			1
May-73	11	5-Mar	E	47	1				Hearing	Ear				1		
May-86	12	29-Mar	T	38	1				Pain	Back			1		1	1
Jul-76	13	3-Apr	T	38	1				Pain	Eye			1			
May-74	14	5-Apr	E	52	1				Pain	Back		1			1	1
Jul-75	15	11-Apr	M	51		6		39	Pain	Back		1			1	1
May-83	16	12-Apr	E	58	1				Pain	Eye	1					
Jun-84	17	19-Apr	M	52		19		6	Pain	Back		1			1	1
Nov-82	18	18-Apr	M	37			1		Pain	Hand				1	1	
Mar-85	19	15-May	E	45			1	13	Pain	Back				1	1	1
Apr-76	20	20-May	T	38	1				Pain	Hearing			1			
May-86	21	21-May	T	32	1				Pain	Eye				1		
Mar-86	22	22-May	T	38			1		Pain	Hand	1					
Jun-73	23	26-May	T	48		2			Cut	Hand	1					
May-86	24	15-Jun	E	44		1		5	Pain	Hand	1					
Jun-86	25	18-Jun	E	24		5			Pain	Toe	1					
Aug-81	26	19-Jun	M	56		7			Pain	Arm		1			1	
Apr-89	27	26-Jun	E	38	1				Cut	Hand	1					
Mar-86	28	2-Jul	E	45			1		Strain	Arm		1			1	
Mar-89	29	8-Jul	E	38			1		Pain	Back	1					1
May-81	30	8-Jul	T	58			1		Pain	Back		1			1	1
Jun-84	31	11-Jul	M	54		63			Strain	Arm		1			1	
May-79	32	12-Jul	T	44		90			Fracture	Ankle	1					
Jul-71	33	20-Jul	E	48		8			Misc		1					
Jun-84	34	23-Jul	M	54	1				Cut	Lip		1				
May-84	35	28-Jul	M	41	1				Mental	Mental				1	1	
May-82	36	1-Aug	E	30			1		Cut	Hand	1					
Aug-74	37	5-Aug	T	45			1		Infection	Ear				1		
Jun-82	38	6-Aug	M	43		40		54	Cut	Hand		1				
Apr-80	39	9-Aug	M	50		103			Strain	Hand				1	1	
Aug-83	40	13-Aug	E	46	1				Pain	Eye	1					
Apr-82	41	14-Aug	M	28			1		Cut	Hand	1					
Aug-86	42	19-Aug	M	54		12		15	Strain	Back		1			1	1
Apr-89	43	20-Aug	E	36		2			Cut	Hand	1					
Jul-86	44	20-Aug	E	23	1				Cut	Hand				1		
Jul-75	45	21-Aug	T	47	1				Strain	Foot			1			
Mar-85	46	29-Aug	E	52	1				Pain	Ankle	1					
May-86	47	4-Sep	E	27		29			Cut	Ankle			1			
May-83	48	8-Sep	E	58		5			Strain	Ankle			1			
Aug-74	49	11-Sep	M	48		30		46	Strain	Ankle	1					
May-82	50	17-Sep	T	37	1				Hearing	Ear			1			
May-86	51	24-Sep	E	40			1	12	Strain	Back		1			1	1
May-82	52	30-Sep	E	35	1				Cut	Leg	1					
May-89	53	1-Oct	T	33		6			Strain	Back				1	1	1
Mar-89	54	7-Oct	E	38		60			Strain	Back		1			1	1
Jun-86	55	11-Oct	T	43			1		Pain	Shoulder				1	1	
Aug-71	56	26-Oct	T	44	1				Strain	Back		1			1	1
Jun-70	57	28-Oct	E	52			1	43	Pain	Wrist				1	1	
May-83	58	3-Nov	T	33	1				Pain	Hand	1					
Jan-75	59	6-Nov	M	46			1	7	Pain	Elbow				1	1	
Sep-86	60	7-Nov	M	29			1	34	Cut	Knee	1					
May-82	61	10-Nov	M	52		14		21	Pain	Shoulder	1					
Sep-75	62	14-Nov	T	48			1		Pain	Arm			1		1	
Jun-80	63	18-Nov	E	48		4			Strain	Back		1			1	1
May-78	64	21-Nov	E	43	1				Strain	Back	1					
Sep-74	65	25-Nov	M	44		25			Cut	Hand		1				
Mar-89	66	19-Dec	P	50			1		Strain	Back				1	1	1
Aug-86	67	29-Dec	M	54			1		Pain	Shoulder	1					
May-80	68	29-Dec	T	31	1				Pain	Hand	1					

Appendix A: Safety Database: Injury Reporting for 1995

Employment Date	Merger Incident No.	Date of Incident	Dept.	Age	Level Of Severity				Injury Type	Area Affected	Causal Factor				Physical Condition	Back Problem
					NR	LT Days	FRA	LD Days			Careless	Work Practice	Unsafe Cond.	No Event		
May-85	1	2-Jan	E	46		1	1	17	Strain	Back		1		1	1	1
Jun-78	2	9-Jan	T	39		1			Pain	Shoulder		1		1		
Aug-81	3	27-Jan	T	53	1				Strain	Shoulder						
Aug-93	4	31-Jan	E	37			1		Strain	Back				1	1	1
Apr-86	5	1-Feb	E	46			1		Pain	Jaw	1					
Mar-92	6	10-Feb	E	24		235			Strain	Back		1			1	1
Jun-73	7	13-Feb	T	47		27			Strain	Back				1	1	1
Apr-84	8	26-Feb	T	42	1				Pain	Arm				1	1	
Jun-75	9	18-Feb	T	39	1				Pain	Neck		1				
Jul-91	10	23-Feb	M	30			1		Strain	Back		1			1	1
Aug-71	11	24-Feb	T	43	1				Strain	Knee	1			1	1	
Jun-78	12	26-Feb	T	39		46			Strain	Knee				1	1	
Jun-80	13	26-Feb	E	43		1			Strain	Back		1				1
Aug-82	14	2-Mar	A	55			1		Strain	Back		1				1
Apr-89	15	8-Mar	E	47		1		7	Strain	Hip	1					
Oct-82	16	20-Mar	M	40			1	4	Strain	Arm		1				
Jun-86	17	23-Mar	T	42	1				Pain	Hand	1					
Dec-91	18	26-Mar	E	31			1		Pain	Eye	1					
May-73	19	10-Apr	E	48	1				Strain	Back		1			1	1
Aug-74	20	18-Apr	T	41	1				Hearing	Ear				1	1	
May-83	21	20-Apr	A	37	1				Pain	Wrist				1	1	
Feb-85	22	20-Apr	A	45	1				Pain	Knee	1					
Aug-73	23	21-Apr	T	52			1		Cut	Hand	1					
Aug-74	24	24-Apr	E	47		1		18	Strain	Back	1				1	1
Jan-95	25	12-May	E	25		2	1	1	Pain	Chest	1					
May-82	26	2-Jun	E	34			1		Pain	Eye		1				
May-82	27	8-Jun	E	25		2			Cut	Eye	1					
Apr-81	28	11-Jun	T	26		21			Strain	Ankle	1					
May-89	29	11-Jun	E	35			1		Cut	Hand		1				
Jul-85	30	13-Jun	E	41		43			Pain	Hand		1				
Jul-82	31	26-Jun	E	54	1				Pain	Shoulder			1			
Jun-89	32	3-Jul	A	24	1				Pain	Leg	1	1				
Mar-82	33	11-Jul	A	42	1				Pain	Ankle						1
Jun-74	34	14-Jul	T			2			Pain	Back			1			
Apr-90	35	15-Jul	T		1				Pain	Neck		1				
Oct-81	36	15-Jul	T	39	1				Strain	Neck		1				
Apr-81	37	15-Jul	T	27	1				Strain	Neck		1				
May-83	38	25-Jul	E	47	1				Strain	Abdomen		1				
May-74	39	1-Aug	T	43		8			Strain	Back				1	1	1
Apr-90	40	19-Aug	T	28	1				Cut	Hand			1			
May-83	41	21-Aug	T	42	1				Pain	Hand	1					
May-81	42	21-Aug	T	26	1				Pain	Head	1					
Aug-85	43	23-Aug	E	24			1		Cut	Hand	1					
Jan-74	44	23-Aug	T	44	1				Pain	Eye		1				
Nov-94	45	29-Aug	E	27			1		Strain	Ankle	1					
May-82	46	30-Aug	E	27		9			Pain	Toe	1					
Jun-83	47	6-Sep	E	29	1				Strain	Groin	1				1	
Feb-82	48	12-Sep	E	22			1	8	Pain	Elbow				1	1	
May-89	49	21-Sep	T	46		33			Pain	Wrist			1			
Apr-84	50	22-Sep	M	44	1				Pain	Elbow	1					
May-82	51	25-Sep	E	46		61			Strain	Back				1	1	1
Jun-83	52	27-Sep	E	38	1				Cut	Foot	1					
Feb-83	53	13-Oct	E	43		19		25	Strain	Knee		1			1	1
Nov-75	54	15-Oct	T	40		5			Strain	Back		1				1
Apr-84	55	17-Oct	E	30		9			Cut	Mouth	1					
Apr-89	56	23-Oct	E	29			1	37	Strain	Shoulder				1	1	
Apr-88	57	34-Oct	T	61	1				Pain	Head			1			
Apr-81	58	26-Oct	T	23		3			Strain	Ankle			1			
Apr-89	59	26-Oct	T	28		36			Strain	Knee			1			
Feb-83	60	31-Oct	E	40	1				Pain	Hip	1					
Jun-82	61	13-Nov	E	44	1				Pain	Arm			1			
Mar-85	62	13-Nov	E	52	1				Strain	Arm			1			
Jun-80	63	30-Dec	E	39	1				Strain	Back		1			1	1
May-90	64	21-Dec	E	27		6			Strain	Wrist		1				

Contents

Introduction

**Section I. Scope of the Audit and Personnel
Involved**

**Section II. Update of ARRC's Financial and
Operating Performance**

Section III. Findings of the Management Audit

Section IV. Issues and Recommendations

Appendixes

Appendix A. Safety Database

→ Appendix B. Resumes

Hollis A. Henderson

Mr. Henderson, a Senior Consultant to Mercer Management Consulting, specializes in locomotive and rollingstock management restructuring, maintenance facilities and procedures rationalization, and workshop management organization and restructuring. He has 40 years of railway operating experience in management and engineering, and in his six years of consulting has worked extensively in Australia and the United States.

As chief mechanical officer for the Southern Pacific Railroad, Mr. Henderson was responsible for locomotive and rollingstock design, reliability, and operation within budgetary limits. He served in management positions at Conrail as vice president, rehabilitation and planning, of motive power, rollingstock, and track equipment. As Conrail's chief mechanical officer, he was responsible for the consolidation and restoration of the entire fleet – seven railways' combined locomotives, rollingstock, EMUs, carriages, and track infrastructure maintenance equipment.

Mr. Henderson has worked with the State Rail Authority (SRA) of New South Wales since 1988. The projects he was involved with include:

- Locomotive and rollingstock management restructure
- Staffing level rationalization in accord with revised maintenance procedures and facilities
- Rationalization of all maintenance facilities for Rail Freight and CityRail operations
- Improvement and reduction of locomotive and rollingstock fleet
- Design and implementation procedures for rollingstock run-through facilities for locomotives and freight wagons

Since 1992, Mr. Henderson has worked with Queensland Rail to address various mechanical and rollingstock issues. He was the author of the December 1992 Passenger Rollingstock Study – Maintenance and Workshop Requirements. He also participated in the consolidation and amalgamation of workshops and depots for reducing maintenance costs of locomotives and rollingstock, and reviewed all passenger rollingstock maintenance facilities in Brisbane as well as throughout the Queensland Rail system.

Mr. Henderson is affiliated with the Association of American Railroads, the American Society of Mechanical Engineers, the Railway Maintenance Officers Association, the Pacific Railways Association, and the New York Railway Association. He holds degrees at the university level in transportation management, electrical engineering, mechanical engineering, industrial engineering, and labor law.

Alan G. Dustin

Mr. Dustin, a Consultant to Mercer Management Consulting, has almost 20 years of experience as a senior executive of small to medium-sized railroads.

During the past seven years, he has served as a consultant on a variety of railroad studies, either independently or as a member of a consulting team. His recent activities have included:

- **Studies on Amtrak's ability to become self-sufficient**
- **Several due diligence investigations**
- **Commuter and long-distance passenger privatization in Buenos Aires**
- **Operational audit of the tunnel rail operations for the Channel tunnel**
- **Analysis of the extension of the subway system in Washington, D.C.**
- **Preparation of several bids for acquisition of shortline freight systems**
- **Preparation of bids for commuter train operating systems**
- **Analysis of commuter systems and cost savings for four South African systems**
- **Annual operational and financial audit of the Alaska Railroad Corporation over a six-year period**

Mr. Dustin recently served for more than four years as vice president and general manager of New Jersey Transit Rail Operations, where he was responsible for the operation of a growing commuter service with an annual operating budget of \$255 million and a capital budget of \$175 million. Under Mr. Dustin's leadership, the railroad increased ridership by 40 percent while reducing rail costs per passenger mile by 15 percent; achieved a 60 percent ratio of fare-box recovery to operating expenses, the best in the nation for a rail commuter operation; and successfully carried out, under traffic, a massive program for rehabilitating and improving track and facilities.

As president and chief operating officer of the Boston & Maine Corporation/Maine Central Railroad, Mr. Dustin participated in the planning and implementation of the consolidation of these two railroads following their purchase by Guilford Transportation Industries, Inc. He was responsible for the operation of freight and commuter service with an annual budget of \$200 million and developed strategies for improving profitability.

Earlier in his career, as president and chief executive officer of the Boston & Maine Corporation, Debtor, Mr. Dustin turned around a bankrupt \$180 million freight and commuter railroad, guiding it through a reorganization that led to its sale as a viable company. In this capacity, he

negotiated innovative wage, work rule, and crew size agreements, saving \$8 million annually; established a strong marketing department that developed more than \$22 million in new sources of revenue to offset losses from a shrinking industrial base; and reduced annual labor costs \$5 million over a 10-year period by consolidating, mechanizing, and centralizing station agencies, train control towers, and manual crossing protection.

Mr. Dustin has also served as executive vice president of the Bangor and Aroostook Railroad, chairman of the board of the Pittsburgh and Shawmut Railroad, and division superintendent of the Erie Lackawanna Railroad. He is a member of the National Research Council's "Committee for High-Speed Ground Transportation," which has oversight of Federal Railway Administration research and development and next generation rail needs at the request of the House of Representatives.

Robert B. Waldner

Mr. Waldner, a Senior Consultant to Mercer Management Consulting and a former Senior Associate with the firm, is a specialist in transportation with a focus on freight and passenger railroads. He has served in operating and marketing capacities within the railroad industry and has more than 25 years of experience as a transportation and general business consultant. He has addressed problems requiring a broad knowledge of the marketing, regulatory, operating, and financial environment in which the railroad industry functions. Mr. Waldner's consulting work includes the following projects:

- Assisting an Eastern U.S. state in determining its fair share of the deficit of a commuter rail operation that it shares with an adjacent state
- Assisting several railroads in disposing of light density lines, including serving on bid review committees examining the suitability of alternative proposals for continued operations
- Assisting the Agent Banks assess the preparedness of the EuroTunnel (France-England tunnel) management to operate the tunnel railway
- Assisting several railways abroad in evaluating the efficiency and effectiveness of their commuter railway operations
- Performing an annual review of the operations of the Alaska Railroad, including all aspects of operating and non-operating functions
- Helping Amtrak design and use passenger train costing systems, work that involved custom-designing cost models for approximately 20 trains
- Assisting railroads, motor carriers, and state and federal agencies with transportation market analysis and forecasting
- Preparing forecasts of future freight car needs for equipment suppliers and determining the value of freight cars owned by lessors
- Creating and using proprietary benchmark databases for various railroad studies to identify opportunities for improvement
- Assisting various users of transportation in developing transportation costing methodologies
- Furnishing general counsel on railroad market prospects, operating costs, asset requirements, and asset valuation to financial institutions, railroads, shippers, and parties interested in acquiring railroad properties
- Assisting a European government in reviewing the operations of its rail system and in designing new intermodal services for the Channel tunnel

Robert B. Waldner

Page 2

- **Helping railways determine the reasonableness of their rail freight rates**
- **Assisting the American Association of Railroads and a lessor of freight cars in determining the marketing impact of combination trucks on the railroad industry**

Mr. Waldner was previously a senior associate in the operations management practice at Mercer. Before joining Mercer, he worked at Harbridge House, Inc.

Earlier, Mr. Waldner was with Illinois Central Industries, where he served as director of service evaluation in the Information and Control System Department and, later, as director of service and equipment evaluation in the Market Research Department. His responsibilities included designing an information and control system and preparing reports for obtaining better control of operations. He also served the St. Louis-San Francisco Railway in both operating line and staff capacities. He helped implement one of the first successful service quality control systems in the railroad industry and assisted with the application of terminal and network models to railroad operations. At Melpar, Inc., he was involved in systems design and operations research.

Mr. Waldner received a B.S. in engineering from Princeton University and an M.S. in transportation engineering from Cornell University.

Mercer Management Consulting

Boston

55 State Street
Room 2000, Massachusetts 02109
Tel: 617 552 3900
Tel: 617 552 3900 Fax

Buenos Aires

Florida 142 Avenue B
1505 Buenos Aires
1 494 6349
1 426 3411 Fax

Chicago

10 South Wacker Drive
11th floor
Chicago, Illinois 60606
312 562 3900
312 562 3900 Fax

Cleveland

One Fairview Center
111 Fairview Center, Suite 2000
Cleveland, Ohio 44114
216 721 2100
216 721 2100 Fax

Hong Kong

27th Floor, West Tower
Bank of China
100 Market Street
Hong Kong
2 861 8100
2 861 8100 Fax

London

90 Abchurch Lane, Middlesex EC4N 3DF
London EC4N 3DF
1 40 02 5000
1 40 02 5000 Fax

London

1 Cannon Row
London EC2A 4DF
01 71 200 5444
01 71 200 5444 Fax

Madrid

Montalban 1
28014 Madrid
1 511 79 00
1 511 79 00 Fax

Montreal

600, Boulevard Mayenne-De-Quebec
14th etage
Montreal, Quebec H3A 0J2
514 499 0461
514 499 0461 Fax

Munich

Stefanplatz 10, 80332
80 332 Munich
089 300 1400
089 300 1400 Fax

New York

110 Avenue of the Americas
New York, New York 10036
212 426 8950
212 426 8950 Fax

Paris

58 Avenue de la Liberte
75001 Paris
1 40 02 5000
1 40 02 5000 Fax

Pittsburgh

1000 Mellon Bank Center
400 East Street, Suite 4100
Pittsburgh, Pennsylvania 15219
412 771 8840
412 771 8840 Fax

San Francisco

Three Embarcadero Center
Suite 3070
San Francisco, California 94111
415 771 1110
415 771 1110 Fax

Toronto

801 Papez Avenue
161 Papez Street, P.O. Box 501
Toronto, Ontario M5P 2V5
416 968 2200
416 968 2200 Fax

Washington, DC

2100 M Street, NW
Washington, DC 20037
202 778 2000
202 778 2000 Fax

Zurich

150, Kapellstrasse 51
CH 8001 Zurich
1 22 1 4100
1 22 1 4100 Fax

Internet

www.mercer.com

**Fiscal Year 1994-1995 Management
Performance Audit**
Public Review Document

Final

October 1994

Prepared for:
The Alaska Railroad Corporation

**Fiscal Year 1994-1995 Management
Performance Audit**
Public Review Document

Final

October 1994

Prepared for:
The Alaska Railroad Corporation

Prepared by:
Mercer Management Consulting, Inc.
33 Hayden Avenue
Lexington, Massachusetts 02173
(617) 861-7580

Introduction

This report contains the results of Mercer Management Consulting's (Mercer's) fourth annual management audit of the Alaska Railroad Corporation (ARRC).¹ Mercer performed the audit in September and October 1994 under contract with the ARRC Board of Directors in response to statutory requirement AS.42.40.270. The ARRC Board is required to have an annual performance audit conducted by a recognized railroad management expert to ensure that the railroad is being managed and operating effectively and efficiently.

This report contains the following four sections, as well as an appendix:

Section I: Scope of the Audit and Personnel Involved

Section I explains the subject areas covered in the audit, describes the information collected and reviewed, introduces the members of the audit team and their roles, and lists those on the railroad and its Board who were interviewed.

Section II: Update of ARRC's Financial and Operating Performance

Section II updates ARRC's calendar year 1993 financial and operating performance.

Section III: Findings of the Management Audit

Section III provides the basic findings of the audit in the various areas examined.

Section IV: Issues and Recommendations

Section IV draws upon the information and observations presented in Sections II and III to highlight certain issues of importance to the railroad and to make recommendations that Mercer hopes will be useful in the management of the railroad.

¹Mercer Management Consulting was formerly named Temple, Barker & Sloane/Strategic Planning Associates.

Section I: Scope of the Audit and Personnel Involved

Subject Areas and Approach

This year's management audit represents the fourth annual audit undertaken by Mercer.

- The first audit (for FY1991-1992) was devoted to developing a basic understanding of the railroad and its organization, operating characteristics, efficiency, markets, and physical condition. Special attention was also placed on examining the railroad's physical plant and maintenance, understanding its maintenance of way (MOW) practices and procedures, and observing its condition. This included a physical inspection of the main lines by a professional track engineer from a hi-rail vehicle and on the ground.
- The second audit (for FY1992-1993) updated the analyses of the prior year, reviewed the many management changes that had taken place since the last audit and their likely impact on all aspects of the railroad, and conducted a more detailed examination of the railroad's marketing/sales organization and an evaluation of its markets. A principal focus of this audit was a detailed examination of the Mechanical Department and the condition of the rolling stock by a well-known specialist in that field. The team also inspected the property from Fairbanks to Anchorage using the business car and took a hi-rail trip from Whittier to Anchorage.
- The third audit (for FY1993-1994) continued the practice of updating many of the analyses of the prior years' audits and reviewed continuing management changes. A brief examination was also made of the expected financial impact of the Seattle barge service that management took over in March 1993. Because a major revamping of the railroad's information systems was under way, Mercer also had two railroad information systems experts join the audit team to look at the railroad's MIS plans and progress.

For this year's audit, Mercer was asked to augment its regular review of the railroad with (1) an examination of the ARRC Seattle service to determine how the railroad has been impacted by this service, (2) a review of the adequacy of the marketing and sales organization to meet the challenges the railroad is facing, and (3) a look at the effectiveness of the Passenger Department.

Members of the Audit Team

The principal members of the audit team were Robert Waldner, Alan Dustin, and Michael Smith (resumes are presented in Appendix A). Their roles were as follows:

Mr. Waldner organized the inspection visit and interviewed key members of the railroad's management. He adds to the audit effort a broad national and international background in operations, planning, and marketing and has assisted railroads, other modes of transportation, financial institutions, government agencies, and users of transportation in a large variety of management assessment studies, including extensive operational reviews of freight and passenger railroads in North America and abroad.

Mr. Dustin interviewed key members of management, particularly in the railroad's administrative, personnel, safety, operations, mechanical, and engineering functions. He brings to the audit team many years of executive experience in managing freight and passenger railroads, and as a consultant has assisted a variety of clients with railroad management problems in the United States and abroad.

Michael Smith is an expert in Class I and regional and shortline railroad marketing. He brings to the audit team many years of experience in organizing marketing and sales departments and managing efforts to develop new business opportunities.

Railroad Personnel Interviewed

The inspection visit started on September 10, 1994, at Anchorage and ended on September 17, 1994. One member of the audit team visited Seattle. All members inspected railroad facilities in several separate trips by hi-rail vehicle and on the Seward passenger train. These inspections took place at Anchorage and south of Anchorage, including Whittier and Seward.

This year's audit consisted primarily of interviews with members of the ARRC organization at the headquarters building at Anchorage, a luncheon meeting with several members of the Board's Audit Committee, and discussions with staff at Seattle.

The following ARRC staff, Board members, and representatives from the Canadian National Railroad and Burlington Northern Railroad were interviewed:

- | | |
|--------------------|---|
| • James Blasingame | Vice President, Corporate Affairs |
| • Tom Brooks | Chief Engineer |
| • John Burns | Vice President, Real Estate |
| • Bruce Carr | Manager, Corporate Planning |
| • Sally Carter | Passenger Operations Supervisor |
| • Robert Cox | Vice President, Operations |
| • Frank Coletta | Manager, Safety and Health |
| • Richard Dyson | Manager, Labor Relations |
| • George Erickson | Manager, Marketing Development |
| • Cindy Gilder | Manager, Environmental Services |
| • Laurie Gray | Customer Representative, Canadian National Railroad |
| • Deborah Hansen | Manager, Marketing and Sales Operations |

• Robert S. Hatfield, Jr.	President and CEO
• Larry Houle	Manager, Passenger Services
• John Kincaid	Chief Mechanical Officer
• Richard Knapp	Vice President, Marketing
• Dale Lindsey	Board Member
• Loren Lounsbury	Board Member
• Evan McKinney	Manager, Contracts & Supply
• John O'Meara	Vice Present, Finance & Administration
• Janice Nolan	Chief Train Dispatcher
• Curt Richards	Sales Manager, BN
• Patrick Shake	Superintendent, Transportation
• Janet Swanson	Customer Service Supervisor
• Rob Halpin	Sales Account Executive
• Wayne Parker	Sales Account Executive
• Chelcie R. Eager	Supervisor, Rates/Transfer/Delivery
• Don Claussen	National Accounts
• Becky Grady	Interline Services Coordinator
• Kevin Meier	Customer Service Supervisor
• Katherine Adams	Accounting: Audit Supervisor
• Sally Carter	Station Supervisor
• Janet Swanson	On-board Services Supervisor

Section II: Update of ARRC's Financial and Operating Performance

This section briefly updates ARRC's financial and operating performance, generally following the format used in prior Mercer audit reports. One exception is that comparisons with other U.S. regional and Class I railroads have not been made this year, as the essential points of the comparisons were raised last year and have not greatly changed since.

This update is presented in five subsections:

- Financial performance
- Freight and passenger contribution
- Freight traffic and revenues
- Passenger traffic and revenues
- Operating expenses

Financial Performance

In 1993, ARRC reported a corporate net loss of \$2.67 million, which represented a \$5 million decline from a net income of \$2.35 million in 1992. As shown in Exhibit II-1, almost all of the decline in income was due to an 8 percent decline in revenues while operating expenses held nearly constant. With losses from operations of \$5.90 million, the railroad's operating ratio (operating expenses as a percentage of revenues) surged to 110.4 percent from 100.9 percent in 1992. Non-operating income and expenses were relatively unchanged from 1992, with income from real estate being the principal reason that the railroad's net loss was held to \$2.67 million.

Losses generated by the railroad's transportation operations during 1993, and extending into 1994, caused ARRC to borrow nearly \$5 million on a short-term basis against its line of credit. This additional debt will further exacerbate ARRC's financial situation and undoubtedly have a chilling affect on its 1995 capital improvement program.

Freight and Passenger Contribution

The railroad's passenger service continued to make a significant contribution after variable costs are deducted from revenues. Variable costs are those costs that are most directly affected by the movement of trains and handling of passengers and/or freight and include fuel, train crews, station costs, freight car and locomotive maintenance, etc. The railroad's freight service had a substantial decline. As shown in Exhibit II-2, freight service contribution declined to \$11.5 million, a \$6.1 million decline from its contribution in 1992. Most of the decrease in contribution was due to the railroad's Seattle interline service.

Exhibit II-1

Financial Performance of ARRC: 1980 to 1993
(Thousands)

											Percentage Change From					
	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1980 to 1985	1985 to 1990	1990 to 1991	1991 to 1992	1992 to 1993	
Operating Revenue	\$25,544	\$57,092	\$47,239	\$45,457	\$51,207	\$55,065	\$61,913	\$61,773	\$61,840	\$56,920	123.5%	8.4%	142.4%	-	0.1%	-8.0%
Operating Expenses	33,187	55,413	54,264	46,400	46,898	55,453	59,904	59,630	62,427	62,822	67.0%	8.1%	80.5%	-	4.7%	0.6%
Operating Ratio	129.9%	97.1%	114.9%	102.3%	95.5%	100.7%	96.8%	96.5%	100.9%	110.4%	-	-	-	-	-	-
Income from Operations	\$-7,643	\$1,679	\$-7,025	\$-1,033	\$2,309	\$-388	\$2,009	\$2,143	\$-587	\$-5,902	-	19.7%	-	6.7%	-	-
Nonoperating Income																
Real Estate	1,687	4,095	4,934	4,821	4,438	3,932	3,718	3,592	3,616	3,732	142.7%	-9.2%	120.4%	-3.4%	0.7%	3.2%
Other Income	124	1,920	1,719	890	585	637	879	436	509	611	1,448.4%	-54.2%	608.9%	-80.4%	16.7%	20.0%
Other Expenses (Interest)	0	-561	-613	-1,661	-1,526	-1,204	-2,066	-1,729	-1,189	-1,114	-	268.3%	-	-16.3%	-31.2%	-6.3%
Net Income	\$-5,832	\$7,133	\$-985	\$3,017	\$5,806	\$2,977	\$4,540	\$4,442	\$2,349	\$-2,673	-	-36.4%	-	-2.2%	-47.1%	-

Note: Operating revenues and expenses have been adjusted to include reimbursables as a credit to expenses rather than as revenues. This is the normal practice in railroad accounting.

Exhibit II-2

Contribution After Variable Expenses
(thousands of dollars)

	1985	1990	1991	1992	1993	Change: 1992 to 1993
Passenger						
Revenues ¹	\$4,344	\$6,973	\$8,173	\$8,460	\$8,855	\$395
Expenses	4,752	5,080	4,987	5,335	5,400	65
Net	(408)	1,893	3,186	3,125	3,455	330
Freight						
Revenues	51,978	53,313	52,485	52,401	47,527	(4,874)
Expenses	28,865	31,782	35,701	37,877	39,469	1,592
Net	23,113	21,531	16,784	14,524	8,058	(6,466)
Total Net Contribution	\$22,705	\$23,424	\$19,970	\$17,649	\$11,513	(\$6,136)

¹Passenger revenues of \$8,460,000 shown for 1992 compare to \$9,076,000 in the Annual Profitability Study. This difference apparently represents revenues that in prior years were shown separately as Miscellaneous revenues with no associated variable expenses.

Freight Traffic and Revenues

ARRC's revenue ton-miles declined by 1.5 percent in 1993 (as shown in Exhibit II-3) but remained at a relatively high level compared to the 1980s. Revenues declined by 9.4 percent. The revenues shown, which include those of ARRC's Seattle service, are those that are left when the towing and other incidental expenses of the Seattle barge service that ARRC took over in March 1993 are deducted. Mercer found that the decline in total freight revenues can be traced largely to the impact of the Seattle barge service in that the additional revenues ARRC obtained when it took over the Seattle barge service were exceeded by its increased expenses.

Exhibit II-3

ARRC Freight Traffic

	Revenue Ton-Miles (millions)	Revenues (millions)
1980	271	\$21.7
1985	807	52.0
1990	1,104	53.3
1991	1,055	52.5
1992	1,108	52.4
1993	1,091	47.5
Percentage Change:		
1980 to 1985	197.8%	139.6%
1985 to 1990	36.8%	2.5%
1980 to 1990	307.4%	145.6%
1990 to 1991	4.4%	1.5%
1991 to 1992	5.0%	0.2%
1992 to 1993	1.5%	9.4%

Passenger Traffic and Revenues

Passengers handled by ARRC declined in 1993 by 4.2 percent from passengers handled in the pervious year (see Exhibit II-4). All of this decline was the result of the cruise lines moving from Whittier to Seward. ARRC carries all of the cruise passengers calling at Whittier, as the Shuttle provides the only access from Whittier. However, most cruise tourists calling at Seward are bussed to and from Seward. The bus trip takes less time and is easier than the train to coordinate in loading; however, the train trip offers an outstanding scenic experience.

Revenue per passenger increased primarily due to the change in mix of passengers caused by the loss of the low-fare Whittier cruise passengers and to the growth in the relatively high-fare Seward business and a small increase in ARRC's Express fares.

Exhibit II-4

ARRC Passenger Traffic

	Passengers (thousands)	Revenues (thousands)	Revenue per Passenger	Revenues as Percentage of Total Freight Plus Passenger
1980	151	\$1,549	\$10.26	7%
1985	257	4,344	16.90	8%
1990	437	6,973	15.96	12%
1991	471	8,173	17.35	13%
1992	473	8,460	17.89	14%
1993	453	8,855	19.54	16%
Percentage Change:				
1980 to 1985	70.2%	180.4%	64.8%	
1985 to 1990	70.0%	60.5%	5.6%	
1980 to 1990	189.4%	350.2%	55.5%	
1990 to 1991	7.8%	17.2%	8.7%	
1991 to 1992	0.4%	3.5%	3.1%	
1992 to 1993	4.2%	4.7%	9.2%	

Operating Expenses

ARRC's operating expenses remained steady in 1993 compared to the prior year. As shown in Exhibit II-5, a \$1.4 million decrease in maintenance of equipment expenses was offset by a corresponding increase in G&A and MOW expenses.

Exhibit II-5

Comparison of 1992 and 1993 Components of Operating Expenses
(millions of dollars)

Expense Type	1991	1992	1993	Difference
Transportation	\$20.7	\$18.2	\$18.5	\$0.3
Maintenance of Way (MOW)	14.2	15.2	15.8	0.6
Maintenance of Equipment (MOE)	12.8	14.6	13.2	(1.4)
Subtotal Operations Division	47.7	48.0	47.5	(0.5)
G&A	11.9	14.4	15.3	0.9
Total	\$59.6	\$62.4	\$62.8	\$0.4

Note: As is the practice with the major U.S. railroads and many regional railroads, the following adjustments have been made: 1) Care hire expenses are included in Maintenance of Equipment rather than Transportation; 2) The depreciation expenses associated with each expense type have been included in this exhibit; 3) Casualty changes are included in Transportation; 4) Reimbursement revenues have been used as credits to expenses in each of the expense types; 5) To maintain consistency with 1993, all but \$200,000 of work equipment expenses in 1991 and 1992 have been transferred to MOW.

With somewhat lower traffic, the railroad's operating costs per gross ton-mile climbed 4.3 percent (see Exhibit II-6). Excluding the one-time fourth quarter charge of \$1.8 million, the railroad's cost per gross ton-mile would have remained steady at 1992's level. In fact, since 1990 ARRC has held its costs near 2.3 cents per GTM, which is an accomplishment in light of a 7 percent increase in the rate of railroad cost inflation.

Exhibit II-6
ARRC Operating Expenses

	Gross Ton-Miles (millions)	Operating Expenses (millions)	Operating Expenses per GTM	Operating Ratio (percentage)
1980	925	\$33.2	3.6	129.9%
1985	1,952	55.4	2.8	97.1%
1990	2,633	59.9	2.3	96.8%
1991	2,460	59.6	2.4	96.5%
1992	2,740	62.4	2.3	100.9%
1993	2,590	62.8	2.4	110.4%
Percentage Change:				
1980 to 1985	111.0%	67.0%	20.9%	
1985 to 1990	34.9%	8.1%	19.9%	
1980 to 1990	184.6%	80.5%	36.6%	
1990 to 1991	6.6%	0.5%	6.5%	
1991 to 1992	11.4%	4.7%	6.0%	
1992 to 1993	5.4%	0.6%	4.3%	

Section III: Findings of the Management Audit

This section presents the basic findings of Mercer's analysis of ARRC. Those topics where special effort was made are presented first; these include reviews of:

- The railroad's freight businesses and marketing/sales organization, with emphasis on the Seattle barge service because of its impact on the railroad's finances last year and its immediate importance to the well being of the railroad
- The railroad's passenger service, with emphasis on the costs of the services provided by the Passenger Department compared to its revenues
- ARRC's recent restructuring efforts

Following the special topics are comments on Mercer's routine review of the administration and operations functions of the railroad.

Review of ARRC's Basic Freight Business Components and Supporting Marketing and Sales Organization

In past audits Mercer has noted how vulnerable the railroad is to a relatively small traffic base with a few dominant customers. Recently the railroad's interline business was affected by the withdrawal of Crowley Marine Services as operator of the Seattle service, which forced management to make critical decisions on how to maintain its service to and from the lower 48 states. The ARRC marketing and sales organization has responded over time to new conditions in the interline and other businesses with organization and staff changes. The purpose of this section is to, first, review the current financial results of the new ARMS service and compare it with what was projected in the 1993/1994 audit review; second, examine the integrity of all major segments of ARRC's freight business; and finally, see how the Marketing and Sales Department is prepared to handle challenges facing the organization in the various lines of business.

Review of the Seattle Barge Service

This section examines the current status of the Seattle barge service between Seattle and Whittier that ARRC assumed responsibility for operating in March 1993. The performance this service had been expected to achieve is compared with what has actually taken place. Options and possible alternatives to improving or discontinuing this service are also discussed.

Review of Performance

Prior to March 1993, this service had been provided independently by Crowley Marine Services. Late in 1992 Crowley gave relatively short notice to terminate service, and ARRC management was convinced the sudden withdrawal from the Seattle market could cause some harm to the railroad's customers and jeopardize much of its profitable interline business. ARRC then acted to assume control of the service and hire Crowley for a period of five years to perform towing services and supply barges, thereby converting what previously was an independently operated

Crowley service (with Crowley taking most of the risks) to a contractual relationship with ARRC assuming all of the risks and Crowley assured a return with no risk.

Management's decision to take over the service had been justified in part by a number of expected benefits, most of which were reviewed in last year's audit:

- The railroad's profitable interline traffic to and from Seattle would be preserved.
- ARRC's control over the service would provide single control over what had been a two-party operation, and thereby enable a more flexible, customer responsive, and "seamless" transportation service for its customers.
- ARRC would be able to provide a faster response in pricing for customers, particularly in competing for the very limited southbound market.
- ARRC could exercise better control over scheduling the barge trips for service improvements.
- The service preserves a second outlet for railcar business and provides ARRC with some continued competition with CN's Prince Rupert service.

Management also believed that this arrangement could reduce the overall costs of providing the Seattle service.

In contrast to these expected benefits, Mercer was concerned in last year's audit that the financial risks associated with the service would be overwhelming and tax the capability of management to deal with them.

A review of 1993 financial results and a similar review of the results of the first full 12 months of ARRC control over the operation shows that management has been unable to make any progress in restoring its profitability. Conversely, the financial results have thus far been a disaster. As shown in Exhibit III-1, the results in 1993, which included two months of Crowley operations and 10 months of ARRC operations, were about what was expected – a loss of \$0.8 million. The results for the first full 12 months of operations, from March 1993 to February 1994, show losses further expanding to \$1.7 million and which, compared to 1992, represent a negative impact of almost \$5 million. Furthermore, Mercer has examined operations during the last six months, from March 1994 through August 1994, and has no reason to believe that the results will be any better in the second full year.

In conclusion, the combination of lower than required northbound loadings, insufficient increases in southbound loadings, and extensive weakness in per-load revenues all led to substantial 1993 losses that are worsening. Although the service benefits ARRC expected from taking over the Seattle barge responsibility were largely realized, ARRC was unable to capitalize on these benefits to preserve the financial contribution this service has made in the past. Under existing conditions, ARRC appears to have an insurmountable task to regain reasonable levels of profitability or even break-even. From Mercer's analysis, the service would have to be more than 100 percent utilized northbound or increase its southbound business from about 700 loads to near full capacity to achieve a contribution near that realized in 1992.

Assessment of Markets

Mercer reviewed ARRC's markets with the vice president, the AVPs, and their staffs. Discussions centered on the commodities that ARRC handled as well as services ARRC provided. In addition, the company's business plan clearly described ARRC's businesses.

ARRC has two basic lines of business:

- Interline, local carload services, and TOFC/COFC
- Unit train and block services

Interline, Local Carload Services, and TOFC/COFC

Interline, local, and TOFC/COFC constitute 27 percent of freight revenues while unit trains and block services make up 73 percent.

This line of business accounts for 26.6 percent of ARRC's freight revenues and 13.7 percent of its carloads. The interline traffic represents a particular quandary: This business presents an immediate opportunity for the railway to increase business volumes and revenues, but on the other hand, the Seattle portion is draining operating income from the railway. The variety of activities supporting the interline and other segments (two barge operations, a local pipe and log business, a number of railroad operated and/or funded transload operations, and a TOFC/COFC contract operation) also represent a major management challenge for ARRC.

Evaluation of Marketing and Sales Capabilities

Mercer reviewed the railroad's marketing and sales effort to evaluate the following:

- Adequacy of goals and objectives for each line of business
- Marketing & Sales department's understanding of its business and its reaction to business opportunities and problems
- Technical capabilities of the department
- Adequacy of information utilized by the department

- The current Marketing & Sales organization structure and its appropriateness for the railway

Adequacy of the Goals and Objectives for Each Line of Business

Any M&S organization needs clear goals and objectives from which to construct the Company's business plan. The ARRC's M&S department prepares a comprehensive market plan that provides in-depth information such as:

- Marketing:
 - Current market conditions
 - Competitive conditions
 - Pricing strategy
 - Government influences
 - Market plan
- Operations:
 - Current operations
 - Operations analysis
 - Service

This Market Plan provides a good basis from which a concise set of goals and objectives can be formulated. However, while the information in this plan has been used to outline goals and objectives for the company, it appears to be more of an "academic document" than a day-to-day guide for action. In practice, the M&S department pursues informal and individual strategies. There are often shared and practical, but outside the bounds of the business plan. During the year, goals and objectives tend to become reactive rather than proactive.

These observations are not meant to diminish the real accomplishments of M&S last year, such as the Mapco contract renegotiation. Nevertheless, the ARRC was reacting to someone else's agenda.

A good market plan must be regularly reviewed and continually updated to ensure the goals and objectives for the company are based on current and anticipated market and operating conditions.

Understanding ARRC's Business, and Reaction to Opportunities and Problems

Mercer reviewed the major markets with the Marketing & Sales staff and found that the staff has reacted practically and objectively to the majority of the business opportunities and problems.

The key elements of Mercer's findings were as follows:

- M&S personnel displayed a good understanding of the ARRC's existing business.
- The M&S department demonstrated a solid knowledge of customer demands, both in service and equipment requirements and in the competitive prices needed to move their products.
- The M&S department appeared to be aware of most marketing opportunities that might be available to the Railroad.
- Members of the department had ideas and were willing to express them; intellectual bankruptcy is not a problem in this department.
- M&S personnel were very concerned about the ARMS operation and its potential impact on the company.

The individuals interviewed reflected competency in their areas of responsibility, and Mercer observed an eagerness to become more involved with the Marketing & Sales activities of the company. Concern was expressed that responsibility was too fragmented; M&S Operations and M&S Support generally have to concur on rates, and this slows responses to customers and opportunities. Mercer notes that fragmented responsibility also lowers accountability for results.

Technical Capabilities of the Department

Based on the interviews with the M&S staff, Mercer feels that the technical skills and personal commitment required for an effective M&S organization are present on the ARRC. In any railway M&S organization, Mercer would look for the following:

- Experience in the railway industry
- Understanding of customer economics and markets
- Education, both formal and OJT
- Analytical and personal skills

The ARRC Marketing Department, like any organization, includes people with a variety of skills and experience ranging from adequate to excellent. Nonetheless, the total package constitutes a technically capable and solid organization.

Information Available and Extent Utilized by the Department

Mercer observed that key information is not dispensed or readily made available to the M&S staff. Major M&S initiatives tend to be handled by the VP with input flowing from the staff but not enough flowing back in return for comment nor sufficient staff participation in the outcome.

In addition, there is a problem with the distribution of data such as budgets, customer, and traffic information to the individuals who require the material. While the data are available, they are not in a form that is easily developed or adequately circulated.

As the saying goes, "you can't manage what you can't measure." Mercer found that most of the budget and marketing information managers need to perform their jobs effectively is collected but not easily retrieved from the computer system. As a result, the information flow most closely reflects an individual's knowledge and comfort with the computer system or members of the computer department. The computer department should prepare and distribute reports on budgets and traffic on a regular basis.

The Current M&S Organization Structure and Its Appropriateness for the Railway

Mercer has previously observed that the ARRC's Marketing & Sales organization is structured in a traditional manner. The current organization, which is similar to what one would have found on most railways in the 1960s and 1970s, comprises the following:

- Operations Group (Sales)
- Support Group (Pricing)
- Customer Service (part of the Support Group)
- ARMS

In previous audits, Mercer has stated that this structure should be examined for its appropriateness in the current competitive market. Specifically, Mercer has been and remains concerned about the following:

- That the distinction between sales and pricing dilutes the effectiveness of the people in the M&S department in terms of their dealings with customers and other railways
- That the shared responsibility for establishing a program creates an environment where accountability is difficult to determine

This structure also reflects the traditional distinction between marketing as revenue generation and operations as solely responsible for the movement of the freight. Most railways have abandoned this type of structure, since it does not properly support operations or necessarily handle its own responsibilities efficiently.

In reviewing the ARRC's Marketing & Sales organization structure and its role within the railway, Mercer looked at the type of organization one would expect to find, given the type of business that the ARRC currently carries.

For example, the ARRC business previously described breaks down into two basic categories:

1. Interline, local, and intermodal
2. Bulk and block train business

These are two very different types of business and these businesses each have the following characteristics:

- **Interline, local, and intermodal:**
 - Multiple transactions over a wide geographic area (e.g., rail-truck transfers, multiple rail connections, equipment supply issues, the barge service at Seattle, the loading operation at Houston, etc.)
 - Wide variety and large numbers of customers
 - Immediate, intense, and often low-priced competition
- **Bulk and block trains:**
 - Minimal transactions based on single-train and single-customer services
 - A limited number of customers who can support the heavy investments required to move their products
 - Competition that, because of the large investments required, tends to price and enter markets carefully

Given these types of business and their very different operating, customer, and competitive characteristics, Mercer expected the ARRC's traditionally organized M&S structure to handle these two lines of business independently. This was typical while traditional railway marketing & sales organizations were making the transition to the currently popular business group structure. For example, most traditional railway organizations that handled coal had a Coal Department, and Mercer would anticipate a similar formal organizational emphasis on ARRC's core business. But this was not the case.

What we found instead was a "mutating" organization. The M&S staff below the VP have informally adapted their traditional organization to the current markets out of need. As a result, the organization has acquired some specialization based on the characteristics of the markets serviced.

- The Support group has invested time and effort with the Operating Division in improving, monitoring, and promoting better equipment utilization. This reflects recognition of the fact that the promotion of good equipment utilization practices is essential to generating better margins on the core business and that this is a joint responsibility of M&S and the Operating Division.
- The Sales group has become more involved in pricing ARRC's services, after the reduction in Support personnel slowed the pricing work. For very practical reasons, the "healthy dynamic tension" that is used to defend the current organization structure critiqued in past audits is disappearing.

Out of necessity, the M&S staff has informally begun to adapt itself structurally to the categories of business outlined above. A lack of specific pricing people and the resulting delay in setting prices has encouraged Sales (Operating) with Pricing's (Support) concurrence to help establish rates, especially in the highly competitive and fast-paced interline business. In addition, Support has recognized the need for margins on the core business to be improved through better equipment utilization and has worked well with the Operating Division in an effort to accomplish

this goal. Mercer concludes that senior management needs to recognize that its M&S structure, driven by a talented and concerned M&S staff, is already evolving toward a "business group" orientation.

Left completely out because it doesn't "fit" logically into any one group of the M&S Department is the Seattle organization. The combination of distance and traditional organization in a non-traditional railway line of business has resulted in this group's receiving limited advice and direction. As a result, the skills, knowledge, and energy evident in this group are not being fully exploited. This group needs to be "placed" with someone.

Finally, Mercer feels that as a result of its evolving structure, the M&S organization is not as effectively fulfilling its role in terms of setting goals and priorities for the company. Further, its capable members are trapped in an unstable structure that often frustrates their creativity and certainly reduces their effectiveness. A better organization structure for M&S would yield the ARRC better results.

Review of Passenger Services

In 1993, ARRC's passenger patronage was down for the first time since the federal transfer in 1985. However, passenger revenues were up slightly due to increases in passenger fares and other charges, and the contribution of the service after direct costs of operating the service continue to be significant.

The performance of the railroad's passenger service should be examined in the context of the following components:

- ARRC's own commercial service on the Express and its train service between Seward and Anchorage
- An unsubsidized public service obligation to operate the Whittier Shuttle and Hurricane local service

Some observations with respect to these services follow.

Commercial and Public Service

The railroad's ability to market commercial and public services has met with mixed results.

The commercial and public service ridership appears to be leveling off and in certain areas is decreasing. In fact, ridership in 1993 was at the lowest level since 1989. This trend presents an urgency either to make the current passenger sales efforts more effective or to reduce the cost of rendering these services.

In reviewing this situation, the audit team found a number of commendable factors:

- The Passenger Department appears to make good use of its advertising funds and of the travel and entertainment industry conventions.

- A good training program appears to be in place, and the performance of on-train service personnel is well monitored.
- The appearance and condition of the rolling stock used in the trains appears to very good.
- The on-time performance of the key trains has improved in 1994.
- ARRC has a good relationship with tour industry representatives and has special trains to provide them with a first-hand experience to observe what the railroad has to offer.
- The railroad is aggressive with operating special trains for skiers and works cooperatively with other organizations.
- While the installation and implementation of a new reservations system has some initial problems, it should provide benefits and have some excess capacity that could be used to serve other travel organizations at a profit.
- Efforts to extend service beyond the traditional shoulder season appear promising.

Mercer found two significant deficiencies in the management of the passenger services, however. The first was a lack of definitive goals and objectives and a lack of any effective and meaningful measurement tools to determine how the department is meeting those goals and objectives. The types of detailed control information needed to make an accurate evaluation of the various services are:

- Performance measures such as passenger car-miles of the different services, and expenses such as on-board services incurred by specific trains. With accurate car-mile and train expense information, management can track the economic impact of different on-board service policies and can calculate the impact of the administration costs on the effectiveness of the department.
- Information on the proportion of seats sold on a wholesale basis to other organizations. With this information, management can determine how much it is spending (on a seat-availability basis) on retail marketing and how much this is costing in commissions.

The second deficiency was with the lack of day-to-day and continuing financial management and accountability within the administration of passenger service. While the quality of service appears to be very good, control over the costs of providing the services is inadequate or even non-existent. There is no evidence of an established discipline to monitor and control expenses by means of a standard budgeting procedure. The budget data exists but is not used currently in the marketing and sales hierarchy. For example, the 1994 budget was developed in normal fashion in 1993. But through the end of August no effort was made to obtain actual expenses for any of the months in 1994 to compare with the budget and determine variances so action could be taken. This is just one example of the lack of fiscal responsibility in the department. This occurred in spite of a full-time accountant assigned to the department. Some other examples of the lack of fiscal responsibility were:

- The department was unaware of the monthly cost to operate the reservation system and how this compares to commissions being earned.

- Management was unaware of the source of the monthly commission income.
- The department did not have readily available information on how much block space is sold at a discount to wholesalers (e.g., the glacier boats or other tour interests).
- The department did not appear to have a developed program to employ yield management techniques.

Mercer is also concerned about the effectiveness of the new reservation system. As outlined in last year's audit, this system was suppose to provide a number of benefits, such as: increasing ridership and revenues by reducing lost reservation inquiries; permitting better space management; broadening its marketing reach by linking to nationwide travel agency reservation networks; employing modern yield management methods; and improving opportunities to develop full-service travel packages with other tour operators to generate increased commissions. Unfortunately, the system was installed too late in the season to obtain full benefits, and there is no information that would permit Mercer to measure the system's success in attaining these benefits.

Review of Operations

The Operations Division ensures the safe, efficient, and timely transportation of passengers and freight and is responsible for over three-fourths of the total costs of operating the railroad. The Operations Division expenses (Exhibit II-5) have been relatively stable over the three years shown, at about \$48 million. Over this period general inflation in the United States has increased by about 3 percent annually while railroad inflation has increased by only 1 or 2 percent. This has been accomplished by general improvements in productivity, increased load per car for gravel and coal, and a significant drop in the unit price of diesel fuel.

The Operations Division consists of four separately organized groups:

- A management and administrative group, responsible for controlling overall operations and providing necessary supportive services such as budgeting, safety, and environmental coordination and oversight
- A transportation group, responsible for the movement of trains, the operation of yards, and traffic control
- A mechanical group, responsible for the maintenance of rolling stock, i.e., locomotives, passenger cars, and freight cars
- An engineering group, responsible for the maintenance and upkeep of the railroad's track, structures, and other property

Mercer looked at the management practices and performance in each of these areas, particularly at changes that have taken place or were being considered since the previous audit. Mercer interviewed appropriate operating staff and reviewed various materials provided; our observations on each of the groups are provided below.

Management and Administration

The Operations Division is managed by the Vice President of Operations and includes a support staff of about 17. Overall management of the Operations Division appears to continue to improve, especially as demonstrated by its ability to meet the challenge of a stagnant traffic base and reduced revenues. Mercer found that Operations management is using up-to-date information on the railroad's performance and appropriate approaches to monitor and control operations. At the time of the audit team's visit a new train and car management system was being implemented that should enhance the quality of real-time information available for management. It was unclear, however, what specific enhancements will be realized. Bruce Carr was assigned to assist the Operations Division in resolving these needs.

An important improvement in making service more responsive to the needs of the customers and in controlling the costs of providing that service was the institution of weekly service planning meetings between Operations and Marketing and Sales. These meetings have proven invaluable for both departments, allowing the exchange of information on current and proposed operations and business demands, as well as mutually beneficial decision making.

Environmental

Mercer last reviewed the railroad's environmental activities in the 1992-1993 Management Audit and expressed several concerns, which management has since addressed. One of the most important changes was to bring this responsibility under top management jurisdiction, which was accomplished two years ago with the addition of an environmental professional reporting to the Vice President of Operations. This group, including the manager, consists of a staff of four with responsibilities for the entire ARRC environmental program, including providing for the remediation/cleaning up and monitoring of contaminated sites, managing the appropriate disposal of waste generated by the railroad, keeping current on regulations for waste disposal, and providing required documentation and reports.

Mercer is not in a position with this audit to comment on the suitability of specific actions undertaken by staff, but the general overall effort appears to greatly exceed the practice of railroads its size in the lower states. Mercer surveyed a number of similar railroads in the lower states and found most had no separate environmental group or experienced individuals dedicated to this function. This clearly demonstrates the commitment ARRC has made to environmental concerns. Some recent activities are:

- Negotiating settlement of the \$1.8 million fine imposed by the Environmental Protection Agency for storing waste for a period over 90 days. This included follow-up inspections, as well as discussions with and presentations to state and federal officials. Final settlement was a fine of much less than the original \$1.8 million and a commitment to complete the following supplemental environmental projects:
 - Purchase additional buildings to store waste
 - Undertake an independent pollution prevention assessment at Anchorage Yard
 - Provide training to citizens of Alaska about environmental regulations

- Continuing remediation work on a priority basis for some 50 underground maintenance-of-way fuel storage tanks that had been removed. At each site the ground is being restored to its natural condition. These same efforts are being expended at former spill sites such as Broad Pass, Chase, and Aklutna. Dunbar is being closed out.
- Carrying out a program of environmental initiatives in an effort to earn a Green Star from the Chamber of Commerce. The Green Star is a prestigious award that is earned by successfully completing six mandatory steps and six elective steps chosen from a total of 12.
 - Winning the Green Star award will make ARRC more environmentally conscious and enhance its reputation as being environmentally concerned.
- In accordance with regulations, ARRC is presently conducting a detailed test of the physical condition of the 747,000-gallon fuel storage tank in Anchorage Yard. This includes a measurement of the thickness of the tank and lines as well as a pressure test.

Safety

Safety is a major responsibility of the Operations Division. Although the primary responsibility for safety and injury prevention rests with the individual operating departments, one safety staff officer reports to the Vice President of Operations. His responsibility is to keep the VP Operations fully informed in all safety matters, perform safety audits in the field, participate in safety meetings, assist the departments in developing and carrying out their safety programs, maintain appropriate records and documentation, and submit proper reports to the FRA and other authorities. Several years ago this responsibility was under the Personnel Department, which Mercer believes somewhat isolated this critical function from the operating departments where most of the risks for personal injuries occur.

This year Mercer was impressed by a continuation of efforts to improve the railroad's safety record and by the great improvement over the situation of just a few years ago. In the first audit in 1991 Mercer noted that a deteriorating personal injury situation had existed since the 1985 takeover from federal control. Mercer attributed the problem to a lack of top management commitment, poor morale and a low priority for safety in the line departments.

By 1992 significant change had taken place to effectively address the personal injury problem, and in that year's audit report Mercer commended management on its ongoing activities. Mercer also cautioned that results do not occur overnight, that it takes time to fully effect the necessary changes and to properly indoctrinate all employees.

The efforts of management are now beginning to yield meaningful results. Management successfully pursued an aggressive and many-faceted campaign to reduce personal injuries, and produced dramatic results from 1991 through 1993. As shown in Exhibit III-2 there was a progressive reduction in the number of injuries reported to the Federal Railway Administration. ARRC has also improved its standing relative to other railroads in its class in the United States. In 1991, ARRC, with 9.69 reportable injuries per 200,000 man-hours, was 17th among 27 railroads, but by the first half of 1994 this rate had declined to 4.61, placing ARRC 7th out of 20 railroads.

Exhibit III-2

ARRC Reportable Personal Injuries

Year	Ranking in Railroad Class	Number of Railroads in Class	Number of Reportable Injuries per 200,000 Man-Hours	Total Hours of Work (000)	Number of Reportable Injuries
1985	3	16	1.07	1,855	10
1986	7	13	4.54	1,808	41
1987	12	16	11.18	1,037	58
1988	17	22	9.63	1,059	51
1989	13	20	8.49	1,130	48
1990	16	26	8.83	1,155	51
1991	17	27	9.69	1,156	56
1992	12	24	7.73	1,191	46
1993	14	20	7.50	1,147	43
1994 (6 mo)	7	20	4.61		12
1993 (6 mo)	18	22	9.21		26

ARRC's progress is also evident in all three operating departments, as shown in Exhibit III-3. To provide a comparison of progress-to-date in 1994, this table compares the first eight months of all years from 1991 and shows the decline in reportable injuries and total incidents.

Exhibit III-3

First 8 Months of Year

Dept.	Reportable				Total Incidents			
	1991	1992	1993	1994	1991	1992	1993	1994
Eng'g	13	11	17	5	22	17	27	7
Transp	11	8	6	5	24	17	11	6
MP&E	4	11	12	7	9	24	24	14
Total Oper	28	30	35	17	55	58	62	27
Other	5	1	3	0	5	3	7	4
Grand Total	33	31	38	17	60	61	69	31

It is only through top management commitment, persistence, patience, and a variety of personal injury prevention programs, together with the ability to effectively reach all employees, that these improvements have been attained. It appears that ARRC presently has the proper mixture of dedication, prevention programs, and oversight to sustain this success. ARRC should

continue to realize continued improvements as time goes on so long as the efforts are undiminished.

Efforts that have contributed to the progressive improvements during the past year include:

- Continued training for the safety supervisor to better prepare him to carry out his responsibilities in the most effective manner, and to keep him abreast of those measures and programs that are proving most effective in preventing industrial accidents. Currently the Safety Supervisor is enrolled in a three-year training program with the University of Southern California.
- Appreciation awards have been fine-tuned or altered to make them more effective, and programs that have produced good results have been continued.
 - Cash certificates are available to individuals in recognition of specific achievements at the discretion of the department head.
 - Certain goals are established in concurrence with the employees. If the goals are successfully attained, cookouts or other similar events take place in celebration.
 - Different rewards for achievements, such as the five-year award of a "black jacket" for certain individuals, have been proven successful and are being continued.
- Formal training programs have been established to better prepare employees and supervisors to conduct more useful and informative investigations.
 - Supervisors and some agreement people such as stewards have been given a four-hour training course in how to investigate an accident to ensure that adequate information is obtained on a timely basis.
 - The form that is filled out when an accident is investigated has been improved and a formal checklist prepared to help the investigator develop all the facts and to see that all proper steps are taken and followed up on.
 - This program, which had provided training for about 70 employees at the time of this audit, will continue with enhancements.
- Safety committees, consisting of management and union safety representatives, that collectively identify problems, unsafe practices, or unsafe conditions have been in effect and working well for some time in the Mechanical and Engineering Departments but had not been initiated in the Transportation Department.
 - In 1994 a strong safety committee made up of management and UTU representatives (who represent the train operating crews and hostlers) was instituted within the Transportation Department. Periodic meetings are held with an advanced agenda, and minutes are distributed. The results of this committee should further enhance safety within the Transportation Department.

Transportation

The Transportation Department is responsible for \$18.5 million, or 39 percent of total Operating Division expenses. The audit team found that the Transportation Department is demonstrating

greater resourcefulness and flexibility in managing the railroad freight train services. The audit team noted the following:

- Management is administering effective budgetary controls.
- The internal communications within the department and external communications with other departments has been improved.
- Management has been more responsive in changing train service as customer requirements change and as opportunities to improve efficiency arise.
- Management has effected significant savings in streamlining yard operations and train management and administration.

The Transportation Department appears to have made significant progress toward fiscal responsibility by developing a realistic budget and controlling expenses through close monitoring. Expenses in 1993 were approximately the same as in 1992. In 1994 significant cost reductions were achieved, with year-to-date August 1994 expenses about 11 percent below the same period in 1993.

The department has also improved communication by having more frequent and scheduled staff meetings with formal agendas and by instituting morning conference calls to review the operations and activities of the past 24 hours and to discuss plans for future operations.

The railroad is showing a willingness to adapt freight train service in response to changes in traffic and customer needs and to the need to continuously improve railroad efficiency. While there were relatively few changes in 1993 compared to 1992, the railroad has recently instituted several important changes:

- The intermodal train between Anchorage and Fairbanks known as the FOX was discontinued in July. This train normally operated four days per week.
- To provide for limited intermodal space, capacity was added to the general freight train between Anchorage and Fairbanks to accommodate a maximum of 18 trailers.

As of the time of this audit there has been some disruption to the timely movement of interline traffic resulting from the change in train service. It is necessary to undertake additional switching at Anchorage to move high-priority shipments as room is available on the remaining trains. There is also some concern that the Healy crew change savings may be heavily diluted by the additional expense of having to send relief crews to trains that cannot make the Anchorage-Fairbanks run within the legal time of 12 hours.² Mercer is not in the position to evaluate the present status of these changes, but ARRC's willingness to experiment is very positive.

Finally, improved efficiency was achieved in August 1994 at Fairbanks and Anchorage by a reduction of intermodal activity and improved administration. Total transportation management,

²Subsequent to the audit team's visit, ARRC has decided to reestablish the Healy crew change because most FOX trains have not been able to make the trip in 12 hours.

administrative, and clerical staff at these locations were substantially reduced from a total of 41 to 26, or 37 percent. These changes are expected to result in annual savings of about \$1 million.

The following are a few concerns that the audit disclosed:

- Last year's audit disclosed that a reduction in switching at Fairbanks would be realized by having Mapco provide switch lists of its empty needs when the cars are unloaded in Anchorage. Apparently the railroad has been unsuccessful in getting the Mapco Anchorage staff to cooperate with its refinery staff to accomplish this.
- There appears to be evidence that significant customer switching is performed without charging appropriate tariff switch charges. There was also an indication that cars are being stored for customers without constructive placement and without the collection of appropriate charges.
- The audit team noted that shop tracks at Anchorage must be switched by yard crews, which consumes considerable time on a daily basis. Most railroads of ARRC's size have long given up this practice (if it existed) and now have shop staff position equipment within the confines of the shop tracks using track mobiles, while locomotives are moved by shop employees.
- The audit team is concerned that the morale of transportation staff has suffered from the many changes that have taken place.

Two additional matters concern the audit team. The first is the lack of emergency stop equipment on locomotives that automatically activates should the engineer become incapacitated; ARRC operates some of its passenger trains and freight trains without a second person in the cab. Mercer knows of no cases in the lower states on railroads with passenger and freight services in which trains are operated without such emergency stop equipment, and is concerned that a train could run in an uncontrolled manner for some distance before steps could be taken to stop its movement.

The second concern is over the current dispatching system and the procedures for incurring the safe separation of trains. Last year's audit report noted that a new computer-aided train dispatching system was being considered, but Mercer has since found that this is not being actively pursued. The need for such a system was made evident during the recent visit by the audit team.

- Immediately following the September 1994 derailment in the vicinity of Hurricane, a portion of the train involved in the derailment was temporarily held in Hurricane siding. In setting up a passenger train meet between the northbound and southbound Express trains, the dispatcher inappropriately arranged for the meeting to take place at the occupied Hurricane siding. When the two trains arrived at Hurricane, one had to back up to a prior siding so the meet could be made there instead. Other than considerable train delay and embarrassment, there was no risk of accident or injury. However, it does point out the potential for mistakes with the present dispatching system.
- Computer-aided train dispatching systems are implemented on many railroads to help the dispatcher control the safe movement of trains. For example, if a

dispatcher overlooks a conflict, the system will not permit the dispatcher to arrange for two trains to occupy the same track.

Engineering

The Engineering Department is responsible for \$15.8 million, or 33 percent of total Operating Division expenses. The following sections cover three areas of observations made by the audit team: (1) the railroad's relatively high level of engineering expenses compared to industry practice, (2) accomplishments of the Engineering Department since the last audit, and (3) issues of continuing concern to the audit team.

Expenses

The audit team continues to be concerned about the amount ARRC spends for the engineering work. On one hand there continues to be a large element of deferred maintenance, particularly with ties and rail; on the other hand in comparison to industry experience the railroad's expenses are much higher than what would be expected. It should be emphasized, however, that the railroad's engineering expenses are difficult to compare with other railroads because of some unique operating conditions that exist in Alaska and the distance of the railroad from railroad maintenance support services. Nevertheless, as noted in Mercer's first audit report, ARRC does have a ratio of engineering expenses to revenues and in 1993 was almost twice that of other major railroads in the lower states. Since the first report, Mercer has found this situation to be even worse when compared to railroads its size. This magnitude of discrepancy is difficult to explain solely from an examination of differences in operating conditions. The following items, based on discussions with management and our own observations, could cause the discrepancy:

- The lack of sufficient past capital expenditures for ties, rail, and other elements of track structure
- The inferior ballast upon which the railroad was constructed and used for many years after
- Distance from suppliers of railroad materials and services and contractors
- The lack of a physical connection with another railroad that would permit sharing facilities and equipment in an efficient manner
- The intensity of weather conditions with wide temperature variations and considerable snow
- Permafrost conditions on the north end
- The operation and maintenance of the Fairbanks power plant
- The way the department is organized and equipped to perform the necessary work

Mercer is not satisfied that these reasons adequately explain ARRC's high costs.

Activities

The audit team found that the Engineering Department is fulfilling its responsibility within its limited resources in four basic areas for which it is accountable. First, the railroad conducts a monitoring program similar to that used by most other railroads in the lower states.

- A rail defect car is operated over the railroad annually to identify a variety of physical defects in the rail. The 1994 rail defect test showed some increase in defects over 1993 and 1992.
- A rail geometry car is operated to disclose any significant aberrations in the condition of the track structure, such as gage and cross elevation. The results of these tests can be compared to those of prior tests to determine how the track is holding up to traffic conditions and to measure the effectiveness of maintenance programs undertaken between the tests. ARRC found that there were fewer deficiencies compared to the test in 1993.
- A fifth track inspection team consisting of two persons was added to the existing four teams, primarily to cover Anchorage Yard. These inspection teams perform routine track inspection and correct certain defects as required.

Next, the Engineering Department is conducting regular programs to provide for day-to-day maintenance of the track, structures, and facilities. The highlight of this year's program was the surfacing of 150 miles of track with 60,000 cubic yards of new and superior ballast. Approximately 18,000 ties and three track-miles of new rail were also installed. Positive measures of the maintenance performed this year include the on-time performance of the Express train and the running time of the Anchorage-Fairbanks freight train, which is the best it has been in the last four years. The department is also making some progress in attempting to better manage the bad vegetation/weed condition of the property by undertaking a special symposium to obtain public input and professional advice, to highlight the seriousness of the problem and allow review of potential solutions.

Thirdly, the railroad is making some progress in improving the life of the track structure despite the lack of sufficient capital investment funding to make adequate improvements. As the result of a detailed analysis by an industry expert in the field of rail grinding and confirmation by engineers from another railroad in Canada, a rail grinding program will be started this fall. This will entail grinding and re-profiling the rail head on most curves. This will provide some extended life to rail that would otherwise require replacement in the near future. The program will cover 100 track-miles of curves at a cost estimated to be \$1.3 million. Another effort to extend the life of rail is a rail-end welding program that began last year and has continued in 1994. The program involves one two-man gang using a track mounted welding vehicle. It is expected that this program will double in 1994.

Issues of Concern

The most important continuing problem facing the railroad and a subject of concern of past audit reports is the growing deficiency in tie renewals. The experience of the audit team is that the renewal deficit facing the railroad would not be so severe if the railroad had the cash resources to remedy the situation before an emergency arose. However, it does not appear that ARRC will have the funds to correct this growing problem in a timely manner. The need for rail

replacement may also present a similar problem, but the audit team is not in a position to assess this need. The tie and rail problem is evidenced this year by:

- The placement of speed restriction for the first time due to a tie condition
- Concern by the FRA over both the railroad's tie condition and rail condition for the first time

The deficient tie and rail condition increases the need for efficient day-to-day maintenance and reduces the opportunity to obtain the production gang benefits of program work.

Finally, the dock used by the cruise and pipe ships at Seward will need dredging and new fendering in the near future. It is unclear to Mercer how the commercial fees are established for use of the pier.

Reimbursable Work

ARRC has a number of projects for which the railroad provides services and receives compensation. This work nicely complements the work schedules of the railroad's maintenance personnel in that it provides work opportunities during slow periods that fall outside of the normal maintenance season. A benefit of this is that it helps the railroad maintain employment of a full-time, year-round, highly specialized work force. This, in turn, provides for workers who are familiar with all of the details and nuances of railroad construction work and for a work force well acquainted with the safety issues of operating trains within the confines of a construction site.

Mechanical

The Mechanical Department is responsible for \$13.2 million, 28 percent of total Operating Division expenses. Mercer found that the Mechanical Department is continuing to make good progress in properly maintaining the railroad's passenger and freight rolling stock. The following sections provide Mercer's observations on the department's activities during the past year and on the costs of maintaining the railroad's locomotive fleet.

Activities

The Mechanical Department has made progress in the following areas:

- The staff of the department has been reduced by about five individuals as a result of the recent buy-out program and as part of an effort to improve productivity.
- The expenses of the department have been kept below budget.
- The railroad's 50-year-old open top hoppers were retired and disposed of.
- Quantum speed and activity event records are being installed on the locomotive fleet. This is an important step in providing monitoring information on the operation of locomotives and trains.

- An apprentice program approved by the unions and the state Department of Labor has been implemented and is working out well.
- A program is under way to significantly improve the condition of the railroad's caboose fleet, which consists of seven cabooses.

Mercer is concerned about the following matters:

- Because of labor resistance, management has been unable to successfully implement a plan to contract out most of its rolling bearing work. Doing so would have provided some cost savings, warranty coverage, and the ability to make better use of technicians now doing this work.
- Management is still attempting to develop the necessary management control reports from the new information system.

Locomotives

The performance of ARRC's locomotive fleet has progressively improved in condition and reliability. There have been fewer failures, reliability has been good, and the proportion of locomotives out of service is in line with railroad industry standards.

As reported in Mercer's first audit (FY91-92) there was some deferred maintenance of the railroad's locomotives. This resulted, by the fall of 1991, in 22 percent of ARRC's usable locomotives waiting for repairs or inspection. The current audit found that this situation has improved to 16 percent, enabling management to return four locomotives that were under lease from EMD for a number of years.

It is noteworthy that this achievement has been realized only by a commitment by management to bring the fleet up to a normalized condition. ARRC's direct costs of locomotive maintenance reflect this effort, having increased by 14 percent from 1990 to 1993. As shown in Exhibit III-4, expenditures in 1992 reflect management's efforts to normalize the condition of the fleet by undertaking an aggressive overhaul program. The overhaul program is expected to continue to keep the fleet in its present condition.

Exhibit III-4

Locomotive Direct Maintenance and Inspection Costs
Including labor, materials, and purchased services
(millions)

Year	Amount
1990	\$3.0
1991	3.1
1992	3.8
1993	3.3

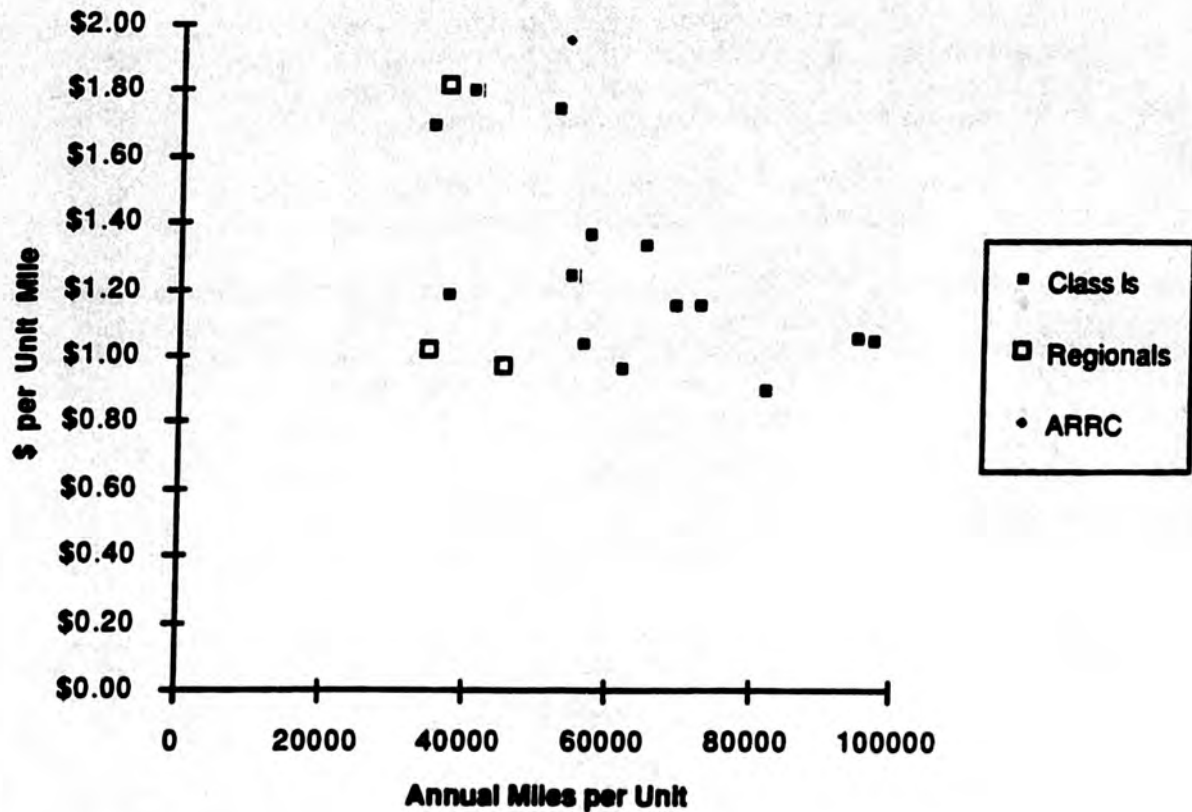
Mercer observed in the FY91-92 audit that the cost of ARRC's locomotive maintenance was somewhat higher than comparable costs of other railroads in the lower states (even though ARRC's maintenance expenditures were low because they were not doing sufficient overhauls). In 1993 ARRC's costs per locomotive-mile, a common means of comparing locomotive maintenance costs, was significantly higher than what would be expected in the railroad industry (Exhibit III-5).³ It is not entirely clear to Mercer why this cost is so much higher, but discussions with management and other experts have revealed some possible causes:

- Costs in 1993 are still somewhat higher because of a higher than normal number of overhauls performed to catch up on deferred maintenance
- Difficult operating and weather conditions
- Distance of the railroad from industry suppliers and contractors
- Age and condition of repair facilities

³ The calculation of ARRC's per-mile cost included the direct costs shown in the exhibit plus an allocated portion of shop and administrative expense.

Exhibit III-5

ARRC versus Class I and Regional Locomotive Maintenance (maintenance cost per locomotive-mile versus annual miles per locomotive)



Real Estate

Real estate income continues to play an important part in the finances of ARRC, as it has for most railroads in the United States. Railroads are at a distinct disadvantage compared to their motor carrier competitors as they must incur all of the expense of maintaining a right-of-way, track, and structures.⁴ To partially compensate for this burden, railroads have relied on income from their real estate and other sources. Mercer estimates that railroads receive about \$8,000 per mile from these sources. This compares closely to what ARRC has been receiving in recent years.

ARRC's real estate earnings in 1993 were \$3.7 million. This is approximately 25 percent lower than what ARRC formerly received in the mid-1980s, shortly after transfer of the railroad from

⁴Conversely, trucks can share road improvement and maintenance costs with automobiles. Even in this regard there have been many engineering studies that show current road use charges for trucks fail to compensate for the extra costs trucks cause in the construction specifications of highways (specifically in road alignment, more moderate grades, and in other construction requirements) and in the maintenance of roads.

the federal government. Income from real estate reached a high of \$4.9 million in 1986 due to the more vigorous economy.

The Real Estate organization, which consists of a staff of five, appears to be well organized and will likely enjoy the earnings upswing from the lull in income during recent years. Some of the more important matters that are being pursued are:

- Continuation of the hotel, restaurant, and recreational vehicle park at Fairbanks on railroad property. The hotel is scheduled to open in June or July 1995, the RV park next summer, and the restaurant in 1996. These should have a very positive impact on real estate income and passenger patronage.
- Lease of land at Talkeetna for construction of a Princess Tours hotel. This will provide income for the leased property and should increase passenger ridership.
- Development of the Whittier area. Cruise ship landings at Whittier and Seward have increased in recent years from 92 calls in 1993 to 102 in 1994 and 126 expected in 1995. Larger cruise ships are expected to again revert to Whittier for docking. Whittier will provide the best location for development and increased passenger income for the railroad.
- A new fiber optics contract, which will generate about \$450,000 annually over a 15-year period.
- Real Estate is working with procurement to lease Warehouse Number 1 to an outside concern.

Section IV: Issues and Recommendations

This section reviews the recommendations made last year and summarizes management's response. The second part of this section uses the insights gained from this year's audit, which are presented in Sections II and III, to develop a set of new recommendations.

In Section A, last year's recommendations and actions taken in response are summarized, and in Section B this year's recommendations are presented.

A. Action Taken on Last Year's Audit Report Recommendations

In the FY1993-1994 management audit Mercer reported a number of recommendations to the Board for consideration. Most of the recommendations did not require significant expenditures, as Mercer was well aware of the limited capital funds available for investment.

Management has been very conscientious in responding to Mercer's recommendations in past years. Obvious time and effort has been expended by ARRC management, its staff, and Board members in evaluating the recommendations and in composing their ultimate decisions.

Management thoroughly reviewed the 28 recommendations presented in last year's audit and submitted a detailed response to the Board on January 11, 1994. This response was discussed at the January 19, 1994, Board meeting. Management basically agreed with 22 of the items, disagreed with 5, and did not comment on another.

Of the 22 that were agreed upon, all but one has been the subject of positive action or required no further remedy. The one on which no action has been taken could not be pursued because of insufficient funding.

The status of the various recommendations, organized into the various categories as they appeared in last year's audit report, follows.

Management

Specific action has been taken on three of the five recommendations that were agreed upon:

- Management has been aggressive in continuing to find ways to streamline administrative support services and effect manpower reductions in most areas of the railroad, as evidenced by:
 - The restructuring process that was conducted early in 1994 to determine the baseline needs of the administrative and other needs of the railroad under specific scenarios
 - An early retirement and separation program that resulted in management and administration reductions throughout most of the system

- Attempts are being made to develop a much more realistic revenue budget with a spending plan driven by that forecast. Unfortunately, the results of the railroad for the first eight months of 1994 are not very favorable.
- Management disagreed that a more independent status for the planning function should be developed, other than within the Marketing and Sales Department, claiming that its location within the railroad management organization was not important.
- There was also disagreement with the development of a realistic contingency plan in the event the Seattle barge service proves to be unacceptable. Mercer now believes this to be of even greater importance.

Marketing and Sales

Of the six recommendations directed toward this department:

- Three were adopted and certain steps initiated for their implementation, all dealing with effecting improvements to the Seattle barge service.
- One concerned the need to hold the line on export coal rates, which was agreed upon but thought to be partially outside the ability of ARRC to control.
- Two recommendations were rejected:
 - Integrating the pricing function within the Marketing and Sales Department to improve customer response was disagreed with on the grounds that the present organization creates a healthy dynamic tension within the department responsibilities.
 - Establishing an accounting format to compare the "new" Seattle operation with those prior to the change was disagreed with, as was the suggestion that good revenue/expense data was necessary to better manage ongoing operations.

Management Information Systems

Management agrees with the four MIS recommendations, and efforts are under way to carry out three of them. The fourth, a need to strengthen internal MIS project management to successfully complete application projects, was agreed to in part, but management disagrees that the expertise must rest in MIS. The user department must provide its own project management.

Safety

Of the three recommendations for personal injury prevention, two were agreed with and steps taken to carry them out. However, there was disagreement with the suggestion that outside services be retained to assist in the safety effort. Management is of the opinion that the steady improvement realized through 1993 makes this unnecessary.

Passenger

There was general agreement on the two recommendations in the passenger area, but no action was taken to lengthen the scheduled running time of the express train. Performance did improve this past season without effecting any schedule change.

Real Estate

Management's response to the one recommendation concerning the impact Emergency Rule 17 might have in hindering the development of the railroad's real estate for passenger and freight needs, pointed out that no projects have been presented for which any loss or impact would be measured.

Operations Division

Management was in accord with the six recommendations and has taken positive steps on all but one.

- In the Engineering department, steps are being taken to reduce heavy equipment inventory and continue efforts to solve the vegetation problem throughout the system. However, the department is unable to start a program to reduce deferred maintenance in tie renewals due to inadequate funding.
- Transportation has taken corrective measures in response to their two recommendations, and Mechanical is again looking at the feasibility of using locomotive coolant/lube oil heating systems to reduce fuel consumption while engines are idling during winter months.

B. New Observations and Recommendations

This section presents a number of recommendations Mercer has developed as a result of the subjects covered in Sections II and III of this report. In fact, several of these recommendations refer specifically to findings covered in detail in Section III.

Seattle Service

An immediate effort should be undertaken at the highest management level to eliminate the significant losses being incurred by the present Seattle barge operation.

The substantial losses resulting from the present operation demand that the ARRC establish a course of action based upon a realistic forecast of the continued financial impact of this service in accordance with a complete evaluation of each of the following alternative scenarios.

A senior RR official should be selected to manage this task. It is important that person be impartial, have good analytical skills, have some degree of independence, and be able to generate the results on a timetable that will be developed for completion.

Management should take a variety of steps to lower costs and increase revenues of the present Seattle service.

- To ensure an adequate supply of freight cars for the Seattle consolidation business and reduce car hire costs, ARRC should continue its efforts of leasing or acquiring cars to meet those requirements so long as they are economically justified.
- To ensure existing and to expand source loaded traffic, ARRC should investigate supplying appropriate cars to the UP and BN source loaded equipment pools in order to overcome the reluctance of BN and UP to solely supply this equipment.
- ARRC should carefully analyze the present costs of contracting with North Star at Seattle to perform consolidation services and aggressively negotiate with Crowley to improve efficiency and reduce costs. Also, to employ improved management oversight on a day-to-day basis.
- ARRC should continue the development of an additional or substitute consolidation service at Seattle with priority given to the Sea-Pac facility located on the BN. This could result in a suitable but less expensive service and would also provide some competitive leverage in dealing with North Star.
- In order to provide management with a clear understanding of the progress or deterioration in the economics of providing the Seattle service, ARRC should organize the barge operations, Seattle terminal operations, and staff as an independent profit center. Revenues should reflect those allocations of revenues that were formerly earned by Crowley prior to takeover. Expenses should include all expenses that were new to the ARRC since takeover including the proportion of car hire costs formerly assumed by Crowley.
- ARRC's Marketing and Sales Department should be charged with developing a comprehensive marketing program to generate an increase in the higher revenue, source-loaded traffic which would include improved communication and cooperation with other railroads in the lower states as well as a broader scope of customer contacts. The success of this effort should be measured through the use of a specific, attainable set of goals and objectives with milestones along the way.
- ARRC should consider closing the Seattle office facility and relocating its staff to a point much closer to the terminal base of operations, possibly North Star. This would undoubtedly offer some savings in office rental together with the opportunity for improved efficiency of the staff.

ARRC should be more aggressive in investigating opportunities to lower costs, increase revenues, and improve service by integrating all or part of its barge operation with that of the CNR and other potential partners in the Pacific Northwest. ARRC should:

- Aggressively continue to pursue a reasonable integration of barge service with the CNR working toward a goal of establishing a cost-effective weekly sailing schedule to and from Seattle/Price Rupert and Whittier.
- Initiate discussions with Ketchikan Pulp and Paper (KPP) to determine their interest and benefits to the ARRC resulting from an integration of service through the use of ARRC excess barge capacity.

- Initiate discussions with British Columbia Railway and Canadian Pacific Rail concerning areas of potential cost reductions or additional revenue opportunities through a coordination of barge service.
- Investigate feasibility of coordinating with other parties involved in marine service on the Alaska/Canadian/Lower 48 service on utilizing the North Star facility for transloading and consolidation, thus lowering ARRC's share of North Star costs.

If the timetable for at least reaching breakeven is found not to be achievable, steps should be taken to immediately terminate the present Seattle barge service and develop a partnership with the CNR to divert as much of the better business as possible via Prince Rupert.

To enhance the competitiveness of the service, ARRC should establish a more predictable sailing schedule.

The absence of a regular sailing schedule, e.g., every Tuesday from Seattle, frustrates shippers who depend on routines in their shipping programs. Shippers and their serving railways require set schedules so that shipments are timely, car utilization predictable, and operations can be better coordinated.

Marketing and Sales

In establishing rates for export coal, ARRC should include in its cost the entire expense of maintaining the track and structures south of Portage.

Without export coal, ARRC could not justify continued operations beyond Portage as the remaining freight and passenger traffic is insufficient.

ARRC should establish a strategy for lowering its operating costs on export coal through a relocation of its export coal facility from Seward to a more easily accessible deep water port.

Examples would be Whittier or, if adequate funding were available for track construction and port development, Port McKenzie. In order to remain competitive in the world export coal business, it is essential that operating costs and excessive capital resources such as locomotives and track devoted to this line of business be significantly reduced.

ARRC should improve its Anchorage transloading capabilities and services by establishing a new operation in warehouse #1.

ARRC, if it is to offer a competitive interline business, requires a truck/container competitive facility that will promote the efficient, low-cost, and safe transfer of products from railcar to truck under all conditions. The ARRC's warehouse #1 would be perfect for this function as well as providing temporary storage and inventory services if required.

Marketing and Sales should restructure its M&S Department to reflect the two major lines of freight business described in Section III and establish suitable profit centers in each of the two areas.

Most railways in North America have adopted business group organizations for Marketing and Sales. This practice combines services and/or commodities into logical business units whose managers are held accountable for meeting the railroad's objectives. To facilitate maximum control over the success of the two lines of business, a profit center approach should be considered for each. ARRC has capable managers whose skills and energy could make such an organization successful.

In implementing profit centers for each of the business units, management should develop its information capabilities to appropriately monitor operations and to control its activities in meeting its specific goals and objectives.

Whether profit centers are established or not, Mercer found that M&S's current use of information, particularly for the Seattle service, is inadequate to effectively monitor progress. Providing the information necessary to evaluate the Seattle service in an ongoing objective manner should be top priority with management.

To remedy this situation, management should assess its information needs, then work with MIS to obtain the necessary reports in proper format on a timely basis.

Passenger Recommendations

Establish the railroad's passenger services as a profit center with a strong set of objectives and a well-defined strategy to monitor ongoing performance and exploit its potential.

Mercer found a lack of accountability in that management was not using cost control methods on a current basis, nor did it have adequate information on how the different passenger services were performing financially. It appears that management's current effort is focused primarily on day-to-day operations with limited attention to the revenues and expenses or future direction. Mercer found that the information necessary to establish adequate cost control measures and develop analyses to guide future strategy is available but currently is not being accessed.

- Many of the costs of this service are either directly incurred (i.e., passenger department and coach maintenance budgets) or can be closely estimated (e.g., locomotive maintenance) to provide a reasonable basis for measuring performance against revenues.

A strong manager should be appointed and placed in charge of this passenger profit center and provided with a clear set of performance expectations.

Management should actively pursue a variety of measures to make the railroad's non-Pull service more profitable, such as:

- Reduce staff at Portage

- Consider ways of reducing on-board staff by improving their efficiency, such as the use of the PA systems through the cars
- Contract out the reservations system and use excess reservation system capacity to provide service to other travel companies

Management should carefully study its approach to adding capacity to the Express train and under what conditions, if any, a second train should be added.

A dilemma facing management is that the Pull operators may add enough equipment to use the full capacity of the Express train.

Management should conduct an audit of its reservation system to determine whether the anticipated benefits were realized and confirm its financial justification.

This project was justified on the basis of increasing revenues, and Mercer was not confident that this would occur. Reasons for not attaining the goals of the system should be known as this might be useful information for improving the integrity of future capital project requests.

The passenger department should employ yield management techniques to maximize its revenues and improve equipment utilization.

The department's manager appears to manage yields through seasonal and third-party discounts. However, Mercer is concerned that there appears to be no overall strategy for how these discounts should be applied and how the new reservation system can be used in the yield management process.

Management should review the safety aspects of inviting passengers to occupy the rear vestibule of the Seward train.

A member of the audit team observed passengers in the rear car vestibule looking out of the open top of the dutch doors or the rear expandable gate. This proved to be a popular vantage point but poses a potential safety hazard for unattended children. If this policy is to continue, a higher gate should be installed to prevent climbing over it, and the use of the vestibule should be more closely monitored by railroad staff.

Management

Post-audit reviews of capital projects should be performed routinely to ensure that the project was carried out within budget, on schedule, and that the purpose of the project has been achieved.

An established post-audit process will encourage the development of more accurate proposals and justification of projects as the sponsor will be held accountable.

Management should vigorously pursue capital improvement funding through available federal sources.

Over the past two decades, the federal government has provided enormous grant funds (billions of dollars) to state-owned and -operated passenger and freight railroads as well as some privately operated freight railroads.

Transportation

Management should move forward expeditiously in the implementation of a computer-aided dispatching system

This is especially important on a railroad such as ARRC, which does not have signal protection and where passenger trains operate.

Management should consider installing an emergency stop apparatus, at least on its passenger locomotives.

As noted in Section III, such apparatus is almost always used by railroads in North America for safety.

Management should undertake a cost-benefit analysis of extending certain key sidings to permit the operations of longer freight trains. This should improve the efficiency of train operations and improve service.

Management should press Mapco to overcome the present impasse in obtaining advanced switch lists for spotting empties at the refinery.

The necessary cooperation from Mapco staff to permit the preclassification of empty tank cars at Anchorage should be sought at the highest levels of management necessary. Mercer notes that if this were instead a Mapco pipeline, the pipeline would not be able to operate without this type of advance planning information.

Instead of switching the Anchorage shops with a yard crew, management should consider equipping mechanical department employees with a Trackmobile, or other type of car mover.

In addition to reducing switching costs, this would provide the mechanical department with switch movements more closely aligned with its own needs.

Mechanical

Management should take a close look at the cost of locomotive maintenance to make sure that it fully understands the reasons why its cost per locomotive-mile is higher than on most railroads in the lower states (with similar utilization experience).

Mercer realizes that ARRC has to contend with some unique factors, which in aggregate appear to justify higher costs, but it is unclear whether these fully explain the higher costs.

Engineering

Management should take a close look at the cost of maintenance-of-way to make sure that it fully understands all of the reasons for the railroad's very high costs as discussed in Section III.

The railroad, with the assistance of industry experts, should undertake a detailed analysis to make sure that its extremely high engineering expenses are suitably explained by the railroad's unique operating conditions. Mercer is of the opinion that a review of the present method of performing day-to-day maintenance could result in a more efficient and cost-effective maintenance process. As in the case of the rail grinding program, good use may be made of outside expertise.

ARRC should attempt to mitigate its vegetation control problem through an innovative approach, with the financial support of the EPA or other similar agencies.

ARRC should investigate the opportunity of obtaining EPA or other federal funding for experimental vegetation control. The railroad's vegetation problem has reached near-crisis levels and must be addressed.

Appendix A

Robert B. Waldner

Mr. Waldner, a senior consultant to Mercer Management Consulting, is a specialist in transportation with a focus on railroads, freight and passenger. He has served in operating and marketing capacities within the railroad industry and has more than 20 years of experience as a transportation and general business consultant. He has addressed problems requiring a broad knowledge of the marketing, regulatory, operating, and financial environment in which the railroad industry functions. Mr. Waldner's consulting work includes the following projects:

- In 1992, helping Agent Banks assess the preparedness of the EuroTunnel (France-England tunnel) management to operate the tunnel railway
- Assisting several railways abroad in evaluating the efficiency and effectiveness of their commuter railway operations
- Performing an annual review of the operations of the Alaska Railroad, which contracts with two companies for their luxury tourist train operation
- Helping Amtrak design and use passenger train costing systems, work that involved custom-designing cost models for approximately 20 trains
- Assisting railroads, motor carriers, and state and federal agencies with transportation market analysis and forecasting
- Preparing forecasts of future freight car needs for equipment suppliers and determining the value of freight cars owned by lessors
- Helping coal companies review their coal transportation needs
- Assisting various users of transportation in developing transportation costing methodologies
- Furnishing general counsel on railroad market prospects, operating costs, asset requirements, and asset valuation to financial institutions, railroads, shippers, and parties interested in acquiring railroad properties
- Assisting a European government in reviewing the operations of its rail system and in designing new intermodal services for the Channel tunnel
- Helping railways determine the reasonableness of their rail freight rates
- Assisting the American Association of Railroads and a lessor of freight cars in determining the marketing impact of combination trucks on the railroad industry

Mr. Waldner was previously a senior associate in the operations management practice at Mercer. Before joining Mercer, he worked at Harbridge House, Inc.

Robert B. Waldner

Page 2

Earlier, Mr. Waldner was with Illinois Central Industries, where he served as director of service evaluation in the Information and Control System Department and, later, as director of service and equipment evaluation in the Market Research Department. His responsibilities included designing an information and control system and preparing reports for obtaining better control of operations. He also served the St. Louis-San Francisco Railway in both operating line and staff capacities. He helped implement one of the first successful service quality control systems in the railroad industry and assisted with the application of terminal and network models to railroad operations. At Melpar, Inc., he was involved in systems design and operations research.

Mr. Waldner received a B.S. in engineering from Princeton University and an M.S. in transportation engineering from Cornell University.

Alan G. Dustin

Mr. Dustin has almost 20 years of experience as a senior executive of small to-medium-sized railroads.

He recently served for more than four years as vice president and general manager of New Jersey Transit Rail Operations, where he was responsible for the operation of a growing commuter service with an annual operating budget of \$255 million and a capital budget of \$175 million. Under Mr. Dustin's leadership, the railroad increased ridership by 40 percent while reducing rail costs per passenger mile by 15 percent; achieved a 60 percent ratio of fare-box recovery to operating expenses, the best in the nation for a rail commuter operation; and successfully carried out, under traffic, a massive program for rehabilitating and improving track and facilities.

As president and chief operating officer of the Boston & Maine Corporation/Maine Central Railroad, Mr. Dustin participated in the planning and implementation of the consolidation of these two railroads following their purchase by Guilford Transportation Industries, Inc. He was responsible for the operation of freight and commuter service with an annual budget of \$200 million and developed strategies for improving profitability.

Earlier in his career, as president and chief executive officer of the Boston & Maine Corporation, Debtor, Mr. Dustin turned around a bankrupt \$180 million freight and commuter railroad, guiding it through a reorganization that led to its sale as a viable company. In this capacity, he negotiated innovative wage, work rule, and crew size agreements, saving \$8 million annually; established a strong marketing department that developed more than \$22 million in new sources of revenue to offset losses from a shrinking industrial base; and reduced annual labor costs \$5 million over a 10-year period by consolidating, mechanizing, and centralizing station agencies, train control towers, and manual crossing protection.

Mr. Dustin has also served as executive vice president of the Bangor and Aroostook Railroad, chairman of the board of the Pittsburgh and Shawmut Railroad, and division superintendent of the Erie Lackawanna Railroad.

Michael V. Smith

Mr. Smith, a Consultant to Mercer Management Consulting, specializes in railway marketing and sales. His experience includes: directing teams in creative management and development of marketing, sales, and acquisitions programs for small and regional railroad clients; supervising annual rail car, rail-highway transfer and intermodal revenue development up to \$15 million; managing small and mid-market carriers for interim periods during transitions and start-ups; performing due-diligence analysis for mid-market acquisitions; and managing a locomotive leasing division that is profitable.

Previously, Mr. Smith worked as acting vice president for marketing and sales at Wheeling & Lake Erie Railway, where he restructured WLE's failed marketing and sales effort on the basis of specific commodity and car type responsibilities for each member of the department. WLE was able to increase its carloadings by almost 4 percent and its revenues by over 10 percent, despite a poor economy and a reduced department staff. Utilizing existing personnel, Mr. Smith established a car management group on the WLE that was able to generate savings in per diem and lease expenses for the railway of over \$30,000 per month.

Prior to working at WLE, Mr. Smith was executive vice president at Toledo, Peoria & Western Railway Company. There he was responsible for arranging financing and acquisition, managing the marketing and sales department (which grew traffic revenue levels by 28 percent in a one year period), and negotiating joint use of the Remington, IN intermodal facility.

Mr. Smith was also a vice president at the Boston and Maine Railroad Corporation and founder of its marketing department. He oversaw the design and implementation of marketing programs which resulted in the receipt of three coveted industry awards for marketing excellence from *Modern Railroads*. Under his direction, B&M achieved significant revenue growth (from \$76 million to \$115 million) and traffic growth (from 12.6 million tons to 13.2 million tons) while Conrail, the B&M's largest volume connection, lost over one-third of its total business during the same time period. Mr. Smith also successfully managed the start-up of BMX, a B&M trucking subsidiary that served the intermodal purposes of the railroad. Mr. Smith was president of BMX.

Mr. Smith holds a B.A. in political science from Amherst College.

CED: HYDRO

**COMMISSION ON PRIVATIZATION AND
DELIVERY OF GOVERNMENT SERVICES**

**HYDRO-ELECTRIC PROJECTS
SUBCOMMITTEE REPORT**

NOVEMBER 30, 1999

**Subcommittee Members: Lee Wareham, Chair;
Dave Carlson, Tom Friesen, Marco Pignalberi, Walt Sapp, Robert Wilkinson, Eric Yould**

**HYDRO-ELECTRIC PROJECTS
SUBCOMMITTEE REPORT**

TABLE OF CONTENTS

Akaska Intertie Recommendation	1
Four Dam Pool Divestiture Recommendation	1
Bradley Lake Hydroelectric Project Recommendation.....	3

RECOMMENDATIONS

1. Alaska Intertie Recommendation:

Keep the status quo. Transfer of the Alaska Intertie to the utilities at the current time would not appear to result in significant benefits to either the State or the participating utilities.

Under the current structure, the utilities are already responsible for all of the costs associated with the Intertie. Due to the nature of the Intertie agreement between AEA and the utilities (with no current revenue stream to the State), the value of the Intertie is uncertain at this time. As the Intertie crosses a large number of parcels owned by differing landowners, transfer of the rights of ways would be a complex matter. In addition, as the Intertie benefits several utilities, it would likely be necessary to form a new joint utility entity to become the owner of the project. In the event technology changes or utility restructuring changes occur, it may be prudent to reconsider the appropriateness of transferring the Intertie

The 170-mile, 345-kilovolt Alaska Intertie (Intertie) interconnects the power distribution systems of Fairbanks with the distribution systems serving the Anchorage, Kenai Peninsula and Mat-Su areas. The Alaska Energy Authority (AEA) owns the Intertie. The Intertie ties the Chugach distribution system, at Teeland in the South, to Golden Valley Electric Association's transmission system, at Healy in the North. A 26-mile segment of the Intertie is owned by Matanuska Electric Association and is utilized by AEA as part of the Intertie under the terms of an Agreement that is subject to termination as early as 2004.

The Intertie was constructed entirely with state funds at a cost of \$124 million. The utilities participating in the Intertie include Municipal Light and Power (Anchorage), Chugach Electric Association, Golden Valley Electric Association, and Alaska Electric Generation and Transmission Cooperative (composed of Homer Electric Association and Matanuska Electric Association). Under the terms of the Alaska Intertie Agreement (Intertie Agreement) with the participating utilities, the utilities are required to pay all of the costs of the Intertie, including operation, maintenance, insurance and renewals and repairs. Budgeting and other operational decisions related to the Intertie are made by a committee composed of representatives of the participating utilities and AEA. No payments are made to the state with respect to the capital costs of the Intertie.

2. Four Dam Pool Divestiture Recommendation

Sell the Four Dam Pool projects for fair value to the electric utilities within the communities served.

The Four Dam Pool projects were constructed to benefit the communities served by the purchasing utilities under the PSA. Transfer of the projects to these communities, for fair value, should be pursued. The state has numerous liabilities with respect to these projects. These liabilities can interrupt the annual payments to the state and create substantial uncertainty. Sale of the projects to the utilities could eliminate these liabilities and provide a substantial cash payment to the state.

The State constructed and acquired the Four Dam Pool projects in the mid 1980's. The cost of the projects to the State was approximately \$483 million. These costs were funded through

direct appropriations as well as an interagency loan (current balance approximately \$185 million) from the Department of Commerce and Economic Development to the Alaska Energy Authority (AEA). The Four Dam Pool is owned by the Alaska Energy Authority (AEA) and consists of four hydroelectric projects serving five communities. Power from the Tyee Lake project is sold through Thomas Bay Electric Association to the communities of Wrangell and Petersburg. Power from the Swan Lake project is sold to Ketchikan Public Utilities. Power from the Solomon Gulch project is sold to the Copper Valley Electric Association serving the Glennallen and Valdez areas. Finally, power from the Terror Lake project is sold to Kodiak Electric Association. The power from all the projects is sold under the terms of a Long Term Power Sales Agreement (the "PSA") between the purchasing utilities and the AEA. The projects are operated by the individual utilities pursuant to operating agreements between the utilities and AEA.

Under the PSA (which terminates in 2030), to the extent the purchasing utilities require power, they are required to first purchase the power produced from the Four Dam Pool. Power from all four projects is sold at a uniform rate established under the PSA. For fiscal year 2000 the uniform rate was 6.8 cents per kilowatt-hour. The rate has two components. The first component (approximately 2.8 cents per kWh in FY 2000) covers the pooled operating cost of the four projects. The second component of the rate is the "debt service component." The debt service component (approximately 4.0 cents per kWh in FY 2000) is somewhat a misnomer as no debt was issued by the State to finance the projects (although an interagency loan was made to partially finance the projects). The debt service component is the payment to the State in partial repayment of the State's investment in the projects. The payments to the state under this provision of the PSA, not including self help payments mentioned below, have ranged in recent years from approximately \$9 million to \$11.5 million depending on the number of kWh purchased under the agreement.

Under the PSA, AEA retains numerous liabilities related to the projects. In particular, AEA is responsible for uninsured facility failures, substandard performance, and deficiencies in the reserve and replacement fund. Moreover, the utilities' obligation to purchase power is not a "take or pay" obligation. Rather, the utilities only pay for power actually purchased from the projects. While the utilities are required to purchase power first from the Four Dam Pool projects to the extent they require power, if the projects are not producing power for some reason, there is no obligation for the utilities to continue to pay.

The PSA also creates a "self-help right" on the part of the utilities. Under that provision of the PSA, if AEA does not fulfill its obligations regarding repairs to the projects, the utilities may withhold their debt service payment to the State and utilize the funds withheld to perform the necessary repairs. In recent years self-help has been invoked to fund repairs to the Tyee transmission line and other state obligated repairs for the projects.

As part of the 1993 legislation that re-organized AEA, the legislature pre-allocated the debt service payments that are received from the Four Dam Pool to specific funds. As modified in 1999, pursuant to AS 42.45.050, debt service payments made by the Four Dam Pool utilities are to be appropriated by the legislature as follows: 60% to Power Cost Equalization and Rural Electric Capitalization Fund; and 40% to the Southeast Energy Fund.

Barriers

Fair Value—the determination of the fair value and agreement between the state and utilities will be difficult, but in general should include the present worth of the projected payment stream adjusted for risk over the life of the project. The value of the projects is in large part dependent on a number of assumptions including projected inflation, interest earnings and discount rates. In addition, both the state and the utilities need to ensure that adequate reserves are maintained by the utilities to cover the future repairs and replacements for the projects. The determination of the fair value for the projects may also be complicated by the fact that third party utility companies may suggest a higher purchase price than the utilities. Such parties may have less incentive to create adequate reserves (their interest could be to maximize revenues). In addition, a third party purchaser would not be able to legally release the state from its existing liabilities without the consent of the utilities. Thus a third party purchase could leave the state with contingent liabilities for the project if the third party fails to perform adequately.

Power Cost Equalization--Under legislation passed in 1993 and amended in 1999, 60% of the state's revenues from the Four Dam Pool projects are used to provide a portion of the funding for the Power Cost Equalization (PCE) program. Sale of the Four Dam Pool projects would eliminate this funding source. Accordingly, a sale of the projects must take into account this decrease in funding and provide alternative funding for PCE. Perhaps the sale proceeds could be dedicated to a PCE endowment fund.

Interagency Loan--- A portion of the cost of the Four Dam Pool was funded with an interagency loan of \$183 million from the Department of Commerce and Economic Development to AEA. Current and projected utility payments from the projects are not sufficient to amortize this loan. With the PSA in place it is clear that the value of the projects to the state is substantially less than the interagency loan amount. Nonetheless, there may be a belief on the part of some that the projects should not be transferred for less than that amount.

3. Bradley Lake Hydroelectric Project Recommendation

Keep the status quo. The existing financing structure and outstanding bonds do not lend themselves to transfer of the Projects at this time.

It would be difficult or impossible to transfer the projects with the existing bonds in place. Redemption of the bonds would be expensive and might be prevented under federal tax rules. In addition, it is not readily apparent that significant benefits would accrue to the state or Power Purchasers as a result of transferring the projects.

Background

The Bradley Lake Hydroelectric Project (the Project) is located in south central Alaska at the southern end of the Kenai Peninsula. Construction of the project was completed in 1991.

The project has 126 megawatts of installed capacity that is normally scheduled at 90 megawatts to minimize losses. Two 20-mile, 115 kilovolt transmission lines connect the project to the Railbelt intertie system. The Alaska Energy Authority (AEA) owns the Project. Under the terms of a Power Sales Agreement (PSA) 100% of the capacity of the Project has been sold to the utilities in the Railbelt: Chugach Electric Association, Municipal Light and Power (Municipality of Anchorage), Matanuska Electric Association, Golden Valley Electric Association, Homer Electric Association and the City of Seward (the Power Purchasers). The projects were financed by the State with a combination of direct appropriations and the issuance of Alaska Energy Authority Bonds. The total cost of the project was approximately \$328 million of which \$163 million was funded by direct appropriations of the state and the balance by AEA's issuance of its general obligation bonds backed by the moral obligation of the state.

Under the terms of the PSA, the Power Purchasers are required to pay all of the costs of the project, including operating and maintenance, insurance, and renewal and replacement requirements. In addition, the Power Purchasers are required to pay the debt service costs for the bonds issued by AEA for the Project. Following the final retirement of all the bonds the power Purchasers continue to make payments to the state. Under the terms of the PSA these payments to the state are to be used for Railbelt Energy Projects. Over the last several months the original bonds issued for the project have been refunded to take advantage of favorable interest rates. These newly issued bonds may not be redeemed or refunded for a period of ten years without incurring substantial penalties. In addition, there may be federal tax implications of retiring the debt early. The current outstanding balance of the bonds is approximately \$154 million.

DEPT. COMMENTS



**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

MEMORANDUM

To: Marco Pignalberi
Commission on Privatization and Delivery of Government Services

From: Keith Laufer
Financial and Legal Affairs Manager
Alaska Industrial Development and Export Authority

Subject: Alaska Intertie

Date: December 1, 1999

This memorandum is provided in response to the request related to the Alaska Intertie made by Senator Ward at the Commission on Privatization meeting on November 30, 1999.

The Alaska Energy Authority (AEA) owns the Alaska Intertie (the Intertie"). An approximately 26-mile segment of transmission line is owned by Matanuska Electric Association and, by agreement, has been incorporated as part of the Intertie. Operation and use of the Intertie is governed by the Alaska Intertie Agreement (the "Intertie Agreement") between AEA (formerly known as the Alaska Power Authority) and the participating utilities.

Under the terms of the Intertie Agreement, the participating utilities are required to pay all Intertie operating, maintenance, repair, renewal and replacement and other costs. The utilities are not required, however, to make any payments to AEA (as a return of capital or otherwise) for use of the Intertie. Accordingly, AEA generates no revenues from its ownership of the Intertie. Any participating utility may terminate its participation in the Intertie upon 48 months notice. AEA may terminate the Intertie Agreement upon 48 months notice but only if it determines that termination is "required to improve Power systems serving the Alaska Railbelt Utilities."

As the operation and use of the Intertie is governed by an existing Agreement which provides no revenue to the owner of the line, we believe it is unlikely that a purchaser could be found that would be willing to pay for this non-revenue producing asset. While it is conceivable that the Intertie or the Intertie corridor could have value for uses other than the transmission of energy (for example telecommunications), currently no one has expressed interest in the Intertie for such uses. Moreover, a legal analysis would be necessary to determine if the rights of way underlying the Intertie allow for such ancillary uses and if so, what rights the participating utilities might have in the benefits derived from any such uses.

If the Commission has additional questions, please feel free to call.

APPENDICES



CHI Energy, Inc.

680 Washington Boulevard, 5th Floor
Stamford, CT 06901
(203) 425-8850
Fax (203) 425-8880

Christopher Hecker
Vice President
Business Development and Corporate Affairs

VIA FAX

December 7, 1999

**Hon. John Cowdery
Alaska Commission on Privatization**

Subject: Proposal to Purchase Four Dam Pool

Dear Rep. Cowdery:

Last spring, I had the privilege of testifying before the House Finance Committee regarding our proposed purchase of the Four Dam Pool for a cash price in excess of \$80 million.

As indicated by the attached November 16 letter from the president of CHI Energy, Inc., we remain keenly interested in purchasing the Four Dam Pool assets. We are willing to discuss this purchase with any and all affected parties in order to fashion a possible "public-private" ownership arrangement that would achieve a true "win-win" for local, public, and private interests.

Please don't hesitate to contact Mr. Stern or me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chris Hecker', written over the word 'Sincerely,'.

Christopher Hecker



CHI Energy, Inc.

680 Washington Boulevard, 5th Floor
Stamford, CT 06901
(203) 425-8850
Fax (203) 425-8880

Edward M. Stern
President and
Chief Operating Officer

November 16, 1999

Mr. D. Randy Simmons
Executive Director
Alaska Energy Authority
480 West Tudor Road
Anchorage, AK 99503

Subject: Proposal to Purchase Four Dam Pool Hydroelectric Assets

Dear Mr. Simmons:

Earlier this year, in testimony before the House Finance Committee, CHI Energy, Inc. ("CHI") expressed our interest in purchasing the hydroelectric assets of the Four Dam Pool. We have since been following the State's fiscal situation with considerable interest.

The purpose of this letter is to restate and confirm that CHI is prepared to make a cash payment in excess of \$80 million for the Four Dam Pool assets. This proposal includes the following key points:

1. Our valuation is preliminary, but we believe it is conservative. A final valuation would be based on several factors, including: (i) the condition of the assets; (ii) operating costs; (iii) financing terms; and (iv) power purchase rates. These and other material aspects of the transaction would be determined in negotiations with the Authority and other stakeholders, and confirmed during due diligence.
2. The agreed-upon purchase price would be paid in full at closing. The purchase would be financed using conventional private sector sources, with no additional financial liability to be borne by the State.
3. We believe closing could take place 60 to 90 days after execution of a binding, duly authorized Purchase and Sale Agreement between the Authority and CHI.
4. CHI will, if requested, share ownership of the assets with the communities currently served by the Four Dam Pool, with their ownership shares to be proportional to their usage of Pool capacity. The communities' ownership shares can be structured to require little or no cash payment, although such a structure would likely reduce the purchase price of the assets.
5. The existing Power Sales Agreement between the Authority and the communities need not be materially changed. Any such change would be only if deemed in the best interests of all parties.

Mr. D. Randy Simmons
November 16, 1999
Page 2

6. The existing day-to-day operation and maintenance arrangements for the assets need not be materially changed.
7. CHI's purchase of the assets would relieve the Authority of ownership and operational risk you currently bear.

As noted above, the final purchase price for the assets would depend on a wide range of factors that would be addressed in the course of discussions with you and other affected parties. Nevertheless, we are confident that the price will not only be substantial, but also that the transaction and cash payment can be accomplished quickly.

By way of background, CHI is the largest independent (non-utility affiliated) owner and operator of hydroelectric facilities in the U.S., with a portfolio of 79 plants ranging between 1 MW and 25 MW in size. Established in 1988, our principal owners are Morgan Stanley & Co., Inc. and UBS, AG. We have both the management expertise and the financial experience and resources to complete the purchase of the Four Dam Pool assets.

For references on CHI, please contact Michael J. Petrick, Managing Director at Morgan Stanley, at (212) 761-1558.

To discuss this proposal further, please contact me at (203) 425-8862, or Christopher Hocker, Vice President, at (203) 425-8864.

We look forward to your response.

Very truly yours,


Edward M. Stern

EMS:afc

cc: House Finance Committee Members

CORRECTIONS

**COMMISSION ON PRIVATIZATION
AND
DELIVERY OF GOVERNMENT SERVICES**

**SUBCOMMITTEE REPORT
ON THE
ALASKA DEPT. OF CORRECTIONS**

November 4, 1999

Subcommittee Members

**Sharon Anderson, Chair; Rep. Fred Dyson; Russell Lewis
Barbara Miller; Mary Pate; Greg Pease; Keith Perrin; Gail Schubert
Mel Tipton; Greg Utterback; Sen. Jerry Ward; Garland Warren
Bruce Richards, Dept. of Corrections Staff**

Committee Members: Sharon Anderson; Rep. Fred Dyson; Russell Lewis; Barbara Miller; Greg Utterbeck; Mary Pate; Greg Pease; Keith Perrin; Gail Schubert; Mel Tipton; Sen. Jerry Ward; Garland Warren; Dept. of Corrections Staff Bruce Richards.

- \$ = 000's**

III. Total Budget, all funds. Identify fund sources Attachment #1

Federal funds	6,477.0
General funds	145,848.8
Other funds	14,773.7
Total	167,099.5

- | | |
|---------------------|------------------|
| Fed Receipts | 6,477.0 |
| G/F Match | 129.6 |
| Gen Fund | 138,213.9 |
| GF Prgm | 3,506.0 |
| I/A Receipts | 8,163.5 |
| GF/MH | 3,999.3 |
| PFD Fund | 2,147.3 |
| Corr. Ind. | 3,500.6 |
| CIP Rcpts | 543.3 |
| MHTAAR | 419.0 |

357 Inmates

\$181,810,380 Billed to INS

Commission on Privatization
Subcommittee – Corrections
November 4, 1999

July 1, 1998 – December 31, 1998	\$100.07 Daily cost of care
January 1, 1999 – June 30, 1999	\$ 97.62 Daily cost of care

V. Identify Constitutional and Statutory Provisions Governing Agency Operation

VI. Agency Mission, Goals and Objectives - **Attachment # 2**

VII. Number of Employees **Attachment # 3**

Full time 1,366 – refer to Attachment #1

Correction Officer and Probation Officer Counts per institution is included in Attachment # 3

DOC Management Salaries and Travel – FY 99 included in Attachment # 3

VIII. Describe Technology Used to Perform Mission – n/a

IX. List Existing Agency Contracts including amount, contractor, purpose, term and procurement method. **Attachment # 4**

X. Identify Existing Privatizations Practices, if any. Evaluate them for effectiveness and public accountability. **Attachment # 5**

The Department of Corrections has privatized several programs and services, the largest of which is the Out of State contract for hard beds to house approximately 900 inmates. The FY 00 expenditure for this service is \$19,847,100.

Community Residential Center (CRC) beds are contracted out throughout the state for a total of \$15,681,800 in FY 00.

Full detail of other contracts for services such as Inmate Health Care, Inmate Programs (Education, Substance Abuse, Sex Offender Treatment) and other services in Provided in Attachment #5.

The DOC provided to the committee its plan for increased use of privatized services (Options that Increase Alternatives that Free Up Hard Beds). This detail provided by the Department is included in **Attachment #6**.

XI. Make Recommendations per Section 5 in SB33, including suggestions for new legislation.

RECOMMENDATIONS

Corrections Subcommittee on Privatization Recommendations

These recommendations are forwarded to the full committee with the understanding that a full review will be conducted. The subcommittee did not have the time, or the staff to fully review all cost/benefit analysis, legislative or constitutional barriers to implement the recommendations.

As part of the subcommittee's review, we asked the Department of Corrections to Provide areas they felt were potential for privatization. Two documents were produced. The first is the Department's plan included in **Attachment # 6** and the second is the DOC proposal to privatize Mt. McKinley Meats. This is included in **Attachment #7**.

Recommendation 1: All of Correctional Industries should be transferred to the Department of Community and Economic Development and all contracts should be privatized.

Recommendation 2: The entire Sex Offender Treatment Program should be privatized

Recommendation 3: Education programs should be re-evaluated. Education programs should be transferred to the private sector.

Recommendation 4: Provision of Medical Care

- a) The Indian Health Service should accept all beneficiaries into their hospitals for inpatient care regardless of the beneficiary's status as an inmate.
- b) All of the outpatient health related services should be privatized under a statewide bid.

Recommendation 5: Non-violent prisoners should be moved to intermediate facilities and the provision of services should be privatized AND the prisoners put to work on jobs that will allow the prisoners to learn skills and to make reparations.

Recommendation 6: Centralize purchasing functions for system wide purchasing of food and other items.

Recommendation 7: The State of Alaska should privatize the fine and collection activities for the courts and the service of restraining orders and some warrants.

Note: This recommendation should be forwarded to the court systems committee.

Recommendation 8: The acquisition of vehicles and their maintenance should be privatized.

Recommendation 9: The Department should privatize its Information Technology.

Recommendation 10: Probationers and paroles should be charged a fee per week to partially cover the costs. The collections of the fees should be privatized.

Recommendation 11: The purchasing of equipment and repair of it should utilize private industry selection, replacement, repair, and maintenance standards. Obsolete equipment that cannot be economically operated should be replaced.

Recommendation 12: (Submitted to the subcommittee by the Department of Corrections) Mt. McKinley Meats Privatization Proposal. Attachment #7

XII. Explain rationale for each recommendation, the number of votes for and against it.

The committee unanimously adopted each of the recommendations submitted. Other recommendations were considered but rejected. All comments from committee members are included under key discussion points.

In addition, the Department of Corrections provided input regarding each of the recommendations. Their comments are included in Attachment #8.

Recommendation 1: All of Correctional Industries should be transferred to the Department of Community and Economic Development and all contracts should be privatized.

Key discussion points:

- The AHRIC is tied in with this department as part of the Administration and they have the business and union connections and more importantly have them at the table. Who better to run business for marginalized individuals than the private sector business community, private industry councils and trade unions?
- This type of approach works for Welfare to Work clients. For example, Fairfax County, Virginia privatized their Welfare to Work programs to a for-profit firm and now over 97% of their clients have been placed in jobs.
- Chances are we'll see better results than one questionably successful business venture in well over a decade.
- More private industry programs should be allowed in the prison system, and do not care that a private company derives a profit for the prisoners' work. There is otherwise no motivation for private industry to take the risks to do this.
- Work programs are beneficial to the inmates and obviously help prepare them for when they are released.
- More effort and money should be spent in this area to find private companies who are willing to develop a relationship with prisons in their communities to develop other prison industries that would provide additional work programs. This all can and should be privatized.

Recommendation 2: Entire Sex Offender Treatment Program should be privatized.

Key discussion points

- Currently 88% of the \$1 million program is contracted out.
- Confidentiality of treatment records is compromised when the information is placed into the offender's DOC record.
- Third party will better protect individuals and their confidentiality rights.
- Two current programs at Meadow Creek and Lemon Creek. The Lemon Creek program does not have graduates because it is considered a pretreatment program, and therefore the 20% success rate quoted appears to be 20% x 72 inmates at Meadow Creek, which is a pretty dismal result for \$1 million per year.
- Inmates have complained that DOC uses the program to take away their good time.
- Third party provider could more easily implement changes to the program that make it culturally relevant.

Recommendation 3: Education programs should be re-evaluated. Education programs should be transferred to the private sector.

Key discussion items:

- We are spending funds on education that is providing little benefit except keeping the inmates busy.
- Better programs could be offered, such as the victim education program.
- Some study of what job fields are most likely to hire released inmates and then fashion education more closely to those areas, as well as the areas related to rehabilitation.
- All this can be privatized.
- There should be no state positions should be associated with education. These services exist in the private sector.
- A program to bring the native culture into the prison system to coordinate cross-cultural issues can be combined in the education programs.

Comments against:

- Cross- cultural programs should not be at state expense. Native groups should participate and fund such a program.

Recommendation 4: Provision of Medical Care

a) The Indian Health Service should accept all beneficiaries into their hospitals for inpatient care regardless of the beneficiary's status as an inmate.

Key discussion items:

- All private hospitals accept inmates, with DOC guards present. ANMC and other facilities e.g. Bethel's YKHC should also accept inmates.

Commission on Privatization
Subcommittee – Corrections
November 4, 1999

- If the greater percentage of inmates is natives, they should receive their care at the native facility.
- Local ANMC administration has stated this is not their policy (see attached letter).
- This should be pursued further (federal level) for clarification.
- The full privatization committee should pursue this issue at the federal level since the AK DOC has not received Alaska cooperation.
- If the beneficiaries were not in prison, they would go to the Alaska Native Medical Center in Anchorage for their care.

b) All of the outpatient health related services should be privatized under a statewide bid.

- There are nation wide companies who specialize in the provision of this service.
- This would provide economies of scale rather than several contracts for outpatient nursing care.

Recommendation 5: Non-violent prisoners should be moved to intermediate facilities and the provision of services should be privatized.

Key discussion issues:

- Palmer and Pt. McKenzie should be privatized with a potential 25-30% savings.
- This would enable the current system to transfer non-violent prisoners to privately run intermediate facilities. This could be done more efficiently and at less cost than state facilities.
- Should be accomplished ASAP. Why use scarce funds for the meek, use the money for the violent offenders.

Recommendation 6: The purchasing functions for purchase of food and other items should be centralized.

Key discussion items:

- Centralize and use the examples of volume purchasing such as those utilized by Wal-Mart and Fred Meyer.
- One State employee should be in charge of purchasing for all of the prison system to ensure that the state is receiving uniform pricing, volume discounts, etc.

•

Commission on Privatization
Subcommittee – Corrections
November 4, 1999

- Quantity and uniform pricing should already be taking place. If not then it is a failure on the part of state purchasing to get the best “bang for the buck” and should be privatized as well.

Recommendation 7: The State of Alaska should privatize the fine and collection activities for the courts and the service of restraining orders and some warrants.

Note: This recommendation should be forwarded to the court systems committee.

Recommendation 8: The acquisition of vehicles and their maintenance should be privatized.

Recommendation 9: The Department should privatize its Information Technology.

Recommendation 10: Probationers and paroles should be charged a fee per week to partially cover the costs. The collections of the fees should be privatized. Proposed legislation to accomplish this is supported by the subcommittee.

Recommendation 11: The purchasing of equipment and repair of it should utilize private industry selection, replacement, repair, and maintenance standards. Obsolete equipment that cannot be economically operated should be replaced.

Recommendation 12: (Submitted to the subcommittee by the Department of Corrections) Mt. McKinley Meats Privatization Proposal. Attachment # 7.

DEPT. COMMENTS

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF CORRECTIONS

REPLY TO:

4500 DIPLOMACY DRIVE, SUITE 207
ANCHORAGE, ALASKA 99508
PHONE: (907) 269-7350

October 19, 1999

Sharon Anderson, Chair
Corrections Sub-Committee

Dear Ms. Anderson:

On Tuesday, October 12, 1999 the Privatization Subcommittee on Corrections provided the Department with a list of areas the Subcommittee has identified as potential subjects for further outsourcing. The Subcommittee asked the Department to provide input on those areas by the next Subcommittee meeting on Tuesday October 19, 1999.

We appreciate the opportunity to provide the Subcommittee with further input, and accompanying this letter you will find each subject addressed separately. The short time frame and lack of resources prohibits thoughtful analysis - and thus opinion - on the efficacy of further outsourcing of the subjects.

The Subcommittee further asked the Department to identify barriers to privatization. In response to that request, we have compiled a list (probably not all-inclusive) of issues, or influences that may or may not be "barriers", but certainly would require careful examination and analysis to determine the feasibility or efficacy of privatizing functions. They are as follows:

- Cost/benefit analysis;
- Federal, State and Local laws;
- Case law;
- Collective bargaining agreements;
- Impacts on other agencies or businesses - governmental or private;
- Impact on local communities and community groups;
- Department authority;
- Public protection.

The Department has worked diligently to provide the Subcommittee with this and all other requested information. We hope that the Subcommittee has found our efforts helpful.

Sincerely,



for Margaret M. Pugh

Responses by the Department of Corrections to the Recommendations of the Privatization Committee

Recommendation 1: All of Correctional Industries should be transferred to the Department of Community and Economic Development and all contracts should be privatized.

Response: There are 50 state correctional industries programs nationwide. Florida has privatized its industries program. All of the remaining forty-nine programs are placed either in the state's Department of Corrections or Department of Public Safety, depending on the organization of the state system.

It is unclear what is meant by the phrase, "All contracts should be privatized"

Responses to key discussion points:

1) The Correctional Industries Commission membership includes two union representatives and two business representatives who participate at every commission meeting.

2) We are not familiar with the Fairfax County program.

3) We are unclear about this comment. We consider all our current industries successful, including the Mt. McKinley meat plant, which although it does not make a profit, it provides a necessary service for the private sector red meat producers in Alaska.

4) Each private sector industry proposal submitted is fully reviewed by the Correctional Industries Commission. Members of the private sector have been encouraged to propose and implement cooperative ventures. Private industries cooperative ventures should make a profit. At the same time, inmates should be paid at least minimum wage, in accordance with current statutory requirements and prevailing correctional industries policy.

The committee might be interested to know of on-going litigation in the State of Washington involving their correctional industries program. Several private sector firms have claimed unfair competition by another private sector firm that is in a cooperative venture with the State of Washington. The Department will be monitoring this suit to determine if it requires a re-analysis of private sector cooperative ventures.

5) We concur entirely on this point; work programs have been documented as being beneficial to inmates upon release.

6) We again concur with this observation; private cooperative ventures should be promoted and developed. This probably would require, however, new additional industries space within correctional centers. A lack of adequate space is the biggest obstacle now to promoting the future development and expansion of private sector cooperative ventures.

Recommendation 2: The entire Sex Offender Treatment Program should be privatized.

Response: The committee notes that "currently 88% of the \$1 million program is contracted out." In actuality, 94% of the funds expended in SOTP during FY99 were contracted out to private vendors. The initial percentage was erroneously calculated based on the assumption that the amount allocated to personal services covered state staff who worked exclusively on SOTP services.

The personal services line includes one FTE criminal justice planner and ½ FTE administrative. Neither position is dedicated to any one program.

The planner's time is allocated as follows: SOTP (40%), inmate education (40%), domestic violence, youth, and all other duties (20%)

The Admin. Ass't provides all budgeting and financial services for SOTP, inmate education, domestic violence, substance abuse, community jails, institutions, chaplaincy, and youthful offenders.

It should be noted that a state position trained to provide clinical and program management would be required to oversee the SOTP regardless of who the contractor was.

The committee suggests that "confidentiality of treatment records is compromised when the information is placed into the offender's DOC record." There are extensive policies and procedures governing the management of all inmate records, including confidential medical and treatment records that are based on the state constitution, state statutes, and the Alaska Administrative Code. 22 AAC 05.095 spells out specific limits on access, including what access is to be denied and under what circumstances.

Furthermore, all treatment providers must be licensed in their respective fields and must adhere to the ethical principles of their licensure, which includes provisions regarding the release of records.

Finally on this issue, the enactment of HB 366 regarding court-ordered treatment programs, requires that specific materials be included in the institutional records. These materials include the treatment plan, the discharge summary, noncompliance discharge notices, and treatment team summaries. This requirement has been made a condition of all DOC contracts. At the same time, the Department has firm rules on what records are not to be placed in the institutional file.

With respect to the Department's sex offender treatment programs, it is correct that there are currently two programs operating in the state, one at Meadow Creek and one at Lemon Creek. The 94% of the FY99 SOTP budget (\$922,700) that was contracted out to private providers include both of these institutional programs, as well as seven community treatment programs and a statewide risk assessment of offenders in the system.

The Department's 1996 recidivism study clearly shows that those who successfully participate in a program, even if they do not complete it, have a lower re-offense rate than those who do not participate. Those offenders with a lower risk may be able to begin treatment in the institution and complete it in a community program, at a decreased cost. Furthermore, the process of assessing and treating these offenders provides important information to the Department about the offender's risk to the community even if the offender does not successfully complete a treatment program.

Contrary to the "complaints" of inmates, the Department does not "use the SOTP" to take away their good time. Instead, HB 366, which was enacted in the 1990 legislative session and incorporated into AS 12.55.015 (a)(10), AS 12.55.100 (a)(5) and (6), and AS 33.30.011(6), specifically authorizes the court and the Parole Board to revoke probation or parole when an individual fails to comply with a court order to receive and complete treatment. This applies to court-ordered sex offender, substance abuse, anger management, mental health and domestic violence treatment programs.

The sub-committee suggests that "third party providers could more easily implement changes to the program that make it culturally relevant." The Department and its contractors are committed to provision of services that are meaningful for the rehabilitation of offenders, including cultural relevancy.

Recommendation 3: Education programs should be re-evaluated. Education programs should be transferred to the private sector.

Response: The Department disagrees with the sub-committee's suggestion that it is "spending funds on education that is providing little benefit except keeping the inmates busy." Rather, inmates are engaged in meaningful educational programs and activities, to the limits of available funding. Certainly, it would be desirable to provide vocational programs for all male inmates on the scale of that which we provide at Hiland Mountain for the female offenders, but the Department does not have sufficient funds to be able to do so at this time.

In FY 1998, there were 731 inmates in ABE and GED classes that qualified as full-time students and 429 inmates that were part-time. They participated in 16,738 and 7,147 hours of instructional activity, respectively. 182 GED's were completed by inmates in the Alaska DOC.

In FY 1999, there were 961 inmates that qualified as full-time students and 1018 that were part-time. They participated in 24,942 and 7,713 hours of instructional activities, respectively.

In FY 1999, 5,465 inmates were enrolled in Life Skills classes and 3,771 completed those classes. Life skills classes include instruction in the areas of health and safety, cross-cultural activities, communications skills and pre-release/pre-employment preparation.

In FY 1999, 688 inmates were enrolled in a vocational or apprenticeship program and 547 of those inmates completed their respective programs.

The Department agrees that increased resources could result in even better educational programs.

With regard to victim education programs: Philosophically, victim impact education is an ongoing effort that should pervade the tone of all programs that inmates engage in. Many of the Department's programs, including inmate education, have traditionally emphasized the importance of victim impact and victim empathy as a central goal in the programs. Indeed, many providers of sex offender and domestic violence perpetrator treatment programs believe that their real clients are the victim and that they only provide treatment to perpetrators as a means of decreasing the number and severity of offenses against victims.

The Department has trained its staff in a Victim Impact class model devised by the California Youth Authority and Mothers Against Drunk Driving. This is in use at probation offices and some institutions throughout the system. Additionally, victim impact and empathy work is a core goal in the sex offender treatment programs and domestic violence programs. The Life Skills programs offered by Inmate Education have also included classes on victim impact and related topics on an ongoing basis.

The suggestion is made by the committee that "some study should be made of what job fields are most likely to hire released inmates and then fashion education more closely to those areas, as well as the areas related to rehabilitation." DOC staff regularly consult with the Dept. of Labor and local communities to determine what employment opportunities may be available to offenders upon their release.

With respect to privatizing these functions, the vocational programs listed below have already been privatized:

Hiland Mountain CC -- horticulture, construction trades, and computer programs provided by UAA Community & Technical College.

Palmer CC -- Hazardous materials handling and transport, lead abatement and asbestos abatement programs provided by the Alaska Health Project. Courses related to building maintenance apprenticeship are contracted out with a private vendor in the Mat-Su Valley.

Spring Creek CC -- several apprenticeships within the facility; related instruction is provided by AVTEC. The Emergency Trauma Technician, Professional Baking, and other vocational programming are contracted out to private vendors.

Lemon Creek CC - computer classes provided by Southeast Regional Resource Center in the past. Currently working on procurement process for contractor for the current fiscal year.

Wildwood CC - hazardous materials courses, oil field safety courses, and confined spaces entry courses are all contracted out to private vendors.

In the smaller facilities, such as Anvil Mountain CC, Fairbanks CC, and Meadow Creek CC, courses in wastewater treatment, emergency trauma technician training, and computer instruction have always been contracted out.

Additionally, much of the ABE, GED and life skills programming are contracted out. The suggestion has been made by the committee that "there should be no state positions associated with education. These services exist in the private sector." Currently, there is one state education coordinator in most of the facilities. The larger facilities, SCCC, LCCC, WWCC, and PCC have two paid staff. The education coordinator's duties are not limited to teaching, but instead involve program planning, management, and development and contract monitoring.

While the Department feels that surely there are many more meaningful and exciting cross cultural programs that could be integrated into institutional programming, we feel the sub-committee should be aware of the Department's current efforts and deep commitment to seek out future opportunities. The chaplaincy program, substance abuse programs, sex offender treatment programs, life skill programs and cultural arts programs each have components that address cultural issues and which rely upon Alaska Native agencies and organizations within the respective communities.

Recommendation 4: Provision of Medical Care

(a) The Indian Health Service should accept all beneficiaries into their hospitals for inpatient care regardless of the beneficiary's status as an inmate.

(b) All of the health-related services should be privatized under a statewide bid.

Response: (a) There are several issues worthy of consideration regarding the committee's suggestion that the Indian Health Service should accept all beneficiaries into their hospitals for in-patient care regardless of the beneficiary's status as an inmate.

The Indian Health Service reasoned that an Alaska Native who was placed into the custody of the Department of Corrections became a ward of the state. Once a person became a ward of the state, IHS was not responsible for providing their medical care. This was their policy for many years.

The recent transition from the Indian Health Service to the Alaska Native Tribal Health Consortium could open this policy to review. One could argue that since the Alaska Native Health Service maintains medical records for patients from their birth to their death, the service should provide all of the patient's medical care, even during periods of incarceration. The Consortium has taken a different view.

Should care for incarcerated individuals be provided at Native Health Care Facilities, it would be necessary for DOC security staff to address whether the location and layout of the facility would provide adequate safety for the public. Hospital and clinic staff would need to develop a certain comfort level being around individuals in handcuffs, body/waist and leg shackles, and armed officers who would, of course be required to guard prisoners.

(b) Until a cost-benefit analysis is done, the Department of Corrections cannot say whether the privatization of all medical services would be more cost-effective and efficient for the Department.

Recommendation 5: Non-violent prisoners should be moved to intermediate facilities and the provision of services should be privatized.

Response: The Department utilizes a complex classification system by which serious, violent felons are housed at the state's most secure facility (Spring Creek) and those presenting less risk of harm to the public are housed at progressively less secure/costly placements. Thus, non-violent offenders are moved to intermediate facilities. Indeed, most non-violent offenders are placed in CRCs, which are privately operated.

It is not apparent that Palmer and Pt. McKenzie could realize 25-30% savings by being privatized. The cost of care at these facilities is the lowest per bed costs in the state and is already lower than the cost of care at privately-operated CRC houses. Furthermore, there are obstacles to privatizing a facility that is currently operated by the state.

Collective bargaining agreements require that a feasibility study or cost efficiency study be conducted prior to reaching a decision to contract out work that would displace an employee. The language in each agreement is different, but they all generally include notification to the union and the opportunity for the union to submit alternate plans. No employees may be laid-off, nor may their work be contracted out, unless the feasibility study shows that the contracting out would cost the Employer less. The collective bargaining agreements provide for continuing review for compliance of the contracts and continuing cost effectiveness.

- The Palmer Correctional Facility consists of 110 positions represented by four different bargaining units.
- The four collective bargaining agreements require that a feasibility study or cost efficiency study be conducted prior to a decision to contract out the work. The Local Trades and Crafts collective bargaining agreement has specific language that the State of Alaska will require the contractor to pay the hourly wage rate established in the agreement for all such work, plus an additional two dollars and fifty-five cents for each compensable hour. The language in each agreement is different but includes notification to the union and the opportunity for the union to

submit alternate plans. No employees may be laid-off and their work contracted out unless the feasibility study shows that the contracting out would cost the Employer less.

- Employees displaced, as a result of contracting the work out must be laid-off in accordance with the provisions of their collective bargaining agreement. The organizational unit for some of the positions in the Division of Institutions includes Palmer, Kenai, Eagle River, Anchorage, and Seward. This would result in layoffs throughout these areas.

Finally, it should be noted that the Department is working to implement HB 53, which authorizes the Commissioner to enter into a contract with the City of Delta Junction to utilize a privately-operated prison for a minimum of 800 medium custody inmates. The Department's long-term plan calls for this facility to come on line no later than 2003.

Recommendation 6: The purchasing functions for the purchase of food and other items should be centralized.

Response: Procurement authority is delegated to the Department of Corrections by written delegations from the Commissioners of the Department of Administration and the Department of Transportation and Public Facilities. The delegations of authority are based upon continued compliance with the requirements of AS 36.30 and 2 AAC 12.

The department has standardized its grocery, meat, and produce needs based upon a 28-day cycle menu. Standardization of the items and consolidation of the needs has allowed the department to achieve very high volume purchases. Periodically, the Department solicits formal procurements from in-state vendors. Contracts are normally one year in length, with options to renew each contract for up to four one-year periods. Purchases are made against the contracts on an "as needed" basis by the individual correctional facilities. Thus, even though the correctional facilities place their orders individually, they are taking advantage of volume prices. The resulting contracts are the largest volume purchases of food items made by the State.

Some other items that are purchased in volume by the department are: correctional officer uniforms, office supplies, unarmed security guard services, freight, miscellaneous cleaning chemicals, bakery goods, dairy products, aircraft charters, drug testing supplies, microfiche services, fuels, propane, natural gas, computer hardware and software, pharmaceuticals, copiers, paper products, and miscellaneous professional services.

Recommendation 7: The State of Alaska should privatize the fine and collection activities for the courts.

Response: This is not a matter within the purview of the Department of Corrections. If there is a court system committee, the recommendation could be forwarded to it.

Recommendation 8: The acquisition of vehicles and their maintenance should be privatized.

Response: The Department of Corrections does not have the authority to acquire new or used vehicles. All requests for vehicles are routed to the Department of Transportation and Public Facilities, State Equipment Fleet (SEF).

Some of the departmental correctional facilities have been given a certification by SEF to maintain their own vehicles. In those instances, inmates (with staff supervision) perform the maintenance function and no fee is paid to SEF. This DOC program is used as an on-the-job-training opportunity for the inmates.

The State Equipment Fleet offers agencies a variety of programs for owning, leasing, and maintaining the state's vehicles. The Department of Corrections utilizes several of the programs.

Recommendation 9: The Department should privatize its Information Technology.

Response: The Department currently contracts for a large portion of its IT services. All wide area networking (WAN) is provided by the Department of Administration. Shifting currently out-sourced WAN administration from DOA/DIS to private providers in Anchorage would require coordinated movement of all state agencies or it could result in fragmented networks and the loss of the current enterprise scale economies and inter-agency connectivity available.

Approximately 90% of the application development and programming used by the Department is provided by Informix Software, Inc. Database Design is also provided by Informix Software, as is on-call database technical support.

On-call UNIX technical and hardware support is provided by SUN Microsystems.

On-call LAN technical support is provided by Novell.

Approximately 90% of the Department's custom application programming is already privatized at \$150/hour. In house staff work on remaining application programming at about \$50/hour (including benefits).

The Department has explored privatizing its LAN/Help Desk Support; inquires to Anchorage vendors for cost estimates indicate costs would be significantly higher if these services were privatized. This information was formally documented in a 1998 State study conducted by Compass America, Inc. The state is 31% more efficient in this area than industry norms.

A last factor to be considered in privatizing the little of Corrections' IT that is not already privatized is the state's security needs for sensitive information.

Recommendation 10: Probationers and parolees should be charged a fee per week to partially cover the costs. The collection of the fees should be privatized.

Response: There is currently a bill before the Alaska Legislature addressing this issue.

Recommendation 11: The purchasing of equipment and repair of it should utilize private industry selection, replacement, repair, and maintenance standards. Obsolete equipment that cannot be economically operated should be replaced.

Response: This recommendation was put forward by Representative Dyson during the final minutes of the last subcommittee meeting. Without further details and explanation of the recommendation the Department of Corrections is unable to provide a response.

Recommendation 11: Privatize the Mount McKinley Meat Plant.

Response:

See attachment #7.

ATTACHMENTS

Component Summary - FY00 Operating Budget

Agency: Department of Corrections

Page	Budget Component	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
Administration & Operations										
1	Office of the Commissioner	2,880.8	1,577.8	1,580.1	1,551.4	947.8	947.8	947.8	-832.3	-40.0%
2	Parole Board	571.8	482.7	484.0	554.0	484.0	484.0	484.0	0.0	0.0%
3	Correctional Academy	512.7	662.5	664.4	664.4	664.4	664.4	664.4	0.0	0.0%
4	Administrative Services	2,687.8	2,559.5	2,821.0	2,821.0	2,730.5	2,730.5	2,730.5	-90.5	-3.2%
5	Data and Word Processing	1,097.1	1,291.3	1,298.1	1,376.1	1,376.1	1,376.1	1,376.1	80.0	6.2%
6	Fac-Capital Improvement Unit	220.5	208.3	209.5	309.5	209.5	209.5	209.5	0.0	0.0%
7	Inmate Health Care	15,770.4	15,378.1	15,402.1	15,812.0	15,756.7	15,756.7	15,756.7	354.6	2.3%
8	Inmate Programs	2,696.7	2,728.6	2,839.6	3,358.6	2,839.6	2,839.6	2,839.6	0.0	0.0%
9	Correctional Industries Admin	1,284.0	1,158.6	1,163.9	1,163.9	1,163.9	1,163.9	1,163.9	0.0	0.0%
10	Corr Industries Product Cost	2,851.2	2,750.6	2,750.6	3,500.6	3,500.6	3,500.6	3,500.6	750.0	27.3%
11	Institution Director's Office	1,129.1	780.9	914.2	1,039.5	993.2	867.9	993.2	79.0	8.6%
12	Anvil Mtn Correctional Center	3,959.5	3,871.1	3,850.6	3,850.6	3,850.6	3,850.6	3,850.6	0.0	0.0%
13	Combined Hilland Mtn Corr Ctr	7,555.0	7,200.4	7,168.1	7,218.1	7,168.1	7,168.1	7,168.1	0.0	0.0%
14	Cook Inlet Correctional Center	9,437.5	9,163.0	9,119.1	9,419.1	9,119.1	9,119.1	9,119.1	-0.0	-0.0%
15	Fairbanks Correctional Center	6,921.2	6,975.8	6,943.2	7,186.8	6,943.2	6,943.2	6,943.2	0.0	0.0%
16	Ketchikan Correctional Center	2,604.5	2,587.3	2,575.2	2,575.2	2,575.2	2,575.2	2,575.2	0.0	0.0%
17	Lemon Creek Correctional Ctr	6,048.5	5,942.8	5,917.3	6,147.0	5,917.3	5,917.3	5,917.3	0.0	0.0%
18	Mat-Su Correctional Center	2,631.8	2,725.3	2,711.6	2,711.6	2,711.6	2,711.6	2,711.6	0.0	0.0%
19	Palmer Correctional Center	8,788.3	8,500.1	8,462.3	8,692.0	8,462.3	8,462.3	8,462.3	0.0	0.0%
20	Sixth Avenue Correctional Ctr	3,815.5	3,845.1	3,827.2	3,827.2	3,827.2	3,827.2	3,827.2	0.0	0.0%
21	Spring Creek Correctional Ctr	13,946.6	13,749.2	13,687.3	13,937.3	13,687.3	13,687.3	13,687.3	0.0	0.0%
22	Wildwood Correctional Center	8,245.9	8,213.6	8,177.1	8,177.1	8,177.1	8,177.1	8,177.1	-0.0	-0.0%
23	Yukon-Kuskokwim Corr Center	4,037.1	3,972.7	3,953.1	4,202.1	3,953.1	3,861.6	3,861.6	-91.5	-2.3%
24	Institutional Reduction		-721.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
25	Community Jails	4,797.2	4,800.0	4,800.3	4,800.3	4,766.6	4,766.6	4,766.6	-33.7	-0.7%
26	Community Corrections Director	625.8	728.1	733.8	701.9	701.9	701.9	701.9	-31.9	-4.3%
27	Northern Region Probation	2,258.0	2,513.1	2,522.4	2,449.4	2,449.4	2,449.4	2,449.4	-73.0	-2.9%
28	Southcentral Region Probation	4,589.4	4,413.4	4,433.6	4,760.0	4,605.0	4,189.9	4,532.0	98.4	2.2%
29	Southeast Region Probation	946.6	958.0	961.5	961.5	961.5	961.5	961.5	0.0	0.0%
30	Transp & Classification		1,018.0	1,020.6	1,224.3	1,279.3	1,243.5	1,279.3	258.7	25.3%
31	Facility Maintenance				7,780.5	8,580.5	7,780.5	7,780.5	7,780.5	%
32	Unallocated Reduction						-1,177.7	-286.5	-286.5	0.0%
	* BRU Total	122,870.3	120,034.8	120,969.8	132,773.0	130,402.6	127,757.2	129,151.8	8,161.8	6.7%
Community Residential Centers										
33	Existing CRC Facilities	11,857.0	13,539.5	13,539.5	13,864.5	13,864.5	15,243.8	13,864.5	325.0	2.4%
34	Nome CRC		786.5	786.5	991.5	1,016.5	1,016.5	1,016.5	250.0	32.6%
35	Bethel CRC		144.8	144.8	144.8	144.8	144.8	144.8	0.0	0.0%
36	CRC Offender Supervision		366.0	366.0	656.0	656.0	0.0	656.0	290.0	79.2%

Component Summary - FY90 Operating Budget

Agency: Department of Corrections

Page	Budget Component	FY90 Act	FY90 CC	FY90Auth	Gov Amd	House	Senate	ConfComm	FY90Auth to ConfComm	
	Community Residential Centers									
	* BRU Total	11,857.0	14,816.8	14,816.8	15,656.8	15,661.8	16,404.9	15,661.8	865.0	5.6%
	Out of State Contracts									
37	Out-of-State Contracts	8,585.2	14,512.3	14,512.3	21,477.1	19,977.1	18,149.0	19,847.1	5,334.8	36.8%
	* BRU Total	8,585.2	14,512.3	14,512.3	21,477.1	19,977.1	18,149.0	19,847.1	5,334.8	36.8%
	New Community Residential Centers									
38	New CRC Facilities	25.5							0.0	0.0%
	* BRU Total	25.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
	Point MacKenzie									
39	Point MacKenzie Rehab Program	1,907.0	1,988.2	1,992.1	2,122.9	2,122.9	1,952.3	2,122.9	130.8	6.6%
	* BRU Total	1,907.0	1,988.2	1,992.1	2,122.9	2,122.9	1,952.3	2,122.9	130.8	6.6%
	Cultural Relevance Study									
40	Cultural Relevance Study	50.0							0.0	0.0%
	* BRU Total	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
	VPSO Parole Supervision Pilot Program									
41	VPSO Supervision Pilot Prgm		115.0	115.0	115.0	0.0	115.0	0.0	-115.0	-100.0%
	* BRU Total	0.0	115.0	115.0	115.0	0.0	115.0	0.0	-115.0	-100.0%
	Alternative Institutional Housing									
42	Alternative Housing		300.0	300.0	300.0	200.0	0.0	200.0	-100.0	-33.3%
	* BRU Total	0.0	300.0	300.0	300.0	200.0	0.0	200.0	-100.0	-33.3%
	Food Services Apprenticeship Program									
43	Food Services Apprenticeship					96.1	96.1	96.1	96.1	%
	* BRU Total	0.0	0.0	0.0	0.0	96.1	96.1	96.1	96.1	%
	*** Total Agency Expenditure	145,295.0	181,767.1	182,726.0	172,444.8	168,480.5	164,474.5	167,099.5	14,373.5	8.4%
	Federal Funds	3,381.6	7,135.9	7,142.6	5,677.0	6,477.0	7,172.6	6,477.0	-665.6	-9.3%
	General Funds	136,320.4	139,209.3	139,989.3	152,990.3	147,229.8	142,528.2	145,848.8	5,859.5	4.2%
	Other Funds	5,593.0	5,421.9	5,594.1	13,777.5	14,773.7	14,773.7	14,773.7	9,179.6	164.1%

Agency Totals - FY00 Operating Budget

Agency: Department of Corrections

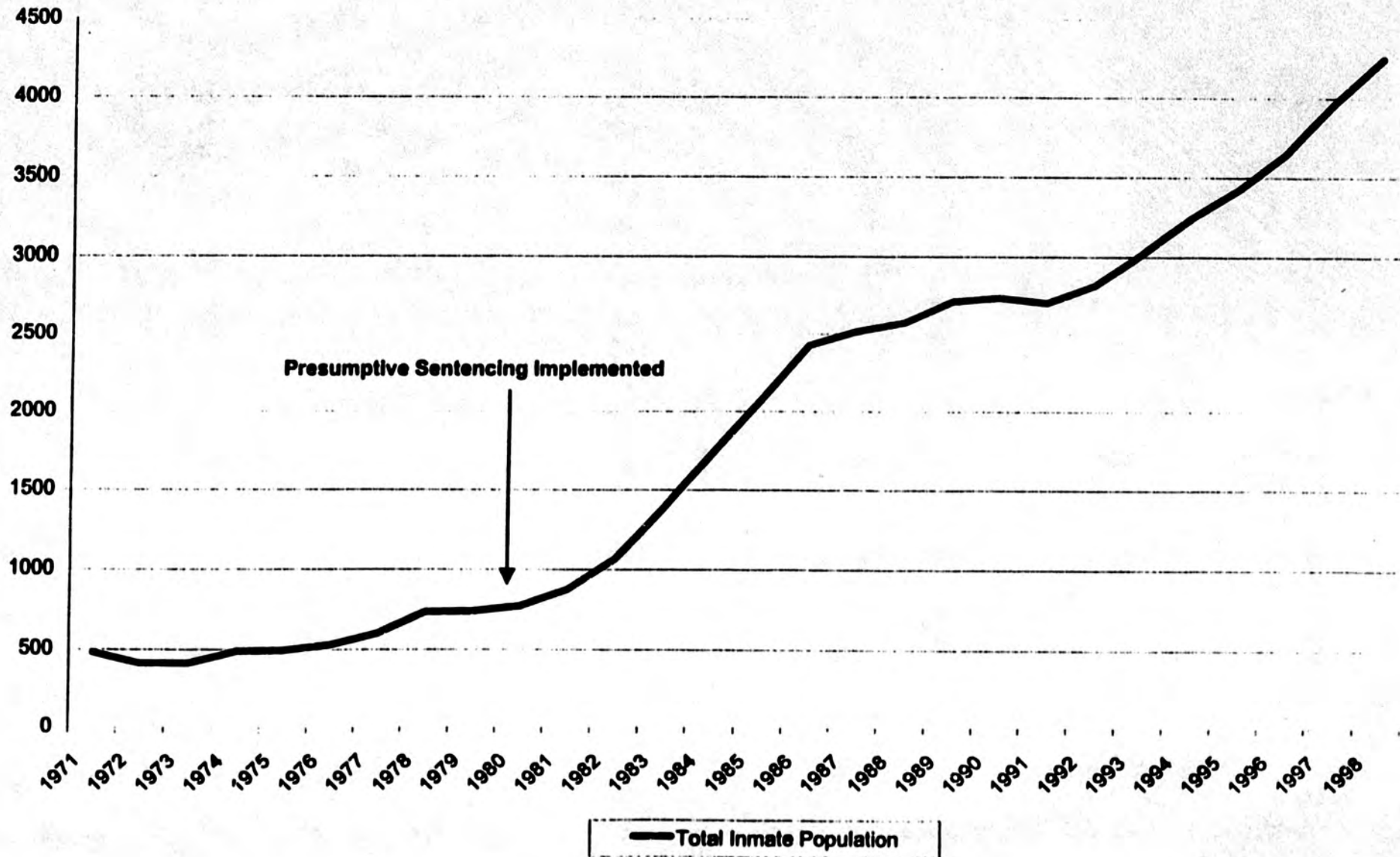
	<u>FY98 Act</u>	<u>FY99 CC</u>	<u>FY99Auth</u>	<u>Gov Amd</u>	<u>House</u>	<u>Senate</u>	<u>ConfComm</u>	<u>FY99Auth to ConfComm</u>	
Totals for Agency	145,295.0	151,767.1	152,726.0	172,444.8	168,480.6	164,474.5	167,099.5	14,373.5	9.4%
<u>Objects of Expenditure:</u>									
Personal Services	85,141.3	84,614.0	84,471.5	86,757.8	84,884.1	83,640.4	84,561.6	90.1	0.1%
Travel	1,886.7	1,287.1	1,287.1	1,726.0	1,739.5	1,664.0	1,664.0	376.9	29.3%
Contractual	43,987.1	52,987.6	52,980.7	68,519.2	67,151.7	65,070.1	66,221.7	13,241.0	25.0%
Commodities	11,547.1	11,087.5	11,087.5	12,465.1	12,153.5	12,149.8	12,153.5	1,066.0	9.6%
Equipment	606.3	51.9	51.9	51.9	51.9	51.9	51.9	0.0	0.0%
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	%
Grants, Claims	2,124.5	2,132.3	2,132.3	2,209.8	2,254.8	2,254.8	2,254.8	122.5	5.7%
Miscellaneous	0.0	-393.3	715.0	715.0	265.0	-356.5	192.0	-523.0	-73.1%
<u>Funding Sources:</u>									
1002 Fed Rcpts	3,381.6	7,135.9	7,142.6	5,677.0	6,477.0	7,172.6	6,477.0	-665.6	-9.3%
1003 G/F Match	2,707.2	187.1	187.1	187.1	129.6	129.6	129.6	-57.5	-30.7%
1004 Gen Fund	127,912.2	131,982.3	132,847.2	145,322.9	139,594.9	134,988.6	138,213.9	5,566.7	4.2%
1005 GF/Prgm	2,331.3	3,277.2	3,385.7	3,481.0	3,506.0	3,410.7	3,506.0	120.3	3.6%
1007 I/A Rcpts	929.1	493.7	494.6	8,275.1	8,163.5	8,163.5	8,163.5	7,668.9	1550.5%
1037 GF/MH	3,369.7	3,762.7	3,769.3	3,999.3	3,999.3	3,999.3	3,999.3	230.0	6.1%
1050 PFD Fund	1,047.3	1,047.3	1,047.3	1,047.3	2,147.3	2,147.3	2,147.3	1,100.0	105.0%
1053 Invt Loss			168.3	-0.0	0.0	-0.0	0.0	-168.3	-100.0%
1059 Corr. Ind.	2,750.1	2,750.6	2,750.6	3,500.6	3,500.6	3,500.6	3,500.6	750.0	27.3%
1061 CIP Rcpts	552.5	540.3	543.3	543.3	543.3	543.3	543.3	0.0	0.0%
1092 MHTAAR	314.0	590.0	590.0	411.2	419.0	419.0	419.0	-171.0	-29.0%
<u>Positions:</u>									
Perm Full Time	1,355.0	1,360.0	1,360.0	1,398.0	1,369.0	1,367.0	1,366.0	6.0	0.4%
Perm Part Time	2.0	1.0	1.0	0.0	0.0	0.0	0.0	-1.0	-100.0%
Non-Perm	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	%

DOC Annual Budgets FY 94 - 00

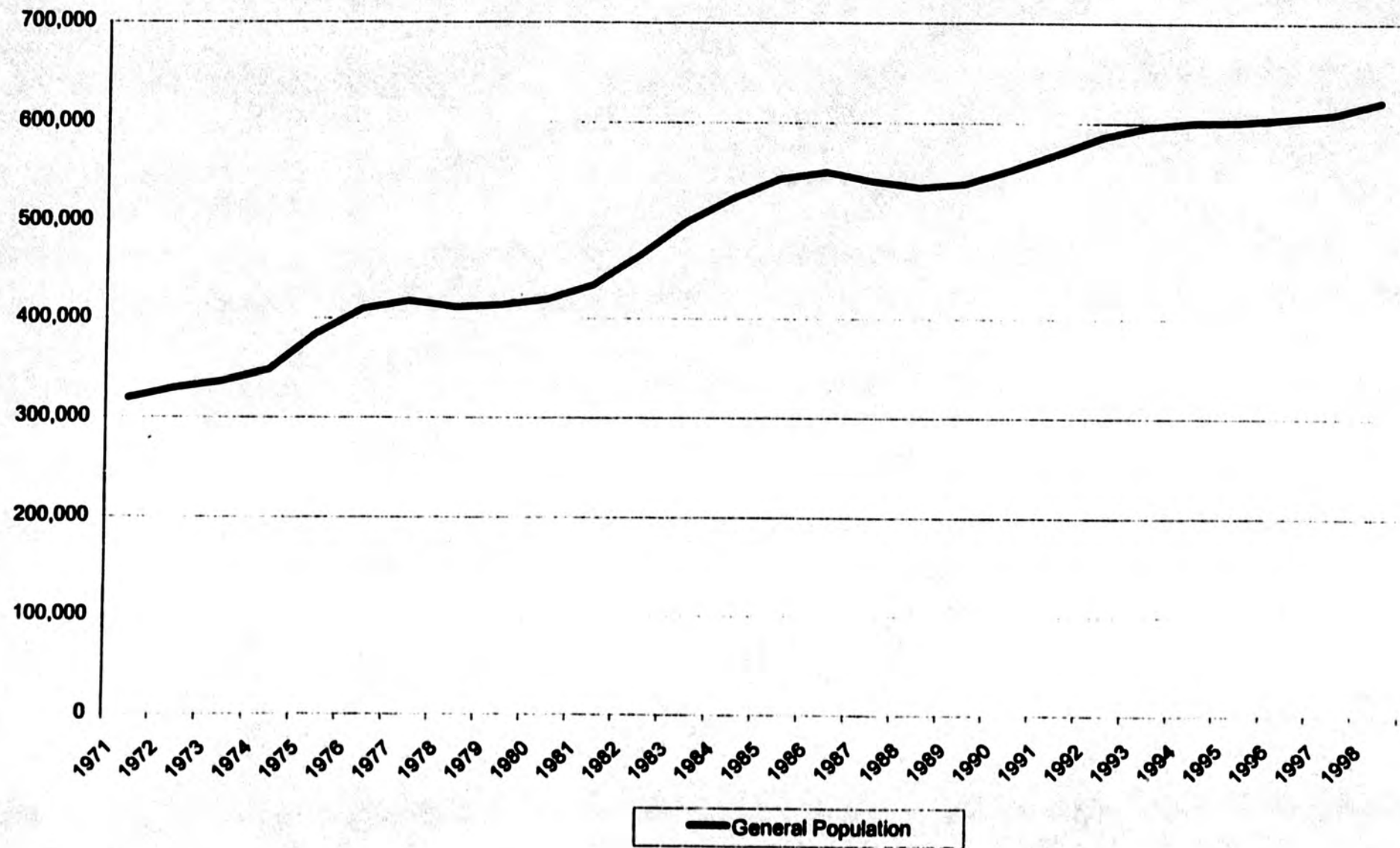
	FY94	FY95	FY96	FY97	FY98	FY99	FY00
Admin. & Ops	\$108,278.9	\$114,330.1	\$116,715.1	\$116,311.8	\$118,264.7	\$118,159.3	\$116,604.5
Alternative Housing	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$300.0	\$200.0
CRC's	\$6,650.6	\$8,471.7	\$8,972.0	\$10,933.7	\$12,441.2	\$14,191.8	\$15,681.8
OOS	\$4,558.1	\$3,599.8	\$6,006.1	\$6,297.9	\$8,895.9	\$17,562.3	\$19,847.1
Community Jails	\$0.0	\$0.0	\$4,811.7	\$4,812.1	\$4,801.4	\$4,800.3	\$4,766.6
Pt. MacKenzie	\$1,512.0	\$1,571.3	\$1,916.2	\$1,981.7	\$1,909.7	\$1,992.1	\$2,122.9
VPSO	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$115.0	\$0.0
Facility Maintenance (I/A non-	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7,780.5
Food Service Apprenticeship	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$96.1
Y2K	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,090.0	\$0.0
Cultural Relevance Study	\$0.0	\$0.0	\$0.0	\$0.0	\$50.0	\$0.0	\$0.0
Totals	\$120,999.6	\$127,972.9	\$138,421.1	\$140,337.2	\$146,362.9	\$158,210.8	\$167,099.5
		\$6,973.3	\$10,448.2	\$1,916.1	\$6,025.7	\$11,847.9	\$8,888.7

	FY94	FY95	FY96	FY97	FY98	FY99	FY00	Total Increase
Admin & Ops		\$6,051.2	\$2,385.0	(\$403.3)	\$1,952.9	(\$105.4)	(\$1,554.8)	\$8,325.6
Alternative Housing		\$0.0	\$0.0	\$0.0	\$0.0	\$300.0	(\$100.0)	\$200.0
CRC		\$1,821.1	\$500.3	\$1,961.7	\$1,507.5	\$1,750.6	\$1,490.0	\$9,031.2
Out of State		(\$958.3)	\$2,406.3	\$291.8	\$2,598.0	\$8,666.4	\$2,284.8	\$15,289.0
Community Jails		\$0.0	\$4,811.7	\$0.4	(\$10.7)	(\$1.1)	(\$33.7)	\$4,766.6
Pt. MacKenzie		\$59.3	\$344.9	\$65.5	(\$72.0)	\$82.4	\$130.8	\$610.9
VPSO		\$0.0	\$0.0	\$0.0	\$0.0	\$115.0	(\$115.0)	\$0.0
Facility Maintenance (I/A non-add)		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7,780.5	\$7,780.5
Food Service Apprenticeship		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$96.1	\$96.1
Y2K		\$0.0	\$0.0	\$0.0	\$0.0	\$1,090.0	(\$1,090.0)	\$0.0
Cultural Relevance Study		\$0.0	\$0.0	\$0.0	\$50.0	(\$50.0)	\$0.0	\$0.0
TOTALS		\$6,973.3	\$10,448.2	\$1,916.1	\$6,025.7	\$11,847.9	\$8,888.7	\$46,099.9

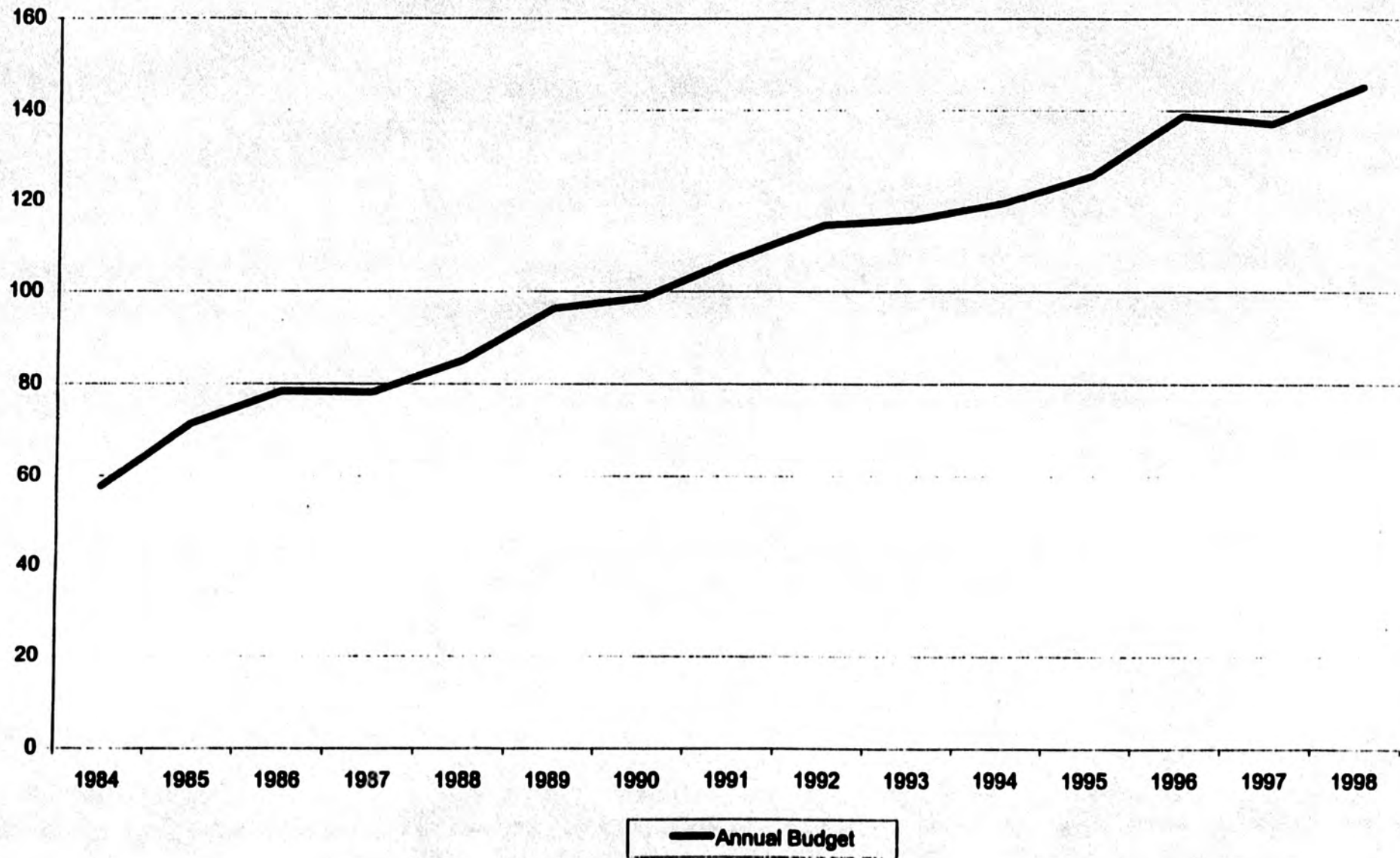
Total Inmate Population



State of Alaska Population from 1971 through 1998



Annual Budget 9184 - 1998 (Actuals)



Pam Vincent

From: Joe Reeves [Joe_Reeves@correct.state.ak.us]
Sent: Tuesday, October 05, 1999 11:16 AM
To: Pamela L Vincent; William K Parker
Cc: Dwayne Peeples; Shar Griffin
Subject: Revised INS Numbers for Mr. Parker

Importance: High

Revised Inmate Services provided during FY99 for the Immigration & Naturalization Service (INS):

1,766 Mandays
357 Inmates

\$181,810.38 Billed INS

July 1, 1998-December 31, 1998 \$100.07 Daily Cost of Care

January 1, 1999-June 30, 1999 \$97.62 Daily Cost of Care

Department of Corrections

Agency Overview



DEPARTMENT OF CORRECTIONS

Mission

The mission of the Department of Corrections is to protect the public and encourage offender rehabilitation through humane, safe and cost-effective confinement and supervision. The department will respect the rights of victims and recognize the dignity inherent in all human beings as it pursues this mission.

Major Goals and Strategies

1 Manage offender population through safe and secure facilities to protect the public

- Maintain inmate populations within institutional capacities.
- Maintain high utilization of community residential center (CRC) beds.
- Expand safe alternatives to incarceration.
- Implement strategic long-range population management plan.

2 Provide cost effective and efficient offender programs and health services

- Develop programs to safely and effectively manage youthful offenders.
- Provide culturally relevant offender accountability programs.
- Operate female residential substance abuse treatment program.
- Continue development of victims' services.
- Continue increased monitoring of sexual predators.
- Expand female training and work programs.

3 Provide effective use of resources and efficient delivery of services

- Continue development of integrated Management Information System.
- Implement an automated procurement system.
- Develop and implement alternatives for health care cost management.

- Develop and implement a multivariable population projection system.

4 Build community partnerships

- Work with communities to address noncriminal public protection detentions.
- Work with the public and local governments to expand jails, prisons, and CRCs.
- Develop neighborhood-based community supervision services.

Key Performance Measures

- Maintain in-state prisoner population in correctional facilities at less than emergency capacity.
- Establish program to address violent juvenile offenders in the adult correctional system.
- Bring Integrated Management Information System on-line.

Major Changes and Key Issues

Prison Overcrowding

The agency's foremost challenge continues to be the increasing number of people coming into the adult criminal justice system, resulting in overcrowded institutions and increased probation caseloads in Community Corrections. During FY1998 and FY1999 the department contracted for additional out-of-state prison beds and community residential center beds. The department continues to implement programs such as CRC Offender Supervision and Electronic Monitoring as safe alternatives to incarceration.

The department's managers have developed and refined a population management plan that includes assessing the feasibility of implementing temporary housing units at 4 correctional facilities. The department continues to work with the city of Delta Junction and the municipality of

Anchorage toward implementing of HB53 to open a private prison facility at Fort Greely and to build a new Anchorage Jail to replace Sixth Avenue Correctional Center.

Juveniles in adult facilities

The department has experienced an increase in the number of youth serving time in adult facilities for serious violent crimes. Significant correctional management issues as well as public safety concerns are associated with this population. Many of these adolescent children will complete their maturation in an adult prison and will be released into Alaska's communities in their early to mid-20s. Without some form of intervention it is likely that these offenders will continue to engage in criminal behavior.

Division of Institutions

The Division of Institutions operates 15 jails and prisons that range in size from 50 to 500 prisoner beds. In addition, the division provides oversight supervision for 11 Community Residential Centers and the out-of-state placement of approximately 900 prisoners. The division provides programs for offenders in institutions and under community supervision, which includes sex offender treatment, substance abuse treatment (including a Women's Residential Substance Abuse Treatment Program at Hiland Mountain Correctional Center), work, educational/vocational needs, batterers' programs and religious programs. The division also provides medical and mental health services to offenders in prisons, community residential centers, the Point MacKenzie work

farm and out-of-state facilities. The division's primary goal is to ensure the safety and protection of the public through safe, secure facilities and to strive to assure that all prisoners have opportunities to develop the skills necessary to lead crime-free lives after release.

Division of Community Corrections

The division supervises of 4,300 adult felons on probation and parole in communities across the State of Alaska. Additionally, the division supervises 112 offenders, both misdemeanants and felons, at the Point MacKenzie work farm.

The division is pursuing cost-effective alternatives to incarceration through enhanced probation for offenders with technical probation/parole violations. The division is developing offender accountability programs such as victim impact classes and cognitive skill programs for both the community and the farm. Additionally, the division continues to improve the farm's productivity.

Alaska Board of Parole

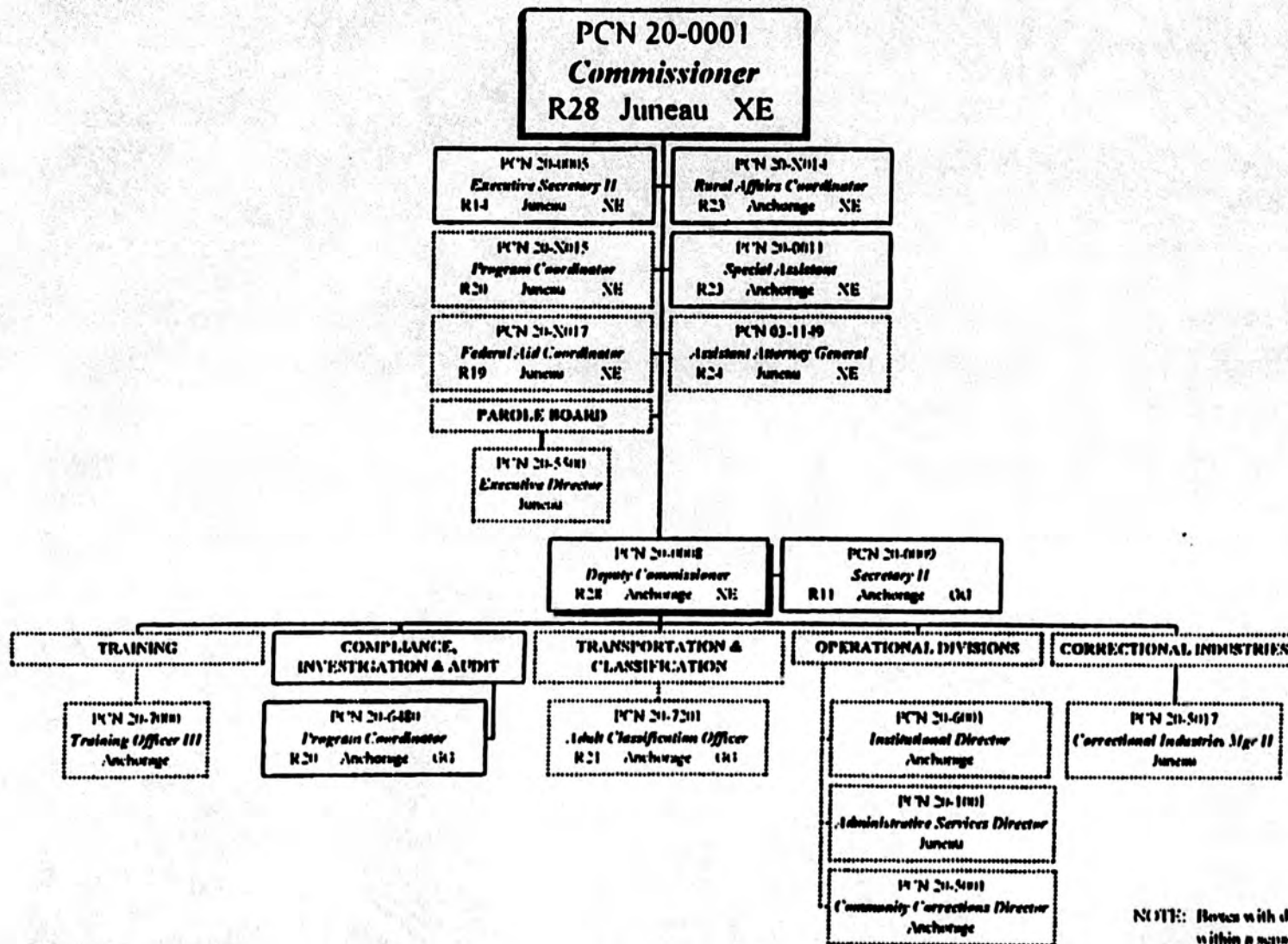
The Alaska Board of Parole functions autonomously within the department. The Board of Parole provides the full range of parole coordination and support functions for this element of the department's prisoner population.

Administration and Support Services

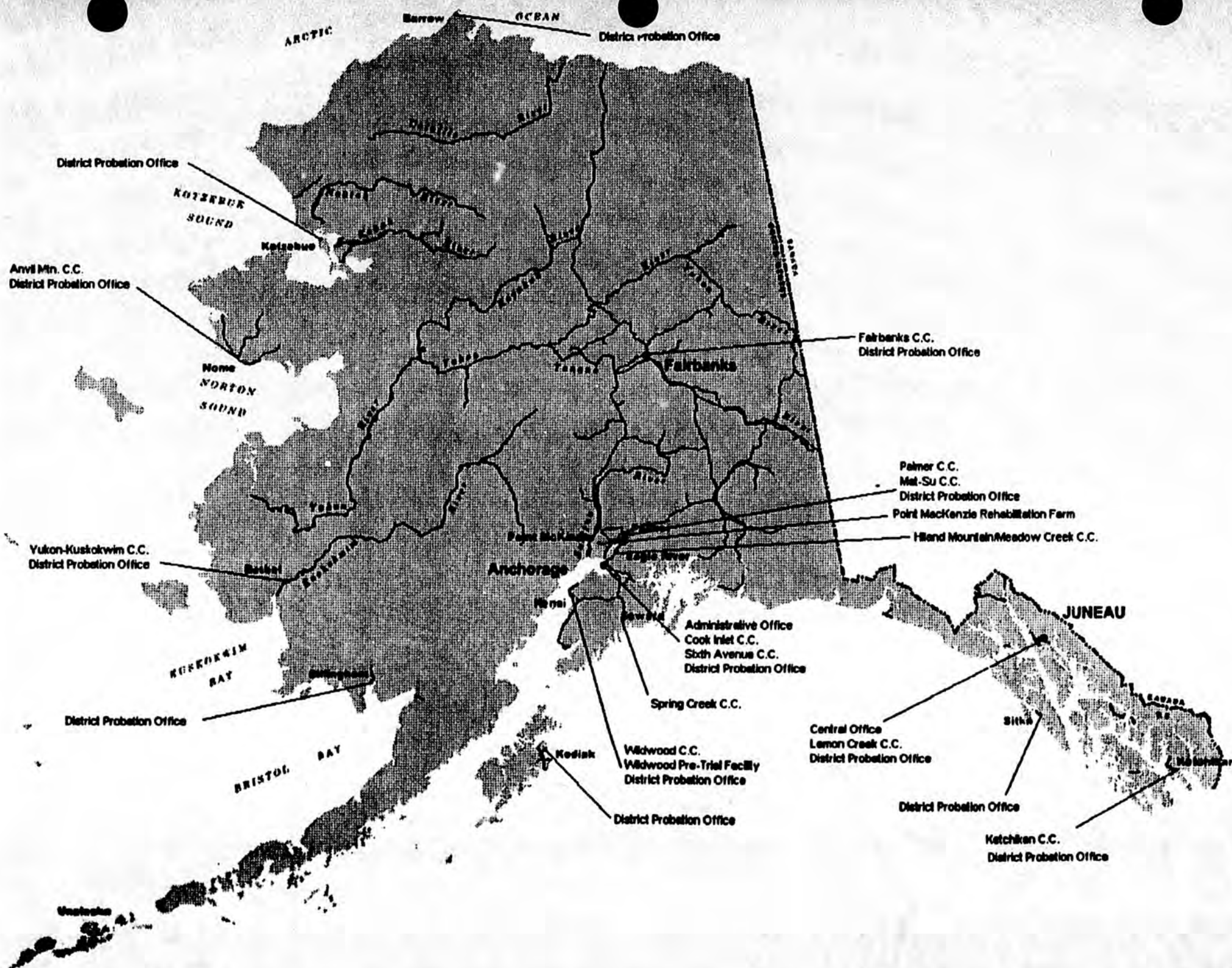
The division has completed procurement of its new MIS system and the system will be on-line by mid-FY2000. In addition, the division is developing a personnel subsystem to implement Workplace Alaska which effects the recruitment and hiring process of positions requiring Alaska Police Standards Council certification.

Budget Summary	FY1998 Actual	FY1999 Authorized	FY2000 Governor
General Funds	\$130,342.0	\$140,325.9	\$152,990.3
Federal Funds	\$1,719.7	\$7,142.6	\$5,547.0
Other Funds - Interagency receipts, etc.	\$5,071.1	\$5,257.5	\$13,027.5
TOTAL BUDGET	\$137,132.8	\$152,726.0	\$171,564.8
Positions - Full-time	1,355	1,362	1,405
Positions - Part-time	2	1	0
KEY PROGRAM AREAS (All Fund Sources)			
Administration and Operations	\$119,980.1	\$118,596.6	\$129,630.6
Contract Facilities	\$25,314.9	\$34,129.4	\$41,934.2

**Department of Corrections
Office of the Commissioner
FY 2000 Organizational Structure**



NOTE: Boxes with dotted lines are budgeted within a separate component



DEPARTMENT OF CORRECTIONS HIGHLIGHTS

- 12 Correctional Institutions with 2,691 Beds
(Emergency Capacity)
- 1 Point MacKenzie Farm - 112 Beds
- Out Of State Prison Contracts (currently 902 beds and growing)
- 15 Municipal Jails (Contracted - 159 Beds)
(Bristol Bay Boro, Cordova, Craig, Dillingham, Haines, Homer, Kodiak, Kotzebue, North Slope Boro, Petersburg, Seward, Sitka, Unalaska, Valdez, Wrangell)
- 13 Regional Adult Probation Offices
- 10 Community Residential Centers (681 Beds
Contracted with 2 additional contracts for an additional 60 new beds pending final negotiations for a total of 741 beds)

DEPARTMENT OF CORRECTIONS
COMPARISONS OF INMATE COUNTS

YR 1996	AMCC	CPT	FCC	HMCC	KCC	LCCC	MSPT	MCCC	PCCMED	PCCMD	SIXTH	SCCC	WWCC	WWPT	YKCC	TOTAL						
January 31, 1996	86	412	212	231	51	185	83	82	201	178	138	383	202	87	116	2,645	508	80	0	0	158	3,393
February 28, 1996	83	388	187	228	53	185	75	86	188	178	117	383	202	87	116	2,554	513	80	0	0	272	3,419
March 31, 1996	78	401	158	233	53	158	63	84	187	175	128	418	202	94	111	2,548	481	78	0	0	272	3,398
April 30, 1996	88	408	177	227	48	154	87	85	187	178	124	428	204	95	122	2,800	451	77	0	0	270	3,358
May 31, 1996	81	408	165	230	47	147	82	58	178	175	135	448	203	89	109	2,532	437	86	0	0	267	3,322
June 30, 1996	78	401	161	232	45	143	78	81	188	175	113	450	203	98	117	2,522	427	82	0	0	268	3,387
July 31, 1996	82	400	178	230	51	147	83	84	187	171	120	445	201	89	122	2,551	381	77	0	0	267	3,396
August 24, 1996	82	401	182	228	43	154	88	84	182	185	128	480	201	88	124	2,588	444	87	0	0	265	3,388
September 27, 1996	84	381	183	228	50	174	85	88	180	178	128	478	198	97	118	2,652	438	83	0	21	261	3,483
October 31, 1996	84	404	185	230	51	188	97	84	208	203	125	481	222	98	107	2,783	455	74	0	9	258	3,588
November 28, 1996	85	401	202	228	54	181	98	83	221	178	128	483	222	103	123	2,785	468	67	0	11	258	3,588
December 28, 1996	83	411	183	232	50	171	88	54	230	178	122	480	224	98	102	2,735	457	48	0	0	257	3,487
YR 1996	AMCC	CPT	FCC	HMCC	KCC	LCCC	MSPT	MCCC	PCCMED	PCCMD	SIXTH	SCCC	WWCC	WWPT	YKCC	TOTAL						
January 31, 1996	86	415	208	230	47	188	82	84	218	175	148	480	224	105	100	2,781	462	64	0	0	257	3,574
February 28, 1996	78	423	223	230	57	188	84	84	230	175	120	481	224	98	113	2,782	450	62	0	0	252	3,588
March 31, 1996	84	421	228	228	54	184	82	84	224	174	132	475	220	95	117	2,802	468	65	0	0	252	3,587
April 30, 1996	85	426	213	231	63	193	91	88	227	175	133	482	218	110	123	2,837	482	61	0	0	253	3,683
May 31, 1996	85	403	208	233	51	187	91	58	208	178	144	480	217	83	115	2,738	801	78	0	0	255	3,872
June 30, 1996	85	413	208	230	47	183	83	87	195	174	128	488	224	88	110	2,742	484	62	0	0	258	3,644
July 31, 1996	88	414	202	232	54	183	83	84	218	178	142	491	224	108	112	2,803	482	64	0	0	258	3,688
August 31, 1996	91	425	222	234	60	208	88	84	245	175	138	490	225	105	97	2,870	485	88	0	0	258	3,897
September 30, 1996	97	428	244	224	51	205	95	85	222	174	134	505	233	107	97	2,878	505	85	0	0	258	3,728
October 31, 1996	112	418	218	233	51	200	82	85	212	175	133	508	234	94	118	2,884	524	80	0	0	255	3,733
November 30, 1996	94	421	242	231	54	188	84	81	238	175	142	508	234	94	108	2,885	542	78	0	0	253	3,788
December 31, 1996	111	428	234	232	52	185	81	85	238	175	133	522	234	85	102	2,888	534	85	0	0	245	3,788
YR 1997	AMCC	CPT	FCC	HMCC	KCC	LCCC	MSPT	MCCC	PCCMED	PCCMD	SIXTH	SCCC	WWCC	WWPT	YKCC	TOTAL						
January 31, 1997	117	427	230	228	58	195	100	70	231	178	138	534	234	113	122	2,975	577	82	0	0	252	3,888
February 28, 1997	118	427	235	231	63	213	92	88	244	178	128	544	234	114	114	2,988	548	80	0	0	258	3,884
March 31, 1997	108	415	251	232	58	212	97	84	247	175	147	558	234	113	108	3,018	618	82	0	0	265	3,883
April 30, 1997	108	418	238	234	53	205	94	85	248	178	141	560	245	104	105	2,988	612	81	0	0	273	3,884
May 31, 1997	83	411	213	233	63	208	82	88	218	173	138	558	245	100	117	2,917	610	88	0	0	271	3,884
June 30, 1997	88	408	228	228	62	202	82	88	233	178	117	554	252	89	91	2,884	610	78	0	0	268	3,841
July 31, 1997	94	430	210	230	64	181	94	88	238	178	141	555	245	92	87	2,921	583	88	0	0	277	3,888
August 31, 1997	98	418	231	228	48	207	107	88	218	178	133	558	245	124	115	2,988	605	88	0	0	278	3,834
September 30, 1997	128	437	257	242	55	208	98	87	255	181	137	587	261	118	118	3,143	618	85	0	0	281	4,127
October 31, 1997	112	444	248	238	62	210	103	70	255	182	137	570	270	108	108	3,131	683	80	0	0	282	4,188
November 30, 1997	121	442	255	284	63	217	98	0	253	187	138	588	268	128	123	3,183	645	80	0	0	288	4,177
December 31, 1997	131	433	248	224	68	201	93	71	244	188	132	583	270	104	111	3,087	655	83	0	0	318	4,143
YR 1998	AMCC	CPT	FCC	HMCC	KCC	LCCC	MSPT	MCCC	PCCMED	PCCMD	SIXTH	SCCC	WWCC	WWPT	YKCC	TOTAL						
January 31, 1998	123	438	267	231	68	204	98	72	268	201	132	572	288	118	125	3,215	658	80	0	0	315	4,378
February 28, 1998	130	480	274	241	72	201	103	75	282	200	138	585	287	128	122	3,288	671	83	0	0	311	4,381
March 31, 1998	128	482	250	228	68	187	108	70	283	200	125	582	285	118	128	3,184	678	80	0	0	378	4,338
April 30, 1998	132	451	232	218	68	185	98	67	222	178	118	431	242	108	100	2,828	705	87	0	0	680	4,281
May 31, 1998	97	438	187	222	52	188	88	88	170	178	84	557	230	112	98	2,785	710	81	88	0	657	4,312
June 30, 1998	95	450	207	231	62	183	83	88	172	178	80	553	223	82	73	2,708	688	85	82	0	680	4,341
July 31, 1998	85	453	188	227	53	148	83	88	187	178	88	557	228	104	83	2,755	704	82	104	0	681	4,318
August 31, 1998	91	454	202	231	50	180	83	81	180	178	116	547	228	87	84	2,780	681	83	102	0	681	4,277
September 30, 1998	98	458	212	218	51	188	78	88	188	174	71	514	217	101	83	2,877	708	80	24	0	740	4,288
October 31, 1998	80	431	203	188	47	182	81	88	188	174	80	542	230	101	86	2,838	700	104	0	0	798	4,242
November 30, 1998	88	431	188	173	51	182	80	84	178	174	104	484	218	88	84	2,558	671	104	0	0	888	4,218
December 31, 1998	80	383	183	174	42	148	78	63	180	173	88	473	230	104	78	2,472	658	95	0	0	883	4,188

8/27/99

**Alaska Department of Corrections
Community Residential Centers
(FY96 Through FY99)**

	A	B	C	D	E	F	G
			FY96	FY97	FY98	FY99	FY2000
1	COMMUNITY RESIDENTIAL CENTER		Beds	Beds	Beds	Beds	Beds
2	Gastineau Human Services (Juneau)	Regular Beds	42	45	51	51	51
		Per Diem Beds	8	10	9	9	9
3	Northstar Center/Cornell (Fairbanks)	Regular Beds	68	80	84	84	84
		Per Diem Beds	12	15	15	15	15
4	Tundra Center/Cornell (Bethel)	Regular Beds	42	50	75	75	75
		Per Diem Beds	4	6	10	10	10
5	Cordova Center/Cornell (Anchorage)	Regular Beds	140	140	155	155	155
		Per Diem Beds	0	33	21	21	21
6	Midtown Center/Cornell (Anchorage)	Regular Beds	0	0	27	27	27
		Per Diem Beds	0	0	5	5	5
7	Parkview Center/Cornell (Anchorage)	Regular Beds	80	80	98	98	98
		Per Diem Beds	0	14	14	14	14
8	Glennwood/TJ Western (Anchorage)	Regular Beds	78	78	78	78	78
		Per Diem Beds	14	14	14	14	14
9	Akeela House/Cornell (Anchorage)	Regular Beds	0	0	14	14	14
		Per Diem Beds	0	17	3	3	3
10	Manilaq Association (Kotzebue)	Regular Beds	0	0	4	4	0
		Per Diem Beds	0	0	0	0	0
11	North Slope Borough (Barrow)	Regular Beds	0	4	4	4	4
		Per Diem Beds	0	2	2	2	2
12	Nome/Tuunrag Center	Regular Beds	0	0	0	0	34
		Per Diem Beds	0	0	0	0	6
13	Subtotal	Regular Beds	448	475	588	589	619
14	Subtotal	Per Diem Beds	38	111	93	93	99
15	TOTAL		486	586	681	682	718

FY2000 INSTITUTION POSITION COUNT

	CO	PO	OTHER	TOTAL
AMCC	29	2	8	39
HMCC	70	5	19	94
CIPT	90	4	25	119
FCC	68	5	17	90
KCC	28	1	7	36
LCCC	61	4	15	80
MSPT	27	1	7	35
PCC	74	5	26	105
SACC	38	4	14	56
SCCC	155	6	37	198
WWCC	72	5	26	103
YKCC	28	2	10	40
TOTAL	740	44	211	995

DOC Management Salaries and Travel - FY99

Budget Component	Position	FY99 Salary	FY99 Travel
Office of the Commissioner	Commissioner	\$111,666.36	\$18,333.36
Office of the Commissioner	Deputy Commissioner	\$100,896.73	\$7,732.66
Institution Director's Office	Director	\$106,734.91	\$13,065.18
Institution Director's Office	Deputy Director	\$90,067.07	\$1,253.93
Institution Director's Office	Assistant Director	\$92,246.17	\$6,527.77
Community Corrections Office	Lynda Zaugg	\$99,502.05	\$3,590.41
Community Corrections Office	Vicki Deakin	\$93,300.91	\$0.00
Division of Administrative Services	Dwayne Peoples	\$96,621.21	\$10,810.26
Division of Administrative Services	Joe Reeves	\$87,254.83	\$9,456.52
TOTAL		\$886,492.24	\$70,770.33

SEP-28-99 TUE 10:22 AM

FAX NO.

P. 02



Psychological Screening Contract		
Vendor	Desc.	Contract Amount
Turner, Paul	Psych. Screen	2,876.00
Turner, Paul	Psych. Screen	60,000.00
		\$ 62,876.00
Administrative Services Contracts		
Vendor	Desc.	Contract Amount
Wild Consulting (Robert Wild)	MIS Project	25,000.00
Informix, Inc.	MIS	2,300,000.00
Metacorp Strategies	Powerbuilder Course	13,100.00
		\$ 2,338,100.00
Office of the Commissioner		
Vendor	Desc.	Contract Amount
Morris Associates	Youth Offender Prog.	16,560.00
RISE Alaska LLC	Ft. Greely Proj. Mgr.	TBD
		\$ 16,560.00
Inmate Health Care - Miscellaneous Services		
Vendor	Desc.	Contract Amount
Providence Hospital	Hospital	1,300,000.00
Medsearch	Pharmacy	16,690.00
Alaska Eye Care Centers	Optometric	23,486.10
AK Medical Mobile (AMMX)	X-Ray	12,000.00
AK Medical Mobile (AMMX)	X-Ray	18,000.00
DynaCare Laboratories	Lab	120,000.00
Rose, Roxanne	Dialysis	31,800.00
The Cotton Group	Medical Consult.	20,000.00
		\$ 1,541,976.10
Inmate Health Care - Nurse Services		
Vendor	Desc.	Contract Amount
Medsearch	Nurse	365,047.97
Medsearch	Nurse	121,335.66
Medsearch	Nurse	59,793.29
Medsearch	Nurse	74,123.96
		\$ 620,300.88
Inmate Health Care - Physician/PA Services		
Vendor	Desc.	Contract Amount
Thorn, Dale L.	PA	61,781.00
Meloche, Ernest	Phy/PA	48,000.00
Thompson, James	Phy/PA	79,200.00
DOC Docs	Phy	141,960.00
DeRamus, Leonie	Phy	42,000.00
Doty, Mary Ellen	Nurse Prac	45,520.00
Townsend, Christina	Phy	15,949.94
		\$ 434,411.24
Inmate Health Care - Dental Services		
Vendor	Desc.	Contract Amount
Stone, Gregory	Dental	72,912.00
Nome Dental Clinic	Dental	12,800.00
Kruchoski, Brian	Dental	31,743.85
Morrow, Geraldine	Dental	146,882.95
Yukon-Kuskokwim Health Corp.	Dental	12,140.50

DOC Contract Report 7/30/99

Maloney, Steven	Dental	38,061.30
Bornstein, Thomas	Dental	18,999.50
Majchrowicz, Mike	Dental	15,408.00
		\$ 348,758.10

Inmate Health Care - Mental Health Services

Vendor	Desc.	Contract Amount
Cladwell, Lynn	Mental Health	28,800.00
Akeela Treatment Services	Cross-Cultural	5,000.00
Smith, M.D., Douglas	Mental Health	22,500.00
Anchorage Community M.H. Services	Psych Residency	30,000.00
Charter North Behavioral Health System	Consultation	104,396.00
Norton Sound Health Corp.	Mental Health	29,011.20
		\$ 219,707.20

Inmate Programs - Substance Abuse Treatment Services

Vendor	Desc.	Contract Amount
Akeela Treatment Services	ISAT	54,276.96
Akeela Treatment Services	ISAT	97,621.44
Akeela Treatment Services	ISAT	84,166.08
Mat-Su Recovery Center	ISAT	180,131.00
Norton Sound Health Corp.	ISAT	54,282.00
Fairbanks Native Association	ISAT	103,401.00
Salvation Army Clitheroe Center	ISAT	417,696.88
City of Ketchikan, Gateway Center	ISAT	33,603.36
Gastineau Human Services	ISAT	48,011.00
		\$ 1,073,189.72

Inmate Programs - Sex Offender Treatment Services

Vendor	Desc.	Contract Amount
Atrops, Martin	Supervision	28,350.00
Atrops, Martin	Institution	17,325.00
Isbell, Don	Pleth. Testing	6,960.00
Tongass Community Counseling Ctr	Institution	98,100.00
Tongass Community Counseling Ctr	Community	40,500.00
Fairbanks Psychiatric & Neurological Clinic	Community	53,400.00
Shoemaker, David	Community	31,890.00
Center for Psychosocial Development	Institution	46,564.00
Dempsey, John	Community	31,584.00
Brown, Christie	Institution/Testing	9,750.00
Nielsen, Jan	Community	52,440.00
Nielsen, Jan	Community	38,040.00
Graves, Ph.D., Roger	Community	38,340.00
Dempsey, John	Institution	84,240.00
Brown, Christie	Institution	46,550.00
Mander, Anthony	Consultation	26,896.00
Nielsen, Jan	Institution	84,240.00
		\$ 735,171.00

Inmate Programs - Chaplaincy

Vendor	Desc.	Contract Amount
AK District Council/Assembly of God	Chap. Support	84,327.00
		\$ 84,327.00

Out-of-State Contractual

DOC Contract Report 7/30/99

Vendor	Desc.	Contract Amount
Correctional Corporation of America	1,850 Prison Beds	14,078,739.00
		\$ 14,078,739.00
Misc. Contracts - Institutions		
Vendor	Desc.	Contract Amount
BI Incorporated	Elec. Monitoring	174,480.40
		\$ 174,480.40
Community Residential Center Contracts		
Vendor	Beds	Contract Amount
North Slope Borough/Aullaqissatqigvik	4+2**	167,352.96
Cornell Corrections - Cordova Center	27+5**+6**	211,778.94
Cornell Corrections - Parkview	80+18**+14**+(28 slots)	863,226.00
Akeela Treatment Services	14+3**	90,603.03
Gastineau Human Svc - Glacier Manor	46+5**+9** + (15 slots)	1,494,883.08
Cornell Corrections - Northstar Center	80+4**+15**	1,924,442.64
Cornell Corrections - Tundra Center	56+19**+10**	2,243,653.20
TJM Western - Glennwood	76+14** + (18 slots)	1,760,423.40
Cornell Corrections - Cordova Center	92+16**	2,055,309.60
Cornell Corrections - Midtown Center	27+5**	609,045.96
Cornell Corrections - Court Ordered Reception C	n/a	65,000.00
Akeela Treatment Services - Tuunraq	10+24**+6***	1,017,231.12
Cornell Corrections - Cordova Center	26+5**	590,021.28
Total beds under contract -	718	
		\$ 13,092,971.21

DOC Contract Report 7/30/99

Vendor	Description	Contract \$
High Intensity Training	CIPT - ABE/GED for Mike Mod	11,000.00
Miriam Yeager	CIPT - ABE/GED and Life Skills	45,000.00
Vendor	Description	Contract \$
Mackay Hill, Robin	Remedial Reading	2,340.00
Action Training & Workshops	Stress, cross culture, communication	1,800.00
ACE English Services	English (ESL)	4,950.00
Straugh, Danni	Cognitive Skills	1,800.00
		\$ 10,890.00
Vendor	Description	Contract \$
Collins, Jason	Reading, Writing, Math	4,950.00
ACE English Services	ABE/GED	4,950.00
Personnel Options	Vocational Counseling	4,980.00
High Intensity Training	Cognitive - Phase III	2,400.00
Kurpius Educational Consultants	Parenting/Finance	1,200.00
		\$ 18,480.00
Vendor	Description	Contract \$
High Intensity Training	Life Skills	4,950.00
		\$ 4,950.00
Vendor	Description	Contract \$
Higher Visions	Men's issues, communication, etc.	2,160.00
		\$ 2,160.00
Vendor	Description	Contract \$
UNI Enterprises	Stress Management/Interpersonal Relationships	4,680.00
Vendor	Description	Contract \$
Taylor, Susan	ABE/GED	1,500.00
		\$ 1,500.00

Urinalysis Testing Contracts		
Vendor	Desc.	Contract Amount
Alcohol-Drug Test Services	Coll	19,998.72
Alcohol-Drug Test Services	Test	17,364.00
Alcohol-Drug Test Services	Coll	19,826.40
Alcohol-Drug Test Services	Test	14,966.20
Alcohol-Drug Test Services	Coll/Test	174,253.00
Alcohol-Drug Test Services	Coll/Test	17,771.64
		\$ 284,179.96
Enhanced Probation Program		
Vendor	Desc.	Contract Amount
Tongass Community Counseling	Anger Mgmt	\$ 42,722.00
Adult Learning Center	ABE/GED	\$ 2,500.00
High Intensity Training	Cognitive Skills	\$ 10,000.00
Good Samaritan Counseling Center	Victim Impact Coord.	\$ 12,500.00
		\$ 67,722.00
Misc Contracts - Community Corrections		
Vendor	Desc.	Contract Amount
Boyd, Robert	Farm Technician	\$ 19,500.00
Templeton Consulting	Expenditure Database	\$ 2,520.00
		\$ 22,020.00

Professional Services Contracts:

The department's professional service contracts for the most part do not contain language that would allow cost escalators for inflation. The department manages approximately 200 contracts per year. The majority of these contracts have either a firm annual dollar amount, or they provide for an hourly rate for services to be provided by the contractor, and establish a do not exceed amount during the term.

There are currently three contracts that the department maintains that contain price adjustment language. One of these three contracts is for out of state prisoner care (Arizona), and allows for the bed prices to be adjusted up or down, not to exceed 2% per year, and is to be based on changes in the nationwide CPI.

The other two contracts are for the purchase of furniture components and related services for the Alaska Correctional Industries program. The two vendors provide chair and systems furniture components to ACI. The contract's pricing structure establishes the amount of discount from the manufacturer's list price. While the discounted amount cannot change during the life of the contract, the manufacturer's list price can be adjusted at the time of renewal. Contractor must request the increase in writing, and must also provide sufficient justification for the increase.

Non-professional Services Contracts:

The department maintains approximately 45 contract awards per year. All of these contracts are established using formal bidding procedures. Most of these contracts are for food items and do contain language that allows annual price adjustments based on CPI or PPI fluctuations.

Thirty days before annual renewals each contractor must request any increases to their prices in writing. They must also provide justification why the increase is necessary. The department will determine if the request is justified and whether or not to accept the request. If the department determines that the increase is not justified we may cancel and re-bid the contract. A few of the contracts may be adjusted upon written request any time during the contract period, and are to be based on justifiable CPI fluctuations.

Nine of the contracts are for produce, meat, and groceries. These contracts are the larger volume food contracts and provide the department with the majority of our food items. Pricing is at the vendor's cost for the item, in addition to a pre-set management fee. The vendor's costs of the items may change (either weekly or monthly) but the management fee cannot change during the current term. Although these nine contracts allow for inflation increases, they only provide for increases to the freight portion of the management fee. Increases are based on fluctuations to Sealand or Tote tariffs and may be considered periodically, and no more than monthly. The freight rates may be adjusted if the department determines the increase is justified.

CONTRACT AWARDS BY NUMBER

AS OF: 09/24/99

PAGE 1

CAS	VENDOR	DESCRIPTION	FROM	TO	FACILITY	OPTIONS	CURRENT	NOTES
20001A	COMTEC BUSINESS SYSTEMS	TELE. UPGRADE/MAINT	01/16/99	01/31/01	PALMER CC	NONE	2004099	UPGRADE, & 24 MTH MAINT
2018386	COMTEC BUSINESS SYSTEMS	TELEPHONE SYSTEM/MAINT	08/28/98	08/28/01	WWCC	1 YR MAINT	20-183-98	EXERCISE MAINT OPT. 600
24382	ANCHORAGE COLD STORAGE	SODA DISPENSING	08/18/99	09/18/00	PALMER CC	5 OF 5	20-023-00	
24383	ANCHORAGE COLD STORAGE	SODA DISPENSING	08/18/99	09/18/00	HMCC	5 OF 5	20-024-00	
24306	FOOD SERVICES OF AMER.	SE GROCERIES	02/01/99	01/31/00	SE REGION	4 OF 4	20-080-98	KCC, LCCC, ADD 34 4/12/99
24441	INTERSTATE BRANDS CORP	MISC BAKERY GOODS	03/01/99	01/31/00	DEPARTMENT	3 OF 3	20-046-98	ANCH, PALM, EAG, RIV, BETHEL
24440	PEPSI-COLA	SODA DISPENSING	07/01/99	08/30/00	WWCC	3 OF 3	20-007-00	
24467	WINTER TELECOMM	NEW TEL. SYSTEM	08/06/97	08/04/99	SCCC	NONE	20-116-97	INSTALL SYSTEM
24476	SECURITY TELECOMM CORP	INMATE TELEPHONE SYS	05/23/97	08/28/04	DEPARTMENT	NONE	20-	INSTALL & REVENUE
24483	FOOD SERVICES OF AMERICA	CENTRAL PRODUCE	08/11/99	09/10/00	FBKS CC	2 OF 4	20-025-00	FCC PRODUCE ITEMS
24484	FOOD SERVICES OF AMERICA	S.C. REGION PRODUCE	08/11/99	09/10/00	SC REGION	2 OF 4	20-008-99	ALL SC REGION PRODUCE
24485	FOOD SERVICES OF AMERICA	S.E. REGION PRODUCE	08/11/99	09/10/00	LCCC, KCC	2 OF 4	20-026-00	LCCC, KCC PRODUCE ITEMS
24486	PETERKIN DISTRIBUTORS	DAIRY PRODUCTS	08/17/99	09/18/00	VARIOUS	1 OF 3	20-014-00	SIXTH, HMCC, CIFT
24502	PETERKIN DISTRIBUTORS	MISC. DAIRY PRODUCTS	08/01/99	07/31/00	WWCC	3 OF 3	20-026-99	
27542	BEHRING DIAGNOSTICS	DRUG TESTING SUPPLY	12/01/97	11/30/98	DEPARTMENT	3 OF 3	20-039-98	EXPIRED
27629	KNIGHTWATCH SECURITY	UNARMED GUARD SERVIC	month	month	COMM OFF	M TO M	20-	SPAM CAN GUARD \$19.07/MTH
27631	AMEHIGAS PROPANE	PROPANE KEEP FULL	01/01/99	12/31/99	PT MAC/PCC	4 OF 4	20-032-98	PT MAC & PCC
27681	ANACOMP	MICROFICHE SERVICES	01/01/99	12/31/99	SERO	3 OF 4	20-036-98	
27892	ECOLAB INC	MISC CHEMICALS	06/01/99	05/31/00	DEPARTMENT	3 OF 3	20-032-99	LDTRY, WAREWASH, MISC CLEAN
27732	AURORA GAS INC	NATURAL GAS	01/01/99	12/31/99	VARIOUS	2-1 YR	20-082-97	CIFT, PTMAC, HMCC, MSPT, WWCC
DOC002	WAVE WHOLESALE CO	MISC. DAIRY PRODUCTS	08/14/99	03/13/00	VARIOUS	2 OF 3	20-080-97	PCC, MSPT, PT MAC,
DOC003	PEPSI-COLA BOTTLING	SODA DISPENSING	09/01/99	08/31/99	FCC	1 OF 4	20-002-98	CANCEL EFF. 8/31/99
DOC004	REGAL FOODS LLC	MISC BAKERY PRODUCTS	08/16/99	08/14/00	WWCC	2 OF 4	20-114-97	
DOC005	ODOM CO. (COCA-COLA)	SODA DISPENSING	04/01/99	03/31/00	LCCC	1 OF 4	20-013-98	LCCC
DOC006	ANCHORAGE COLD STORAGE	SODA DISPENSING	04/01/99	03/31/00	SCCC	1 OF 4	20-027-98	SCCC
DOC007	VALLEY WHOLESALE	MISC DAIRY PRODUCTS	04/16/99	04/16/00	LCCC	1 OF 3	20-082-98	
DOC008	WAVE WHOLESALE COMPANY	SC GROCERY	07/23/99	07/27/00	SC REGION	1 OF 4	20-083-98	
DOC009	WAVE, DBA HUB FOODS	C GROCERY	07/28/99	07/27/00	FCC	1 OF 4	20-083-98	
DOC010	FOOD SERVICES OF AMERICA	MISC MEAT ITEMS	08/01/99	08/31/00	C REGION	1 OF 4	20-030-00	FCC ONLY
DOC011	FOOD SERVICES OF AMERICA	MISC MEAT ITEMS	08/01/99	08/31/00	SC REGION	1 OF 4	20-029-00	NINE INST & PT MAC
DOC012	FOOD SERVICES OF AMERICA	MISC MEAT ITEMS	08/01/99	08/31/00	SE REGION	1 OF 4	20-028-00	LCCC & KCC
DOC013	FOOD SERVICES OF AMERICA	MISC DAIRY PRODUCTS	08/01/99	08/31/00	PCO	1 OF 3	20-027-01	
DOC014	PEPSI COLA	SODA DISPENSING	10/15/98	10/14/99	PT MAC	4-1 YR	20-022-96	
DOC015	PENAIR	AIRCRAFT CHARTERS	11/12/98	10/28/99	SCRO	3-1 YR	20-020-99	PRISONER TRANSPORT
DOC016	TEAMWORKS INC	SECURITY GUARDS	02/18/99	12/31/99	DEPARTMENT	3-1 YR	20-036-99	UNARMED
DOC017	DETCONATIONAL SECURITY	SECURITY GUARDS	02/18/99	12/31/99	DEPARTMENT	3-1 YR	20-036-99	UNARMED
DOC018	KNIGHTWATCH SECURITY	SECURITY GUARDS	02/18/99	12/31/99	DEPARTMENT	3-1 YR	20-036-99	UNARMED
DOC019	PETERKIN DISTRIBUTORS	MISC DAIRY PRODUCTS	03/23/99	03/21/00	SCCC	3-1 YR	20-041-99	
DOC020	WORLD WIDE MOVERS	FREIGHT & MISC SVCS	05/19/99	05/16/00	ACI	4-1 YR	20-034-99	

INMATE EDUCATION PROGRAMS

Provided at all facilities:

Adult Basic Education - includes basic academic instruction in reading, writing and computational skills below the ninth-grade level. ABE services are provided to adults whose inability to speak, read, or write the English language and/or perform basic math computations prevents their functioning at the highest level of their ability to meet family, job and societal responsibilities. ABE includes English as a Second Language (ESL) instruction for prisoners whose primary language is other than English and who have a need to improve speaking, reading and writing. Additionally, ABE includes Literacy instruction for prisoners whose reading and writing skills are below fourth-grade level. ABE instruction is provided on both an individual and small class basis.

General Equivalency Degree(GED) - includes instruction above the eighth-grade level and below the college level in the areas of writing, reading, science, social studies, and mathematics. GED programs provide pre-testing, instructional classes, and GED testing.

Life Skills - there are four core curriculum areas provided in the Life Skills area, including Health and Safety, Communications Skills, Cultural Activities, and Pre-Release/Pre-Employment Preparation. Topics vary by institution within the core areas. The individual institution list below provides specific information on the courses being offered at the current time.

SPECIFIC EDUCATION PROGRAMS (by facility)

Pretrial facilities:

Institution	Life Skills	Certified Vocational Programs	Non-Certified Vocational	Post-Secondary
6th Avenue CC	Human Relationships Women's Issues (as needed) CPR/First Aid Stress Reduction Men's Issues Cross-Cultural Issues Parenting&Family Skills Employment Skills Money Mgmt&Consumer Educ. Safer Sex & Health Issues	None	Career Counseling Educ. Opportunities Center (EOC)	Correspondence Only

<u>Institution</u>	<u>Life Skills</u>	<u>Certified Vocational Programs</u>	<u>Non-Certified Vocational</u>	<u>Post-Secondary</u>
Cook Inlet	Cross-Cultural Communication Anger & Stress Mgmt. CPR/1st Aid Men's Issues AIDS Awareness Career Development Resumes & Job Skills Parenting and Family Skills Presentation Skills Business Entrepreneurship Financial Aid/AKCIS	None	Career Couns By EOC	Correspondence Only- various colleges
Mat-Su Pretrial	Computer Skills Anger&Stress Mgmt AIDS/HIV & other STD's Intro to CPR/ 1st Aid Communication Parenting Skills Cultural Awareness Money Management Time Management Job Skills Health & Nutrition Blood-Bourne Pathogens Critical Thinking Decision Making Goal Setting Life Planning Various Writing, Art, Literature, History	None	None	Correspondence Only

	<u>Institution</u>	<u>Life Skills</u>	<u>Certified Vocational Programs</u>	<u>Non-Certified Vocational</u>	<u>Post-Secondary</u>
pre-trial	WildWood Pre-Trial	Women's Anger Management Women's Self Esteem Men's Anger Management Stress Management (men & women) First Aid/ CPR (men & women) Computer Skills	None	None	Correspondence Only
pre-trial	Yukon- Kuskokwim C.C.	Nutrition Anger&Stress Mgmt. Basic 1st Aid/CPR Various Arctic/Winter Survival Tobacco Free AIDS/STD Education Communications Across Cultures Family & Parenting Couples Skills Family Secrets How to Deal With Difficult People Interpersonal Relationships AK Native Cultural Activities (Potlatches, Elder Visits) Computer Skills Job Seeking/Training Opportunities Budgets & Money Mgmt/Consumer Education	None	None	None
	Ketchikan C.C.	Parenting Assertiveness; Decision Making Anger&Stress Mgmt Cross-Culture awareness Basic Computer Skills Job Seeking Skills	US Coast Guard(1988) Boating Safety	None	Correspondence Only

<u>Institution</u>	<u>Life Skills</u>	<u>Certified Vocational Programs</u>	<u>Non-Certified Vocational</u>	<u>Post-Secondary</u>
Anvil Mountain C.C.	CPR/1 st Aid Parenting Nutrition Beading/Quilting/Painting Animal First Aid Eskimo Dancing & Drumming Net Mending & Hanging Ivory Carving & Scrimshaw Small Business Operations Intro. to Photography Arctic Survival FAS/FAE	Div. of Public Health: Emergency Trauma Tech. Board of Nursing: Nurse Aid DEC: Wastewater Tx Plant Operator	Small Engine Repair Snowmachine/ 4-wheeler repair Welding	UAF NW Campus Correspondence & Audioconf.

Sentenced Facilities:

<u>Institution</u>	<u>Life Skills</u>	<u>Certified Vocational Programs</u>	<u>Non-Certified Vocational</u>	<u>Post-Secondary</u>
Hiland Mountain CC	Self Esteem Health Issues Interpersonal Psychology Women's Issues in Film Literature Pre-Release Cognitive Restructuring Grief & Loss Budgeting & Consumer Math Personal Growth Current Events Career Tracking/AKCIS Parenting Motherhood Domestic violence Mary Magdalene groups	UAA Comm&Tech College: Intro to Computers Horticulture Program Building Maintenance Program Job Savvy Program (goals, values, Customer service, etc) What's Out There? (job-hunting) <i>cert. by: AK Postsecondary Commission</i>	None	Correspond & distance-various colleges

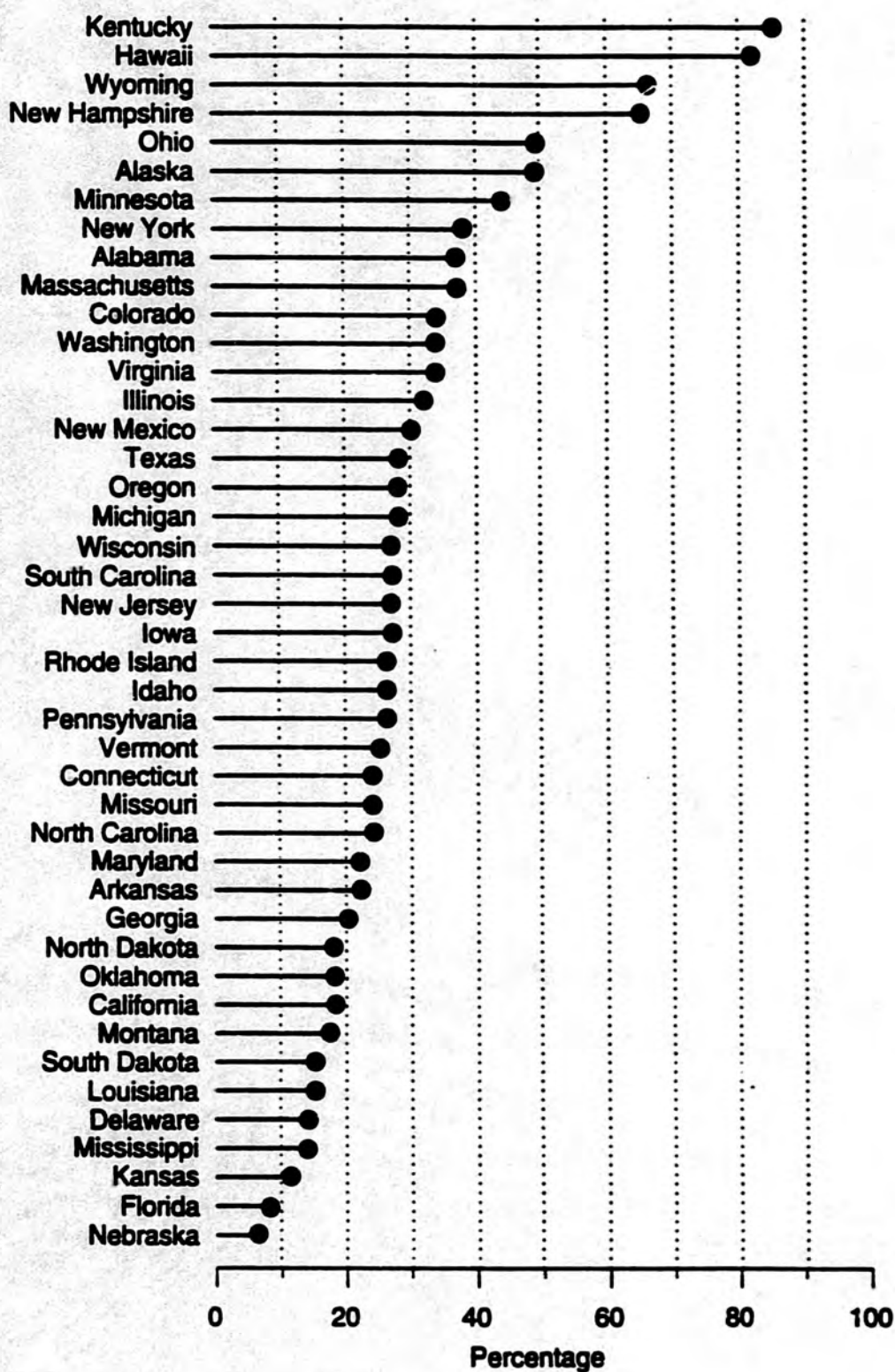
<u>Institution</u>	<u>Life Skills</u>	<u>Certified Vocational Programs</u>	<u>Non-Certified Vocational</u>	<u>Post-Secondary</u>
Spring Creek CC	Parenting CPR/1 st Aid Native Heritage Group Computers (indep study) Creative Writing Anger & Stress Mgmt Starting a Business Marketing & Finance Intro to Business Pre-Release Typing	DOL Certified: Building Maintenance Repairer Materials Coordinator Cook Baker AVTEC (AK Post-Sec Commission) Instruction for Apprenticeships	None	UAA: CLEP/DANTES Testing Various Indep. Study
Wildwood C.C.	Anger & Stress Mgmt CPR/1st Aid Parenting Computer Skills Communication Skills Native Culture Awareness Pre-Release	OSHA certified: Oilfield Health & Safety Oilfield Confined Spaces	Intro Basic Comp. Private Pilot Ground School & Instrumentation	KPC- AutoCAD (comp.assisted drafting) Various independent study
Palmer C.C.	Anger Management Art Classes CPR/1st Aid Newspaper Personal Finance	OSHA Certified: Hazardous Materials Handling DOL Certified: Butcher/Meat Cutter (1/90) Baker (1/90) Building Maintenance Custodial Maintenance	AutoCAD Building Maint.	Correspondence Only

<u>Institution</u>	<u>Life Skills</u>	<u>Certified Vocational Programs</u>	<u>Non-Certified Vocational</u>	<u>Post-Secondary</u>
Fairbanks C.C.	Job Preparation Skills Creative Writing Parenting Native Culture Club Personal Finance Small Businesses Personal Hygiene Stress Management Basic Computer skills Native History Health & AIDS Awareness Options/Cog. Restructuring	Div. of Public Health: Emergency Trauma Tech DOL Certified: Cook Baker Materials Coordinator Div. of Forestry: Wild Land Firefighter Red Card Certification	None	UAF - 1 cr. computer course Misc. Correspondence
Lemon Creek C.C.	Stress Management Assertiveness Training Health Issues Native Culture Club Parenting Guitar classes CPR/1 st Aid Employment Skills Job Readiness Computer Basics/Keyboarding	Office Skills Program- AK Computer Inst (cert. by AK Post-Sec Comm) 7/91 DOL pgms: Landscape Technician	Basic Construction Basic Electricity CDL Study & Testing	Correspondence Various Univ.
Point McKenzie Project	Resume Workshop CPR/1 st Aid Computer fundamentals Typing/keyboarding Word perfect Employment Skills AK Drivers License	Microsoft Certification Course Wildland Firefighting (DOF) Pesticide Handling (EPA) HazWoper Commercial Driving License	Food Svc. Sanitation Swine Mgmt. IBM Dos Trng. Mastercook Comp.	Misc correspond Elect. Journeyman Facilitation

11/4/98

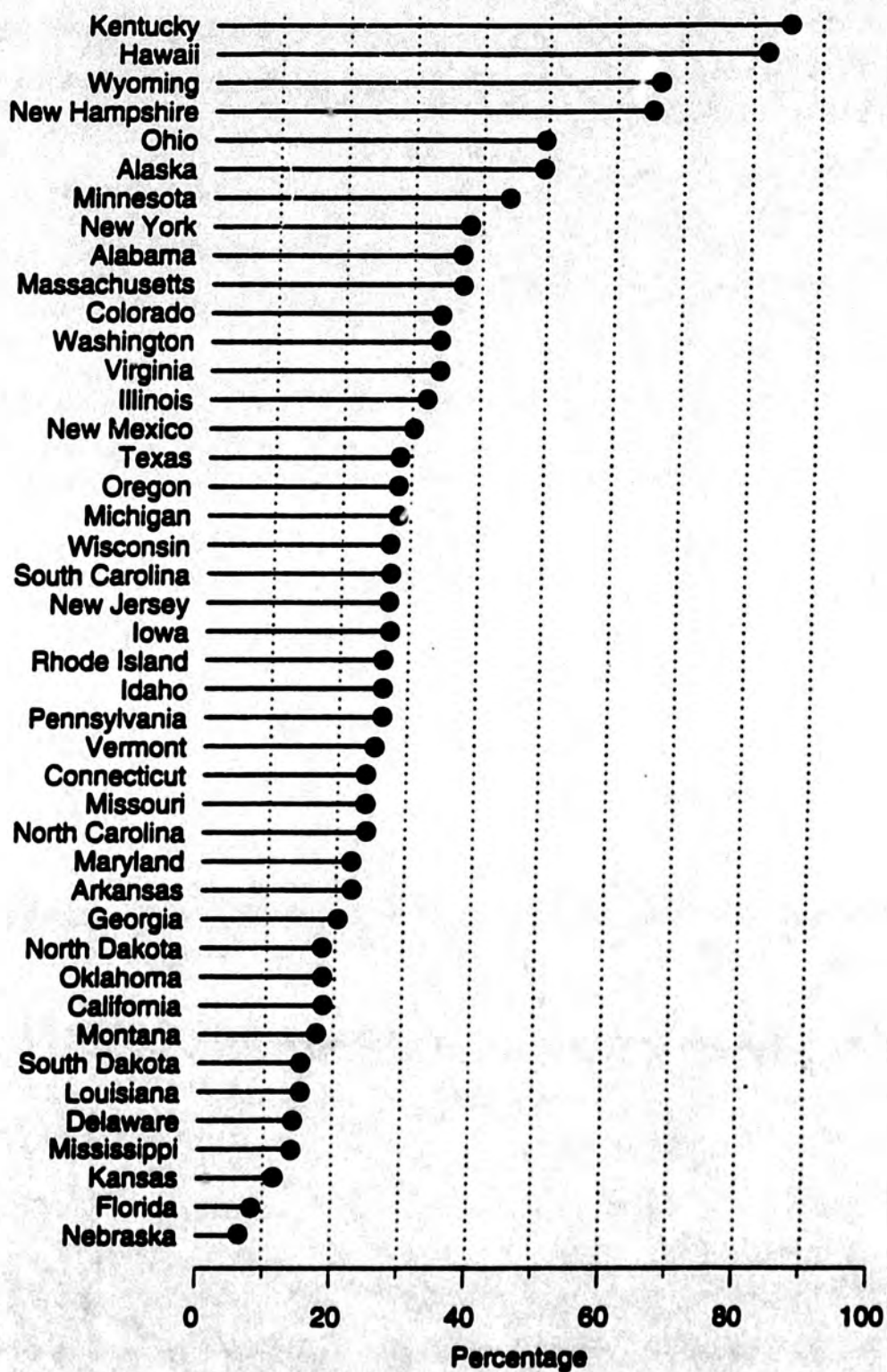
Figure 5

Percentage of Inmates Enrolled in Education Programs, by State



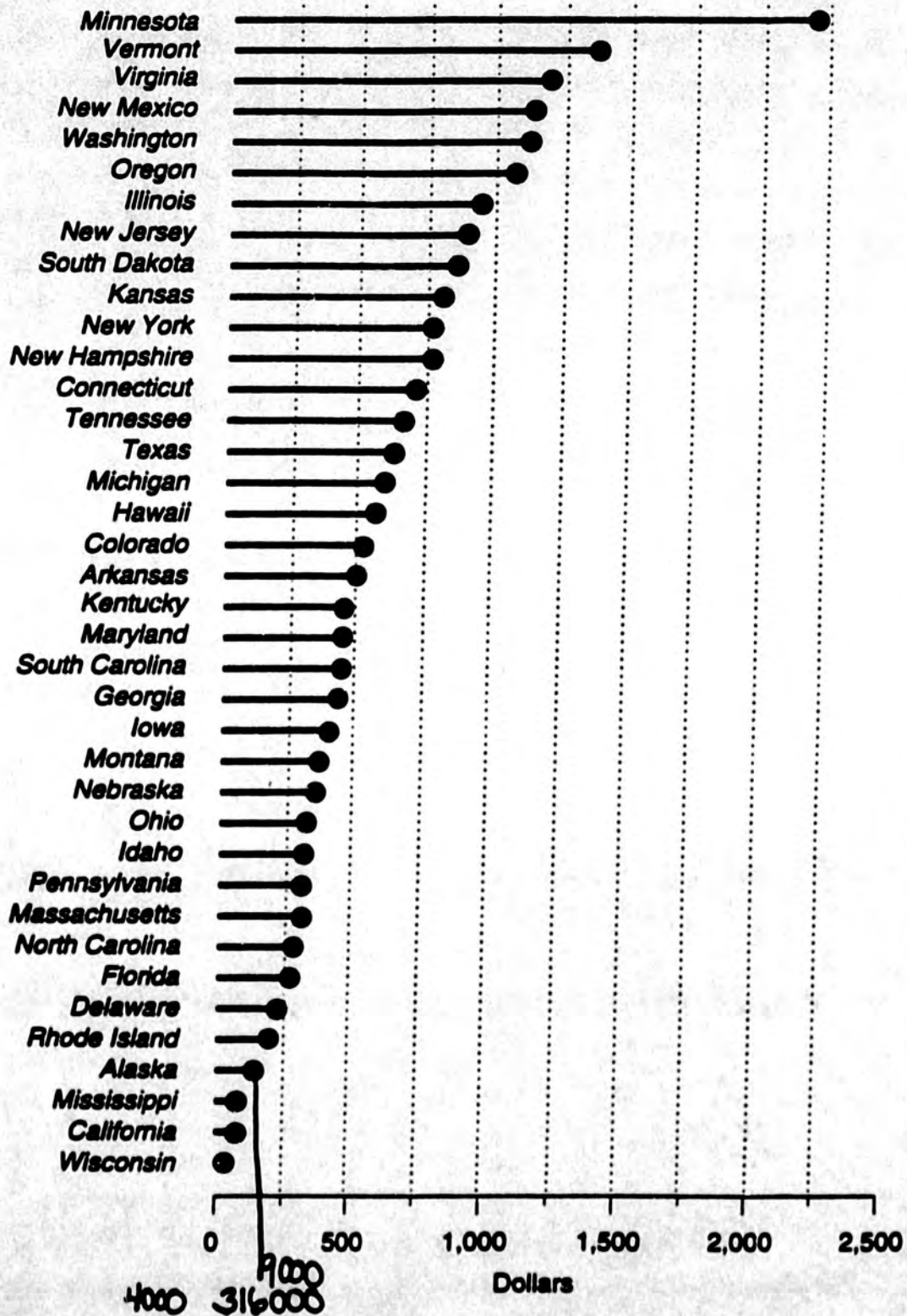
Source: *Corrections Compendium*, Volume XIX, No. 3, March 1994.

Figure 5
Percentage of Inmates Enrolled in Education Programs, by State



Source: Corrections Compendium, Volume XIX, No. 3, March 1994.

Figure 3
Total Education Budget Per Inmate. 1993-1994



Source: Corrections Compendium, Volume XIX, No. 3, March 1994.
 Missouri, Oklahoma, and Wyoming are not included because their reported budgets do not include personnel costs.

February 1999 E.O.M. Report

CLASS	STUDENTS	HOURS	PASSED	CERTIFICATES
Daily Computer Fundamentals	34	915		
Orientations	33	82		
GED / ABE	10	133		
Drafting Fundamentals	13	51	9	PMRP Certificates Issued
Friday Safety Session / Confined	106	53	6	8 tested
Pt. Mac Food Service Program	4	39	3	PMRP Cards Issued
Ed Dept. Crew Training	3	39		
Friday Safety Session / Identify Haz	108	54	10	10 tested
Keyboarding	3	19	1	Waskey-30 Min.
Friday Safety Session/Moving Ppt.	108	54	8	8 tested
ADL Testing / Studying	3	30	3	AK Drivers Permit
CDL Testing / Studying	1	30	1	CDL Permit-Buie
Friday Safety Session/Hygiene	108	54	9	9 Tested
Post Secondary	2	154	1	Wagner - Electrical Journeyman

TOTAL NUMBER OF CLASSES	14
TOTAL NUMBER OF STUDENTS	536
TOTAL CLASS HOURS	1707
TOTAL STUDENTS PASSED	51

CC: Mr. Strickland
PO Jensi
David Bales
File

**COMMUNITY RESIDENTIAL SUBSTANCE ABUSE
TREATMENT BEDS FOR DOC CLIENTS
FY'99**

Treatment Beds	Furloughees	Probationers/Parolees
Clitheroe Center (Anchorage)	11	2
ANARC (Anchorage)	2	0
Akeela House (Anchorage)	4	0
Gastineau House (Juneau)	0	2
RCAOA (Fairbanks)	2	1
Maniilaq (Kotzebue)	1	0
Hope House (Kodiak)	1	0
PATC (Bethel)	1	0
Total Beds	22	5

Rev: 9/99



**Professional and Non-Professional Services Contracts FY 99
(Excluding Out of State and CRC contracts)**

Following numbers are from prior year actual expenditures:

Inmate Health Care - contractual (& contract) expenditures for Medical/Dental Hospital and treatment services = 6,806.1

Inmate Programs - expenditures for Education, Substance Abuse, Sex Offender Treatment and Batterers Treatment = 2,154.4

Institution Director's Office - Contract training and E.M. = 5.7

12 Institutions - Small contract services and Food = 4,144.2

Community Jail Contracts = 4,717.1

Probation/Parole contract services for UA testing, monitoring, education, and substance abuse contracts = 237.9

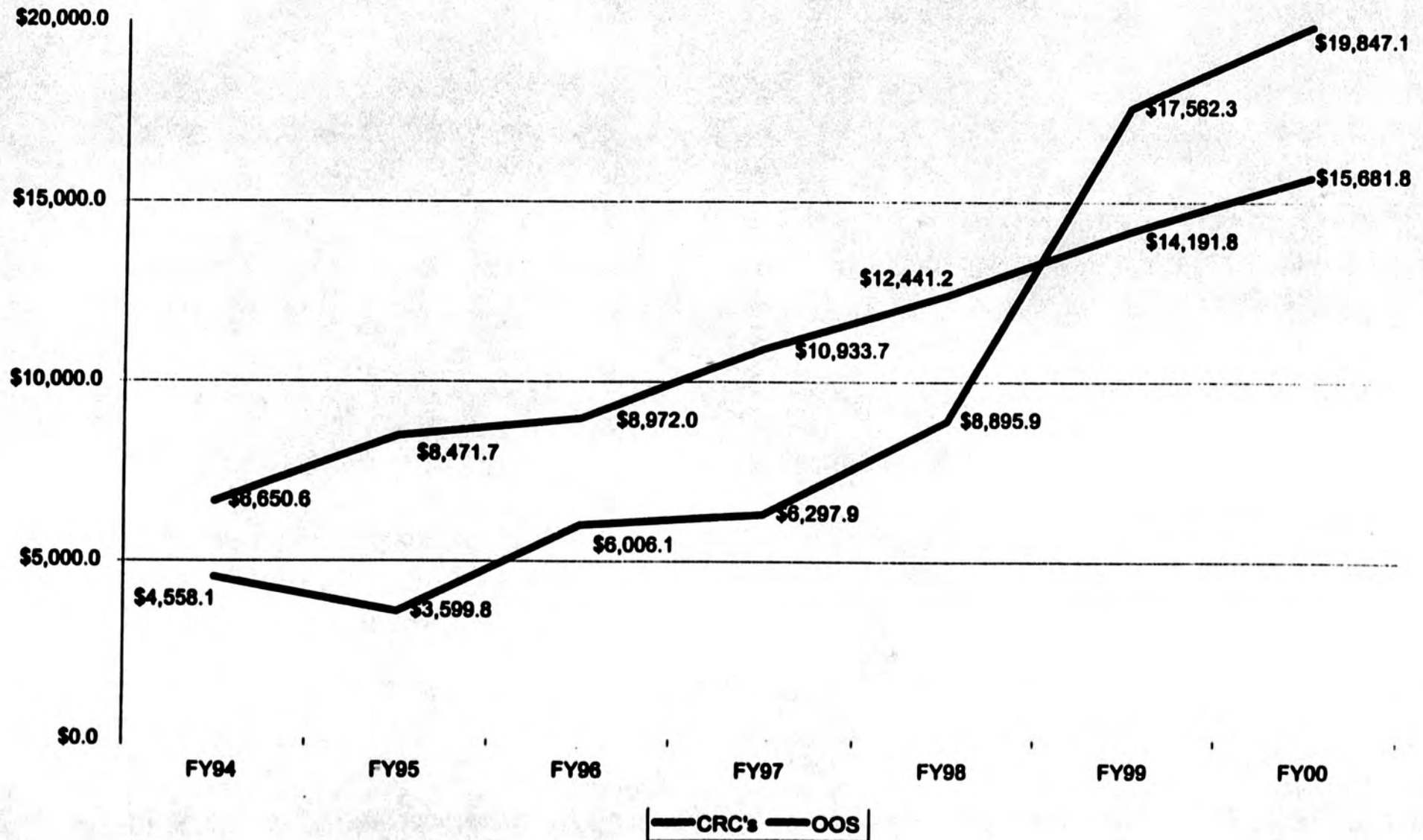
Point MacKenzie - small contract services, food and education/substance abuse contracts = 246.6

Psychological Testing contract for CO and PO applicants = 54.9

Rise Alaska contract (Management/Consultation Svcs.) = 154.6

TOTAL = 18,521.5

Total CRC and Out of State



Department of Corrections

Efficiency Innovations:

- In 1994 the Superior Court of Alaska began assessing daily fines against the Department as a result of overcrowding. Since then, approximately 3.6 million dollars in fines have accrued. As a result of the Department's efforts to manage the ever increasing offender population, the Court suspended the fines effective April 15, 1998.
- The Division of Institutions designated the Hiland Mountain Correctional Center as the state facility for female prisoners. The female population is small compared to that of the male, and centralizing female prisoners in one facility saves money in terms of duplication of services in several different facilities. Proximity to Anchorage and specialized female health care will reduce transportation and specialty care costs. Further, the action has avoided costly litigation on conditions of confinement for female prisoners.
- The Department has dramatically increased the both the number and utilization rate of Community Residential Center beds. The number of beds has increased to from 486 to 681, and the utilization rate from 87% to 97-100%. In addition, new Community Residential Centers have opened in Barrow and Kotzebue providing the first services of that kind to more rural areas of the state. Careful population management decisions protect the public by keeping dangerous criminals incarcerated and placing others in lower cost community beds.
- An eighteen bed treatment unit for mentally ill female prisoners was created at Hiland Mountain Correctional facility. Though the Department has for many years operated a unit for male prisoners with mental illness, no such unit existed for females. The unit consolidates services in one facility and avoids costly hospitalization for treatment of mental illness.
- Technology has been installed at the correctional institutions in Nome, Bethel, Juneau and Kenai to provide video mental health screenings and assessment. The technology provides immediate psychiatric attention in locations where the services are limited while avoiding costs for transportation, consultation and hospitalization.
- The medical unit has developed Preferred Provider contracts for hospital and ophthalmologic services saving a great deal of money on specialty health care.
- The Department of Corrections is automated. Technology has been installed providing the staff at the 32 sites across the state, computerized communication capability and computerized access to offender data. E-mail alone saves time, money and effort. Computerized access to offender data makes all operations far more efficient.
- The Division of Community Corrections now enters critical conditions of probation and parole directly onto the DPS APSIN system, which allows law enforcement across the state to have on-line access to offender conditions. This saves officer time as the information was available previously only by phone call.
- DOC began registering sex offenders prior to release from incarceration as a more timely and efficient way to keep the DPS registry current, and thus for Alaskan citizens to have immediate access to sex offender data via the internet.

- The Division of Community Corrections, has streamlined case management through technology. We now provide an offender-pay 900 telephone number for probationers and parolee routine reporting functions. Previously these routine reports were made to the Probation Officer either in person or through a phone call or letter all of which were time consuming.

Contracted Services:

- The Department has increased contracts with private providers state-wide to include medical/dental and mental health services, substance abuse and sex offender treatment, chaplains services, culturally specific training, education, urinalysis testing, and community residential center (half-way house) beds.
- The Department has contracted for a secure telephone system which not only will allow inmate calls to be easily monitored for security purposes, but is estimated to generate \$225,000 in annual income once the system is in place.
- The Department has contracted for nearly \$22 million worth of private sector services, mostly for Inmate Health Care, Community Residential Center contracts, and out-of-state contractual services.



Department of Corrections

LONG TERM PLAN
(July 1, 1999 to July 1, 2003)

("The Spreadsheet")

State	Month	Year	March "A" Forecast	Pt. M 112	Fac 2616	AZ 874	Fed 29	CRC 662	Treat 36	EM 0	CRCs 0	Tents 0	THU 0	CAP 0	Ft G 0	Total 4349	Beds+/-	Month	Total AZ Beds
FY 1999	March	1999	4229 Actual			0		0		0						4364	(199)*	March	874
	April	1999	4285 Actual			-95				15 Juno						4289	(68)*	April	779
	May	1999	4328 Actual			-60					40 FCC					4249	(15)*	May	719
	June	1999	4237 Actual			0				21 Anchorage	15 Anch					4285	(102)*	June	719
FY 2000	July	1999	4279			0				39 Anchorage	21 Anch					4345	68	July	719
	August	1999	4371			0		40 Nome								4385	14	August	719
	September	1999	4480			50				25 Frbks	-40			89		4509	29	September	769
	October	1999	4612			89				20 Anch						4618	6	October	858
	November	1999	4656			50										4668	12	November	908
	December	1999	4632			0										4668	36	December	908
	January	2000	4709			50										4718	9	January	958
	February	2000	4770			60										4778	8	February	1018
	March	2000	4787			15										4793	6	March	1033
	April	2000	4748			-35										4758	10	April	998
	May	2000	4744			-48						40 FCC				4750	6	May	950
	June	2000	4732			-10										4740	8	June	940
FY2001	July	2000	4759			0						20 PCC				4760	1	July	940
	August	2000	4735			0				10 Mat-Su						4770	35	August	940
	September	2000	4735			12				10 Juno/10 Frbks		-60				4742	7	September	852
	October	2000	4724			0										4742	18	October	952
	November	2000	4717			0				10 Mat-Su/10 Kenal						4762	45	November	952
	December	2000	4698			65										4827	129	December	1017
	January	2001	4800			100										4927	127	January	1117
	February	2001	4884			0				10 Anchorage						4937	53	February	1117
	March	2001	4896			0										4937	41	March	1117
	April	2001	4941			0				10 Ketchikan	10 Juno					4957	16	April	1117
	May	2001	4889			-92						40 FCC				4905	16	May	1025
	June	2001	4785			-100										4805	20	June	925

*This is the number of beds available before the Department would exceed the emergency capacity of all institutions. This illustrates the need to plan toward the "maximum number" in order to avoid exceeding the emergency capacity.

(The Spreadsheet)

[illegible]

presents a safe, economic alternative to sending inmates to Arizona. They can accommodate spikes that occur in the institutions' populations during these months. An example of such a spike occurred just recently, when a Chinese fishing vessel was intercepted in Alaska waters. The Department was required to hold 25 detainees until the federal government could take custody of them. Spikes also occur when significant numbers of inmates return from Arizona; they must be staged at an institution, such as the Palmer Correctional Center, before being transferred to halfway houses or an institution closer to their home. Tents are able to accommodate these temporary population surges. For FY 99, the additional staff needed to supervise prisoners in tents was funded only for Fairbanks (\$100,000 for four months).

B. Options that Increase Alternatives that Free Up Hard Beds

The second form of action that the Department can take to ensure adequate beds for its projected inmate populations is to increase its alternative placement options. Every prisoner who goes to a CRC (also known as a "halfway house") or is placed on electronic monitoring frees up a hard bed that can be used by another offender.

The Department's assemblage of alternatives to in-state hard beds as of June 30, 1999, consists of the following:

Pt. MacKenzie Farm	112
Existing CRC beds	682
Treatment beds	39
Electronic Monitoring	11
CRC Offender Supervision Program	36

Beds at the Central Arizona Det. Center	719
Out-of-state beds other than Arizona	27
TOTAL	1626

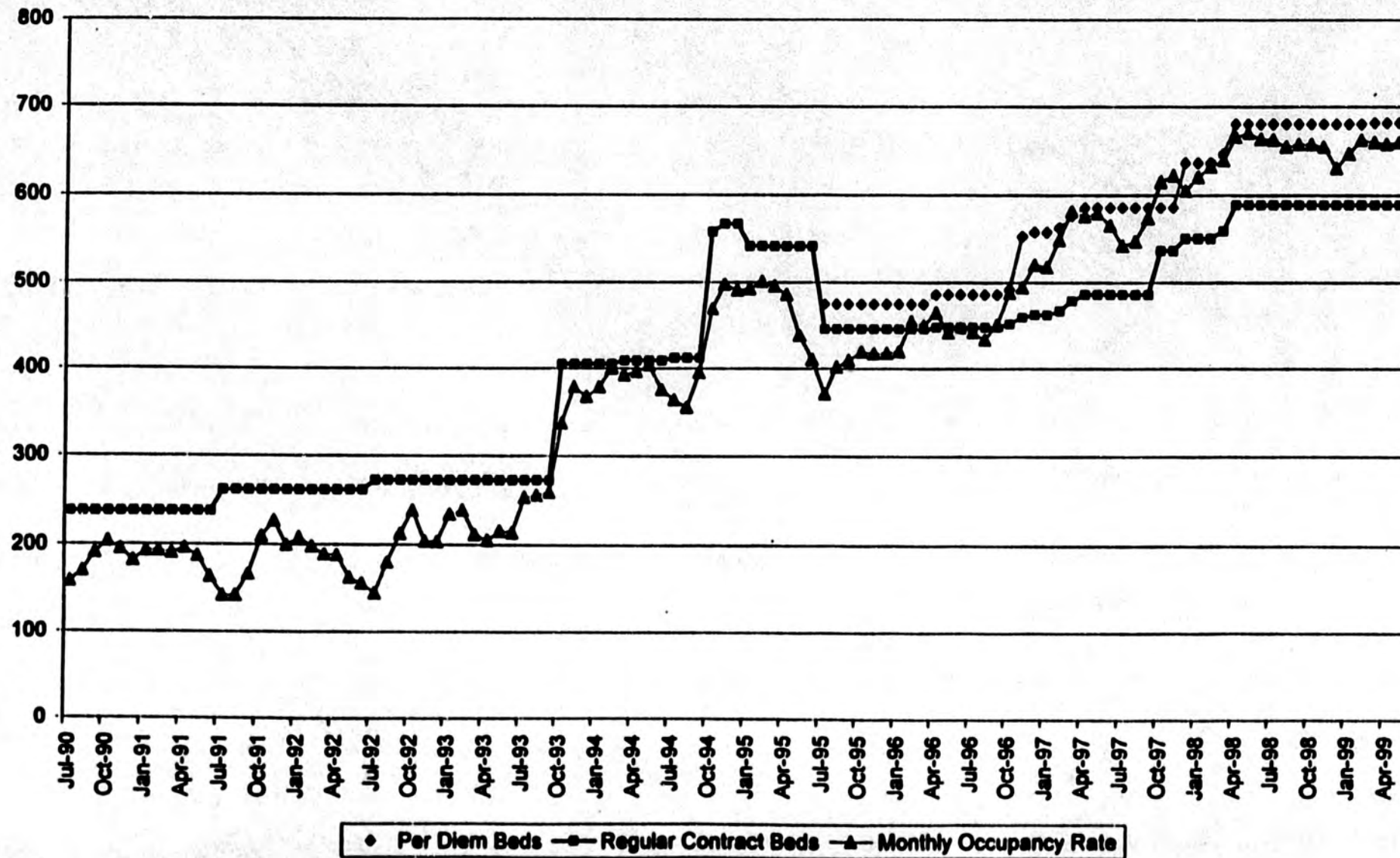
Additional CRC facilities: CRCs provide twenty-four hour supervision for offenders. This supervision extends into the community when the offender is participating in employment, education, treatment, or community work service programs.

Offenders participate in structured programming while residing at the CRC. Upon admission, each offender is assigned a case manager. The resident and his or her case manager develop a comprehensive program designed to address the resident's need for substance abuse counseling, mental health counseling, anger management, life skills, budgeting, and education goals. Before entering the program phase, however, the resident is required to participate in a seven-day orientation and stabilization period. During this time, the resident is required to participate in a minimum of forty hours of community work service. This provides the CRC staff with the opportunity to evaluate the resident and identify any special problem areas requiring attention.

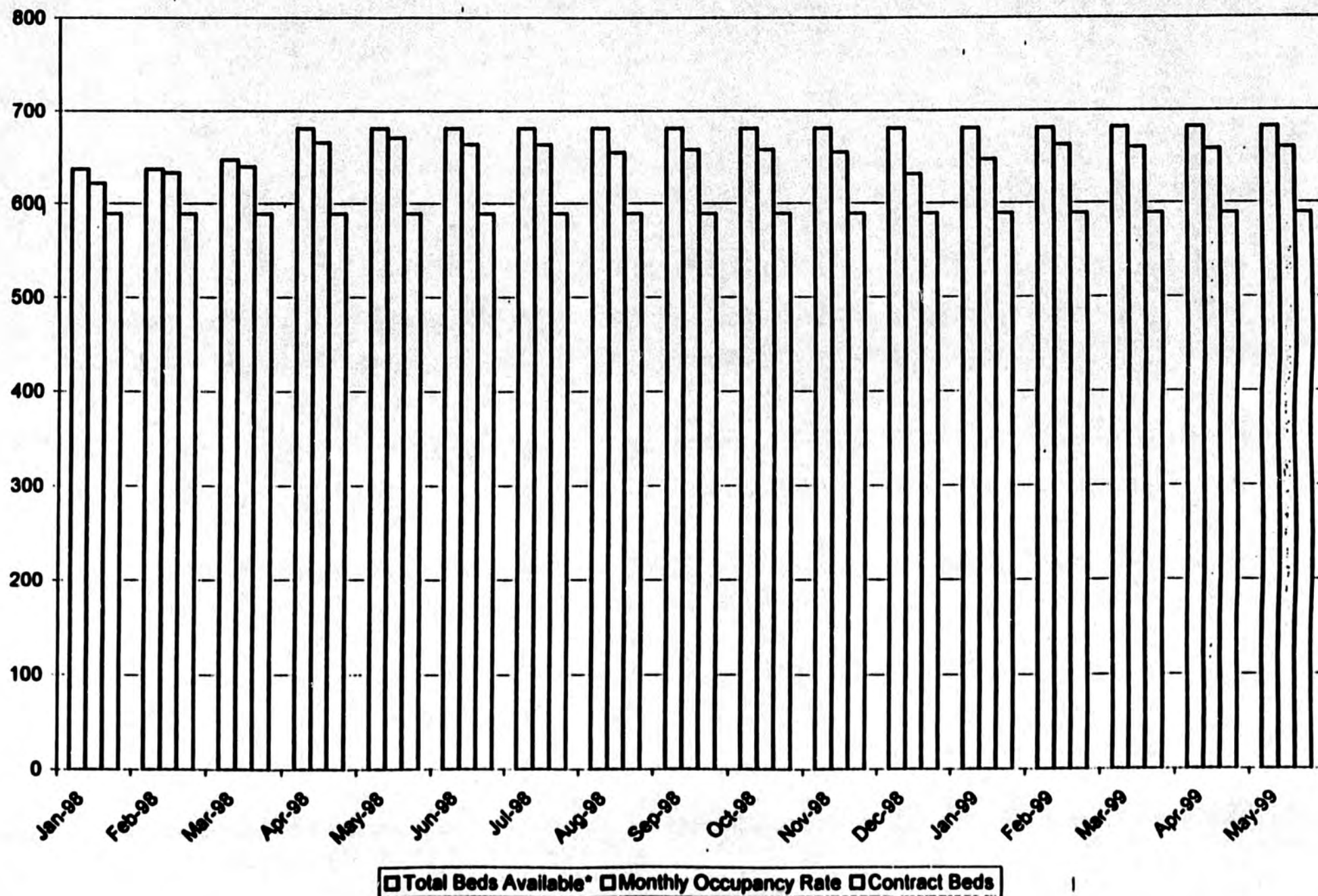
The Department provides direct contract oversight for each of the CRCs. It ensures that each facility operates in accordance with the terms of its contract and complies with the Department's CRC standards.

The Department houses an average of 16% of its overall prisoner population in CRCs, with an average daily occupancy rate of approximately 660 prisoners. During fiscal year 1998, 6,757 inmates served sentences in a CRC. See Chart 4 (CRC Utilization) on the

Chart 4: CRC Utilization July 1990 - May 1999



Jan 1998 - May 1999 CRC Average Populations



*Total beds available includes per-diem beds in addition to contract beds

CRC OCCUPANCY RATE July 90 through March 99

	Jul-90	Aug-90	Sep-90	Oct-90	Nov-90	Dec-90	Jan-91	Feb-91	Mar-91	Apr-91	May-91	Jun-91
Per Diem Beds												
Regular Contract Beds	238	238	238	238	238	238	238	238	238	238	238	238
Monthly Occupancy Rate	157.9	169.6	190.9	203.8	195	181.8	193.2	193.1	190.2	196.2	187	163.1
	Jul-91	Aug-91	Sep-91	Oct-91	Nov-91	Dec-91	Jan-92	Feb-92	Mar-92	Apr-92	May-92	Jun-92
Per Diem Beds												
Regular Contract Beds	262	262	262	262	262	262	262	262	262	262	262	262
Monthly Occupancy Rate	142.1	142.1	166.1	209.6	226.6	199.4	208	197.6	188.7	187.6	162.4	155.5
	Jul-92	Aug-92	Sep-92	Oct-92	Nov-92	Dec-92	Jan-93	Feb-93	Mar-93	Apr-93	May-93	Jun-93
Per Diem Beds												
Regular Contract Beds	273	273	273	273	273	273	273	273	273	273	273	273
Monthly Occupancy Rate	144.5	179.5	212.6	238.5	203.9	203.2	234	238.6	211.5	205	215.3	213.5
	Jul-93	Aug-93	Sep-93	Oct-93	Nov-93	Dec-93	Jan-94	Feb-94	Mar-94	Apr-94	May-94	Jun-94
Per Diem Beds												
Regular Contract Beds	273	273	273	405	405	405	405	405	409	409	409	409
Monthly Occupancy Rate	253.5	256.1	259.32	337.7	379.23	368.01	379.23	399.89	392.53	396.16	403.63	376.21
	Jul-94	Aug-94	Sep-94	Oct-94	Nov-94	Dec-94	Jan-95	Feb-95	Mar-95	Apr-95	May-95	Jun-95
Per Diem Beds												
Regular Contract Beds	412	412	412	558	567	567	542	542	542	542	542	542
Monthly Occupancy Rate	364.29	355.9	395.4	469.8	497.8	491.1	492.5	501.1	495.9	486.2	438.5	410.7
	Jul-95	Aug-95	Sep-95	Oct-95	Nov-95	Dec-95	Jan-96	Feb-96	Mar-96	Apr-96	May-96	Jun-96
Per Diem Beds	475	475	475	475	475	475	475	475	475	486	486	486
Regular Contract Beds	446	446	446	446	446	446	446	446	446	448	448	448
Monthly Occupancy Rate	371.87	401.94	409.5	419.74	417.66	417.8	419.97	455.57	450.44	465.53	441.91	447.83
	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97
Per Diem Beds	486	486	486	492	553	558	558	563	576	586	586	586
Regular Contract Beds	448	448	448	452	460	463	463	467	479	486	486	486
Monthly Occupancy Rate	442.66	433.72	451.7	488.4	494.83	521.29	518.39	549.53	581.35	576	579.45	565.76
	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98
Per Diem Beds	586	586	586	586	586	637	637	637	647	681	681	681
Regular Contract Beds	486	486	486	537	537	551	551	551	559	589	589	589
Monthly Occupancy Rate	543.19	547.74	573.67	615.68	622.77	605.61	621.42	632.75	639.65	666.1	670.84	663.83
	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	Dec-98	Jan-99	Feb-99	Mar-99	Apr-99	May-99	
Per Diem Beds	681	681	681	681	681	681	681	681	682	682	682	
Regular Contract Beds	589	589	589	589	589	589	589	589	589	589	589	
Monthly Occupancy Rate	663.26	654.94	657.87	658.03	655	631	647	662.57	660.1	658	660	

following page. The average costs for each CRC bed runs between \$54 and \$57 per day.

CRC beds fill three distinct correctional needs. First, they provide placement opportunities for low-level offenders who have relatively short sentences to serve. Second, they provide an alternative placement option for probationers and parolees who have violated their conditions and would otherwise be returned to prison. Third, depending upon their location, they provide a place for felons to transition back into their home communities. Needless to say, this function can only be fulfilled if there is a halfway house in the felon's home community.

The Department's existing 682 CRC beds are located around the state as follows:

Anchorage:	428
Fairbanks:	99
Bethel:	85
Juneau:	60
Barrow	6
Kotzebue:	4

Although the costs of CRC beds compare favorably with hard bed costs, they provide less security than the Department's institutions and they cannot be used for all prisoners if public safety is to be maintained. The Department believes that, at the present time, it has maximized the use that can be made of CRC beds in communities where they are already located.¹¹ On the other hand, the Department now needs and could readily use halfway

¹¹ For example, the Department's 85 CRC beds in Bethel is only three beds less than the number of hard beds that the Department has at the area's Yukon-Kuskokwim Correctional Center.

houses in other areas of the state and has plans to secure beds in Nome, Kenai, Mat Su, and Ketchikan over the next four years. The number and location of new beds will be as follows:

Nome:	40	by September 1, 1999
Kenai:	20	by July 1, 2000
Mat Su:	40	by July 1, 2001
Ketchikan:	20	by July 1, 2002

These new CRC facilities will give the Department a total of 120 additional CRC beds.

Expand Use of the CRC Offender Supervision Program. The

Department believes that graduated release opportunities are essential to the successful reentry of offenders back into their home communities. For a long time, the transitions available in Alaska consisted of first being returned to the correctional center closest to the point of arrest, then being furloughed to the local halfway house, and then being placed on probation in the community. The Department has created an intermediate transition between the CRC placement and release on probation, which is entitled the "CRC Offender Supervision" program. This program uses CRC providers to intensely monitor specially selected offenders as they transition back into the community, before their probation supervision begins.

Eligible participants are required to participate in appropriate programs, submit to drug and alcohol testing, and pay 12.5% of their gross income for the cost of the program. To be eligible for participation, the offender must be within six months of release, have developed a written release plan, have an approved residence and means of support, have completed all residential treatment requirements, and have no pending disciplinary actions.

Domestic violence and sex offenders are not eligible for participation under the guidelines established by the Department. The CRC director reviews and comments on requests to participate in the program, while final approval rests with the Deputy Commissioner for the Department.

CRC staff are responsible for monitoring the program on a seven-day-a-week, 24-hour-a-day basis and ensuring that the offender is in compliance with his or her individual release plan. This is accomplished by utilizing scheduled and unscheduled checks, as well as random school or work-site contacts. The CRC Supervision program permits an offender to live at his or her home and work at gainful employment, while at the same time ensuring that there is sufficient monitoring of the offender's activities to promote community safety and to continue the sanction of the sentence.

The schedule, locations, and number of program slots planned for the next four years are as follows:

Anchorage	36	by July 1, 1999
Juneau	15	by July 1, 1999
Fairbanks	25	by September 1, 1999
Anchorage	20	by October 1, 1999
Anchorage	10	by April 1, 2001
Juneau	10	by April 1, 2001
Bethel	25	by November 1, 2001
Anchorage	25	by February 1, 2002

The program costs approximately \$17.00 per day for each participant. The Department has been funded in FY 00 to maintain over 100 offenders in the program throughout the year.

Electronic Monitoring: HB 272, a bill allowing electronic monitoring, was passed in 1997. Following the adoption of regulations, the Department has contracted with a vendor who is providing electronic monitoring equipment, monitoring services, equipment set-up and retrieval, and equipment maintenance. The vendor is required to report violations to Department personnel.

Unlike the CRC Supervision program, which is a back-end transitioning program, the electronic monitoring program is a front-end alternative. Participation in the program is being phased in slowly to ensure an adequate opportunity for offender assessment and to allow staff an adequate opportunity to adjust to the new program. The schedule, locations, and program slots planned for the next four years are as follows:

Anchorage	60	by July 1, 1999
Mat-Su	10	by August 2000
Juneau	10	by September 2000
Fairbanks	10	by September 2000
Mat-Su	10	by November 2000
Kenai	10	by November 2000
Anchorage	10	by February 2001
Ketchikan	10	by April 2001
Fairbanks	15	by September 2001
Kenai	10	by November 2001
Juneau	10	by March 2002

Eligible participants are required to participate in appropriate programs, submit to drug and alcohol testing, and pay a daily fee for the cost of the program. The program allows offenders to maintain employment and remain with their families, yet still be held accountable for their crimes through continuous 24-hour electronic monitoring and supervision. To be eligible for participation in the program, the offender must be at the community custody level, have no pending disciplinary actions, and have a sentence to serve of between 20 and 365 days. Domestic violence and sex offenders are not eligible for participation under the Department's program guidelines. The Department is charging inmates the costs of the program, which totals \$12.00 per day.

Department personnel will be responsible for offender placement, the approval of weekly plans and contact visits, surveillance, daily program compliance (including drug and alcohol testing), providing necessary sanctions, and responding to violations.

Continue Use of Contract Prison Beds. The Department is currently housing 720 medium and close security inmates at the Central Arizona Detention Center in Florence.¹² The cost for this is \$53.00 per day per prisoner. Ideally, the Department would like to keep all Alaskan inmates in its custody within the state. The Department believes that this goal can be met in the next five years when Fort Greely is converted into a private prison. Until then, however, it will be necessary to continue using contract prison beds for the placement of some Alaskan inmates.

The costs of transportation makes contract prison placements prohibitively expensive except for prisoners with relatively lengthy sentences. The Department anticipates

¹² An additional 27 inmates are being housed at other out-of-state facilities.

that in the next four years it will, on any given day, house between 700 and 1100 prisoners in contract prison beds.¹³ See the Spreadsheet *supra* after p.6.

C. Shorten Time Spent in Hard Beds

Any action taken by the Department that reduces the amount of time offenders spend in incarceration permits the Department to handle more inmates. For example, if the Department is currently processing 30,000 inmates through 2,619 beds over the course of 365 days each year, this means that each inmate is spending an average of 32 days in one of the state's hard beds. If this amount of time could be reduced by an average of one day for each inmate, the Department could increase to 30,835 the number of inmates it could handle without overcrowding its facilities.¹⁴

The Department has identified several different means by which it can reduce the amount of time prisoners spend in the state's hard beds. These are:

- 1) Install credit card machines at all pre-trial facilities to enable arrested defendants to bail out immediately;¹⁵

¹³ The Department's population projections indicate that there will be enough suitable prisoners to support these numbers on a continuous basis, but there will not be enough to go significantly higher, e.g. to 1500. See Chart 1 *supra*.

¹⁴ In fact, many of the 2,619 beds are occupied by inmates who are serving lengthy sentences, which means that the average sentence served by the 30,000 is considerably shorter than 32 days.

¹⁵ Allowing the use of credit card machines for posting bail at three facilities resulted in the release of over 347 prisoners as of mid-June.

2. FY 01

In FY 01, the Department's prison and jail population is projected to rise from 4,759 to a high of 4,941. See Chart 2, *supra*. This represents a gain of 182 inmates in the daily average count. Based on extrapolations from "snapshots" of population compositions that the Department has taken, the Department expects approximately 25%, or 45, of these to be unsentenced misdemeanants or felons, while approximately 10 will be women.

The principle tools that the Department will rely upon to keep its institutions under capacity this fiscal year will be:

- (1) expanding the electronic monitoring program in Anchorage by 10 slots;
- (2) introducing the electronic monitoring program into Mat-Su (20 slots), Juneau (10 slots), Fairbanks (10 slots), Kenai (10 slots), and Ketchikan (10 slots); and
- (3) expanding the CRC Supervision program in Juneau by an additional 10 slots.

Before the Department returns 192 inmates from CADC in May and June of 2001, these measure will increase the Department's overall capacity by 257 inmates. (Note that the total number of inmates returned from CADC will be 15 more than were sent this year.)

These actions will be sufficient to ensure that all institutions are kept below capacity. At the end of the fiscal year, the Department will have 23 available placement options (hard beds, soft beds, or some combination thereof), in addition to its "cushion" of 84 beds.

On a quarterly basis, the actions to be taken in FY 01 can be summarized as follows:

First Quarter:	Extend electronic monitoring into Mat-Su	10 slots
	Extend electronic monitoring into Juneau	10 slots
	Extend electronic monitoring into Fairbanks	10 slots
	Increase number of inmates at CADC	12 beds
Second Quarter:	Expand electronic monitoring in Mat-Su	10 slots
	Extend electronic monitoring into Kenai	10 slots
	Increase number of inmates at CADC	65 beds
Third Quarter:	Expand electronic monitoring in Anchorage	10 slots
	Increase number of inmates at CADC	100 beds
Fourth Quarter:	Extend electronic monitoring into Ketchikan	10 slots
	Expand CRC Supervision in Juneau	10 slots
	Decrease number of inmates at CADC	(192 beds)

3. FY 02

In FY 02, the Department's prison and jail population is projected to rise from 4,750 to a high of 5,239. See second page of Chart 2, *supra*. This represents a gain of 489 inmates in the daily average count. Based on extrapolations from "snapshots" of population compositions that the Department has taken, the Department expects that approximately 25%, or 122, of these will be unsentenced misdemeanants or felons, while approximately 35 will be women.

The principle tools that the Department will rely upon to keep its institutions under capacity this fiscal year will be:

- (1) completing the new Anchorage Jail, which will increase its capacity by 288 beds;
- (2) establishing new CRCs in Mat-Su (40 beds) and Kenai (30 beds);

(3) expanding the electronic monitoring program in Fairbanks (15 slots), Kenai (10 slots), and Juneau (10 slots);

(3) expanding the CRC Supervision program in Anchorage (25 slots) and introducing the program in to Bethel (25 slots); and

(4) expanding the number of inmates at the contract prison in Arizona (Central Arizona Detention Center or "CADC") by a net of 92.

These measures will increase the Department's overall capacity by 535 inmates, which will more than adequately ensure that all institutions are kept below capacity. At the end of the fiscal year, the Department will have 117 available placement options (hard beds, soft beds, or some combination thereof), in addition to its "cushion" of 84 beds.

On a quarterly basis, the actions to be taken in FY 02 can be summarized as follows:

First Quarter:	Establish new CRC beds in Mat-Su	40 beds
	Establish new CRC beds in Kenai	30 beds
	Expand electronic monitoring in Fairbanks	15 slots
	Increase number of inmates at CADC	180 beds
Second Quarter:	Expand electronic monitoring in Kenai	10 slots
	Extend CRC Supervision into Bethel	25 slots
	Increase number of inmates at CADC	122 beds
Third Quarter:	Complete new Anchorage Jail	288 beds
	Expand CRC Supervision in Anchorage	25 slots
	Decrease number of inmates at CADC	(175 beds)
Fourth Quarter:	Expand electronic monitoring in Juneau	10 slots
	Decrease number of inmates at CADC	(35 beds)

4. FY 03

In FY 03, the Department's prison and jail population is projected to rise from 5,212 to a high of 5,387. See second page of Chart 2, *supra*. This represents a gain of 175 inmates in the daily average count. Based on extrapolations from "snapshots" of population compositions that the Department has taken, the Department expects approximately 25%, or 43, of these to be unsentenced misdemeanants or felons, while approximately 10 will be women.

The principle tools that the Department will rely upon to keep its institutions under capacity this fiscal year will be:

- (1) establishing a new CRC in Ketchikan (20 beds); and
- (2) utilizing the 800 new beds to be afforded by the Fort Greely Prison.

These measures will increase the Department's overall capacity by 820 inmates, which will more than adequately ensure that all institutions are kept below capacity. At the end of the fiscal year, the Department will have 817 available placement options (hard beds, soft beds, or some combination thereof), which will be utilized to bring most of the inmates back from the CADC in Arizona.

On a quarterly basis, the actions to be taken in FY 03 can be summarized as follows:

First Quarter:	Establish a CRC in Ketchikan	20 slots
Second Quarter:	No changes	
Third Quarter:	Increase number of inmates at CADC	130 beds

Fourth Quarter: Bring Ft. Greely on line 800 slots
Decrease number of inmates at CADC (200 beds)

B. By Institution

The following section sets out a one-page summary for each of the Department's fifteen correctional facilities. After identifying the institution's emergency and maximum population capacities, a table is set out that shows what options are expected to be used to accommodate the population growth projected for the institution. This is then followed by a short paragraph of background information about the facility and an explanation of the action that will be taken in accordance with the plan.

Once again, it is highly unlikely that the actual population growths will occur exactly as projected. Accordingly, the plans that are set out here for each institution should be viewed more as "models" than as rigid declarations. The number of inmates that will be sent from Cook Inlet to Palmer in FY 01 may be 9, rather than 7. Nonetheless, the plan documents that when Cook Inlet is in danger of exceeding its population capacity, the Department intends to send some of its inmates to Palmer. This remains true even if the precise number should change.

Following the one-page plan summary for each institution are a series of charts that provide additional information about that institution's population. First is Chart 5 (Maximum Count Per Month), which shows the emergency capacity of the institution and the highest number of inmates placed there each month since January 1994. This information essentially documents the extent of the overcrowding problem at that institution.

Next is Chart 6 (Jail vs. Prison Population) which shows the institution's "jail" and "prison" population. The "prison" population consists of sentenced felons, while the "jail"



MT. MCKINLEY MEATS PRIVATIZATION PROPOSAL
Department of Corrections
Alaska Correctional Industries

As prepared for the
Legislative Committee on Privatization
October 12, 1999

History & Background:

Mt. McKinley Meats & Sausage (MMM&S), located in Palmer, Alaska, is one of four certified red meat slaughter and processing facilities in Alaska, with other entities privately owned and operated in Delta, Kodiak, and Mekoryuk. MMM&S was developed in the mid 1980's as a necessary part of the overall infrastructure to support the development of markets resulting from the planned expansion in Delta Junction and Pt. MacKenzie of state sponsored agricultural projects. MMM&S initially opened as a state/privately financed venture but soon failed and the State of Alaska assumed ownership of the facility in 1986 as the result of a DNR Division of Agriculture, Agriculture Revolving Loan Fund (ARLF) foreclosure action. Since then, the facility has been leased and operated by the State of Alaska, Department of Corrections as a program to employ inmates as part of Alaska Correctional Industries (ACI).

Public hearings were conducted by the Governor's Correctional Industries Commission as part of the initial determination process to involve ACI in the MMM&S operation. Public discussion at that time eventually led to the commission's recommendation to assign ACI to clean, provide preventative maintenance, and reopen the plant. ACI was then to operate the plant and assist in the development of Alaska's red meat industry until it could be properly transitioned back into the private sector.

Operating under Chapter 32 of the Alaska Statutes, ACI has in the past marketed approximately 55% of its MMM&S products to state agencies primarily consumed at the state correctional centers. The remainder of the Alaskan pork and beef inventory has been sold at wholesale to the private sector. In order to fully utilize the plant's capability, MMM&S expanded into the custom kill, cut and wrap services, and limited specialty product areas usually at the request of the plant's private sector customers. MMM&S also purchases bulk and red ticket #2's items for value-added and repackaged institutional products then utilized at the department's correctional centers.

Despite attempting to avoid any conflict with the private sector, the department and the Correctional Industries Commission have sometimes received complaints of unfair competition regarding the MMM&S operation.

The Correctional Industries Commission has conducted public hearings to receive additional public comment on submitted complaints. Routinely, comments on the MMM&S activities has produced both negative and supporting testimony from the public. However, MMM&S growth in several markets has been curtailed or controlled to avoid additional private sector conflict. These marketing limitations have sometimes negatively affected the MMM&S operation and its ability to assist in the development of the red meat industry. Additional concerns have been expressed on the ability of MMM&S inmate workers in training to meet the sometimes high seasonal production demands of the industry.

Privatization Proposal Statement:

Since ACI has operated MMM&S, there have been private sector inquiries involving the sale of the plant to private and/or cooperative entities. Several of the proposals have planned to close the slaughtering operation in the plant. For various reasons, this could adversely affect the core services that are now provided to the agricultural community. Since the ARLF owns the property, any lease or transfer of ownership would have to be processed through that organization. ACI's current role is to operate the plant under a contractual relationship with the Division of Agriculture and the ARLF. This contract could be terminated and/or modified to meet future needs.

Two options for the continued operation of MMM&S could be proposed for evaluation:

Option I: A request for proposal could be issued by the state owners of the plant to evaluate the possibility for sale (or lease/purchase) of the plant and equipment to a qualified private sector entity. A transitional plan would be developed to define a timeline for the phase out of the Department of Corrections involvement and the ACI/MMM&S management/inmate worker staff. After transition, the private sector owner/operator would take complete control of the plant with no state support.

Option II: The Division of Agriculture and the ARLF Board would develop guidelines for an industry controlled private non-profit operator. With suggested modifications to the current management structure of MMM&S in place, the Department of Corrections could continue to provide an inmate workforce at the plant under contract to the private sector management. Any contract to provide an inmate workforce would have to follow the established statutory guidelines as required by Chapter 32 Section 33.32.015-017.

Previous assessments of MMM&S finds that the plant represents a substantial investment by the State of Alaska. In addition to the past and present investment of public funds for the facility and its operation, the State of Alaska has a substantial investment in land sale contracts (state and municipal) as well as operating, chattel, and development loans to agricultural livestock and feed grain producers. Since the MMM&S facility also provides a primary commercial market outlet for Alaskan grown red meat in the South-central and Kenai Peninsula areas, any transition involving the plant's management should be accomplished as smoothly as possible to avoid any adverse affects on Alaska's agricultural community and its livestock producers.





APPA Position Statement

Privatization

(Approved 1987)

Introduction

Probation and parole agencies have traditionally involved private sector services in the care, supervision and treatment of offenders. Recently, overcrowded caseloads and the increased demands for enhanced or specialized services has resulted in the emergency of a commercial market in the delivery of probation and parole services. Consequently, probation and parole agencies are confronted with the need to define the purpose, role and scope of involvement of private sector services in the supervision, care and treatment of offenders.

Position

The American Probation and Parole Association supports the American Correctional Association's policy statement on private sector involvement in corrections. In accordance with that policy, APPA believes that probation and parole, as agencies of government, have the fundamental legal responsibility to protect the public and provide offenders the opportunities to lead law-abiding lives. Implicit in this mandate are the basic principles of responsibility and authority to provide the most cost effective means of carrying out our mission. Consequently, probation and parole agencies are expected to utilize private sector services to enhance or supplement supervision and casework services. However, such delegation of authority must assure the retention of the fundamental legal responsibilities vested by the courts, parole boards and correctional agencies.

Contractual services play a vital role in enhancing the ability of probation and parole agencies in supervision, care and treatment of offenders. Such services are particularly important in meeting the special needs of offenders. Further, contractual services have the desired effect of enhancing the involvement of the community in the correctional process. The involvement of the private sector in probation and parole service delivery should be viewed as a partnership, with the private sector services being an extension of the probation and parole agency. Private sector service providers should act as agents of government and be held accountable to sound professional standards and practices which are prescribed by the probation and parole agency. Probation and parole agencies must set standards and evaluate the effectiveness of private sector services in meeting the mission, goals and objectives of the probation and parole agency toward the end of protection of the public and the provision of opportunities for offenders to lead law-abiding lives.

Probation and parole agencies should define the function, role and scope of private sector involvement in their service delivery systems. Such policy and clearly stated contractual obligations which enhance professional service delivery are essential in maintaining public confidence and fulfilling our ultimate responsibility as government agencies.

For more information about APPA position statements, please contact APPA staff at:

E Mail: appa@csgr.org
Phone: 606-244-8203
Fax: 606-244-8001
Mail: American Probation and Parole Association
c/o Council of State Governments
P.O. Box 11910
Lexington, KY 40578-1910

 **Return to Positions Home Page**
Return to APPA's Home Page

ALASKA AREA NATIVE HEALTH SERVICE and
ALASKA NATIVE MEDICAL CENTER CIRCULAR NO. 198-04

ELIGIBILITY FOR HEALTH CARE AT ALASKA NATIVE MEDICAL CENTER

- I. Purpose
- II. Policy
- III. Procedures
- IV. References
- V. Supersedes

- I. **PURPOSE:** To establish a policy and procedures for documenting the eligibility of Alaska Natives and out-of-state American Indians for health care at Alaska Native Medical Center (ANMC), and to set guidelines for care of non-natives at Alaska Native Medical Center.
- II. **POLICY:** The Alaska Native Medical Center shall provide health care to the following beneficiaries: Alaska Natives and American Indians who present documented proof of eligibility at the AANHS facility where they are seeking health care. Facility personnel shall obtain a copy of this proof of eligibility and place it in the patient's health record.

Non-natives that are eligible for health care at ANMC include: those presenting at the emergency room in need of emergency care, non-native women pregnant with the baby of an eligible native, some VA beneficiaries, Commissioned Corp personnel employed at ANMC and their dependents, and non-native men of women desiring sterilization when their spouse or significant other is an eligible native.

Jails, prisons, and detention centers in Alaska are operated or contracted through the State of Alaska, Division of Corrections, which also handles medical services for these prisoners. Therefore, Native Americans, while in custody of a law enforcement agency will receive medical services through the State and not at ANMC.

III. **PROCEDURE:**

- A. For the non-acute patient when there is a question of eligibility the patient can be seen on a one time only basis and eligibility determined by central admitting. When this occurs after normal working hours the patient should be seen and eligibility determined the next business day.
- B. **Proof of eligibility:**
- 1. The Alaska Native or American Indian must present one of the following documents at ANMC as proof of eligibility:
 - a. Certificate of Indian Blood (CIB) issued by the Bureau of Indian Affairs (BIA)
 - b. Tribal enrollment cards or documentation of membership in a federally recognized tribe or Alaska Native tribal entity published in the Tribal Entities
 - c. Tanana Chiefs Conference enrollment card
 - d. State Birth certificate if at least one parent has provided documentation of IHS eligibility at ANMC. The eligible parent's name must be on the birth certificate.

2. Patients referred to the ANMC in Anchorage from other AANHS facilities must present proof of eligibility in the form of one of the documents listed in III.B.1, above, or in the form of a statement from the facility of origin that the facility has verified eligibility of said patient and has the necessary documents(s) on file. Either type of proof of eligibility will then be placed in the patient's ANMC health record.
3. Patients participating in the Contract Health Care program must furnish the ANMC Contract Health Office with proof of eligibility as indicated in III B.1 above, before they are enrolled in the program.
4. Alaska Natives traveling or relocating to one of the lower 48 states are advised to take proof of eligibility with them in case they need health care at IHS facilities. Additionally, these individuals should contact the ANMC Contract Health Office before departing Alaska to determine the types of medical situations covered by AANHS outside of Alaska and the corresponding notification procedures.
5. Persons (including children) who identify themselves as "American Indian or Alaska Natives" will be provided services without the documented proof of eligibility but must provide the required proof within 90 days in order to continue receiving services. If documentation of IHS eligibility is not provided within the 90 day time period, such persons will be classified as ineligible. A bill shall be issued for services provided to a person determined ineligible.
6. Public Law 102-573 Section (813) Health Services for ineligible persons included natural or adopted child, step child, foster child, legal ward, or orphan of an eligible Native shall be eligible for all health services provided by the service on the same basis and subject to the same rules that apply to eligible Natives until such individual attains 19 years of age. Documentation of the Native parents' IHS eligibility must be provided along with a birth certificate and documentation of court orders, adoption papers, marriage certificate that verifies the relationship between the eligible Native American parent(s) and the non-Native child.

- C. **Emergency Room Services to non-beneficiaries:** Patients presenting to the emergency room with medical and/or surgical conditions requiring immediate intervention should be seen promptly, evaluated by a health care provider, and treated. Treatment will depend upon the patient's conditions. Some victims of acute trauma and/or acute life-threatening medical conditions will require immediate hospitalization and definitive treatment, other patients may be able to be stabilized and transferred to other facilities if accepted, and some treated definitively and discharged with instructions to contact a private physician for follow-up treatment. Non-natives receiving care at ANMC will be billed for that care.

All patients presenting to the emergency room are triaged by a RN and an acuity level assigned. All patients are then evaluated and treated by a member of the medical staff with appropriate privileges.

- D. **Pregnant Non-native women:** If it is not obvious that the woman is pregnant, she must present document proof of the pregnancy in the form of a positive HCG test. This test will not be provided by the IHS hospital. She also must present documented proof that the unborn child she is carrying is that of an eligible Native in one of the following forms:

1. If the woman is married to an eligible Native, she must present a copy of an official marriage certificate from the Bureau of Vital Statistics, Alaska Department of Health and Social Services, or its equivalent from another state. This certificate will indicate the husband's name and thereby enable the admitting staff to verify this eligibility.
2. If the woman is not married to the eligible Native, a written statement of paternity must be signed and dated by the eligible Native, the pregnant woman, and a representative from ANMC registration.
3. The eligible Native has the responsibility of providing proof of eligibility. This proof must be one of the following documents listed previously in IILB.1. A copy of this proof will be placed on the pregnant non-native woman's chart.
4. The registration staff will fasten a notice on the front of the woman's health record stating "ELIGIBLE FOR DURATION OF PREGNANCY THROUGH POSTPARTUM ONLY".

E. Sterilization: Sterilization will be done on non-natives whose spouse/partner is an eligible Native.

1. Tubal ligations will be planned to be done while the non-native mother is still hospitalized after the infant's birth. If this is not possible OB/GYN will perform the tubal ligation before the six week post-partum period is done.
 - a. Permits for a tubal ligation must be signed (HHS form # 0937-0166- "Information for Women") at least 30 days before the procedure can be performed. Permits or consents for sterilization are valid for only 180 days after being signed. This is in compliance with Federal Regulations (42 CFR 50.203).
 - b. Tubal ligations will not be done on any woman who has not reached 21 years of age, or on any person incompetent of giving legal and informed consent.
2. For vasectomies, each case will be reviewed by the provider to assess the duration of the relationship with the native partner, the certainty of paternity, and the understanding of the procedure.
 - a. There is no time limit from the date of last delivery to the time of the vasectomy.
 - b. The permit for a vasectomy must be signed (HHS form # 0937-0166- "Information for Men") 30 days before the procedure can be performed and is valid for only 180 days. This is in compliance with Federal Regulations (42 CFR 50.203).
 - c. Vasectomies will not be done on any man who has not reached 21 years of age, or on any person incompetent of giving legal and informed consent.
3. Exceptions to above rule.
 - a. A woman may consent to be sterilized at the time of premature delivery if informed consent was given at least 30 days before the expected date of delivery and if at least 72 hours after signing consent.

- b. An individual may consent to be sterilized at the time of emergency abdominal surgery if at least 72 hours have passed after he or she gave informed consent to sterilization. (This is in compliance with Federal Regulations 42 CFR 50.203)
- c. The Service Unit Director or his designee may choose to allow an individual to consent to sterilization at the time of a scheduled surgery if there is verbal evidence from the patient and the physician that a written consent form exists that meets the criteria in D.1.a. and D.1.b. or D.2.b. and D.2.c.

F. VA Beneficiaries: The Veterans Administration and the Public Health Service have an agreement in which eligible veterans may be hospitalized in ANMC on a reimbursable basis. Medical necessity and available beds will be the principal guides. Final determination of eligibility shall be made by the Veterans Administration Regional Office (VARO).

- 1. To be eligible the non-native must present their VA eligibility card and the referral form from the VA.
- 2. No non-native VA beneficiary will be admitted without prior authorization from the VA, except in medical emergency cases to be determined by the examining physician.
- 3. Notification of emergency admission shall be made by the IHS Department to the nearest VA office.
- 4. Paperwork, as required by the VA, will be completed as per circular AANHS "Hospitalization of Veterans Administration Beneficiaries" (#91-83)
- 5. If transfer to a VA facility is anticipated or considered necessary, a request should be made to the appropriate VA office as far in advance as possible.
- 6. Travel at VA expense must be authorized in advance.

G. Department of Health and Human Services Commissioned Corps Officers and dependents.

- 1. DHHS Commissioned Corps Officers and their dependents are eligible for direct care at ANMC. Officers and their dependents are not eligible for any contract health care.
 - a) For care required outside ANMC, Elmendorf AFB Hospital should first be contacted. If the required service is still not available:
 - 1. Dependents must obtain a statement of "non-availability" in order to use the CHAMPUS program.
 - 2. Officers must contact the office of Beneficiary Medical Program in Rockville, Maryland.
- 2. To be eligible, the employee or dependent, must present their Commissioned Corp ID identifying them as employees of the DHHS. This includes Commissioned Corp Officers at ANMC, Area Office, OEH, and CDC.

H. Enlisted Military or Coast Guard Personnel: All other uniformed personnel and their dependents should be referred to Elmendorf Air Force Base Hospital for necessary care except in emergency situations (refer to III.C.).

Page 5

ANMC & AANHS CIRCULAR NO. 198-04

I. Native American Prisoners:

1. A Native American who is being detained by a law enforcement agency, whether Municipal, State, or Federal, will not ordinarily be rendered medical or dental care by the staffs of ANMC. Custody, in this section, includes prisoners under sentence or those under arrest or temporary detention. Patients not under detention who are brought to the hospital by the police for care are not covered by this section.
2. Native Americans in custody shall be rendered medical care in all cases of emergency. They may also be provided care in exceptional circumstances, upon the discretion of the appropriate Service Center Medical Director, provided that the necessary care is available entirely at ANMC and involves no danger or serious inconvenience to the staff.
3. ANMC shall not be responsible for the security of Native American prisoners cared for under Section I.2. Any necessary guards or other security measures must be provided on a full-time basis by the Division of Corrections, or the police.
4. The security rooms at ANMC shall not be used for prisoners under care under Section I. 2..
5. Under no circumstances will Contract Health Service funds be used for the care of persons under detention.

IV. References:

AANHS circular "Hospitalization of Veterans Administration Beneficiaries" (AANHS 91-83)

Memo "Tubal Ligations for Ineligible Patients" 5/18/93 from Dr. J. Knight

Memo "Waiver to the Exclusion of Care for Non-Beneficiary Vasectomy" 7/7/96 by Dr. R. Mandsager

AANHS Commissioned Corp office

Responsible:	Chief, Admitting Department
Approval:	AANHS & ANMC Leadership
Ultimate Approval:	AANHS & ANMC Director
Written:	AANHS 1989 & ANMC 1988
Reviewed/Revised:	Feb, 1998
Supersedes:	ANMC 88-30, 93-01, 96-6, & AANHS 89-44, 91-106, 91-108, 91-112, J97-101


Christopher Mandregan
Director
Alaska Area Native Health Service


Richard Mandsager, MD
Director
Alaska Native Medical Center

Feb. 1998

COURTS

**COMMISSION ON PRIVATIZATION
AND
DELIVERY OF GOVERNMENT SERVICES**

SUBCOMMITTEE REPORT

ON THE

ALASKA COURT SYSTEM

November 10, 1999

**Subcommittee Members: Joyce Harris, Co-Chair; B Jarvi, Co-Chair;
Susan Gibson, Edward Leon, Ken Peavyhouse, Don Rogers, Charles Rollins,
Al Tamagni, Colleen VanHatten**

**Alaska Court System
Subcommittee Report
Privatization**

I Branch of Government**Alaska Court System****II BRU and Component Names as Listed in State Budget**

Component	FY2000 Budget
Appellate Courts(767)	3,980.4
Trial Courts (768)	38,840.1
Administration and Support (769)	<u>6,285.2</u>

Total Operating Budget **48,726.4**

III ALL FUND SOURCES**FUNDING SOURCES:**

General Fund (1004)	48,726.4
General Fund / Mental Health (1037)	79.3
Federal Receipts - Grants (1002)	<u>300.0</u>

Total Funding Sources **49,105.7**

IV ALL REVENUE DERIVED**Revenues:**

Filing Fees (64050)	1,600.6
Fines and Forfeitures (65004)	3,749.3
Cost recovery (65020)*	47.2
Service Fees (64030)**	21.1
Interest Earned on Bank Accounts(65770)	374.6
Miscellaneous (64060)***	303.5
Restricted Revenues (Grant Funds)	<u>300.0</u>

Total Projected Revenues **6,396.3**

* Cost recovery includes revenues from recovery of Public Defender and Public Advocacy cost.

** Service fees are revenues derived from processing traffic and minor offense citations for local governments.

***Miscellaneous revenues are from notary services, transcription services, and other miscellaneous activities.

V CONSTITUTIONAL PROVISIONS GOVERNING COURT SYSTEM OPERATIONS.

Article IV of the Constitution of the State of Alaska.

VI COURT SYSTEM MISSION STATEMENT

The mission of the Alaska Court System is to provide an accessible and impartial forum for the just resolution of all cases that come before it, and to decide such cases in accordance with the law, expeditiously and with integrity.

VII NUMBER OF EMPLOYEES

648	permanent full-time
48	permanent part-time
21	non-permanent

717 Total

VIII COURT SYSTEM TECHNOLOGY

Case management system

The case management system technology is based on a distributed network of Pentium class computers running SCO UNIX operating system and supporting FALCO terminals (a brand of terminal no longer manufactured). The computers are located in the 28th largest court locations and 24 are connected via the state's wide area network (WAN). Four locations are not connected to the WAN because the state has not tied those locations into the WAN. The courts in those locations are connected via dial-up modems. Another 15 court locations are running standalone Pentium PC's using Windows95 as the operating system and dial-up communications to tie to the rest of the court locations.

The court locations running under UNIX have a case management application (RUG) that is an in-house designed and written program from the late 1980's. It is not a true relational database and suffers from the resultant shortcomings. It was made Y2K compliant as of July 1, 1999. The court locations running of PC's have a very limited in-house developed case management application that is designed for low volume magistrate courts, and it also is Y2K compliant.

Courtroom Recording Systems.

The court is currently in the process of upgrading the courtroom recording systems. The legacy system is an analog tape recorder and sound reinforcement system built by GYYR, a company no longer in existence. Parts are no longer available and must be manufactured or retrofitted by the court's technical staff. The court is currently deploying a new digital recording and sound amplification system in the 15 largest courts

— 88 courtrooms/hearing rooms. The digital recording systems are supported by local area networks (LAN) that tie the computer-based recording in the courtrooms/hearing rooms and the individual workstations in each location together. In addition to the digital recording systems, the court is replacing the sound reinforcement systems with newer miner/amplifier technology to improve telephonic communications.

Hearing Assistance Devices

Each of the courtrooms is equipped with infrared hearing assistance devices (similar to those utilized in theaters) to provide better service to the court's hearing-impaired users. The hearing devices consist of a transmitter that connects to the sound reinforcement system and individual headsets worn by court customers during court hearings.

Video Conferencing

The court utilize video conferencing capabilities to conduct arraignments and other allowed hearings between jail facilities and the arraignment courtrooms in three locations.

Micrographics

The court utilized microfilm cameras and reader/printers to archive and access closed court case files. The reader/prINTER devices are over 12 years old and in need of replacement. The machines use thermal paper to reproduce microfilmed images and the manufacturer of the paper will cease production January 1, 2000 making them read only capable. The court is evaluating the most cost-effective alternatives to these machines.

Telephones

The court system relies heavily on telephonic communication to conduct court business with litigants and other court customers throughout the state. The court has upgraded telephones with known Y2K compliance issues and is attempting to find the funding to continue the upgrade of telephone systems in all court locations to digital switches.

IX COURT SYSTEM CONTRACTS:

See attached.

X PRIVATIZED SERVICES

*Security - perimeter security in Anchorage and Fairbanks, the only two courts with these services.

*Janitorial

*Snow Removal (a reciprocal use agreement has been recently entered with the Anchorage court will the Anchorage Parking Authority will remove snow in exchange for the use of the lot for fee parking during non-work hours.)

Transcripts

*Interpreters for the deaf (federal law requires the state to pay for these services)

- *Language Interpreters
- *Building design and construction
- *Building maintenance (limited provided by the lessor in leased facilities, by the state in all state owned buildings)
- *Mediators for pilot mediation programs -- federal grant programs.
- *Ongoing assessment at privatizing micrographics and printing.

XI RECOMMENDATIONS OF THE SUBCOMMITTEE:

The Subcommittee identified the following areas for review and recommendation.

1) Budget and Operational Recommendations:

Problem Statement: Of the three branches of government, the Alaska Court System has the least exposure and the least accountability to the people of the State. The Court System budget does not reveal much about its operational activities nor the effectiveness with which they are carried out. Part of the problem is that 80% of their budget is lumped into a single component. As such, there is only one mode of information to look at for a great variety of activities that are the guts of the court system. Although the Court System provides some detailed breakdown to the Alaska Legislature, they should also provide the public with fuller disclosure and analysis of their budget, preferably via their website.

RECOMMENDATIONS:

1. The court System needs to disclose more information regarding how its budget expenditures relate to activities it performs to fulfill its mission, goals and objective.
2. The Legislature, the Judicial Council and the Alaska Bar Association should undertake a review of Performance Measurement Indicators used in other court systems and recommend a set of them that facilitates public evaluation of our court system.
3. The Court System should make a record of lease vs. purchase on all equipment, in particular electronic and technological modes. This would allow most technological equipment to be updated periodically. The record should specify upgrades and maintenance schedules.
4. The Court System should refrain from hiring additional personnel in order to maintain it's current level of services, except as approved by the legislature.
5. The fees charged have not been increased since March 1991. Filing and Usage fees should be reviewed each year, however they should not be increased more than the CPI.

6. The Legislature should periodically review all fines and assessments for inflation considerations.
7. The Court System, upon installation of new computer systems modalities, should implement use of credit card transactions in all courts, and related entities (Dept. of Law and Dept. of Corrections) for all types of service. This should be reviewed as to installation and maintenance by the private sector. This should reduce man hours, transaction time and cost, and retrieve cash investment return sufficient to offset the cost of the program.
8. The Legislature should review the Judicial Retirement System so as to implement a new tier, currently those benefits exceed 17% of Salary in relationship to other employees of about 8%.
9. The Appellate and Superior Courts need to reduce the backlog of cases in a more timely manner to meet national standards and provide better services to the public. This can be accomplished while still maintaining integrity and quality.

2) Alternative Dispute Resolution:

Problem Statement: The Alaska Legislature has not actively supported the use of Alternative Dispute Resolution mechanisms such as mediation and arbitration. The use of these alternatives have not been widely accepted or utilized due to the lack of established minimum qualifications for mediators and arbitrators.

RECOMMENDATIONS:

1. The Alaska Legislature should support and encourage court connected mediation and utilization of private alternative dispute resolutions.
2. The Alaska Legislature should appoint a task force to establish minimum qualifications for certification of mediators and arbitrators in court connected disputes.

3) Fee Collection:

Problem Statement: There is no standardized procedure for the collection of statutorily mandated fees for court appointed legal representation for the indigent. The problem is compounded by the fact that more than one agency is charged with the appointment and collection responsibility, each in its own area of service. Therefore, the collection process varies among agencies. A large part of the fees for court appointed representation are incurred by attorneys under contract with the Office of Public Advocacy (Dept. of Administration). Their attorneys often serve in the Probate Court as well as for criminal defense and Guardian Ad Litem services. While they are appointed only to represent the respondents during specific litigation, if the fee cap for their services has not been met,



they often continue in a case for years. The fees then are paid by the State agency regardless of the ability of the individual to pay for services.

Court appointments for attorney representation for indigents are often made with little investigation into the actual indigence of the individual (this is primarily true in the probate courts).

In many cases, there is no re-evaluation of the indigence finding with the result that once a court appointed attorney is assigned, he continues to serve at state expense regardless of the actual ability of the individual to pay for legal services. This is especially true in cases where an emergency or temporary appointment is made for the purposes of legal representation in guardianship and/or conservatorship cases. Subsequent investigation during a temporary appointment often reveals assets unknown to the court or the parties at the time of the original attorney appointment, however the ability of the individual to pay is never reassessed after location of available resources for the individual to pay for his own legal fees.

The present system of collection for mandated fee and cost recoveries is totally dependent on the reporting by several agencies, not just the court system. It is solely the responsibility of the agency in question to refer its uncollectible accounts to the Attorney General's office for collection of its receivables.

RECOMMENDATIONS:

1. Each State Agency responsible for collection of fees or reimbursement should make a report to the legislature regarding the amount of fines and fees collected and those outstanding.
2. The Legislature shall privatize the collection of all unpaid court assessed fees throughout all State Agencies.
3. The court shall insure a true finding of indigency before court appointed attorneys are assigned to represent anyone. Require re-evaluation and confirmation of the indigency finding by a formal review and investigation process. Require court appointed attorneys to submit billing for their services to the client or his conservator for payment.
4. The court should establish standards for the termination of the court appointed attorney's role when such representation has served its stated purpose.

4. Statutes:

Problem Statement: The sub-committee while recognizing the necessity of the separation of powers feels compelled to make the following recommendation:

While there appears to be an attempt to communicate between the Court System and the Legislature, the court system is very limited in the scope of that communication. The communication with the court system and its personnel is haphazard in this regard. While the court system has the mechanisms in place to assist with bringing legislative attention to problem statutes, its focus is primarily looking at bills which are being introduced. While this is a worthwhile endeavor, it does not correct existing problematic areas.

1. The court system should provide some mechanism whereby all judicial officers can by anonymous form, list all statutes which they believe are 1) Conflicting 2) Whose intent it is impossible to achieve 3) Statutes which are too expensive to implement as written. 4) Statutes which are outmoded.
2. The court system should prepare a written report for the public and legislature on existing statutes which meet the above criteria. All forms should be made available for inspection by the public for a period of at least one year.

5. Pro Se

Problem Statement: The current system discourages Pro Se representation. Court records show a marked increase in the number of individuals representing themselves in litigation. Due to lack of knowledge of the system, these litigants often experience an unresponsive lengthy process.

Recommendations:

1. The court system continue to explore the development of a Pro Se litigant center.
2. The Court Administrator continue to ensure equal access for Pro Se litigants to the court system and alternative resolution processes.
4. There is a statute that states that corporations cannot represent themselves in a court action except as otherwise excluded. This should be changed to be specific about the exclusions. A suggestion would be to amend it to exclude all corporations operating under the service provisions of Alaska Statutes 13.26 as well as those statutes governing the filing of petitions for Mental Health commitments and Alcohol commitments. At this time, an agency, be that hospital or clinic cannot represent their own petitions. There should be a definition for other small corporations who can get a waiver to have a duly authorized corporate officer to represent the corporation pro se. Small corporations needs to be defined.

6. Computer System

Problem Statement: The court system appropriated \$400,000 for a case management system, however the decision was made to utilize approx. \$200,00 in making the system Y2K compliant and replace servers. This has been accomplished.

The computer system remains outdated, with hardware and software that is no longer in existence and parts which are difficult if not impossible to replace. The current system continues to operate as separate systems and is not a true data base. The current State wide network will not handle the data for an integrated court computer system. Cost of a fully integrated system, including infrastructure, hardware, digital recording ability, etc. is between 2.5 - 3.0 million dollars. With this funding the system should be operational within a six month period for all major courts and within a two year period for all outlying courts.

The benefits of an upgraded, fully integrated system: Less man hours spent handling court files which can be made available to court personnel online. A general reduction in man hours. While this will not reduce the current level of personnel, it should prevent the increase of personnel in the future due to increased efficiency.

To maintain the system once upgrades are completed would be approximately 5% of it's value annually.

RECOMMENDATIONS:

1. The Court System should publish request for information from the private sector alternate proposals to satisfy the court system computer needs.
2. Subsequent to the solicitation the Legislature should appropriate the funds.

7. Child Custody Investigator

Problem Statement: The Child Custody Investigator is a court employee whose role it was to provide services for indigent families. This position was taken by the court system and made into a role that provided services for all families (predominately in the Fairbanks courts). It has taken a Supreme Court order for the Fairbanks system to move to an indigency based system. The court system strongly supports retaining this employee position due to what is believed a "lack of expertise" in the private sector. Yet, the court system, by it's own lack of utilization of available expertise has retarded the growth of available, trained individuals in the private sector.

RECOMMENDATIONS:

1. Privatize this position and appoint approved child custody investigators by either contract award or based on the rotation method used for court appointed attorneys.

8. Victim Restitution:

Problem Statement: The collection of victim restitution is frequently ignored.

Recommendations:

1. The Legislature should privatize the collection of restitution.
2. The Department of Corrections shall encourage the signing of a restitution agreement between the offenders and victims.
3. The Department of Corrections shall make an annual written report to the legislature regarding the amount of restitution owed and collected.

9. Legislative Audit Digest #02-4577-99

Statement: The Legislative Budget and Audit Division is an arm of the legislature that has recently reviewed the courts functions in the area of Adult Guardianship and Conservatorships. The Court System should follow the legislative guidance in this area.

1. The governor should introduce legislation and draft regulations that will enhance oversight of private professional guardians.
2. The administrative director of the Alaska Court System should implement a procedure to track professional guardians that exhibit a pattern of asset mismanagement or other misconduct.
3. The legislature should consider amending the confidentiality provisions to allow for public oversight of the guardianship process.
4. The commissioner of the Department of Administration should address the animosity that exists among Fairbanks participants in the guardianship system.
5. The legislature should consider transferring the management of the court visitor function to the court system.
6. Management of the court visitor function should explore the potential of the National Guardianship Monitoring Program for volunteer court visitors and volunteer court auditors.



**ALASKA COURT SYSTEM'S RESPONSE TO RECOMMENDATIONS BY THE COURT
SYSTEM SUBCOMMITTEE TO THE COMMISSION ON PRIVATIZATION AND THE
DELIVERY OF GOVERNMENT SERVICES**

The following are the Alaska Court System's responses to the recommendations made by the Court System Subcommittee of the Commission on Privatization and the Delivery of Government Services. Although the court system opposes some of the recommendations, it supports many others and supports the commendable efforts made by the subcommittee. The subcommittee met weekly for well over two months and invested a considerable amount of time and effort working to understand the court system and to come up with its recommendations.

RECOMMENDATION 1: BUDGET AND OPERATIONAL RECOMMENDATIONS

The court system is already actively engaged in most of the recommendations made under this section and has no objections to them. However, the court system opposes the creation of a tier three for judicial retirement.

Policy Rationale for a Strong Judicial Retirement System

One of the principal rationales for a strong judicial retirement system is the type of attorneys it helps attract. Judges come from two pools of applicants; government attorneys and private sector attorneys. It is essential that both be represented on the bench. The prospect of a significant loss of income already makes it difficult to attract successful private attorneys to the bench. A sound retirement system helps offset that loss. Reducing judicial retirement benefits will make it even more difficult to attract private attorneys and will likely result in a judiciary comprised almost exclusively of former government attorneys. Although the backgrounds and perspectives of government attorneys are necessary to a well-rounded bench, so are the backgrounds and perspectives of private sector attorneys.

Cost Savings

Given that only a handful of judges are appointed each year, any cost savings associated with a tier three retirement plan would be extremely small and not sufficient to justify the chilling effect it would have on the willingness of private attorneys to serve.

Comparison to Other Compensation Packages

Although the subcommittee compared the state's contribution to judicial retirement to the state's contribution to general state retirement, it did not investigate some of the other differences between the various state compensation packages. For example:

- Judges typically receive smaller cost of living differentials than other state employees. The cost of living differentials for judges in rural areas is limited to a maximum of 17.5% while other state employees receive adjustments of up to 42%.
- Cost of living differentials are not included as compensation for purposes of calculating judicial retirement. The differentials are included as compensation for retirement purposes for other state employees if they received the differential for at least 50% of their service.

- Peace officers, fire fighters, and teachers can retire with full benefits after 20 years of service regardless of their age. Judges receive full benefits only at 60 years of age.
- All state employees other than judicial officers may receive credit toward retirement for up to five years of military service.
- With the exception of judges, retired state employees who are at least 65 and who remain in Alaska receive a retirement supplement of an additional 10% for a cost of living allowance.
- Under both the statutes and the Code of Judicial Conduct judges are more limited than other state employees in the types of investments they can make to supplement their future retirement.

The subcommittee also compared the employer contribution for judicial retirement to the employer contribution for private sector plumbers and other trades people. The utility of that comparison is not immediately obvious. The judges who move from the private sector to the bench do not come from the plumber's union; they come from private law firms. If comparisons to private sector retirement packages are to be made, it might be more helpful to look at the retirement packages of private attorneys.

Comparisons to Judicial Retirement in Other States.

The subcommittee did not compare Alaska's judicial retirement system to the judicial retirement systems in other states. If it had it would have found that Alaska is in line with judicial retirement systems around the country.

- Judicial retirement benefits in Alaska are similar to the benefits in other states including California, Delaware, Georgia, Hawaii, New Hampshire and many others.
- Alaska judges contribute a higher percentage of their salary towards their retirement than do judges in most states.
- Annual cost of living adjustments are also part of many judicial retirement benefits (see e.g. Arizona, Colorado and others). They are not part of Alaska's.

When Alaska's judicial retirement system (which is average) is combined with Alaska's judicial salaries (which are generally at or below the national averages) Alaska judges end up with a compensation package that is well within the national norm.

Conclusion

Given the policy rationale behind judicial retirement, the negligible cost savings of a tier three, and comparisons with other retirement systems, there is little to support a reduction in judicial retirement benefits.

RECOMMENDATION 2: ALTERNATIVE DISPUTE RESOLUTION

The court system supports legislative efforts to develop the private ADR market and to assist the court in its on-going efforts to move appropriate cases to mediation. Although the current court mediation projects are supported by federal grants, legislative support would provide a more stable funding source and help ensure the continuation of these programs.

RECOMMENDATION 3: FEE COLLECTION

The problem statement and recommendations under this section deal with two separate but related issues; indigency determinations for purposes of publicly funded counsel and the recoupment of fees for those services.

Indigency Determinations

An indigency determination is made prior to appointment of counsel in the vast majority of cases. In some probate cases (which represent a small percentage of attorney appointments) the judge will not have any information about the finances of a person who is not present but is entitled to an attorney by law. In those cases the appointment must be made prior to an indigency determination. It is for this limited practical reason that the court system objects to the recommendation that an indigency determination be made in all cases prior to the appointment of counsel.

Although the court system has no objection to a follow-up determination of indigency following appointment (this is already done in most cases) the recommendation of a formal review may be more time consuming and costly than necessary.

Fee Collection

There is a standardized procedure for the collection of attorney fees for the overwhelming majority of public appointments. Most public counsel appointments are made on behalf of criminal defendants. There are uniformly followed statutes and court rules (advocated for and developed by the court system) that govern reimbursement for that representation. Court initiated reform in this area has improved fee collection dramatically over the past several years.

In response to the specific recommendation about fee collections in probate cases, the court system supports efforts to improve the collection procedures in these cases as well.

Although privatizing the collection of delinquent court fees owed the state may or may not produce savings (the subcommittee did not specifically investigate the cost or efficiencies of the current system or the potential for savings through privatization) the court system has long been a champion of the reimbursement of public counsel fees. In fact, last year the supreme court asked that a bill be introduced in the legislature to expand the category of people required to reimburse the state for public counsel appointments. That bill (SB 100) is currently awaiting a hearing in the House Finance Committee.

RECOMMENDATION 4: STATUTES

The court system opposes this proposal to direct the manner in which judges communicate with the supreme court and the legislature. The supreme court has adopted procedures for judicial input on both proposed legislation and suggestions for new legislation. Although the court system is sensitive to the problem of judges being limited in their direct contact with the legislature, there are good reasons for keeping a respectful distance. Any time judges get personally involved in the law making process there is the risk that they will be helping to craft the very laws they will be called upon to interpret. They also run the risk of getting involved in policy issues that are more appropriately left to the legislature. Finally, judges assume the risk that they will be viewed as an advocate of one position or another and the goal of impartiality will be undermined.

It is with an eye towards the balance between valuable judicial input on statutory problems and protecting impartiality that the supreme court, as the head of a separate and coequal branch of government, has developed its policies on how the institution will communicate with judges and interact with the legislature.

RECOMMENDATION 5: PRO SE

The court system is engaged in several projects designed to accommodate the increasing number of pro se litigants and supports legislative efforts that would help in that process.

One of court's efforts in this area was the establishment of the Equal Access to Civil Justice Task Force. That task force was established to study access problems associated with the legal system and to make recommendations to the court system, the Alaska Bar Association, and others. One of the task force's specific areas of inquiry was pro se litigation and the access needs of pro se litigants. It is currently preparing the final draft of its recommendations.

RECOMMENDATION 6: COMPUTER SYSTEM

The court system strongly supports the committee's recommendation that the legislature appropriate the funds needed to complete its ongoing computerization efforts.

The court system is actively engaged in the long and costly process of improving its antiquated computer and technology systems. It is a top priority because the limitations of the current systems severely limit the court's ability to manage its business and to monitor areas for improvement and efficiencies. As part of its technology improvement efforts the court system deals extensively with the private sector. There are commercially developed case management systems available that would not only benefit the court system but other justice related agencies as well, all that is needed are appropriations sufficient to obtain them.

RECOMMENDATION 7: CHILD CUSTODY INVESTIGATORS

Private sector custody investigators have always been used for non-indigent parents in the first, second, and third judicial districts. Pursuant to a recent policy decision by the supreme court that practice will now be followed in the fourth district as well. Although the court system will continue to evaluate the possibility of privatizing custody investigations for indigent parents (which the state pays for), at the present time private custody investigations are considerably more costly than in-house custody investigations.

RECOMMENDATION 8: VICTIM RESTITUTION

The court system supports efforts to improve the collection rate of victim restitution.

RECOMMENDATION 9: LEGISLATIVE BUDGET AND AUDIT

The court system has responded separately to the LB&A audit. A copy of that response is available upon request.

Privatization Commission - Response on Court Technology

Timeline

The court system anticipates that the implementation of a competent case management system that would provide full capabilities for query to analyze court business processes and answer questions posited by the legislature and other entities would be two years from date of funding. The two-year timeline would be comprised of the following subsets:

1. Five months for development, issuance and award of RFP for the program,
2. Twelve months for the modification, programming and beta testing of the application in an operational environment, and
3. Seven months for deployment and training in the remainder of the court locations that receive the new technology.

Cost Estimate

Based on recent review of potential applications, the "seat" cost for the application is approximately \$3000 per user. Development, issuance and award of the RFP for the project would be conducted by existing court staff. Using a base staffing projection for the projected implementation sites, the remainder of the estimated cost for the project would be:

Application	\$1,800,000
Servers and PC's	\$ 705,000
Installation and Training	<u>\$ 300,000</u>
Total	\$2,850,000

Lease v. Purchase Options

Current costs are not available. The court system examined this option at the beginning of the digital audio recording project, an automation project currently underway. At the time of the examination, lease costs approached \$300,000 per year, a cost substantially the same as the life cycle replacement costs for the equipment using a five-year life cycle. The option was rejected for a number of reasons. First, this is a more attractive solution for the private sector, because of the tax consequences of this type of technology hardware acquisition. The court system does not receive the same benefit. Second, once in the lease option, continued funding is mandatory. The court system could not guarantee funding over the life of the contract, as funding is dependent upon legislative appropriation. Third, if funding were to be removed, the leased equipment would be removed from the court facilities and the court system would be left without recourse. Courts would be required to return to paper and pen case-records management or require the legislature to fund a lump sum capital appropriation of over a million dollars. The likelihood of such funding would be highly unlikely since the reason for the termination of the lease would be fiscal constraints.

Current Privately Maintained or Repaired Computer Equipment

None of the court's computer applications are currently maintained by private entities.

MEMORANDUM

ALASKA COURT SYSTEM

Telephone: (907) 264-8265

Facsimile: (907) 264-8291

TO: Commission on Privatization and the Delivery of Government Services

FROM: Doug Wooliver *D. Wooliver*
Administrative Attorney
Alaska Court System

DATE: November 17, 1999

RE: Supplemental Report on Computerization Efforts

During last week's commission hearing the commission requested a supplemental report on the specifics of the court system's computerization efforts. Because the person most knowledgeable about that effort (Deputy Director Steve Bouch) is out of town this week, I will submit the report to the commission by November 24th.



**Alaska Court System
FY 99 Contracts > \$5,000**

Contract Type	Vendor	Location	99 Total Amount	How Acquired
Courier	John Hastie & Co.	Bethel	\$7,700	3 or More Quotes
Courier	Express Delivery	Anch Admin/Trial Court	\$8,715	3 or More Quotes
Copier/Rental	Xerox	Anch Admin	\$9,576	State Contract #27703
Snow Removal	Starr Trucking	Palmer	\$9,880	RFP/2 Yr Option/Final 8/99
Snow Removal/Lawn Care	ASSETS	Anch Admin	\$10,242	Negotiated/2 Yr Option
Landscaping	Mike's Landscaping	Palmer	\$10,406	RFP/2 Yr Option /Renewal 3/00
Snow Removal/Lawn Care	ASSETS	Anch Nesbett Bldg	\$12,366	RFP/2 Yr Option/Renewal 3/00
Snow Removal/Lawn Care	ASSETS	Anch Boney Bldg	\$21,021	RFP/2 Yr Option/Renewal 3/00
Snow Removal	Currier's Asphalt	Anch Admin/Trial Court	\$21,496	RFP/2 Yr Option/Renewal 6/00
Janitorial	Universal Floor Care	Palmer	\$31,700	RFP/2 Yr Option/Renewal 12/31/99
Janitorial	Frontier Training	Kenai	\$35,182	RFP/1 Yr Option/Renewal 10/99
Janitorial	ASSETS	Anch Admin	\$59,700	RFP/Renegotiated 5/99
Security	Guardian Security	Fairbanks	\$90,275	RFP-001-95/5 Yr Option
Janitorial	ASSETS	Anch Boney Bldg	\$138,866	RFP/Renegotiated 10/99
Transcription Svcs	All Vendors	All Courts	\$205,342	RFP's
Security	Guardmark	Anch Admin/Trial Court	\$283,033	RFP-002-94/5 Yr Option
Janitorial	ASSETS	Anch Nesbett Bldg	\$350,754	RFP/Renegotiated 1/99

Capital Leases as of June 30, 1999

Date 6-Aug-99

Alaska Court System

Completed By Linda Creed

Vendor	Description of Item	Prior Year Balance	Increases	Decreases / Payments	Balance of Payments Remaining
Xerox	Copier 5028 60H-483803	883.00	1,325.00	1,325.00	883.00
Xerox	Copier 5028 60H-487484	1,280.00	1,890.00	1,731.00	1,439.00
Xerox	Copier 5065, 6WB-011682	6,150.00	8,300.00	8,300.00	6,150.00
Xerox	Copier 5065, 6WB-200504	6,150.00	8,300.00	8,300.00	6,150.00
Xerox	Copier 5052, 6WB-108584	3,181.00	2,368.00	2,361.00	3,180.00
Xerox (replaced 6WB-108584)	Copier 5065, 6WB-013088	3,967.00	3,932.00	3,933.00	3,966.00
Xerox	Copier 5065, 6WB-108540	3,967.00	3,932.00	3,933.00	3,966.00
Xerox	Copier 5065, 6WB-010735	4,284.00	3,932.00	3,932.00	4,284.00
Xerox	Copier 5065, 6WB-200438	3,968.00	3,932.00	3,932.00	3,968.00
Xerox	Copier 5065, 6WB-108587	2,846.00	1,450.00	1,450.00	2,846.00
Copy Star	Copier 2340, 37010848	2,339.00		2,339.00	-
Xerox	Copier 5322, 1M2-471887	1,487.00	2,241.00	2,241.00	1,487.00
Sharp	Copier 2050, 56200486	5,828.00		5,828.00	-
Sharp	Copier 2040, 68604836	7,772.00		5,488.00	2,284.00
Sharp	Copier 2040, 68602858	7,315.00		5,485.00	1,830.00
Iron Office	Copier 4527, 3716831834	7,768.00		4,688.00	3,108.00
Iron Office	Copier 4527, 3716830895	7,768.00		4,688.00	3,108.00
Iron Office	Copier R400, 39161280861	8,085.00		5,737.00	3,348.00
Mila Financial	Copier 2340, 37-21855	3,838.00		3,117.00	521.00
Pinney Bowes	Copier C320, 6092484	4,369.00		3,278.00	1,091.00
Xerox	Copier 5021, 0MW052964	2,984.00		1,723.00	1,261.00
Xerox	Copier 5021, 0MW048839	2,303.00		1,631.00	672.00
Iron Office	Copier 4522, 3727838241	9,257.00		4,443.00	4,814.00
Iron Office	Copier R401, 7287100140	14,228.00		5,888.00	8,340.00
Iron Office	Copier R400, 7288028255	16,258.00		5,737.00	10,519.00
Iron Office	Copier 3213, 7418818348	3,508.00		1,238.00	2,271.00
EXCR	Reader Printer, 32131298	13,707.00		3,855.00	10,852.00

EDUCATION



ALASKA STATE LEGISLATURE'S COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES

Subcommittee on the Department of Education & Early Development

FINAL REPORT

Subcommittee Members:

**Jim Hickel, Chairman
Rynnieva Moss, Secretary
Bob Boko
Representative Sharon Cissna
Representative John Coghill
Bob Coghill
Don-Evans**

**Kenai Assemblyman Paul Fisher
JoAnn Henderson
Rich Kronberg
Tom Murphy
Jeff Walters
Bonnie Williams**



COMMISSION ON PRIVATIZATION

Department of Education Subcommittee

Date: November 1, 1999

To: Commission on Privatization

From: Subcommittee on Education

Re: Commission on Privatization and Delivery of Government Services: Recommendation

Dear Senator Jerry Ward, Representative John Cowdery, Commissioner William Prosser & State Commissioners:

On behalf of the subcommittee members on Education, we are honored to have served you and appreciate the opportunity to submit to you our recommendations.

The Subcommittee on Education has spent fourteen weeks investigating the budget, policies and procedures of the Alaska Department of Education. We have sought ways to both improve this system and to privatize in those areas which will result in a cost savings to state government.

Special recognition should be given to Karen Rehfeld from the Alaska Department of Education for her cooperation, diligence and thoroughness in supplying us with the necessary documentation and personnel to conduct our investigation and to complete our task responsibly and on time.

Although there were numerous recommendations discussed, we submit only those that passed the scrutiny of the subcommittee and were ratified by a majority vote.

I hope that sufficient time is spent by each of you in reviewing these recommendations. These recommendations take into account those functions of the Department of Education which should be transferred to the private sector or to local government; which agencies should be consolidated or made more efficient; which functions should be performed by the Federal Government; and which functions should be altogether eliminated from State Government.

We sincerely hope that legislation is introduced as needed to implement these recommendations. Thank you for your work as Commissioners on the Privatization and Delivery of Government Services Commission and for entrusting us as advisory to you in the matter of education in Alaska.

Sincerely,

A handwritten signature in cursive script that reads "James W. Hickel".

James W. Hickel
Chairman of Education Subcommittee





COMMISSION ON PRIVATIZATION

Department of Education and Early Development

FINAL REPORT OF SUBCOMMITTEE

GENERAL RECOMMENDATIONS

General recommendations were made and voted on at the final meeting of the Privatization Subcommittee of the Department of Education and Early development. These were recommendations that were not discussed in the subcommittees of the subcommittee, but rather recommendations submitted in writing at the final meeting which merited discussion and were approved by a majority of the members present.

General Recommendation #1: Recognizing that charter schools are public schools that are effective tools in improving educational choice, we recommend that the legislature enact revised charter school laws that provide for educational choice by: (1) doubling the number of charter schools allowed in Alaska; (2) extending the contract period from five to ten years; and (3) require school districts to give a full accounting of money they received for each charter school.

General Recommendation #1 passed unanimously.

RATIONALE: Education should be our number one priority. Parents and educators both have come to recognize that charter schools are one of the tools available for educational reform. Educational reform is sweeping most of the nation and Alaska is lagging behind. Three key factors in educational reform are parental involvement, educational choice, and measuring student performance.

General Recommendation #2: That the legislature review the school districts of the unincorporated areas with a view to consolidate the business functions of the districts.

General Recommendation # 2 passed unanimously.

RATIONALE: The purpose would be to reduce the expenses of multiple superintendents while retaining the authorities and structures of individual school boards. While some subcommittee members doubted a savings, Bonnie Williams pointed out that the University of Alaska saved \$13 million in 1986 and 1987 by

consolidating the chancellors of the University. Jim Hickel said that many school districts in unincorporated areas have superintendents that supervise one to three schools. Don Evans said that the Aleutian Gateway School District, Dillingham City School District, and Southwest Regional School District have recently consolidated their administrative functions.

Recommendations #3 - #5 failed to be adopted.

General Recommendation #6: That the legislature consider some form or variation of a voucher system that is useable in both the public and private school system and put the issue before voters of Alaska.

The recommendation passed on a vote of 5 to 3.

RATIONALE: There has been an increased interest in parental choice in education that needs to be seriously considered by the legislature. This issue should concentrate not so much on the difference between public and private education as on the issue of more parental choice in education vs. bureaucratic mandate. To purpose is to bring on true competition in the education field. There might be a voucher system or credit program that would allow property owners who choose to pay for private school to receive a credit on their taxes collected for public education.

General Recommendation #7: The state will enact legislation requiring the evaluation of its paperwork requirements for teachers and school districts. Unnecessary and/or redundant paperwork should be eliminated. This will allow teachers and other staff more time for preparation and for actual instruction.

The recommendation passed unanimously.

The rationale is in the recommendation. The amount of paperwork required of teachers by both the state and the federal government has become duplicative and overwhelming with little justification.

General Recommendation #8: The state will explore incentives to private businesses to provide computer and other interactive technology to school districts.

The recommendation passed unanimously.

RATIONALE: There are several reasons to support this proposal. It is a mechanism to enhance the use computers, particularly in rural schools. Our students will need this in order to compete successfully in the next century. Computer technology can also become an economic engine for rural Alaska, an area that has had a historic problem with building an economic base.

Recommendation #9: All students should be required to meet the same performance standards in reading, writing, and mathematics. All schools, and educational settings, should be accountable for meeting minimum standards.

The recommendation passed unanimously.

The standards for benchmark and exit performance of students should be the same in public schools and private schools.

General Recommendation #10: The legislature should fund school first by having a separate education budget or providing forward funding.

The recommendation passed unanimously.

RATIONALE: The political pressure on educational funding in the operating budget results in school districts not knowing their funding level for the next fiscal year, which begins in July, until May. A separate budget or forward funding would facilitate the planning process for schools and school districts if funding levels were known earlier in the legislative session. A separate budget for the funding of public education would promote more public awareness of the level of funding and would, hopefully, eliminate the use of education funding for last minute budget negotiations.

Recommendations #11 - #1²~~3~~ failed to be adopted.

General Recommendation #14: Move the teacher certification program to the Division of Occupational Licensing.

This recommendation passed 6 to 2.

RATIONALE: The Division does just this type of licensing. It would create a oversight Board of Licensing that would regulate the certification process. This could include reciprocal provisions for teachers from other participating states. Alaska is one of the few states that have no reciprocal provisions. This has been a major cause of the workload for certification.

General Recommendation #15: Recommend that part of the school safety legislation should be to encourage gun safety education.

The recommendation passed 7 to 1.

RATIONALE: The mention of guns in schools in recent years has brought concern for safety. The purpose of this recommendation is to bring out that there is a place for guns in schools. That place is with school safety and teaching gun safety to schoolchildren.

TEACHING & LEARNING SUPPORT

I. Recommendations adopted.

Recommendation #3: The Development of Benchmarks and exit exams is reasonably expected to be more expensive than the updating of that material. The subcommittee recommends the adoption of a process to update the material in a manner consistent with that expectation.

Recommendations #1 & #2 were tabled.

Recommendation #3 passed unanimously.

The committee discussed the cost of the benchmark and exit exam contracts and whether that cost would go down with the implementation of the tests.

The division said that costs, to date, for the benchmark and exit exams, have been related to test development and field-testing. Future costs will include replenishing test items on all exams so students are not given the same test twice. The division also said there are significant costs associated with test administration, scoring, and security. The division said a decrease in overall assessment costs is not anticipated.

The House Finance Committee reviewed the amount of contracts for developing and test administration of the benchmark and exit exams. After development is completed, the House Finance Committee expects the total cost to be reduced as the updating of exams should be less costly than the initial development.

Recommendation #4: The administrative cost of each component should be reviewed further.

The recommendation was passed unanimously.

RATIONALE: While this recommendation was directed at Technical & Learning support, there was a general consensus that administrative costs should be kept at a minimum and that more review of those costs for all departments and divisions of state government should be made. Administrative costs reduce the amount of money delivered directly to the school districts.

Recommendation #5: All elements of a single program should be in the same location within the budget.

The recommendation was passed unanimously.

Recommendation #6: The Child Nutrition Administration Component and Donated Commodities component should be consolidated in an existing division.

The recommendation was passed unanimously.

RATIONALE: This component is administrative in nature and should be a function of the Executive Administration. The Division said that the component provides hands on activities like food service reviewers through contracts, so administration of those contracts should be a function of executive administration. The personnel services segment of the Child nutrition programs should be transferred to Donated Commodities of Executive Administration.

The Department said that these two components have been together on and off in the past and that the Department planned to consolidate them into the new Early Development component in July of 2000.

The DOEED Subcommittee has also recommended that the Division of Early Development is delivering social services and should be eliminating, consolidated its functions with existing divisions of Health and Social Services.

Recommendation # 7: The Quality Schools function is currently being performed well by the Department of Education and Early Development and should remain a function of the Department.

The recommendation was passed unanimously.

The general consensus of the subcommittee was that this division had made major advancement in establishing benchmarks and exit exams. There was concern that the division did not anticipate a reduction in the cost of administering these monitoring systems once they are established. For that reason the word "currently" was added to the original recommendation to give the division notice that devising a monitoring system and maintaining a monitoring system should not result in additional spending or even level spending, but a reduction in spending.

EXECUTIVE ADMINISTRATION

I. Recommendations adopted.

Recommendation #1:

Privatize services provided by Alyeska Central School.

Recommendation # 1 passed by a vote of 7 to 1.

Those supporting the recommendation said that there are several private sources already available and several school districts offer home school curriculum. They said ACS it seems redundant for the state to be providing services already available in the private sector. There are as many as 30 providers in both the public and private sector.

The Fairbanks correspondence program has been around a long time. Of the 52 or 53 school districts in Alaska, 15 have a home school program. If someone's own school district doesn't offer correspondence then there are fifteen other public programs to choose from. ACS curriculum has fallen into the category of remedial study and the elimination of ACS will require remedial study at the local level.

Recommendation #2:

All the elements of a single program should be in the same location within the budget.

Recommendation #2 passed unanimously.

An area that keeps coming to the surface is the nutrition program. There are components of that single function of state government in Executive Administration, Teaching & Learning Support, and K-12.

Other areas of mention in several BRU's are exit and benchmark exams, teacher certification and licensing, and supplying information, technical services to school districts, and arts related components.

Recommendation #3 failed to be adopted.

Recommendation #4:

The federal government should get out of K-12 education.

Passed by a 6-1 vote.

The federal government has not constitutional authority to regulate education. Because there is no explicit mention of education, the states have the powers over public education. Federal mandates have increasingly diminished the states' abilities to provide adequate education to their citizens.

ALYESKA CENTRAL SCHOOL

Recommendation #1: It is recommended that Alyeska Central School be closed, with the responsibility for providing correspondence study transferred to those school districts which have a correspondence program.

The recommendation passed by a vote of 6 to 5.

RATIONALE: With at least 15 of 53 school districts providing some form of correspondence study, there are enough programs available for a broad choice for Alaskans. Continuing Alyeska Central School is merely an expensive duplication and unnecessary competition. There will be minor dollar savings, on the State level, and a real increase in the economy of scale for the participating school districts as a consequence of increased enrollment in individual district programs. Closing Alyeska will bring correspondence closer to students and parents and students might be able to participate in public schools courses and activities.

A September newsletter from the Board of Education stated that regulation changes will require all correspondence schools in Alaska to apply for a certification from DOEED to allow them to provide correspondence services. Alyeska would be exempt. Between the aggressive advertising and expensive by Alyeska with public funds and trying to regulate more requirements on other correspondence sources, the State is not playing it straight when competing with other public and private sources.

The State should limit its involvement in correspondence study to assure the quality is provided – primarily through exit exams during graduation – and through providing a complete listing of available programs, to any inquiring citizen.

COMMISSIONS & BOARDS

I. Recommendations approved.

Recommendation #1 and #2 are not included in the report because they were not adopted by the subcommittee.

Recommendation # 3: It is recommended that the State of Alaska keep alternate teaching certification available for interested residents of Alaska.

RATIONALE: It is difficult for Alaska students to travel outside for education; especially students from our native population. It might be helpful for the State of Alaska to keep Alternative Certification available for interested residents of Alaska.

There was an alternative process available in the past but due to the lack of use of the alternative process and the expense of having the process available, it was eliminated.

ALASKA VOCATIONAL TECHNICAL CENTER

I. Recommendations passed:

Recommendation #1:

Encourage the legislature to pass HB 142, "An Act relating to the education credit for the fisheries business tax and the fisheries landing tax", which would result in AVTEC being a qualifying recipient of cash contributions provided for in AS 43.77.

Passed by a unanimous vote.

RATIONALE: Last year, AVTEC returned \$140,000 in cash contributions to fisheries businesses that had made the contributions to the vocational institute because state law did not include the facility as a qualified recipient.

Under current law some fisheries businesses can receive a tax credit by making cash contributions to educational institutions. Donors benefit because they can choose to contribute to the institutions that are vital to their operations. The contributions are applied as a credit against the tax due.

Under Alaska statutes only regionally accredited, two-year or four-year, public or private, institutions can receive these cash contributions. HB 142 extends the ability to receive donations to nationally or regionally accredited vocational institutions such as AVTEC.

Recommendation #2:

The Department of Education should hire a grant writer in the Division of Teaching and Learning Services that will focus on locating and obtaining funding sources other than state funds for Mt. Edgecumbe and AVTEC.

Passed by a unanimous vote.

RATIONALE: Both of these schools are unique in nature and should qualify for unique federal funding and non-conventional private foundation funds. The National Institute for Fund Raising Executives estimates that in the first year of funding a grant writing position, the grant writer will obtain funding that equals 1½ times the grant writer's salary. After this first year the ration continues to increase. This would result in less state dollars being needed for the facilities and a negative fiscal note for such added position.

Recommendation #3:

Give AVTEC the flexibility to determine leasing and maintenance provisions for its motor pool fleet.

Passed by a unanimous vote.

RATIONALE: The AVTEC vehicles are maintained by AVTEC. This vocational school has students learning the trade of vehicle maintenance that receive hands-on vocational training from maintaining the vehicles while reducing the cost of maintaining the AVTEC vehicles.

Most of the vehicles utilized by AVTEC are surplused and have no lease value. The fleet has five vehicles that would normally in the private sector be replaced under a five-year lease replenishment program.

The subcommittee also discussed the possibility of reducing maintenance of all state vehicles in the Seward area by AVTEC faculty and students. There was concern about the state (AVTEC) providing a service that could be provided at an equal or lower cost by local private automotive repair businesses in the Seward area. This discussion resulted in Recommendation #4.

Recommendation #4:

Maintenance for state motor pool vehicles should be contracted out by competitive bid. If a state agency has the capability of providing those services, that agency shall submit a competitive bid for the services to be contracted, but shall do so apart and separate from the agency soliciting the bid.

Passed by a unanimous vote.

RATIONALE: The U.S. Corps of Engineers has instituted a competitive bid process for what used to be automatic in-house projects. The project is let for competitive bid and if the Corps gets the contract, it is because the Corps is low bidder. The administrative section of the Corps has created a "china wall" between itself and the construction section that places the competitive bid.

Such a provision would allow AVTEC to bid on maintenance of motor pools of DOTPF and Spring Creek Corrections Facility.

Recommendation #5:

AVTEC should explore the possibility of obtaining funding from the Alaska Housing Finance Corporation to expand family housing facilities.

Passed by a unanimous vote.

RATIONALE: AVTEC is gaining a good reputation statewide and has been forced to turn students away because they have inadequate family housing facilities. They

estimate that they lost fifty families last year in which one or both of the parents were wanting vocational training but could not get housing at AVTEC and could not afford private housing. When the dormitories are full of single students, AVTEC has contracted with local hotels for housing.

Recommendation #6: Privatize the food services of AVTEC.

Passed by a vote of 6 to 2 to 1.

RATIONALE: AVTEC has been utilizing the food services students to provide food services but have recently changed the format of their food services training program. They currently have one cook and two food service workers employed. The change in the program would require AVTEC to hire additional food services employee next year and they are exploring the possibility of privatizing those services. We support their effort and recommend that the services be privatized.

MT. EDGECUMBE BOARDING SCHOOL

I. Recommendations approved:

Recommendations #1 & #2 are not included because they were not adopted by the subcommittee.

Recommendation #3: Because Mt. Edgecumbe High School has significant facilities and maintenance issues due mostly to the age of the campus, and because the potential exists that Mt. Edgecumbe may be asked to expand its enrollment to serve Alaska's immediate and/or future educational needs, this sub-committee recommends that the legislature provide funds to meet the deferred maintenance needs of Mt. Edgecumbe High School.

Recommendation #3 passed unanimously.

RATIONALE: The subcommittee of the subcommittee recognized the importance of rural schools but also recognized there are two factors that have placed an increasing demand on Mt. Edgecumbe's services. First, with the passage of SB 36, rural schools with student attendance less than ten students are closing and second, some families in rural Alaska want their children to go to Mt. Edgecumbe to become prepared for a postsecondary education.

Mt. Edgecumbe currently turns down at least one student for every student it accepts because the dormitory capacity is limited. The school currently has students from 107 existing school districts whose parents want an alternative. The school currently is the home of 327 students of which 90% will go on to postsecondary schools.

There was a general agreement that Mt. Edgecumbe is providing a greatly needed service that is not available in the private sector. It was also agreed upon that Mt. Edgecumbe's ability to facilitate the growing demand for its services due to the implementation of SB 36 and the ultimate closure of smaller schools in rural Alaska schools should be considered in the capital budget for FY'01.

STATE FACILITIES MAINTENANCE

State Facilities Maintenance consists of the maintenance of two educational facilities within the Department of Education: AVTEC and Mt. Edgecumbe. The maintenance problems of these two facilities are discussed within their own BRUs. Maintenance has eleven full-time employees.

ALASKA LIBRARY & MUSEUMS

I. Recommendations adopted:

Recommendation #1: The executive branch libraries should be managed by the State Library and further that no executive branch library should be established or ended without State Library oversight.

Recommendation #1 passed unanimously.

RATIONALE: Currently there is a library at Fish and Game. Other divisions have reference collections. What happens is that libraries are among the first to go in budget cuts. DEC eliminated its library two years ago and it cost the State Library a considerable amount of money. They had to go through the collection to decide what to keep, what to send to other libraries and what to trash. That was a considerable amount of staff time. Then the DEC holdings were taken off the online catalog and the WLN database.

This year in the move of Community & Regional Affairs they are giving their research collections away. Part of the collection was going to a federal library consortium that called Karen Crane and wanted the State to pay for cataloging. She did manage to stop that but more of this is going to happen. This recommendation does not include the Court System since they are a different branch of government.

The Fish and Game Library is the strongest one in the agencies. If the State Library managed it, they could save money with subscriptions, cataloging, etc. Centralizing library services for state agencies would save money and provide better service.

ALASKA POSTSECONDARY EDUCATION

I. Recommendations adopted.

Recommendation #1: It is recommended that the student loan program be privatized by being contracted out to a private lending service.

The recommendation passed by a vote of 6 to 3.

RATIONALE: The premier example of successful and cost-efficient government guaranteed loan programs is the VA mortgage-lending program. Supported by government guarantees and operating within government regulations and parameters, banks and mortgage loan companies provide the actual loans and handle all collection operations.

Student loans could be privatized in the same manner as the veteran's loans. The government contracts with banks to manage the loans, the government guarantees the loans and determines the eligibility.

There was concerned that it would no longer be possible to fund the loans with tax-exempt bonds. The State is responsible for \$430 million in bonds for a program that has been losing money since 1988. The program should not be looked at as a case of improving competition with private banks, the focus should be on privatizing student loans.

Recommendation #2: It is recommended that all loan programs of the State be submitted to review with one of two conclusions being sought: (1) consolidation within a single department of state government, such as Revenue, where staffing is trained in accounting and fund management; or (2) provision to management by banks through an RFP process.

The recommendation passed by a vote of 7 to 0, with two abstaining.

RATIONALE: The State of Alaska operates a number of loan programs. In each case, the program resides within a division and department associated with the activity/purpose of the loan (i.e. student loans in DOE, farm loans in DNR). The expertise of staff lies with the activity or purpose rather than with banking/mortgage/accounting professions, and as a consequence, the loan programs are poorly run, have excessive late payment, poor collection follow ups and high rates of delinquencies. Firms who loan money and collect on loans are far more efficient at this specialized field. At a minimum, consolidating all programs within Revenue would at least lend the efficiency of economy scale, and allow for staffing with more specialized, trained personnel.

Known loan programs include the Agricultural Revolving Loan Fund (ARLF), within DNR, and one or two (uncertain) commercial fishing loan programs, in addition to the Student Loan Program.

ARLF started with \$95,000,000 in principle available for loans. Through the course of inexpert loan management and poor administrative and legislative decisions, the principle is down to below \$5,000,000.

DIVISION OF EARLY DEVELOPMENT

I. Recommendations adopted.

Recommendation #1: Eliminate the Division of Early Development from DOE, consolidating it within the Department of Health and Social Services and its existing programs.

Recommendation was passed unanimously.

RATIONALE: Overlapping in state services is very evident in the Early Development Division of the Department of Education (DOE). The constitutional and statutory purpose of DOE is to provide education to K-12 students in Alaska. Early Development is an area of services that does not belong in the public sector, let alone the Department of Education.

Child Care and Head Start is inconsistent with the constitutional and statutory provisions of education because the recipients are not K-12 students receiving education. In the case where a high school student is receiving childcare or Head Start services, there is an overlap with welfare programs provided under the Alaska Temporary Assistance Program (ATAP).

Recommendation #2:

Transfer the Children's Trust Grant Program to the Office of the Governor, Division of Boards and Commissions.

Recommendation passed unanimously.

AS 37.14.200 established a seven member Board for the Children's Trust Program. The Governor appoints four public members. These members have experience and expertise in children's or prevention programs, or private sector finance. The Governor or his designee, the commissioner or her designees of the Dept. of Health and Social Services, the commissioner or his designee of the Dept. of Education are also members.

It is the function of this board to "award grants from the net income of the trust to community-based programs and projects that the board find will aid in the prevention of child abuse and neglect; monitor approved programs and projects for compliance with AS 37.14.200-37.14.270; before providing assistance to a program or project, approve written findings on the program or project that include a consideration of the means of measuring the effectiveness of the program or project; apply for, and use

net income from the trust to obtain, private and federal grants for the prevention of child abuse and neglect; solicit contributions, gifts, and bequests to the trust."¹

During the overview of this Division, there was no mention of the Children's Trust being a component of this division, but the Division's website does include the Children's Trust as a component.

Recommendation #3:

When federal funding for a federally mandated program established in the State of Alaska falls below the 50% funding, the service shall be considered unessential at the state level and passed on to the option of local governments for funding.

Recommendation #3 passed by a vote of 5 to 4.

RATIONALE IN SUPPORT OF RECOMMENDATION: The Alaska State Legislature continues to grab the dangling carrot only to find itself funding the major portion of these programs after the federal government has created them and funded them for several years. When the federal funding diminishes, the state is left holding the bag to fund the program. If the federal government wants to impose mandates, they should be willing to at least be partners with the state in funding those programs. If the federal government is unwilling to fund the programs, then the federal government should not mandate programs and services and states and local governments should make the decision on the future of those programs. It was pointed out that the federal government provides only 9% of the funded needed annually for special education programs.

Recommendation # 4 is not included because it was not adopted by the subcommittee.

Recommendation #5: The Alaska State Legislature should treat all state receipts as general fund money unless the receipts are the result of inter/agency receipts.

Recommendation #5 passed unanimously.

RATIONALE: SB 55 was the latest in a series of legislative revisions that moved several programs off budget and moved them in the budgeting process from the general fund to other funds. The legislature passed SB 55 despite strong objections from both legislative finance and legislative budget and audit.

During a Senate Labor & Commerce Committee meeting on February 4, 1997, Annalee McConnell, Director of the Office of Management and Budget, said SB 55 was introduced at the request of the Governor intended to deal with an accounting catch 22. She said that the items in their budget expenditures could grow and actually are in the economic development area and are seen as a real positive. There

¹ <http://www.gov.state.ak.us/boards/factsheet/children.htm>

was concern, however, that "the increase in the expenditures counts as an increase in the total budget."

SB 55 reclassified "designated programs" and "restricted fees" in the budget process so that they are no longer treated them as part of the unrestricted general funds category but set them into a different category funding column, "Other Funds".

Ms. McConnell said OMB would continue to show these in the budget as "Other Funds" so everyone was well aware of them. *"The key point in all of this is that you can have an increase in these arenas, mostly economic development, without increasing the fiscal gap."*

Later is that same committee meeting Senator Tim Kelly asked how this affects the fiscal gap. Ms. McConnell explained that *"as expenditures go up revenues increase by the same amount. Therefore, there is no increase in the fiscal gap."* This statement is in direct contradiction to Ms. McConnell's key point for enacting SB 55.

Senator Kelly asked if they would increase the program receipts and take them off budget. Ms. McConnell said they wouldn't be off budget; they would still be appropriated by the legislature. Instead of being in the column along with unrestricted general funds, there is a separate category "Other Funds" for designated program receipts.

SB 55 also contains some clean-up items that weren't in last year's bill. It codifies corporate receipts and clarified that the Children's Trust and the Public School Fund are not part of the unrestricted general funds.

Senator Kelly asked if the legislature approves SB 55 what is the difference between the amount from the general fund and the new program receipts? Ms. McConnell replied that between '97 and '98 it's about a \$3 million increase. She said there is a small increase in the category of restricted fees; much of it is in the economic development area.

On April 7, 1997, the Senate Finance Committee heard SB 55. Concerns were voiced about proper supervision by the legislature over program receipts set by the pioneer homes and Alaska Housing Finance Corporation.

Senator Pearce said that what happens when program receipts are put off of the budget the Legislature tends to not look as closely at the program during the budget process. Senator Drue Pearce stated at that committee meeting that Mike Greany, Director, Legislative Finance and Randy Welker, Legislative Auditor had real concerns about pushing too many program receipts off budget. She said they would prefer program receipts be brought back in as straight general fund receipts and not try to account for them separately.

The Senate Finance Committee heard SB 55 again on April 16, 1997. They adopted a committee substitute that added the children's trust, commercial fisheries test fishing operations, and the public utilities commission to the list of fund receipts.

"Mike Greany, Director, Legislative Finance Division, described the bill and the columns of appropriations. He informed the committee that SB 55 would move some of the general fund appropriations to the other funds column and they would no longer be counted as general fund. It would move about \$55 million of designated receipts from the general fund and move them off budget. He expressed concerns about moving closer to a form of dedication and away from the notion that the majority of receipts the state takes in were not dedicated were available to the legislature for appropriation."

The actual impact of SB 55 to moving general fund money on the FY '00 budget is close to \$59 million:

1005 GF/Prgm	49,933,800
1098 ChildTrErn	379,700
1109 Test Fish	3,970,500
1110 APUC Rcpts	4,699,200
	58,983,200

What has been the impact of creative accounting to the Parks & Recreation operations of the State? I have put together a comparison of the FY'84 and FY'00 Budgets for the division by funding source.

FY'00 BUDGET	1002 Fed Rcpts	1003 G/F Match	1004 Gen Fund	1005 GF/Prgm	1007 I/A Rcpts	1061 CIP Rcpts	1108 Stat Desig	REVENUES
State Historic Preservation	332,300	285,500			224,000	414,600		1,256,400
Parks Management			3,464,500	1,947,300	74,300		56,700	5,542,800
Parks Access	622,700				871,900	1,009,000		2,503,600
TOTALS		285,500	3,464,500	1,947,300	1,170,200	1,423,600	56,700	9,302,800
	955,000							

FY'84 BUDGET	1002 Fed Rcpts	1003 G/F Match	1004 Gen Fund	1005 GF/Prgm	1007 I/A Rcpts	1028 Pre80PRGM	TOTAL REVENUES
Historic Resource Mgmt.			153,100				153,100
Park Design/Development			311,000				311,000
Park Maintenance & Operations			3,914,500			20,000	3,934,500
Parks Administration			464,100				464,100
Direct Charge CIP					954,900		954,900
Overhead CIP					153,400		153,400
Youth Employment Program			400,000				400,000
			5,242,700		1,108,300	20,000	6,371,000

Total expenditures in FY'84 were \$6,371,100. The two basic funding sources were the general fund at \$5.2 million and inter/agency receipts at \$1.1 million. There was no federal funding.

In FY'00, the revenues totaled \$9,302,800. That is an increase in spending by almost \$3 million or 50% in sixteen years. Personal services accounts for \$2.5 million of the increased spending. The main funding sources have increased from two sources to seven sources in sixteen years. Inter/agency receipts have increased only \$61,900 in 16 years. . One added revenues source is federal receipts, which amounted to \$955,000 in FY'00. With that in mind, one would conclude that general fund spending has increased by approximately \$2 million dollars over the same 16-year period. In actuality, because the four new remaining funding sources result from an expansion in the "Other Funds" column, general fund spending has decreased by \$1.8 million.

The State of Alaska should have two funds for income from state sources; the General Fund and Inter/Agency Receipts. The budget for state spending need not be complex and should be understandable for all Alaskans. Truth of income for the State of Alaska should be mandatory.



**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

I. General Recommendations

1. Recognizing that charter schools are public schools that are effective tools in improving educational choice, we recommend that the legislature enact revised charter school laws that provide for educational choice by: (1) doubling the number of charter schools allowed in Alaska; (2) extending the contract period from five to ten years; and (3) require school districts to give a full accounting of monies they receive for each charter school.

Department Response:

The department concurs that charter schools provide expanded choices for parents and students in educational programs. The department will continue to work with the legislature in strengthening and improving the charter school laws. If expansion in the number of charter schools occurs, the department will require resources to provide technical assistance and general oversight.

2. That the legislature review the school districts of the unincorporated areas with a view to consolidate the business functions of the districts.

Department Response:

The department believes that there are efficiencies that can be achieved in business functions in both REAA and municipal school districts. To realize business efficiencies will require a variety of strategies. Consolidation of business services may work well in some instances while sharing of business services between municipal and school district offices may work in others. The department will continue to work with school districts and the legislature in achieving greater efficiencies.

General Recommendations 3 - 5 failed to be adopted.

6. That the legislature consider some form or variation of a voucher system that is useable in both the public and private school system and put the issue before voters of Alaska.

Department Response:

The department believes that considerable public involvement will be necessary to evaluate the pros and cons of voucher systems and any proposal to implement a voucher system in Alaska. The State Board of Education & Early Development is on record supporting increased choice within the public school system.

7. The state will enact legislation requiring the evaluation of its paperwork requirements for teachers and school districts. Unnecessary and/or redundant paperwork should be eliminated. This will allow teachers and other staff more time for preparation and for actual instruction.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

Department Response:

The legislature and the administration have taken steps to improve the provision of state services to the public and maintain accountability for the use of public funds while reducing the amount of paperwork required. Through Administrative Order No. 157, signed by Governor Knowles on June 5, 1995, state agencies are required to streamline and clarify the regulation process in a number of areas.

Many of the requirements placed on school districts are found in department regulation. The department has implemented a regulation review process to address elements in regulation that are out-dated, no longer necessary, or redundant. Passage of legislation that has made significant changes to education including the High School Graduation Qualifying Exam, the statewide comprehensive student assessment system, teacher and administrator testing, and the new public school funding program have required substantial changes to department regulation.

The State Board of Education & Early Development is responsible for adopting department regulations. All proposed regulations go through considerable public review, including school districts and education organizations, prior to adoption. The department welcomes and appreciates the feedback received in the regulatory process.

8. The state will explore incentives to private businesses to provide computer and other interactive technology to school districts.

Department Response:

Family, community, and business partnerships are a critical element of the Quality Schools Initiative. The department is working with schools and communities to improve and expand on these partnerships. The business community in Alaska is very engaged in school improvement in areas such as mentoring, internships, work experiences, and scholarships. The department believes that the potential exists for greater involvement in the area of technology.

9. All students should be required to meet the same performance standards in reading, writing, and mathematics. All schools, and educational settings, should be accountable for meeting minimum standards.

Department Response:

Current statutes, AS 14.07.020(b)(2), require that all public school students meet standards in reading, writing, and mathematics at designated age levels, grades 3, 6, and 8, and beginning in 2002, all public school students must pass the High School Graduation Qualifying Exam in order to receive a secondary school diploma, AS 14.03.075. Statutory changes would be necessary in order to require private and home school students to take the state exams.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

10. The legislature should fund school first by having a separate education budget or providing forward funding.

Department Response:

The department supports full funding of public education and recognizes that the state funds for education represent a significant portion of the annual operating budget. The department recognizes that while early funding decisions on the education budget would be helpful to school districts in preparing their budgets for the next year, there are many factors that limit the legislature's ability to make these decisions in isolation of the entire budget.

Recommendations 11 - 14 failed to be adopted.

14. Move the teacher certification program to the Division of Occupational Licensing.

Department Response:

A key element of the Quality Schools Initiative is to have high quality professionals providing instruction to Alaskan students. Development of a standards-based licensing system for teachers and administrators is a priority of the State Board of Education & Early Development. Recent legislation requires that teachers and administrators pass a competency exam as a prerequisite to licensing. Although it would be possible to move the teacher certification program to Occupational Licensing with some statutory and regulatory changes, the department believes that it would not be in the best interests of students to do so at this time given the dynamic changes occurring in licensing requirements.

15. Recommend that part of the school safety legislation should be to encourage gun safety education.

Department Response:

Safe and peaceful schools are a key element of the Quality Schools Initiative. The department is working with schools and communities to develop school crisis plans that equip school personnel to appropriately respond to crises. The department agrees that students should be aware of gun safety and that local communities and schools should develop strategies to address this concern.

II. Teaching & Learning Support

Recommendations 1 & 2 were tabled.

3. The Development of Benchmarks and exit exams is reasonably expected to be more expensive than the updating of that material. The subcommittee recommends the adoption of a process to update the material in a manner consistent with that expectation.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

Department Response:

The department concurs that development of the benchmark and exit exams are more expensive than the updating of items for these exams. The high stakes nature of the exit exam however, requires strenuous test security of the items and the various versions of the test. Although the costs for test/item development diminish with the completion of the tests, ongoing costs for updating the items, administration of the exams, test security, scoring and reporting, will require continued funding support from the legislature.

4. The administrative cost of each component should be reviewed further.

Department Response:

The department reviews administrative costs for each component on an annual basis. Most of the federal programs have administrative caps in place that range from 5 to 15 percent of the grant amount.

5. All elements of a single program should be in the same location within the budget.

Department Response:

The department has historically included the major formula programs, including the public school funding program and pupil transportation, in a separate portion of the agency budget. The staff that administer these programs are included in another area of the budget. This has been done to clearly identify those funds that pass-through directly to school districts versus agency costs to administer the program.

6. The Child Nutrition Administration Component and Donated Commodities component should be consolidated in an existing division.

Department Response:

The department concurs with this recommendation. These programs are being transferred to the Early Development Division and these components will be combined in the FY2001 budget.

7. The Quality Schools function is currently being performed well by the Department of Education & Early Development and should remain a function of the Department.

Department Response:

The department concurs with this recommendation.

III. Executive Administration

1. Privatize services provided by Alyeska Central School.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

Department Response:

Please refer to the department response to the Alyeska Central School Recommendation No. 1 beginning on page 5.

- 2. All the elements of a single program should be in the same location within the budget.***

Department Response:

The department has historically included the major formula programs, including the public school funding program and pupil transportation, in a separate portion of the agency budget. The staff that administer these programs are included in another area of the budget. This has been done to clearly identify those funds that pass-through directly to school districts versus agency costs to administer the program.

Recommendation 3 failed to be adopted.

- 4. The federal government should get out of K-12 education.***

Department Response:

The department has no response to this recommendation.

IV. Alyeska Central School

- 1. It is recommended that Alyeska Central School be closed, with the responsibility for providing correspondence study transferred to those school districts which have a correspondence program.***

Department Response:

Alyeska Central School (ACS) provides services to an average of 3500 students each year. These students and their school districts participate with Alyeska in three ways.

- 1. K-12 students can enroll directly with Alyeska. Traditionally these full time students come from districts where there is not a well-established correspondence program. Fewer students enroll from districts like Fairbanks and Mat Su where there is a well-established program. The ACS regular school K-12 program is comprised of strong academic courses that meet the Alaska Standards. As a result, Alyeska has a high percentage of graduates from the regular program that attend colleges and universities. Alyeska also works to meet individual student needs by providing lower level courses and courses to meet special education needs.**
- 2. Students in 10th-12th grade from any public high school in Alaska can enroll in the Alyeska Summer Program. Students who have been identified by the local school counselor, as**

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

deficient in the skills needed to successfully pass the High School Graduation Qualifying Exam can take one summer school course. Combining well-developed correspondence courses with an onsite support component further strengthens this partnership. In the on-site support program, ACS reimburses districts for personnel costs in providing a local teacher to work with summer school student's onsite. This supportive partnership with all Alaskan School districts has helped over a thousand students each year who have failed courses at their local school and are now able to graduate from high school or move onto the next grade level.

3. All Alaskan school districts purchase lesson plans, teaching services, and course materials developed by Alyeska staff members for use in courses, programs, or classrooms - from small schools with limited course offerings, to large districts and statewide correspondence programs. Unlike courses developed out of state, courses developed by Alyeska teachers are focused on the relevance of our unique environment and the Alaska standards - a factor critical to student interest and success.

Closing Alyeska Central School would have the following adverse affects on students and districts throughout Alaska

Reduced options for parents

- The Department of Education & Early Development is required to maintain a statewide correspondence program. Current district programs may refuse to take students from other districts or may discontinue or reduce services to students in their own or other districts. Districts are under no legal obligation to provide distance education/home schooling to anyone.
- While ACS and district statewide correspondence programs must both meet Department of Education & Early Development regulations, Alyeska is the only Alaskan correspondence program accredited by the Northwest Association of Schools and Colleges. Accreditation is an important factor for students applying to post-secondary schools. Students graduating from non-accredited schools have a difficult time getting accepted to many universities and colleges.
- Alyeska operates year round - parents who chose to do home-school/correspondence want and often need the option with their children of continuing through the summer months. Olympic athletes, students who are working, and students with intensive medical needs have chosen Alyeska because of the demands of their schedules. No other correspondence program operates year round and can provide this type of educational support.
- Alyeska has a staff of 25 certified teachers covering all grades levels subject areas. These teachers not only evaluate student lessons, they provide consistent support and

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

encouragement to home teachers. This educational resource and structure is critical to the success of many students.

Increased costs to the state

- Duplication of resources – almost all of the lower 48 states have consolidated their in-state correspondence programs into one institution. They found that the costs of having many school districts competing and duplicating resources on a small scale translates into reduced services to students and more costs to the state - more administration, teachers, operating expenses, warehousing, support staff, duplication of courses and services.
- Most Alaskan district correspondence programs purchase course materials and teaching services from out of state. Although there are other statewide correspondence choices – only a few create some of their own courses – most purchase course materials and teaching services from out of state. Alyeska high school courses cost less than many of those created and taught by out of state schools.
- Approximately 10,000 students participate in home school correspondence programs in Alaska. Since only a few programs besides Alyeska develop their own courses, each year, 15 to 20 million dollars is paid to out of state institutions for teaching services and the development of course lesson plans.

Accountability

- Alyeska requires students to turn in work on a regular basis to be evaluated by a certified teacher. Some correspondence programs let the parent determine school grades with little verification that a student did indeed do the work or achieve educational goals. Many parents lack the educational experience to gauge their child's achievements in relation to other children of that age. Standardized tests provide one indication of a student's progress, but they are not a substitute for the ongoing evaluation of student's work by a teacher.
- Institutional credibility and integrity are important factors in the educational community. Home schooling/correspondence is often a transitory one or two year experiment with many parents. If a student is allowed to enroll in a program that requires no educational corroboration of student achievement who then ends up the next year returning to the local public school, the result could be that that student may have lost a year or two in the experiment. It will be up to the local public school to spend time and funds to help that student make up for that lost year or two.
- Course Standards – many of the statewide and district correspondence programs purchase courses and services from outside vendors that operate on a for profit basis. To make a profit on distance education, compromises are required in the quality of the

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

course, the interaction time with the teacher, the depth of lessons, and the educational guarantee that the student did achieve learning goals.

V. Commissions & Boards

Recommendation 1 and 2 are not included in the report because they were not adopted by the subcommittee.

3. It is recommended that the State of Alaska keep alternate teaching certification available for interested residents of Alaska.

Department Response:

The State Board of Education & Early Development is currently pursuing a high quality, standards-based system of licensure that will allow individuals who did not complete a traditional education preparation program to become licensed based on demonstrating competencies in specific areas.

VI. Alaska Vocational Technical Center

1. Encourage the legislature to pass HB 142, "An Act relating to the education credit for the fisheries business tax and the fisheries landing tax", which would result in AVTEC being a qualifying recipient of cash contributions provided for in AS 43.77.

Department Response:

Although the department supports the concept of expanding the education credit to allow AVTEC to be eligible to receive funds under this program, the elements of the specific legislation and any impact on state revenue would need to be addressed by the Department of Revenue.

2. The Department of Education should hire a grant writer in the Division of Teaching and Learning Services that will focus on locating and obtaining funding sources other than state funds for Mt. Edgecumbe and AVTEC.

Department Response:

Staff in the department prepare grant requests specific to the federal programs that provide funds for Alaskan school districts. Mt. Edgecumbe does receive some of these funds. AVTEC is eligible to receive federal vocational education funds. Although the department does not have a specific grant writer dedicated to these programs, the department is concentrating on maximizing the potential federal funds available to Alaska.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

3. Give AVTEC the flexibility to determine leasing and maintenance provisions for its motor pool fleet.

Department Response:

The department would like to pursue this recommendation with the appropriate state agencies.

4. Maintenance for state motor pool vehicles should be contracted out by competitive bid. If a state agency has the capability of providing those services, that agency shall submit a competitive bid for the services to be contracted, but shall do so apart and separate from the agency soliciting the bid.

Department Response:

The department would like to pursue this recommendation with the appropriate state agencies.

5. AVTEC should explore the possibility of obtaining funding from the Alaska Housing Finance Corporation to expand family housing facilities.

Department Response:

AVTEC has been exploring funding options for providing family housing for students including discussions with the Alaska Housing Finance Corporation.

6. Privatize the food services of AVTEC.

Department Response:

The department agrees with the recommendation however, the ability to do so is dependent upon the private sector's capacity to provide the same service at a reduced cost.

VII. Mt. Edgecumbe High School

Recommendations 1 & 2 are not included because they were not ratified by the subcommittee.

3. Because Mt. Edgecumbe High School has significant facilities and maintenance issues due mostly to the age of the campus, and because the potential exists that Mt. Edgecumbe may be asked to expand its enrollment to serve Alaska's immediate and/or future educational needs, this sub-committee recommends that the legislature provide funds to meet the deferred maintenance needs of Mt. Edgecumbe High School.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

Department Response:

The department agrees with the recommendation. Mt. Edgecumbe, along with other state facilities, is in need of funding to meet deferred maintenance requirements given the age and condition of the buildings.

VIII. Alaska Library & Museums

1. The executive branch libraries should be managed by the State Library and further that no executive branch library should be established or ended without State Library oversight.

Department Response:

The department agrees with the recommendation. However, no study has been conducted to determine if efficiencies and cost savings would occur as a result of implementing the recommendation. Additional discussion and evaluation are needed.

IX. Alaska Postsecondary Education Commission

1. It is recommended that the student loan program be privatized by being contracted out to a private lending service.

Department Response:

The rationale for the recommendation does not contain any proposed advantages to privatization over the current configuration. Given that, the recommendation lacks specific objectives or expectations about which ACPE could respond to this privatization plan. However, following are a number of significant issues to consider:

- ACPE operates in a manner similar to a non-for-profit entity and offers a high percentage of loans to young Alaskans without a credit history. The legislature, in moving this public service program may have to underwrite or guarantee the funds similar to the federal student loan program to insure that Alaska's neediest young people continue to have a means to finance their postsecondary training. A new funding source would need to be identified to guarantee defaulted loans or losses due to death, disability or bankruptcy. The ASLC operates as a self-supporting agency without contributions of other State funds.
- Moving the program to a for-profit environment would likely result in the loss of tax-exempt funding, resulting in significantly higher funding costs and the potential for conflict between the profit motive and the public policy goals historically served by ACPE. The resulting increase in costs to borrowers will reduce the benefit currently derived by Alaskans.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

- The premise of the recommendation is that a bank or banks in Alaska will perform student loan funding and administration without additional expense to the State. There is no evidence to support this theory. Alaska banks interested in lending student loans could currently choose to do so as part of the federal student loan program and yet only one credit union in Alaska is venturing into the student loan "business." The challenge of providing student loan products in Alaska is that there is, relative to other loan products marketed by banks, very high risk balanced with marginal profits.
- This recommendation was supported based on a reference to the VA Mortgage Loan program as an example of "the most successful program of its kind" and one that is funded and administered in the private sector. While there are sufficient differences between asset-backed mortgage lending and unsecured student loans, under the VA program cited the federal government simply acts as guarantor on a portion of the loan. The banks in conjunction with the federal government determine the criteria a borrower must meet to qualify and the terms and conditions of the loan. This is significantly different than the ASLP. As stated above, the State would need a funding source to be able to cover defaulted loans under a guaranteed loan program.
- Given the size of the current portfolio (170,000 loans valued in excess of \$550 million), what measures would be taken to insure appropriate levels of oversight if the servicing is out-sourced, given that the likely recipient of such a contract would operate outside of Alaska?
- More than 800 educational institutions annually receive and administer approximately \$65-\$70 million in ASL funds. Who would perform the institutional oversight and audit function to insure the fund is protected and bond indenture requirements are met for the existing portfolio? Additionally, as a service to participating institutions ACPE staff provide on-going training to insure that small and large institutions have the information necessary to succeed as a participating institution. What is the additional cost of oversight to the State?
- Given the significant impact that program policies have on both the Alaskans borrowing from the program and the institutions participating, who would be responsible for developing and implementing policy changes that are in the best interest of Alaska and its citizens? Who would pay for that activity?
- The following programs/functions would remain for administration:
 - ✓ Statewide Institutional Authorization;
 - ✓ WICHE Western Undergraduate Exchange;
 - ✓ WICHE Western Regional Graduate Exchange;
 - ✓ Wynn Brindle Memorial Scholarship Loan;
 - ✓ WWAMI Medical Education Program;

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

- ✓ Alaska GEAR UP Scholarship;
- ✓ State Approving Agency for Veterans Administration training approval;
- ✓ Specific state-federal liaison activity such as coordination for the Integrated Postsecondary Education Data Surveys (IPEDS).

Currently, by using the various program resources of the Commission, agency staff administer several programs and perform a variety of related functions that do not directly relate to the primary student loan program without the need for general funds. Staff and systems that service the primary program are available to maintain these smaller programs within the framework of student financial aid services at no additional cost to the State.

2. It is recommended that all loan programs of the State be submitted to review with one of two conclusions being sought: (1) consolidation within a single department of state government, such as Revenue, where staffing is trained in accounting and fund management; or (2) provision to management by banks through an RFP process.

Department Response:

The department has no response to this recommendation.

XII. Division of Early Development

1. Eliminate the Division of Early Development from DOE, consolidating it within the Department of Health and Social Services and its existing programs.

Department Response:

The rationale provided by the subcommittee for this recommendation suggested that overlapping in state services is very evident in the Early Development Division. The programs which comprise the Division of Early Development were combined in FY2000 to eliminate any duplication of effort by multiple state agencies and to increase efficiency in program administration. No overlaps exist. There is only one statewide child care service network located in the Department of Education & Early Development. Child nutrition services and donated commodities have been combined in the same division. Child Care licensing, registration, and pre-school certification programs, all involved in establishing and regulating standards for child care, have also been combined into one division and department.

The rationale for the subcommittee recommendation also stated that the constitutional and statutory purpose of DOE is to provide education to K-12 students in Alaska and that Early Development is an area of services that does not belong in the public sector, let alone the Department of Education. HB40 passed by the Legislature in 1999 moved the statutory authority for all programs in Early Development to the new Department of Education &

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

Early Development. There is no constitutional prohibition to these additions to the old Department of Education. The State Board of Education & Early Development has unanimously adopted a revised mission statement that emphasizes the department's role in the preparation of children to enter school ready to learn.

With regard to public sector programs, several early childhood services (Child Care, Head Start, Food & Nutrition, Donated Commodities) are federal programs which require state agency participation.

The subcommittee recommendation also suggested that Child Care and Head Start are inconsistent with the constitutional and statutory provisions of education because the recipients are not K-12 students receiving education and in the case where a student is receiving child care or Head Start services, there is an overlap with welfare programs provided under the Alaska Temporary Assistance Program (ATAP). There is no overlap with welfare programs under ATAP or TANF. In the example cited, individuals receiving cash benefits through ATAP or TANF do not receive child care assistance through EED.

2. Transfer the Children's Trust Grant Program to the Office of the Governor, Division of Boards and Commissions.

Department Response:

The subcommittee report notes that during the overview of this Division, there was no mention of the Children's Trust being a component of this division, but the Division's website does include the Children's Trust as a component. The department's presentation to the subcommittee on the new Division was limited to a general overview that failed to mention the Children's Trust. The Children's Trust appropriation under the Department of Health & Social Services is transferred to the Department of Education & Early Development.

While most boards and commissions have their appointments come from the Governor's office (Boards and Commissions), the boards that include a function of distributing funds through grants are all located in departments [e.g., Mental Health Board, Alcohol & Drug Abuse Board (both in DHSS); Mental Health Trust Authority (Department of Revenue); Older Alaskans' Commission (Department of Administration)]. The Children's Trust (in EED) also has grant functions.

3. When federal funding for a federally mandated program established in the State of Alaska falls below the 50% funding, the service shall be considered unessential at the state level and passed on to the option of local governments for funding.

**Commission on Privatization
Department of Education & Early Development**

***Response to Final Subcommittee Report
November 24, 1999***

Department Response:

The department needs additional information to respond to this recommendation. Currently, there are no programs in Early Development falling below 50%.

Recommendation 4 is not included because it was not adopted by the subcommittee.

5. The Alaska State Legislature should treat all state receipts as general fund money unless the receipts are the result of interagency receipts.

Department Response:

The department has no response to this recommendation.



Table of Contents

Section 1: Department Overview	
General Recommendations	4
Agency and Department Names	6
Budget Review Units and Component Names	7
Constitutional and Statutory Provisions	10
Missions and Goals	11
Number of Employees	12
Contracted and Privatized Services	14
Section 2: Division of Teaching & Learning Support	
Recommendations	16
BRU & Component Names	17
Budget Review	18
Missions & Goals	19
Number of Employees	21
Contracted and Privatized Services	22
Section 3: Executive Administration	
Recommendations	24
BRU and Components Names	25
Budget Review	25
Mission, Goals & Objectives	26
Component Information	
Board of Education	27
Commissioner's Office	28
Administrative Services	29
Information Services	31
District Support Services	32
Educational Facilities Support	33
Donated Commodities	35
Section 4: Alyeska Central School	
Recommendations	38
Budget Review	38
Section 5: Commission's & Boards	
Recommendations	40
Budget Review	40
Professional Teaching Practices Commission	41
Alaska State Council on the Arts	41
Section 6:	
Recommendations	44
Employees	46
Technology	47
Budget Review	47
Barriers	47
Section 7: Mt. Edgecumbe Boarding School	49
Section 8: State Facilities Maintenance	51
Section 9: Alaska Library & Museums	53
Section 10: Alaska Postsecondary Educations	57
Section 11: Division of Early Development	63
Recommendations	64
BRU and Component Names	68
Missions, Goals & Objectives	69
Budget Review	69
Review of Components:	
Child Care	70
Head Start	71
Children's Trust	72
Appendix A: Teaching & Learning Support Contracts in FY'99	77
Appendix B: Effects of HB 40 of DOE	83

SECTION 1

DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

- General Recommendations
- Agency & Department Names
- BRU and Components Names
- Total Budget
- Total Revenues
- Budget Graphs
- Constitutional & Statutory Provisions
- Mission, Goals & Objectives
- Number of Employees
- Contracted & Privatized Services

I. General Recommendations

General recommendations were made and voted on at the final meeting of the Privatization Subcommittee of the Department of Education and Early development. These general recommendations were submitted in writing at the final meeting. General Recommendations discussed in this report are those which merited discussion and were approved by a majority of the members present.

General Recommendation #1: Recognizing that charter schools are public schools that are effective tools in improving educational choice, we recommend that the legislature enact revised charter school laws that provide for educational choice by: (1) doubling the number of charter schools allowed in Alaska; (2) extending the contract period from five to ten years; and (3) require school districts to give a full accounting of monies they receive for each charter school.

General Recommendation #1 was ratified by the subcommittee.

RATIONALE: Education should be our number one priority. Parents and educators both have come to recognize that charter schools are one of the tools available for educational reform. Educational reform is sweeping most of the nation and Alaska is lagging behind. Three key factors in educational reform are parental involvement, educational choice, and measuring student performance.

General Recommendation #2: That the legislature review the school districts of the unincorporated areas with a view to consolidate the business functions of the districts.

General Recommendation #2 was ratified by the subcommittee.

RATIONALE: The purpose would be to reduce the expenses of multiple superintendents while retaining the authorities and structures of individual school boards. Bonnie Williams pointed out that the University of Alaska saved \$13 million in 1986 and 1987 by consolidating the chancellors of the University. Jim Hickel said that many school districts in unincorporated areas have superintendents that supervise one to three schools. Don Evans said that the Aleutian Gateway School District, Dillingham City School District, and Southwest Regional School District have recently consolidated their administrative functions. This could be used as a model for others.

General Recommendation #3 was ratified by the subcommittee.

General Recommendations #3 - #5 failed to be adopted.

School Debt Reimbursement, Teaching and Learning Support, Executive Administration, Alyeska Central School, Commissions and Boards, Alaska Vocational Technician Center, Mt. Edgecumbe, State Facilities Maintenance, Alaska State Libraries and Museums, Alaska Postsecondary Education, Division of Early Development.

III. BRU and Component Names:

There are nine BRU's or Budget Review Units in the Department of Education and Early Development. For a deeper understanding of the department as a whole, we have provided the commission with budget data for each BRU.

The BRU's in DOEED are K-12 Support, School Debt Reimbursement, Teaching and Learning Support, Executive Administration, Alyeska Central School, Commissions and Boards, Alaska Vocational Technician Center, Mt. Edgecumbe, State Facilities Maintenance, Alaska State Libraries and Museums, Alaska Postsecondary Education, Division of Early Development.

It was decided by the full subcommittee that because the K-12 Support funding and the School Debt Retirement funding was pass through money that did not require positions or direct expenditures of DOE, these categories would not be reviewed by the subcommittee

IV. Total Budget, all funds The total budget for the Department of Education and Early Development for FY'00 is \$965,965,000.

DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT
--

Personal Services	25,978,000
Travel	1,175,800
Contractual	24,450,300
Commodities	2,971,500
Equipment	209,500
Grants	911,448,000
Miscellaneous	-268,100
Total Expenditures	965,965,000

General Recommendation #10: The legislature should fund school first by having a separate education budget or providing forward funding.

General Recommendation #10 was ratified by the subcommittee.

RATIONALE: The political pressure on educational funding in the operating budget results in school districts not knowing their funding level for the next fiscal year, which begins in July, until May. A separate budget or forward funding would facilitate the planning process for schools and school districts if funding levels were known earlier in the legislative session. A separate budget for the funding of public education would promote more public awareness of the level of funding and would, hopefully, eliminate the use of education funding for last minute budget negotiations.

Recommendations #11 - #14 failed to be adopted.

General Recommendation #14: Move the teacher certification program to the Division of Occupational Licensing.

General Recommendation #14 was ratified by the subcommittee.

RATIONALE: The Division does just this type of licensing. It would create a oversight Board of Licensing that would regulate the certification process. This could include reciprocal provisions for teachers from other participating states. Alaska is one of the few states that have no reciprocal provisions. This has been a major cause of the workload for certification.

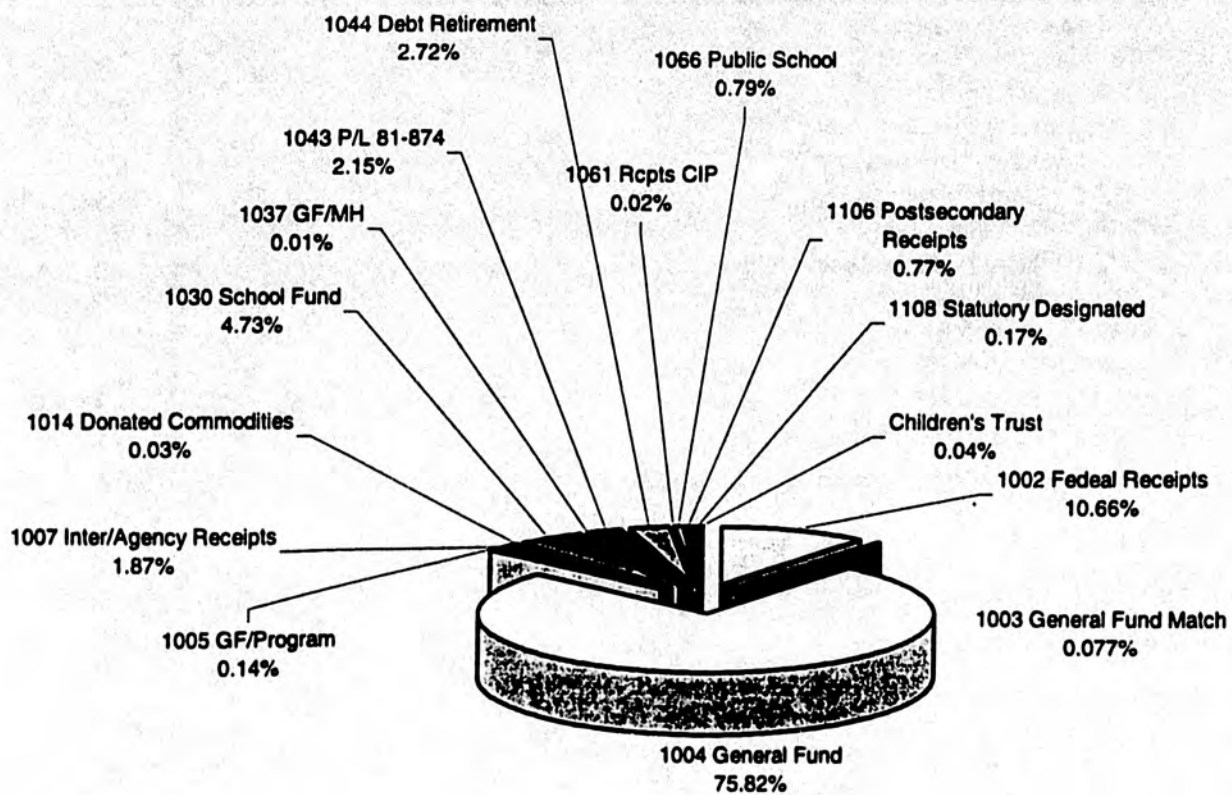
General Recommendation #15: Recommend that part of the school safety legislation should be to encourage gun safety education.

General Recommendation #15 was ratified by the subcommittee.

RATIONALE: The mention of guns in schools in recent years has brought concern for safety. The purpose of this recommendation is to bring out that there is a place for guns in schools. That place is with school safety and teaching gun safety to schoolchildren.

II. Agency & Department Names

This privatization and delivery of government services report focuses on the Department of Education and Early Development, formerly known as the Department of Education. With the passage of HB 40, childcare services delivered by the Department of Community & Regional Affairs were transferred to the Department of Education. Recommendations in this report suggest that such a policy change was inconsistent with the constitutional and legislative intent of providing public education and HB 40, in essence, put the Department of Education in the social services business. Divisions of DOEED are K-12 Support,

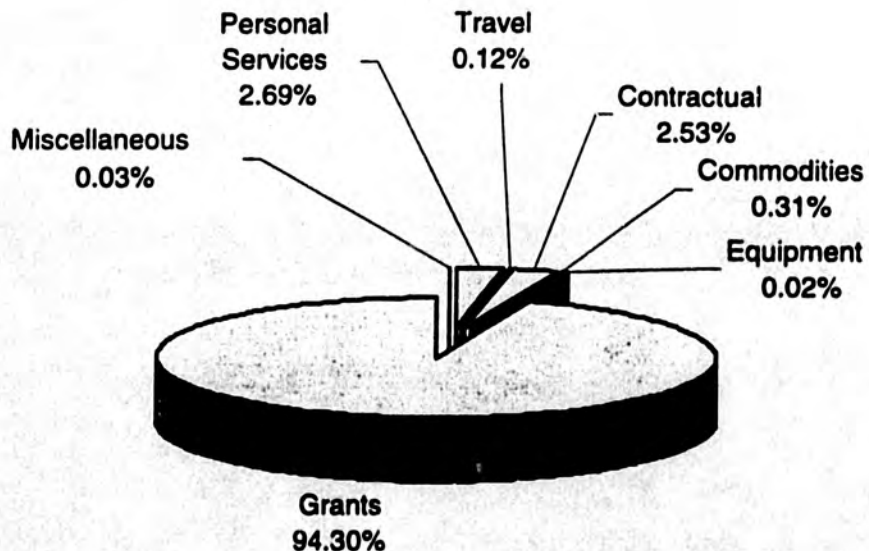


DOEED REVENUES - FY'00

Total \$965,965,000

V. Total Revenue Derived. The Department of Education & Early Development received \$965,965,000 in revenues as follows:

DOEED REVENUES - FY'00	
1002 Federal Receipts	\$ 102,978,900
1003 General Fund Match	\$ 743,100
1004 General Fund	\$ 732,409,800
1005 General Fund/Program	\$ 1,382,900
1007 Inter/Agency Receipts	\$ 18,062,300
1014 Donated Commodities	\$ 250,000
1030 School Fund	\$ 45,664,700
1037 General Fund/Mental Health	\$ 110,100
1043 Federal Public Law 81-874	\$ 20,791,300
1044 Debt Retirement	\$ 26,258,600
1061 Receipts CIP	\$ 179,300
1066 Public School	\$ 7,612,800
1106 Postsecondary Receipts	\$ 7,485,100
1108 Statutory Designated	\$ 1,690,400
Children's Trust	\$ 345,700
Total Revenues	\$ 965,965,000



FY'00 OPERATING BUDGET

\$965,965,000

VII. Agency Mission, Goals and Objectives

The Mission of DOEED is set forth in AS 14.03.015. State education policy.

"It is the policy of this state that the purpose of education is to help ensure that all students will succeed in their education and work, shape worthwhile and satisfying lives for themselves, exemplify the best values of society, and be effective in improving the character and quality of the world about them. "

Goals

The five major goals and objectives of the department are:¹

Goal 1: To have clear, rigorous, credible standards and assessments.

Assist school districts to create a standards-based school system including student standards and assessments.

Objectives:

1. School districts adopt reading, writing and math performance standards and align curriculum to ensure all students have the opportunity to learn the basics.
2. Local school boards adopt high academic standards that establish what students should know and be able to do in English/language arts, mathematics, science, geography, government and citizenship, history, skills for a healthy life, arts, world languages, technology, employability, and culturally responsive student standards.
3. Develop a standards-based comprehensive system of student assessments that generates useful data for educators to teach students to read, write and compute.
 - Developmental profile in kindergarten and first grade
 - Alaska Benchmark Examinations in grades, 3, 6 and 8
 - Alaska High School Graduation Qualifying Examination
 - Nationally norm-referenced test in grades 4 and 8
 - School districts identify students in jeopardy of not meeting reading, writing and math standards and provide appropriate student interventions.

Goal 2: To have a credible system of academic and fiscal accountability for students, professionals, schools and districts.

Support schools to become accountable for high academic student performance.

1. Issue Quality Schools grants so schools and communities can determine local solutions to student learning such as summer school, individual tutoring, lower class size, special classes, before and after school programs.
2. Identify schools that are distinguished, successful, in decline or in crisis based on student performance and other measures.

¹ inserted information from: <http://www.eed.state.ak.us/vision.html>

VI. Identify Constitutional and Statutory Provisions Governing Agency Operation

The word education does not appear in the United States Constitution, therefore, we must go to the Tenth Amendment:

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

Article VII, Section 1. Of the Alaska State Constitution establishes a public school system:

"PUBLIC EDUCATION. The legislature shall by general law establish and maintain a system of public schools open to all children of the State, and may provide for other public educational institutions. Schools and institutions so established shall be free from sectarian control. No money shall be paid from public funds for the direct benefit of any religious or other private educational institution."

Alaska Statute (AS) 14.03.010: establishes in the state a system of public schools to be administered and maintained as provided in Title 14.

AS 14.03.015 establishes that it is *"the policy of this state that the purpose of education is to help ensure that all students will succeed in their education and work, shape worthwhile and satisfying lives for themselves, exemplify the best values of society, and be effective in improving the character and quality of the world about them."*

The remainder of Title 14 provides the mechanism for administering the public education system.

2. Promote and support school-based Family Involvement Centers (1-877-FOR-KIDS).
3. Launch a Statewide Reading Initiative focusing on K-3.
4. Encourage and support business and school partnerships through the School-to-Work Initiative and Employability Standards.
5. Develop interagency support and cooperation in areas such as:
 - Early learning
 - Healthy families schools and communities
 - Libraries, museums, archives, arts council and schools
 - Postsecondary education programs
 - Vocational rehabilitation training and support
 - Before and after school programs
6. Assist schools to develop safe schools plans.
7. Encourage local school boards to adopt culturally responsive school and community standards.
8. Continue a productive partnership with the Alaska Education Coalition, the Alaska Native Education Coalition, and the Children's Cabinet/Children's Trust.

Goal 5: To have an adequate and secure source of funding for schools.

Advocate for fair and adequate funding.

1. Protect education funding.
2. Secure adequate funding to develop and maintain an accountable system of high quality public schools.
3. Secure adequate level of funding to meet school district's school construction and major maintenance needs.
4. Analyze differences in the costs of operating schools taking into consideration school size and location.
5. Analyze and recommend better business practices to local school boards of education and superintendents.

VIII. Number of Employees

The Department of Education and Early Development has 369 positions. With the passage of HB 40 eliminating the Department of Community & Regional Affairs this session, 125 full-time positions and 1 part-time position were transferred to Department of Labor. These positions dealt with the Vocational Rehabilitation division. There were 22 positions transferred from Department of Community & Regional Affairs, sixteen of which are employed in the newly created Division of Early Development. A detailed listing of the positions by division and the changes made with the passage of HB 40 is attached as Appendix B on page 83.

3. Provide distinguished educators and district support teams to those districts that are in decline or in crisis, when requested by the district.
4. The Alaska State Board of Education will develop procedures for school districts remaining in decline or in crisis for more than two years.
5. Encourage schools to make data-driven instructional decisions to have results-based accountability.
6. Recognize and celebrate distinguished schools.
7. Schools in decline and in crisis develop a school improvement plan with community involvement using the Alaska Quality Schools Standards as the basis for the plan.
8. Partner with the Northwest Association of Schools and Colleges to incorporate the Alaska Quality Schools Standards in accreditation of Alaska schools.
9. Encourage local school boards to adopt culturally responsive school standards.

Goal 3: To have highly qualified school professionals who have met rigorous and credible standards and assessments.

Help develop a quality professional education workforce.

1. Provide rigorous educator standards by which school districts will evaluate professionals.
2. Require school districts to develop individual professional development plans based on standards and best practices.
3. Support standards-based professional development through Quality Schools Team Leaders, Quality School Consultants, inservice and state and federal grant funding.
4. Create and disseminate teacher resources to support standards-based instruction.
5. Provide funding for national board certification leading to an Alaska advanced teacher certificate.
6. Develop and administer a standards-based licensure system for educators.
7. Partner with NCATE² to develop a teacher approval process so that all teacher education programs meet high, rigorous standards.
8. Encourage local school boards to adopt culturally responsive educator standards.

Goal 4: To have schools in which students, staff, families and communities are active partners in learning.

Promote family, school, business, community and agency partnerships to improve student learning.

1. In partnership with NEA, AASB, and PTA³, promote research-based family involvement models and community orientations (Partnership 2000, Epstein model and ASSETS).

² National Council for Accreditation of Teacher Education

³ NEA = National Education Association; AASB = Alaska Association of School Boards; PTA = Parent Teachers Association



SECTION 2

TEACHING & LEARNING SUPPORT

- **Recommendations**
- **BRU and Components Names**
- **Total Budget**
- **Total Revenues**
- **Mission, Goals & Objectives**
- **Number of Employees**
- **Contracted & Privatized Services**

TEACHING & LEARNING SUPPORT

I. Recommendations adopted.

Recommendations #1 & #2 were tabled.

Recommendation #3: The Development of Benchmarks and exit exams is reasonably expected to be more expensive than the updating of that material. The subcommittee recommends the adoption of a process to update the material in a manner consistent with that expectation.

Recommendation #3 was ratified by the subcommittee.

RATIONALE: The committee discussed the cost of the benchmark and exit exam contracts and whether that cost would go down with the implementation of the tests.

The division said that costs, to date, for the benchmark and exit exams, have been related to test development and field-testing. Future costs will include replenishing test items on all exams so students are not given the same test twice. The division also said there are significant costs associated with test administration, scoring, and security. The division said a decrease in overall assessment costs is not anticipated.

The House Finance Committee reviewed the amount of contracts for developing and test administration of the benchmark and exit exams. After development is completed, the House Finance Committee expects the total cost to be reduced as the updating of exams should be less costly than the initial development.

Recommendation #4: The administrative cost of each component should be reviewed further.

Recommendation #4 was ratified by the subcommittee.

RATIONALE: While this recommendation was directed at Teaching & Learning Support, there was a general consensus that administrative costs should be kept at a minimum and that more review of those costs for all departments and divisions of state government should be made. Administrative costs reduce the amount of money delivered directly to the school districts.

Recommendation #5: All elements of a single program should be in the same location within the budget.

Recommendation #5 was ratified by the subcommittee.

One area that keeps coming to the surface is the nutrition program. There are components of that single function of state government in Executive Administration, Teaching & Learning Support, and K-12.

Recommendation #6: The Child Nutrition Administration Component and Donated Commodities component should be consolidated in an existing division.

Recommendation #6 was ratified by the subcommittee.

RATIONALE: This component is administrative in nature and should be a function of the Executive Administration. The Division said that the component provides hands on activities like food service reviewers through contracts, so administration of those contracts should be a function of executive administration. The personnel services segment of the Child Nutrition programs should be transferred to Donated Commodities of Executive Administration.

The Department said that these two components have been together on and off in the past and that the Department planned to consolidate them into the new Early Development component in July of 2000.

The DOEED Subcommittee has also recommended that the Division of Early Development which is delivering social services should consolidate its functions with existing divisions of Health and Social Services.

Recommendation # 7: The Quality Schools function is currently being performed well by the Department of Education and Early Development and should remain a function of the Department.

Recommendation #7 was ratified by the subcommittee.

The consensus of the subcommittee was that this division had made major advancement in establishing benchmarks and exit exams. There was concern that the division did not anticipate a reduction in the cost of administering these monitoring systems once they were established. For that reason the word "currently" was added to the original recommendation to give the division notice that devising a monitoring system and maintaining a monitoring system should not result in additional spending or even level spending, but a reduction in spending.

II. BRU and Component Names as listed in state budget

The BRU "Teaching & Learning Support" is comprised of five components: Special & Supplemental Services, Quality Schools, Education Special Projects, Teacher Certification, and Child Nutrition Administration.

Special and Supplemental Services goes to the schools for Title I and Migrant Education, as well as, bilingual programs. It also comes from Title IV grants for school programs addressing drugs & violence and the Title I, A, B, C, D, E. These are mostly pass through programs.

The **Quality Schools** component of the DOE budget is distributed mostly by competitive grants. They include funding for vocational education, school to work, and charter schools. This category also includes formula grants such as the Title II Eisenhower and Title VI Innovation.

Special Projects are projects such as teen parents, the Alaska Minerals and Energy Education Program, Byrd Scholarship, Senate Youth School Program, and Christa McAuliffe Fellowship.

Teacher Certification is the process whereby qualified applicants become certified to teach in the State of Alaska. Karen Rehfeld said this division is funded through the applicant fees. This program has been self-supporting for two years.

Child Nutrition is the USDA school lunch program, the school breakfast program, and the summer food program. This division also funds food subsidies for childcare and homeless meals.

III. Total Budget, all funds

The total budget for Teaching & Learning Support in FY'00 is \$80,634,500. The division spends \$3,892,700 on personal services, \$507,100 on travel, \$11,197,100 on contractual services, \$164,200 on commodities, \$72,800 on equipment, and \$64,790,600 on grants.

IV. Total Revenue derived

The total revenues for Teaching & Learning Support in FY'00 are \$ 80,624,500. Federal receipts for this program total \$74,382,800 or 92.29% of the revenues.

<u>Revenues by Source:</u>	<u>Revenues</u>	<u>% of Total</u>
Federal Receipts	\$ 74,382,800	92.29%
General Fund Match	227,500	0.28%
General Fund	4,458,800	5.53%
GF ⁵ Program Receipts	666,400	0.83%
Interagency Receipts	326,100	0.40%
GF Mental Health	110,100	0.14%
Statutory Designated Funds	<u>422,800</u>	<u>0.52%</u>
Total Projected Revenues	\$ 80,624,500	100.0

As noted above, 92.29% of the funding for this division is federally funded. State general funds are required by the federal government to match federal funds in several program areas. The 7.7% state funding of this division is associated with

statewide assessment certification and state match for federal funding. The division administers the Child Nutrition, Community Schools, and Schools for the Handicapped formula programs that are included under the K-12 Support BRU.

V. Agency Mission, Goals and Objectives

The Division of Teaching and Learning Support is responsible for implementing educational goals related to teaching and learning in Alaska's K-12 public school system. The division's mission as adopted in SB 169 is to improve student performance through professional development, school accountability, standards, and assessment.

The goals of the division are to as follows:

1. Develop, field test and finalize the High School Graduation Qualifying Exam and Benchmark Assessments to measure student achievement.
2. Provide professional development activities and technical assistance to all school districts.
3. Create a system of teacher licensure that results in an adequate supply of qualified educators for Alaska's Schools.
4. Develop a system of school accountability resulting in school performance designations.

The objectives of the division are as follows:

1. Completion of qualifying exams, benchmark assessments, and developmental profile, as well as, setting passing scores for assessments. The Division of Teaching and Learning Support assists school districts by developing content and performance standards in reading, writing, and mathematics that are adopted by the school districts. The division supports school districts by developing comprehensive assessment programs including high school exit examination.
2. Implementing use of Developmental Profiles in all schools by the fall of 1999.
3. Finalize review of pilot testing of qualifying exams and benchmark assessments by the spring of 2000.
4. Work with school districts to create a system of school accountability that will result in school performance designations in 2002.
5. Increase literacy skills of all Alaska children and assist children to become proficient readers by the end of the third grade through the implementation of Alaska Reads Reading Initiative.
6. Implement a public awareness of the teacher licensure system requiring prospective teachers to meet professional higher standards of qualification. Teachers and administrators are licensed based on standards. Continuing education for teachers and administrators is based on standards

7. Address the need for more qualified teachers as the standards of qualification increase. School districts base teacher and administrator evaluations on standards.
8. Obtain adequate funding, develop new discipline provisions for students, and provide training to teachers and parents necessary to implement the Individuals with Disabilities Education Act (IDEA).

Objectives of Teaching & Learning Supports five components:

A. Special and Supplemental Services

- Help districts better prepare students to meet state standard and pass the state assessments.
- Implement federal Individuals with Disabilities Education Act (IDEA) requirements for special education.
- Making all Alaskan children proficient readers by the third grade.

B. Quality Schools

- Development and completion of exit exams and benchmark assessments.
- Have all schools using Developmental Profiles on all incoming students by fall of 1999.
- Review and assess pilot testing of exit exams by spring of 2000.
- Give Exit Exams and benchmark assessment in the spring of 2000.
- Provide professional development and technical assistance to school districts to better prepare the students to meet state standards and pass the tests.

C. Education Special Projects

This component does not identify any specific objectives, just mission and goals.

D. Teacher Certification

- Create a system of licensure that results in an adequate supply of qualified educators.
- Implementing testing requirements for applicants.
- Maintain an adequate level of services to applicants within the limitations of the budget, which is based on being self-supporting from certification receipts.

E. Child Nutrition Administration

This program administers the National School Lunch Program, School Breakfast, Special Milk, Summer Food, Child and Adult Care Food, and Nutrition Education and Training Programs in Alaska for USDA. Its objectives are to:

- Meet federal requirements that 25% of the school programs and 33% of the child care sponsors be reviewed annually.
- Implement training priorities for state agency staff and local sponsors such as dietary guidelines, expansion of nutrition education, and promoting program visibility.
- Increase by 5% the number agencies participating in child nutrition programs with emphasis on increasing the school breakfast, special milk, and adult day care programs.

- Increase by 5% the number of children receiving nutrition education.
- Provide staff training to at least 50% of the program sponsors annually.

VI. Number of Employees

Teaching & Learning Services has a total of 68 full-time employees.

Special & Supplemental Services:

Education Specialist II	Range 21	8
Education Specialist I	Range 19	4
Education Associate III	Range 17	1
Grants Administrator II	Range 17	2
Education Program Assistant	Range 17	1
Education Associate II	Range 15	1
Education Associate I	Range 13	1
Administrative Assistant	Range 13	1
Education Program Assistant	Range 12	2
Administrative Clerk II	Range 8	3
Total		24

Quality Schools:

Education Administrator II	Range 22	4
School To Work Proj Coord	Range 22	1
Education Specialist II	Range 21	8
Education Specialist I	Range 19	2
Education Administrator II	Range 17	2
Education Associate III	Range 17	1
Research Analyst II	Range 16	1
Project Review Assistant	Range 14	1
Statistical Tech I	Range 12	1
Education Program Assistant	Range 12	2
Administrative Clerk II	Range 8	8
Total		31

Education Special Projects:

Project Coordinator	Range 18	1
Project Assistant	Range 16	1
Total		2

Teacher Certification:

Education Administrator II	Range 22	1
Education Associate III	Range 17	1
Occupational Licensing Examiner I	Range 12	2
Administrative Clerk II	Range 8	2
Total		6

Child Nutrition Administration:

School Food Coordinator	Range 20	1
Project Assistant	Range 16	2
Accounting Clerk II	Range 10	1
Administrative Clerk II	Range 8	1
Total		6



SECTION 3

EXECUTIVE ADMINISTRATION

- Recommendations
- BRU and Components Names
- Total Budget
- Total Revenues
- Mission, Goals & Objectives
- Component Information
 - Budget
 - Revenue
 - Number of Employees
 - Contracted & Privatized Services

EXECUTIVE ADMINISTRATION

I. Recommendations adopted.

Recommendation #1:

Privatize services provided by Alyeska Central School.

Recommendation # 1 was ratified by the subcommittee.

Those supporting the recommendation said that there are several private sources already available and several school districts offer home school curriculum. It seems redundant for the state to be providing services already available in the private sector. There are as many as 30 providers in both the public and private sector.

Recommendation #2:

All the elements of a single program should be in the same location within the budget.

Recommendation # 2 was ratified by the subcommittee.

An area that keeps coming to the surface is the nutrition program. There are components of that single function of state government in Executive Administration, Teaching & Learning Support, and K-12.

Other areas of mention in several BRU's are exit and benchmark exams, teacher certification and licensing, and supplying information, technical services to school districts, and arts related components.

Recommendation #3 failed to be adopted.

Recommendation #4:

The federal government should get out of K-12 education.

Recommendation # 4 was ratified by the subcommittee.

The federal government has not constitutional authority to regulate education. Because there is no explicit mention of education, the states have the powers over public education. Federal mandates have increasingly diminished the states' abilities to provide adequate education to their citizens.

II. BRU and Component Names as listed in state budget

The BRU "Executive Administration" is comprised of four components: State Board of Education, Commissioner's Office, Administrative Services, and Information Services. Currently there are no formula programs in Executive Administration.

The Governor appoints the **State Board of Education** in Alaska. The nine-member board includes a military advisory member and a student advisory member. The Board meets four times a year. When a special issue requires board actions before the next scheduled quarterly meeting, the Board meets by teleconference.

Administrative Services includes payroll, drawing down federal revenues, and developing budgets.

Information Services manages the Department of Education website. Information Exchange is the Department's newsletter which is published weekly while school is in session, except at Christmas and Thanksgiving, by the Alaska Department of Education & Early Development. *OASIS (On-line Alaska School Information System) is operated by the Office of Assessments and Student Information in the Division of Teaching and Learning Support. OASIS the collects, analyzes and publishes student and education information. The Privatization Commission should look into the possible consolidation of OASIS and Information Services.*

District Support Services has a grant administrator who is familiar with federal regulations and provides technical assistance to school districts.

Donated commodities consist of USDA food commodities used in the Child Nutrition program.

III. Total Budget, all funds

The total budget for Executive Administration is \$4,488,500. The division spends \$3,115,000 on personal services, \$27,000 on travel, \$1,366,500 on contractual services, \$45,800 on commodities, and \$21,700 on equipment. The Conference Committee on the Operating Budget made three miscellaneous reductions: \$20,000 in the Commissioner's Office; \$20,200 in Administrative Services; and \$47,300 in District Support Services. By placing the reductions in the miscellaneous line, the department has to "spread" that reduction to other line items in the budget through what is called a revised program.

IV. Total Revenue derived

The total revenues for Executive Administration FY'00 are \$4,488,500. Federal receipts for this program total \$351,500 or 7.83% of the component revenues. Federal receipts include Public Law 81-874 funds, donated commodities, and federal receipts.

<u>Revenues by Source:</u>	<u>Revenues</u>	<u>% of Total</u>
Federal Receipts	\$ 101,200	2.3%
General Fund	2,071,700	46.2%
GF Program Receipts	21,300	.5%
Interagency Receipts	1,915,100	42.7%
Donated Commodities	250,000	5.6%
P/L 81-874	300	.01%
CIP Receipts	<u>128,900</u>	<u>2.9%</u>
Total Projected Revenues	\$ 4,488,500	100 %

V. Agency Mission, Goals and Objectives

The Division of Executive Administration is responsible for providing leadership and support to divisions and programs within the Department of Education and Early Development. The division's **mission** is to lead and support the development of responsible, economically viable, lifelong learners and citizens.

The **goals** and **objectives** of the division are as follows:

1. Have clear, rigorous, credible standards and assessments.
 - a. Develop a standards-based comprehensive system of student assessments
 - b. Develop student profiles for each kindergarten and first grade child.
 - c. Implement Alaska Benchmark Examinations
 - d. Implement High School exit exam
2. Have a credible system of academic and fiscal accountability for students, professionals, schools and districts.
 - a. Issue Quality School grants for school to implement local solutions to student learning.
 - b. Rate schools as distinguished, successful, in decline or in crisis and take appropriate action for each.
 - c. Incorporate Quality Schools Standards in cooperation with Northwest Association of Schools & Colleges to accredit Alaska schools.
 - d. Encourage culturally responsive school standards for local school boards.

3. Have highly qualified professionals who have met rigorous and credible standard and assessments.
 - a. Provide rigorous school standards for district evaluation of professionals.
 - b. Provide funding for national board certification.
 - c. Develop and administer a standards-based licensure system for educators.
 - d. Encourage culturally responsive school standards for local school boards.
4. Have schools in which students, staff, families and communities are active partners in learning.
 - a. Promote school-based Family Involvement Centers (1-877-FOR-KIDS)
 - b. Launch Statewide Reading Initiative for K-3
 - c. Promote School-to-Work Initiative and Employability Standards.
5. Have an adequate and secure source of funding for schools
 - a. Maintain an accountable system of high quality public schools.
 - b. Meet school districts' school construction and major maintenance needs.

VI. Board of Education:

The Board of Education provides leadership for educational policy in the State of Alaska and is responsible for adopting regulations required to implement statutory requirements. The sole source of **revenues** is interagency receipts.

This component provides funding for travel and meeting costs for the Board of Education. The component has **one full-time employee**, Secretary to the Board of Education (Range 14), who coordinates board activities, meeting notices and is the support staff for the Board. The personal expense for this position is \$49,400.

Board of Education Expenditures & Revenues					
Expenses			Revenues		
Personal Service	49,400	52.9%			
Travel	22,600	24.2%	Interagency Receipts	93,400	100%
Contractual	19,900	21.3%	TOTALS	93,400	100%
Commodities	1,500	1.6%			
TOTALS	93,400	100.0%			

Existing Contractual Activity:

Communications	Telephone, fax and postage	\$ 5,000
Transportation	Messenger, freights, and express	2,500
Adv Print & Bind	Printing, binding, advertising, legal notices, and clipping services	5,000
Rentals/Leases	Meeting space rental fees	3,500
Machinery & Equip	Pro rated share of copier, fax, and Postage meter leases	1,000
Other Rentals/Leases	PC repair and maintenance costs	1,500
Other Expend/Svcs	Other expenditures for insurance, Bonds, registration and subscription Fees	<u>1,400</u>
	TOTALS	\$ 19,900

VII. Commissioner's Office:

The mission of the Commissioner's Office is to provide leadership and support to Alaska's education system through efficient and effective management of educational programs in the Department of Education and Early Learning.

The Commissioner's Office has four permanent full-time positions: the Commissioner and Deputy Commissioner at a Range 28, an Executive Secretary at a Range 16, and a Secretary II at a Range 11. There is also a Special Assistant to the Commissioner in a part-time (9-month) position at a Range 23.

The **goals and objectives** are identical to those goals and objectives of the department.

- Have clear, rigorous, credible standards and assessments.
- Have a credible system of academic and fiscal accountability for students, professionals, schools and districts.
- Have highly qualified professionals who have met rigorous and credible standard and assessments.

- Have schools in which students, staff, families and communities are active partners in learning.
- Have an adequate and secure source of funding for schools

Commissioner's Office - Expenditures & Revenues					
Expenses			Revenues		
Personal Service	374,300	83.0%			
Travel	26,300	5.8%	General Fund (GF)	171,500	38.1%
Contractual	65,000	14.4%	GF Program	4,800	1.1%
Commodities	5,100	1.1%	Interagency Receipts	<u>274,400</u>	<u>60.9%</u>
Equipment	0	0.0%	TOTALS	450,700	100.0%
Misc	<u>-20,000</u>	<u>-4.4%</u>			
TOTALS	450,700	100%			

Existing Contractual Activity:

Professional Services	Publishing services	\$ 31,500
RSA/DOA	Core Services	10,500
RSA/DOA	Risk Management	<u>23,000</u>
TOTALS		\$ 65,000

Most of these contracts appear to be with other state agencies and do not necessarily reflect privatization services.

VIII. Administrative Services:

The mission of Administrative Services is to provide payroll, personnel, training, budget preparation and implementation, federal and state reporting, accounting, procurement and contracting services to the Department of Education and Early Learning.

Administrative Services					
Expenses			Revenues		
Personal Service	1,208,100	88.5%			
Travel	7,400	0.5%	General Fund (GF)	724,700	53%
Contractual	155,500	11.4%	Interagency Receipts	<u>640,600</u>	<u>47%</u>
Commodities	14,500	1.1%			
Misc	<u>-20,200</u>	<u>-1.5%</u>	TOTALS	1,365,300	100%
TOTALS	1,365,300	100%			

Administrative Services Personnel - FY '00

Job Class	Range	Positions	Anchorage	Fairbanks	Juneau	Other
Accounting Clerk II	9	1	0	0	1	0
Accounting Supervisor II	18	1	0	0	1	0
Accounting Tech I	12	2	0	0	2	0
Accounting Tech I	16	1	0	0	1	0
Accounting Tech II	14	1	0	0	1	0
Accounting Tech II	14	2	0	0	2	0
Accounting Tech III	16	1	0	0	1	0
Administrative Clerk II	8	2	0	0	2	0
Admin Clerk III	10	1	0	0	1	0
Adm Services Mgr	23	1	0	0	1	0
Division Director	26	1	0	0	1	0
Human Resources Mgr II	22	1	0	0	1	0
Mail Clerk Carrier II	9	1	0	0	1	0
Personnel Assistant I	12	1	0	0	1	0
Personnel Assistant II	14	1	0	0	1	0
Personnel Specialist I	18	1	0	0	1	0
Procurement Spec I	14	1	0	0	1	0
Procurement Spec III	18	1	0	0	1	0
Prog Budget Analyst I	13	1	0	0	1	0
Secretary I	<u>10</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
TOTALS		23	0	0	23	0

Administrative Services Contracts - FY '00

Account	Expenditures	Cost
RSA ⁶ /DOA	Core Services chargeback	43,000
RSA/DOA	Rick Management	11,500
RSA/DOA	Line costs, mainframe usage and hubs	20,500
RSA/DOA	EEO investigations	6,600
Communications	Telephone, internet connect fees, state network fees, long distance, fax, and postage	48,600
Adv Print & Bind	Advertising regulations, RFP's, and legal notices	10,000
Machinery & Equip	Pro rated department share of copier, fax and postage meter leases	8,000
Other Expend/Services	Other insurance, bonds, registration fees, training	3,000
Other Expend/Services	Records storage transfer	4,300
	TOTALS	\$ 155,500

⁶ RSA = Reimbursable Service Agreement. RSA/DOA signifies that DOEED has an RSA with the Department of Administration.

IX. Information Services:

The mission of Information Services is to facilitate delivery of all programs by providing information technology support services to the Department. This component provides support for data processing functions of the department's AS/400, LAN and PC levels.

Information Services has eight permanent full-time positions:

Information Services Personnel - FY '00

Job Class	Range	Positions	Anchorage	Fairbanks	Juneau	Other
Education Admin II	22	1	0	0	1	0
Publications Tech II	13	1	0	0	1	0
Micro/Network Tech I	16	1	0	0	1	0
Micro/Network Spec II	20	1	0	0	1	0
Micro/Network Spec I	18	3	0	0	3	0
Micro/Network Tech I	14	1	0	0	1	0
TOTALS		8	0	0	8	0

Information Services Contracts - FY '00

Account	Expenditures	Cost
Professional Services	OASIS contract	50,400
Other Prof Services	Contracted services for programming.	44,500
Communications	Telephone, internet connect fees, state network fees, long distance, fax, and postage	60,500
Transportation	Freight, express and messenger service	1,700
Adv Print & Bind	Printing and binding of statistical reports and subscriptions to professional journals	1,500
Minor Repairs & Maint	Minor repair and maintenance	22,000
Rentals/Leases	Rental for land, buildings and space	1,200
Machinery & Equip	Lease cost for photocopying equipment	3,000
Other Rentals/Leases	LAN, PC maintenance and licensing costs	4,000
Other Expend/Services	Other expenditures, insurance, bonds, registration and employee training fees.	8,500
Other Expend/Services	Registration fees for conferences, educational meetings and training courses, membership dues.	3,700
	TOTALS	\$ 229,000

Information Services						
Expenses				Revenues		
Personal Service	480,200	64.2%				
Travel	12,700	1.7%		Federal Receipts	101,200	13.5%
Contractual	229,000	30.6%		General Fund (GF)	356,200	47.6%
Commodities	11,200	1.5%		GF Program	16,500	2.2%
Equipment	<u>14,700</u>	<u>2.0%</u>		Interagency Receipts	<u>273,900</u>	<u>36.6%</u>
TOTALS	747,800	100%		TOTALS	747,800	100%

X. District Support Services :

The mission of District Support Services is to provide financial and technical support for the operation of Alaska's public schools. The component manages the distribution of public school foundation, tuition, boarding home, youth in detention, pupil transportation, cigarette tax, USDA donated commodities, and impact aid program funds. It also is responsible for the collection, analysis and aggregation of support data.

District Support Services						
Expenses				Revenues		
Personal Service	490,000	45.4%				
Travel	20,000	1.9%		General Fund (GF)	1,027,500	95.24%
Contractual	612,700	56.8%		Interagency Receipts	51,100	4.74%
Commodities	3,500	0.3%		P/L 81-874	<u>300</u>	<u>0.03%</u>
Equipment		0.0%				
Misc	<u>-47,300</u>	<u>-4.4%</u>		TOTALS	1,078,900	100.00%
TOTALS	1,078,900	100%				

District Support Services has eight permanent full-time positions:

District Support Services Personnel - FY '00						
Job Class	Range	Positions	Anchorage	Fairbanks	Juneau	Other
Statistical Technician II	14	1	0	0	1	0
School Finance Spec III	21	1	0	0	1	0
School Finance Spec II	18	2	0	0	2	0
School Finance Spec II	16	1	0	0	1	0
Internal Auditor II	17	2	0	0	2	0
Internal Auditor II	19	1	0	0	1	0
TOTALS		8	0	0	8	0

Account	Expenditures	Cost
Professional Services	Professional Services contracts to provide t/a to the department. Litigation, research and financial analysis services are needed as the state confronts challenges to Federal Impact payments in areas such as (1) the disparity test, (2) the state as recipient, and (3) declassification of special education	250,300
Other Prof Services	Contractual services to develop electronic data transfer between districts and AKDOE	8,100
RSAs	Dept of Law for K-12 and school legal issues	97,600
RSAs	DOE Information Services	14,900
RSAs	State Board of Education	28,100
Communications	Telephone, internet connect fees, state network fees, long distance, fax, and postage. Copying & distribution of reporting forms, informational items, court and litigation fees, hearings and presentation of new regulations.	14,600
Adv Print & Bind	Advertising and printing of materials used by school districts for financial accounting and auditing purposes	3,800
Minor Repairs & Maint	Minor repair and maintenance of computers & printers	2,700
Rentals/Leases	Rental for land, buildings and space	2,500
Machinery & Equip	Rental for Machinery & Equipment	2,500
Other Expend/Services	Conference registration & membership dues for professional assoc. Tuition for employee training	3,000
	TOTALS	\$ 428,100

XI. Educational Facilities Support:

The mission of Educational Facilities Support is to provide oversight for the statewide school construction program and promote safe facilities which support quality education.

Educational Facilities Support					
Expenses			Revenues		
Personal Service	484,900	70.7%			
Travel	41,000	6.0%	Interagency Receipts	556,700	81.2%
Contractual	147,700	21.5%	CIP Receipts	128,900	18.8%
Commodities	5,000	0.7%			
Equipment	7,000	1.0%	TOTALS	685,600	100.0%
TOTALS	685,600	100%			

District Support Services has eight permanent full-time positions:

Educational Facilities Support Personnel - FY '00						
Job Class	Range	Positions	Anchorage	Fairban ks	Juneau	Other
Project Coordinator	18	1	0	0	1	0
Architectural Asst III	19	1	0	0	1	0
Architectural Asst I	14	1	0	0	1	0
Project Assistant	16	1	0	0	1	0
Tech/Eng I/Architect I	21	1	0	0	1	0
School Finance Spec I	16	1	0	0	1	0
Special Projects	24	1	0	0	1	0
Administrative Clerk	8	1	0	0	1	0
TOTALS		8	0	0	8	0

Educational Facilities Support					
Expenses			Revenues		
Personal Service	118,600	43.1%			
Travel	14,700	5.3%	Interagency Receipts	25,000	9.1%
Contractual	136,700	49.7%	Donated Commodities	250,000	90.9%
Commodities	5,000	1.8%			
TOTALS	275,000	100%	TOTALS	275,000	100.0%

Educational Facilities Support Contracts - FY '00		
Account	Expenditures	Cost
Professional Services	Funding for hearing officers and other professional services	36,000
RSAs	Dept of Law	50,000
RSAs	Education Support Services to provide management, human resources, and accounting	37,500
Communications	Provide information to school districts, state agencies, and federal agencies about CIP's by telephone, fees, long distance, fax, and postage.	15,000
Adv Print & Bind	Printing & binding of updated CIP publications	5,000
Minor Repairs & Maint	Minor repair and maintenance of office equipment	4,200
	TOTALS	\$ 147,700

XII. DONATED COMMODITIES

The mission of Donated Commodities is to provide school districts, childcare centers, nutrition programs for the elderly, soup kitchens, summer food service programs, charitable programs, and correctional institutions with USDA commodities. In FY'98 this component distributed \$1,354,801 in USDA commodities to 45 school districts and provided training and technical assistance to 20 school districts.

Donated Commodities has two permanent full-time positions:

Donated Commodities Personnel - FY '00

Job Class	Range	Positions	Anchorage	Fairbanks	Juneau	Other
Project Coordinator	18	1	0	0	1	0
Supply Technician I	10	1	0	0	1	0
TOTALS		8	0	0	8	0

The goals and objectives are:

- Increase commodity processing in order to reduce food service expenditures of school districts.
- Order and distribute USDA food products economically and efficiently.
- Provide technical assistance workshops for program participants.
- Hold state food distribution advisory council meetings.

Donated Commodities Contracts - FY '00

Account	Expenditures	Cost
RSAs	Education Support Services to provide management, human resources, and accounting	2,000
RSAs	Information Services for commodities computer network support	5,000
Transportation	Freight carrier service in handling, transporting and distributing USDA commodities from Seattle, Washington to Alaska recipient agencies.	168,000
Adv Print & Bind	Duplicating and printing	10,500
Rents/Leases	Postage, telephone and computer expenses	25,100
Other Expend/Svcs	Conference registration and membership dues.	10,500
	Food commodities computer network fees.	
	TOTALS	\$ 221,100

SECTION 4

ALYESKA CENTRAL SCHOOL

- Recommendations
- Total Budget
- Total Revenues

ALYESKA CENTRAL SCHOOL

I. Recommendations adopted.

Recommendation #1: *It is recommended that Alyeska Central School be closed, with the responsibility for providing correspondence study transferred to those school districts which have a correspondence program.*

Recommendation #1 was ratified by the subcommittee.

RATIONALE: With at least 15 of 53 school districts providing some form of correspondence study, there are enough programs available for a broad choice for Alaskans. Continuing Alyeska Central School is merely an expensive duplication and unnecessary competition. There will be minor dollar savings, on the State level, and a real increase in the economy of scale for the participating school districts as a consequence of increased enrollment in individual district programs. Closing Alyeska will bring correspondence closer to students and parents and students might be able to participate in public school courses and activities.

A September newsletter from the Board of Education stated that regulation changes will require all correspondence schools in Alaska to apply for a certification from DOEED to allow them to provide correspondence services. Alyeska would be exempt. Between the aggressive and expensive advertising by Alyeska with public funds and trying to regulate more requirements on other correspondence sources, the State is not playing it straight when competing with other public and private sources.

The State should limit its involvement in correspondence study to assure the quality is provided – primarily through exit exams during graduation – and through providing a complete listing of available programs to any inquiring citizen.

II. Budget Information:

ALYESKA CENTRAL SCHOOL					
Expenses			Revenues		
Personal Services	2,901,100	49.93%			
Travel	55,000	0.95%	105 GF/Program	91,900	1.6%
Contractual	1,910,500	32.88%	Inter/Agency Receipts	<u>5,718,500</u>	<u>98.4%</u>
Commodities	925,800	15.93%	Total Revenues	\$5,810,400	100.0%
Equipment	18,000	0.31%			
Grants	0	0.00%			
Micellaneous	<u>0</u>	<u>0.00%</u>			
Total Expenses	\$ 5,810,400	100.0%			



SECTION 5

COMMISSIONS & BOARDS

- Recommendations
- Total Budget
- Total Revenues
- Component Information-
- Professional Teaching Practices Commission
 - Budget
 - Revenue
 - Number of Employees
 - Contracted & Privatized Services
- Alaska State Council on the Arts
 - Budget
 - Revenue
 - Number of Employees
 - Contracted & Privatized Services

COMMISSIONS & BOARDS

I. Recommendations adopted.

Recommendation #1 and #2 are not included in the report because they were not adopted by the subcommittee.

Recommendation # 3: It is recommended that the State of Alaska keep alternate teaching certification available for interested residents of Alaska.

Recommendation #3 was ratified by the subcommittee.

RATIONALE: It is difficult for Alaska students to travel outside for education; especially students from our native population. It might be helpful for the State of Alaska to keep Alternative Certification available for interested residents of Alaska.

There was an alternative process available in the past but due to the lack of use of the alternative process and the expense of having the process available, it was eliminated.

II. BRU and Component Names as listed in state budget

The BRU is Boards and Commissions and the components are the Professional Teaching and Practices Commission and the Alaska State Council on the Arts.

III. Total Expenditures:

Commissions and Boards has budgeted expenditure for FY'00 totaling \$1,295,000: \$385,500 for six permanent full-time positions and one permanent part-time position, \$28,600 for travel, \$251,500 for contractual services, \$5,000 for commodities, and \$624,700 in grants.

Commissions & Boards					
EXPENSES			REVENUES		
Personal Service	385,500	29.8%	Federal Receipts	593,100	45.8%
Travel	28,600	2.2%	G/F Match	455,800	35.2%
Contractual	251,500	19.4%	GF/Program	196,400	15.2%
Commodities	5,000	0.4%	Statutory Designated Receipts	50,000	3.9%
Grants	624,700	48.2%	TOTAL	1,295,300	100.0%
TOTAL	1,295,300	100.0%			

V. Total Revenues:

Revenues for Commissions and Boards totaled \$1,295,000 for FY'00: \$593,100 in federal receipts, \$455,800 in general fund match, \$196,400 for general fund program receipts, and \$50,000 in statutory designated funds.

VI. Professional Teaching Practices Commission:

The Mission of PTPC is to ensure that qualified, ethical educators are members of the teaching profession in Alaska. The goals and objectives of the commission are to investigate all complaints filed properly against educators, conduct hearings when evidence is sufficient to warrant such action, make recommendations for changes in certification standards, provide PTPC handbooks, publish semi-annual newsletters, make Code of Ethics brochure, and do background checks on each certification applicant.

Total Budget:

The PTPC is budgeted for \$187,400 in FY '00.

Professional Teaching Practice					
EXPENSES			REVENUES		
Personal Service	140,100	74.8%	Fed Receipts		0.0%
Travel	5,500	2.9%	G/F Match		0.0%
Contractual	40,800	21.8%	GF/Program	187,400	100.0%
Commodities	1,000	0.5%	Statutory Designated		0.0%
Grants		0.0%	TOTAL	187,400	100.0%
TOTAL	187,400	100.0%			

VII. Alaska State Council on the Arts⁷

The Alaska Legislature formed ASCA in 1966 "to ensure that the role for the arts in the life of our communities will continue to grow and will play an ever more significant part in the welfare and educational experience of our citizens." The eleven-member council is a volunteer body appointed by the Governor to guide the development of the arts throughout the state. Council members set policy and approve grants.

Funds for Council programs and services are provided by the Alaska State Legislature, the National Endowment for the Arts and private donations. Since its inception, the Council's budget has ranged from \$5.5 million to \$900,000. It has provided over 4,000 grants totaling more than \$42 million to organization and individuals in nearly every community in the state.

⁷ <http://www.aksca.org/historymission.html>

The state-mandated portion for public art for The Anchorage International Airport Redevelopment Project is about \$1 million, and the committee has decided to expend about half on a landmark artwork for the state of Alaska. In February of 2000, the council will RFP for the other half of the arts project. "The amount of the commission will be up to \$500,000, which must cover all costs of design, engineering, fabrication, installation, special lighting (if any), photographic documentation, and an identifying plaque."⁸

Total Expenditures

The Alaska State Council on the Arts is budgeted for \$1,107,900 in FY'00. This includes \$245,400 for personal services, \$23,100 for travel, \$210,700 for contractual services, \$4,000 for commodities, and \$624,700 for grants.

Alaska State Council on the Arts		
EXPENSES	TOTAL	RATIO
Personal Service	245,400	22.2%
Travel	23,100	2.1%
Contractual	210,700	19.0%
Commodities	4,000	0.4%
Grants	624,700	56.4%
TOTAL	1,107,900	100.0%

⁸ <http://www.aksca.org/callforart.html>



SECTION 6

ALASKA VOCATIONAL TECHNICAL CENTER

- Recommendations
- Employees
- Technology used
- Budget
- Barriers to Implementation

ALASKA VOCATIONAL TECHNICAL CENTER

I. Recommendations passed:

Recommendation #1:

Encourage the legislature to pass HB 142, "An Act relating to the education credit for the fisheries business tax and the fisheries landing tax", which would result in AVTEC being a qualifying recipient of cash contributions provided for in AS 43.77.

Recommendation #1 was ratified by the subcommittee.

RATIONALE: Last year, Alaska Vocational Technical Center (AVTEC) returned \$140,000 in cash contributions to fisheries businesses that had made the contributions to the vocational institute because state law did not include the facility as a qualified recipient.

Under current law some fisheries businesses can receive a tax credit by making cash contributions to educational institutions. Donors benefit because they can choose to contribute to the institutions that are vital to their operations. The contributions are applied as a credit against the tax due.

Under Alaska statutes only regionally accredited, two-year or four-year, public or private, institutions can receive these cash contributions. HB 142 extends the ability to receive donations to nationally or regionally accredited vocational institutions such as AVTEC.

Recommendation #2:

The Department of Education should hire a grant writer in the Division of Teaching and Learning Services that will focus on locating and obtaining funding sources other than state funds for Mt. Edgecumbe and AVTEC.

Recommendation #2 was ratified by the subcommittee.

RATIONALE: Both of these schools are unique in nature and should qualify for unique federal funding and non-conventional private foundation funds. The National Institute for Fund Raising Executives estimates that in the first year of funding a grant writing position, the grant writer will obtain funding that equals 1½ times the grant writer's salary. After this first year the ration continues to increase. This would result in less state dollars being needed for the facilities and a negative fiscal note for such added position.

Recommendation #3:

Give AVTEC the flexibility to determine leasing and maintenance provisions for its motor pool fleet.

Recommendation #3 was ratified by the subcommittee.

RATIONALE: The AVTEC vehicles are maintained by AVTEC. This vocational school has students learning the trade of vehicle maintenance receiving hands-on vocational training from maintaining the vehicles while reducing the cost of maintaining the AVTEC vehicles.

Most of the vehicles utilized by AVTEC are surplus and have no lease value. The fleet has five vehicles that would normally in the private sector be replaced under a five-year lease replenishment program.

The subcommittee also discussed the possibility of reducing maintenance of all state vehicles in the Seward area by AVTEC faculty and students. There was concern about the state (AVTEC) providing a service that could be provided at an equal or lower cost by local private automotive repair businesses in the Seward area. This discussion resulted in Recommendation #4.

Recommendation #4:

Maintenance for state motor pool vehicles should be contracted out by competitive bid. If a state agency has the capability of providing those services, that agency shall submit a competitive bid for the services to be contracted, but shall do so apart and separate from the agency soliciting the bid.

Recommendation #4 was ratified by the subcommittee.

RATIONALE: The U.S. Corps of Engineers has instituted a competitive bid process for what used to be automatic in-house projects. The project is let for competitive bid and if the Corps gets the contract, it is because the Corps is low bidder. The administrative section of the Corps has created a "china wall" between itself and the construction section that places the competitive bid.

Such a provision would allow AVTEC to bid on maintenance of motor pools of DOTPF and Spring Creek Corrections Facility.

Recommendation #5:

AVTEC should explore the possibility of obtaining funding from the Alaska Housing Finance Corporation to expand family housing facilities.

Recommendation #5 was ratified by the subcommittee.

RATIONALE: AVTEC is gaining a good reputation statewide and has been forced to turn students away because they have inadequate family housing facilities. They

estimate that they lost fifty families last year in which one or both of the parents were wanting vocational training but could not get housing at AVTEC and could not afford private housing. When the dormitories are full of single students, AVTEC has contracted with local hotels for housing.

Recommendation #6: Privatize the food services of AVTEC.

Recommendation #6 was ratified by the subcommittee.

RATIONALE: AVTEC has been utilizing the food services students to provide food services but have recently changed the format of their food services training program. They currently have one cook and two food service workers employed. The change in the program would require AVTEC to hire additional food services employees next year and they are exploring the possibility of privatizing those services. We support their effort and recommend that the services be privatized.

II. Employees:

AVTEC Support Personnel - FY '00					OMB
Job Class	Range	Range	Range	Range Positions	
Accounting Clerk I	7B	9C/D	7M		1
Accounting Tech I	12 E/F				1
Administrative Assistant				99	1
Administrative Clerk I	7B/C				3
Administrative Clerk II	8B	8 K	8F		3
Administrative Clerk III	10E/F				1
Analyst/Programmer III	18F				1
Asst Dir for Budget & Finance	23C/D				1
Asst Dir Instruction & Housing	23B				1
Audio Visual Equip Tech	14L				1
Cook I	57D				1
Custodian II	58D				1
Department Head - AVTEC				99	9
Division Director	26 B/C				1
Dormitory Coord	16C				1
Dormitory Attendant	11 D/E	11B/C	11E/F	11D	4
Education Assoc III	17F				1
Food Service Worker	60D	60B			2
Instructors Aide I	11A	11F			2
Instructors Aide II	13A				1
Instructors Aide III	15A				1
Program Svc Aide IV	11E/F	10E/F			1
Secretary I	10K				1
Supply Technician II	12L				1
Teacher - AVTEC				99	28
Work Force Dev Spec I	15J				1
TOTALS					70

III. Describe Technology Used to Perform Mission

Mr. Esposito did say that the technical equipment at the facility is not state of the art but no solutions were discussed.

IV. Total Budget, all funds

The total budget for AVTEC is \$5,167,600. The division spends \$3,811,000 on personal services, \$57,600 on travel, \$579,100 on contractual services, \$512,100 on supplies, \$132,800 on equipment, and \$75,000 on grants.

AVTEC BUDGET FY'00					
EXPENSES			REVENUES		
Personal Services	\$	3,811,000	73.7%	Federal Receipts	\$ 75,000 1.5%
Travel	\$	57,600	1.1%	General Fund	\$ 3,475,900 67.3%
Contractual	\$	579,100	11.2%	GF/Program Receipts	\$ 767,300 14.8%
Supplies	\$	512,100	9.9%	Inter/Agency	\$ 618,800 12.0%
Equipment	\$	132,800	2.6%	Investment Loss Trust	\$ 7,400 0.1%
Grants	\$	75,000	1.5%	Stat Designated Program	\$ 223,200 4.3%
Total	\$	5,167,600	100%	TOTAL	\$ 5,167,600 100%

V. List problems or barriers to implementing.

The one barrier to expanding AVTEC's enrollment and dealing with deferred maintenance is one of a lack of public dollars to pay for it. We suggested Alaska Housing Finance Corporation as a source of funding additional housing to accommodate more students.

We also looked at the possibility of AVTEC bidding on motor pool equipment for Spring Creek Prison, DOTPF, the Alaska Railroad and the Institute of Marine Sciences-all of which are located in Seward. The additional revenues and savings for other agencies in reducing maintenance costs could provide funding for deferred maintenance and repairs.



SECTION 7

MT. EDGECUMBE BOARDING SCHOOL

- Recommendations
- Budget

MT. EDGECUMBE BOARDING SCHOOL

I. Recommendations adopted:

Recommendations #1 & #2 are not included because they were not ratified by the subcommittee.

Recommendation #3: Because Mt. Edgecumbe High School has significant facilities and maintenance issues due mostly to the age of the campus, and because the potential exists that Mt. Edgecumbe may be asked to expand its enrollment to serve Alaska's immediate and/or future educational needs, this sub-committee recommends that the legislature provide funds to meet the deferred maintenance needs of Mt. Edgecumbe High School.

Recommendation #3 was ratified by the subcommittee.

RATIONALE: The subcommittee recognized the importance of rural schools but also recognized there are two factors that have placed an increasing demand on Mt. Edgecumbe's services. First, with the passage of SB 36, rural schools with student attendance less than ten students are closing and second, some families in rural Alaska want their children to go to Mt. Edgecumbe to become prepared for a postsecondary education.

Mt. Edgecumbe currently turns down at least one student for every student it accepts because the dormitory capacity is limited. The school currently has students from 107 existing school districts whose parents want an alternative. The school currently is the home of 327 students of which 90% will go on to postsecondary schools.

There was a general agreement that Mt. Edgecumbe is providing a greatly needed service that is not available in the private sector. It was also agreed upon that Mt. Edgecumbe's ability to facilitate the growing demand for its services due to the implementation of SB 36 and the ultimate closure of smaller schools in rural Alaska schools should be considered in the capital budget for FY'01.

MT. Edaecumbe Budaet - FY '00					
Expenses			Revenues		
Personal	1,946,000	44.53%			
Services					
Travel	207,700	4.75%	General Fund	2,392,600	55%
Contractual	2,115,800	48.41%	GF/Program	57,400	1.3%
Commodities	114,800	0.38%	Inter/Agency Receipts	1,870,000	43.3%
Equipment	16,500	0.38%	CIP Receipts	50,000	
Grants	-30,400	-0.7%	Total Revenues		100.0%
				\$4,320,000	
Micellaneous	0	0.0%			



SECTION 8

STATE FACILITIES MAINTENANCE

- Recommendations
- Budget

STATE FACILITIES MAINTENANCE

State Facilities Maintenance consists of the maintenance of two educational facilities within the Department of Education: AVTEC and Mt, Edgecumbe. The maintenance problems of these two facilities are discussed within their own BRUs. Maintenance has eleven full-time employees.

STATE FACILITIES BUDGET - FY'00

Expenses			Revenues		
Personal	619,600	41.4%			
Services					
Travel	0	0.0%			
Contractual	396,200	26.5%	Inter/Agency Receipts	<u>1,496,100</u>	100%
Commodities	480,300	32.1%	Total Revenues	\$ 1,496,100	100%
Equipment	0	0.0%			
Grants	0	0.0%			
Micellaneous	0	0.0%			
Total Expenses	\$ 1,496,100	100.0%			



SECTION 9

ALASKA LIBRARY & MUSEUMS

- Recommendations
- Budget Expenditures
- Budget Revenues
- Employees

ALASKA LIBRARY & MUSEUMS

I. Recommendations adopted:

Recommendation #1: The executive branch libraries should be managed by the State Library and further that no executive branch library should be established or ended without State Library oversight.

Recommendation #1 was ratified by the subcommittee.

RATIONALE: Currently there is a library at Fish and Game. Other divisions have reference collections. What happens is that libraries are among the first to go in budget cuts. DEC eliminated its library two years ago and it cost the State Library a considerable amount of money. They had to go through the collection to decide what to keep, what to send to other libraries and what to trash. That was a considerable amount of staff time. Then the DEC holdings were taken off the online catalog and the WLN database.

This year in the move of Community & Regional Affairs they are giving their research collections away. Part of the collection was going to a federal library consortium that called Karen Crane and wanted the State to pay for cataloging. She did manage to stop that but more of this is going to happen. This recommendation does not include the Court System since they are a different branch of government.

The Fish and Game Library is the strongest one in the agencies. If the State Library managed it, they could save money with subscriptions, cataloging, etc. Centralizing library services for state agencies would save money and provide better service.

II. Budget expenditures. The FY'00 budget for Libraries and Museums totals \$6,748,600. Personal services comprise 54% of the spending.

LIBRARIES & MUSEUMS EXPENDITURES - FY'00

EXPENDITURES	Personal Services	Travel	Contractual	Commodities	Equipment	Grants	Misc	Total Expenses
Library Operations	2,077,900	22,000	731,800	428,300	9,000	1,416,800	-50,000	4,635,800
Archives	550,000	23,600	51,800	64,000				689,400
Museum Operations	977,300	10,500	274,500	75,500		85,600		1,423,400
Specific Cultural Programs								
Library & Museums Totals	3,605,200	56,100	1,058,100	567,800	9,000	1,502,400	(50,000)	6,748,600

III. **Budget Revenues.** Total revenues for FY '00 is \$6,748,600. General fund revenues provide 80.3% of the funding.

LIBRARIES & MUSEUMS REVENUES- FY'00
--

Revenues	Fed Rcpts	Gen Fund	GF/Prgm	I/A Rcpts	Stat Desig	Total
Library Operations	675,500	3,739,000	63,000	158,300		4,635,800
Archives	40,000	555,000		94,400		689,400
Museum Operations	30,000	1,127,400	255,900		10,100	1,423,400
Specific Cultural Programs						
Library & Museums	745,500	5,421,400	318,900	252,700	10,100	6,748,600

IV. **Employees.**

ALASKA STATE LIBRARY & MUSEUMS

	Full-time Employees	Part-time Employees	Temp Employees
Library Operations	38	2	2
Archives	9		
Museum Operations	16	4	1
Specific Cultural Programs			
Library & Museums Totals	63	6	3



SECTION 10

ALASKA POSTSECONDARY EDUCATION

- Recommendations
- Component Names
- Employees
- Expenditures
- Revenues
- Improvements to Program
- Statutory Authority
- Status of Loans Collections on Estates

ALASKA POSTSECONDARY EDUCATION

I. Recommendations adopted.

Recommendation #1: It is recommended that the student loan program be privatized by being contracted out to a private lending service.

Recommendation #1 was ratified by the subcommittee.

RATIONALE: The premier example of successful and cost-efficient government guaranteed loan programs is the VA mortgage-lending program. Supported by government guarantees and operating within government regulations and parameters, banks and mortgage loan companies provide the actual loans and handle all collection operations.

Student loans could be privatized in the same manner as the veteran's loans. The government contracts with banks to manage the loans, the government guarantees the loans and determines the eligibility.

There was concern that it would no longer be possible to fund the loans with tax-exempt bonds. The State is responsible for \$430 million in bonds for a program that has been losing money since 1988. The program should not be looked at as a case of improving competition with private banks, the focus should be on privatizing student loans.

Recommendation #2: It is recommended that all loan programs of the State be submitted to review with one of two conclusions being sought: (1) consolidation within a single department of state government, such as Revenue, where staffing is trained in accounting and fund management; or (2) provision to management by banks through an RFP process.

Recommendation #2 was ratified by the subcommittee.

RATIONALE: The State of Alaska operates a number of loan programs. In each case, the program resides within a division and department associated with the activity/purpose of the loan (i.e. student loans in DOE, farm loans in DNR). The expertise of staff lies with the activity or purpose rather than with banking/mortgage/accounting professions, and as a consequence, the loan programs are poorly run, have excessive late payment, poor collection follow ups and high rates of delinquencies. Firms who loan money and collect on loans are far more efficient at this specialized field. At a minimum, consolidating all programs within Revenue would at least lend the efficiency of economy scale, and allow for staffing with more specialized, trained personnel.

Known loan programs include the Agricultural Revolving Loan Fund (ARLF), within DNR, and one or two commercial fishing loan programs, in addition to the Student Loan Program.

ARLF started with \$95,000,000 in principle available for loans. Through the course of inept loan management and poor administrative and legislative decisions, the principle is down to below \$5,000,000.

II. BRU and Component Names as listed in the state budget

THE BRU "Alaska Postsecondary Education" is comprised of five budget components: Program Administration, Student Loan Operations, WICHE Student Exchange, WWAMI Medical, Federal Student Aid.

III. Employees. Postsecondary Education has 98 employees.

BRU COMPONENT	Full-time Employees
Program Administration	14
Student Loan Operations	84
WICHE Student Exchange Program	
WWAMI Medical Education	
Federal Student Aid	
Postsecondary Education Employees	98

III. Total Expenditures.

Budget Component	Personal Services	Travel	Contractual	Commodities	Equipment	Expenditures
Program Administration	862,300	94,900	75,700	16,000	1,400	1,050,300
Student Loan Operations	4,112,500	55,400	2,266,900	75,300	20,000	6,530,100
WICHE Student Exchange Program			85,000			85,000
WWAMI Medical Education			1,435,000			1,435,000
Federal Student Aid						
Postsecondary Totals	4,974,800	150,300	3,862,600	91,300	21,400	9,100,400

IV. Total Revenues.

Budget Component	Fed Rcpts	Gen Fund	GF/Prgm	P-Sec Rcpt	Totals
Program Administration	75,300		10,000	965,000	1,050,300
Student Loan Operations		10,000		6,520,100	6,530,100
WICHE Student Exchange Program		85,000			85,000
WWAMI Medical Education		1,435,000			1,435,000
Federal Student Aid					
Postsecondary Totals	\$ 75,300	\$ 1,530,000	\$ 10,000	\$ 7,485,100	\$ 9,100,400

V. Additional information received from DOEED.

Improvements to the program/portfolio:⁹

- ◆ ASL Forgiveness benefits eliminated. (1987-88)
- ◆ Interest charged during grace period. (1987-88)
- ◆ Initiated PFD attachments on defaulted loans. (1987-88)
- ◆ Origination fee assessed on all loans. (1994-95)
- ◆ Post deferment grace period eliminated. (1996)
- ◆ Tied loan interest rate to the cost of bonds plus administrative cost percentage. (1995-96)
- ◆ Began charging interest during periods of deferment. (1996-97)
- ◆ Began credit check of loan applications. (1998-99)
- ◆ Wage Garnishment (implementation slated for 2000)
- ◆ Late fee assessment (implementation slated for 2000)
- ◆ Credit reporting on defaulted borrowers (implementation slated for 2000)

⁹ Karen Rehfeld of DOE

Statutory Authority:

Statutory reference creating Alaska Student Loan Corporation (AS 14.42.100) as a public corporation and government instrumentality and granting power to bond (AS14.42.220).

Status of Postsecondary Loans:¹⁰

Total number of loans outstanding as of 6/30/99: 176,622

Total number of loans in in-school status as of 6/30/99: 30,492

Delinquent loans receivable (30 days or more past due) as of 6/30/99:
\$172,721,826

Collections on Estates:¹¹

Under the promissory note terms of ASLs made prior to 1995-96, the death of the borrower resulted in cancellation of the loan(s). That provision was eliminated from the loan contracts in 1995-96 therefore the Commission could implement a procedure to pursue collection from the estate.

In the early 1990's staff performed an analysis of the demographic characteristics of borrowers whose loans were being written off due to their death. A variety of findings from that review resulted in a recommendation that the Commission not initiate collection on estates. It was concluded at that time that, due to the age of borrowers and the unsecured nature of the student loan obligation, the agency would likely expend more in staff and legal expenses than the Commission could reasonably expect to collect. Rather than pursue that potentially costly process, by regulation the Commission raised origination fees raised from 1% to 5% (1996-97) and are statutorily set aside to be used to offset losses due to borrower death, disability, and default. The issue has not been revisited in recent years.

¹⁰ Diane Barrans of Postsecondary

¹¹ Diane Barrans of Postsecondary



SECTION 11

DIVISION OF EARLY DEVELOPMENT

- **Recommendations**
- **BRU and Component Names**
- **Missions, Goals & Objectives**
- **Total Budget**
- **Total Revenues**

- **Review of Components:**
 - **Child Care**
 - **Head Start**
 - **Children's Trust**

- **Barriers to Implementing**

DIVISION OF EARLY DEVELOPMENT

I. Recommendations adopted.

Recommendation #1: Eliminate the Division of Early Development from DOE, consolidating it within the Department of Health and Social Services and its existing programs.

Recommendation #1 was ratified by the subcommittee.

RATIONALE: Overlapping in state services is very evident in the Early Development Division of the Department of Education (DOE). The constitutional and statutory purpose of DOE is to provide education to K-12 students in Alaska. Early Development is an area of services that does not belong in the public sector, let alone the Department of Education.

Child Care and Head Start is inconsistent with the constitutional and statutory provisions of education because the recipients are not K-12 students receiving education. In the case where a high school student is receiving childcare or Head Start services, there is an overlap with welfare programs provided under the Alaska Temporary Assistance Program (ATAP).

Recommendation #2:

Transfer the Children's Trust Grant Program to the Office of the Governor, Division of Boards and Commissions.

Recommendation #2 was ratified by the subcommittee.

RATIONALE: AS 37.14.200 established a seven member Board for the Children's Trust Program. The Governor appoints four public members. These members have experience and expertise in children's or prevention programs, or private sector finance. The Governor or his designee, the commissioner or her designees of the Dept. of Health and Social Services, the commissioner or his designee of the Dept. of Education are also members.

It is the function of this board to "award grants from the net income of the trust to community-based programs and projects that the board find will aid in the prevention of child abuse and neglect; monitor approved programs and projects for compliance with AS 37.14.200-37.14.270; before providing assistance to a program or project, approve written findings on the program or project that include a consideration of the means of measuring the effectiveness of the program or project; apply for, and use net income from the trust to obtain, private and federal grants for the prevention of child abuse and neglect; solicit contributions, gifts, and bequests to the trust."¹²

¹² <http://www.gov.state.ak.us/boards/factsheet/children.htm>

During the overview of this Division, there was no mention of the Children's Trust being a component of this division, but the Division's website does include the Children's Trust as a component.

Recommendation #3:

When federal funding for a federally mandated program established in the State of Alaska falls below the 50% funding, the service shall be considered unessential at the state level and passed on to the option of local governments for funding.

Recommendation #3 was ratified by the subcommittee.

RATIONALE: The Alaska State Legislature continues to grab the dangling carrot only to find itself funding the major portion of these programs after the federal government has created them and funded them for several years. When the federal funding diminishes, the state is left holding the bag to fund the program. If the federal government wants to impose mandates, they should be willing to at least be equal partners with the state in funding those programs. If the federal government is unwilling to fund the programs, then the federal government should not mandate programs and services and states and local governments should make the decision on the future of those programs. It was pointed out that the federal government provides only 9% of the funding needed annually for special education programs.

Recommendation # 4 is not included because it was not adopted by the subcommittee.

Recommendation #5: The Alaska State Legislature should treat all state receipts as general fund money unless the receipts are the result of inter/agency receipts.

Recommendation #5 was ratified by the subcommittee.

RATIONALE: SB 55 was the latest in a series of legislative revisions that moved several programs off budget and moved them in the budgeting process from the general fund to other funds. The Legislature passed SB 55 despite strong objections from both legislative finance and legislative budget and audit.

During a Senate Labor & Commerce Committee meeting on February 4, 1997, Annalee McConnell, Director of the Office of Management and Budget, said SB 55 was introduced at the request of the Governor intended to deal with an accounting catch 22. She said that some items in their budget expenditures could grow and actually are in the economic development area and are seen as a real positive. There was concern, however, that "the increase in the expenditures counts as an increase in the total budget."

SB 55 reclassified "designated programs" and "restricted fees" in the budget process

so that they are no longer treated them as part of the unrestricted general funds category but set them into a different category funding column, "Other Funds".

Ms. McConnell said OMB would continue to show these in the budget as "Other Funds" so everyone was well aware of them. ***"The key point in all of this is that you can have an increase in these arenas, mostly economic development, without increasing the fiscal gap."***

Later is that same committee meeting Senator Tim Kelly asked how this affects the fiscal gap. Ms. McConnell explained that ***"as expenditures go up revenues increase by the same amount. Therefore, there is no increase in the fiscal gap."*** This statement is in direct contradiction to Ms. McConnell's key point for enacting SB 55.

Senator Kelly asked if they would increase the program receipts and take them off budget. Ms. McConnell said they wouldn't be off budget; they would still be appropriated by the legislature. Instead of being in the column along with unrestricted general funds, there is a separate category "Other Funds" for designated program receipts.

SB 55 also contains some clean-up items that weren't in last year's bill. It codifies corporate receipts and clarified that the Children's Trust and the Public School Fund are not part of the unrestricted general funds.

Senator Kelly asked if the legislature approves SB 55 what is the difference between the amount from the general fund and the new program receipts? Ms. McConnell replied that between '97 and '98 it's about a \$3 million increase. She said there is a small increase in the category of restricted fees; much of it is in the economic development area.

On April 7, 1997, the Senate Finance Committee heard SB 55. Concerns were voiced about proper supervision by the legislature over program receipts set by the pioneer homes and Alaska Housing Finance Corporation.

Senator Pearce said that what happens when program receipts are put off of the budget the Legislature tends to not look as closely at the program during the budget process. Senator Drue Pearce stated at that committee meeting that Mike Greany, Director, Legislative Finance and Randy Welker, Legislative Auditor had real concerns about pushing too many program receipts off budget. She said they would prefer program receipts be brought back in as straight general fund receipts and not try to account for them separately.

The Senate Finance Committee heard SB 55 again on April 16, 1997. They adopted a committee substitute that added the children's trust, commercial fisheries test fishing operations, and the public utilities commission to the list of fund receipts.

"Mike Greany, Director, Legislative Finance Division, described the bill and the columns of appropriations. He informed the committee that SB 55 would move some of the general fund appropriations to the other funds column and they would no

longer be counted as general fund. It would move about \$55 million of designated receipts from the general fund and move them off budget. He expressed concerns about moving closer to a form of dedication and away from the notion that the majority of receipts the state takes in were not dedicated were available to the legislature for appropriation."

The actual impact of SB 55 to moving general fund money on the FY '00 budget is close to \$59 million:

1005 GF/Prgm	49,933,800
1098 ChildTrErn	379,700
1109 Test Fish	3,970,500
1110 APUC Rcpts	4,699,200
	58,983,200

What has been the impact of creative accounting to the Parks & Recreation operations of the State? I have put together a comparison of the FY'84 and FY'00 Budgets for the division by funding source.

FY'00 BUDGET	1002 Fed Rcpts	1003 G/F Match	1004 Gen Fund	1005 GF/Prgm	1007 I/A Rcpts	1061 CIP Rcpts	1108 Stat Desig	REVENUES
State Historic Preservation Parks Management Parks Access	332,300	285,500			224,000	414,600		1,256,400
			3,464,500	1,947,300	74,300		56,700	5,542,800
	622,700				871,900	1,009,000		2,503,600
TOTALS		285,500	3,464,500	1,947,300	1,170,200	1,423,600	56,700	9,302,800
	955,000							

FY'84 BUDGET	1002 Fed Rcpts	1003 G/F Match	1004 Gen Fund	1005 GF/Prgm	1007 I/A Rcpts	1028 Pre90PRGM	TOTAL REVENUES
Historic Resource Mgmt.			153,100				153,100
Park Design/Development			311,000				311,000
Park Maintenance & Operations			3,914,500			20,000	3,934,500
Parks Administration			464,100				464,100
Direct Charge CIP					954,900		954,900
Overhead CIP					153,400		153,400
Youth Employment Program			400,000				400,000
			5,242,700		1,108,300	20,000	6,371,000

Total expenditures in FY'84 were \$6,371.100. The two basic funding sources were the general fund at \$5.2 million and inter/agency receipts at \$1.1 million. There was no federal funding.

In FY'00, the revenues totaled \$9,302,800. That is an increase in spending by almost \$3 million or 50% in sixteen years. Personal Services accounts for \$2.5 million of the increased spending. The main funding sources have increased from

two sources to seven sources in sixteen years. Inter/agency receipts have increased only \$61,900 in 16 years. One added revenue source is federal receipts, which amounted to \$955,000 in FY'00. With that in mind, one would conclude that general fund spending has increased by approximately \$2 million dollars over the same 16-year period. In actuality, because the four new remaining funding sources result from an expansion in the "Other Funds" column, "General Fund" spending has decreased by \$1.8 million.

The State of Alaska should have two funds for income from state sources; the General Fund and Inter/Agency Receipts. The budget for state spending need not be complex and should be understandable for all Alaskans. Truth of income for the State of Alaska should be mandatory.

II. BRU and Component Names as listed in state budget

A BRU is a budget request unit that is a group of components or program activities combined to achieve a specific goal. The BRU Early Child Development is a division that was created this year after the passage of HB 40. The Head Start and Child Care Assistance Programs were transferred from Community & Regional Affairs to Department of Education as a result of HB 40 passed by the Legislature this year.

Head Start is an early intervention program now 30 years old. Head Start enriches the lives of low-income children and their families with a comprehensive program of developmentally and culturally appropriate education, health, nutrition and social services, parent involvement and career development. The program strives to improve children's health, their emotional, social, intellectual and physical development, and support families in becoming self-reliant.

Funds are provided to agencies to operate programs according to federal Head Start guidelines. Covered costs can include staff wages and training, medical/dental services, program supplies and equipment, program enhancement and expansion. Alaska guidelines have been developed.

Thirteen grantee agencies receive federal funds directly from the U.S. Department of Health and Human Services and the state provides funding for the local match.

The Alaska Head Start program is administered from Juneau. Administrative costs for the program are about \$200,000 which covers office expenses and salaries for three staff members. The remaining funds go directly to the Head Start centers in 95 communities statewide. The funding level is at \$6 million. In FY'99 3,351 children were enrolled in Headstart at a cost of approximately \$1,600 per child. Headstart currently serves 23% of the children in Alaska qualified for Headstart services.

The second program in Early Development is ChildCare which includes childcare grants and childcare subsidies.

The ChildCare Grant program provides a small business subsidy for child care centers and licensed homes. Grantees must use the money for the long-term benefit of the child care facility and the children in care.

Most child care facilities use these funds for staff salaries and benefits, goods relating to health, safety, and nutrition, and age appropriate equipment, supplies, and activities for the children.

Applicants must have a current child care license, business license, and must be willing to care for children in the Child Care Subsidy Program for whom payment is made only for the time in care. This increases childcare choices for parents receiving subsidy because caregivers have an incentive to accept these children.

The program receives an annual appropriation from the Legislature. Annual funding is approximately \$1.725 million. Over 500 centers and homes participate in the program statewide.

Applications for the grant are available at any time. Payments are made monthly, based on the total number of children attending the facility.

III. Agency Mission, Goals and Objectives

This is a new division of the Department of Education and the mission has not been clearly defined. The goals and objectives of the three components of the division are discussed later in this report. There is not a more in-depth discussion of this Division because the Subcommittee recommended moving this division out of Department of Education and consolidating it with the existing programs in Health and Social Services.

IV. Total Budget, all funds

The total budget for Early Development is \$4,488,500. The division spends \$711,000 on personal services, \$91,700 on travel, \$503,700 on contractual services, \$23,800 on commodities, \$10,000 on equipment, and \$8,703,100 on grants.

Early Development Programs – FY'00					
Expenses			Revenues		
Personal Services	711,000	7.08%	Federal Receipts	256,000	2.55%
Travel	91,700	0.91%	GF Match	59,800	0.60%
Contractual	503,700	5.02%	General Fund	3,535,900	35.20%
Commodities	23,800	0.24%	I/A Receipts	5,845,900	58.21%
Equipment	10,000	0.10%	Children's Trust	345,700	3.44%
Grants	8,703,100	86.66%			
		%			
TOTAL	10,043,300	100%	TOTAL	10,043,300	100%

V. Total Revenue derived

The total revenues for Early Development for FY'00 are \$10,043,300. Federal receipts for this program total 256,000 or 2.55% of the component revenues.

VI. Child Care.

"The **Child Care Resource and Referral Program** assists parents in finding quality child care, and assists providers in advertising services and vacancies to parents. In Anchorage, Juneau and Fairbanks, low-income parents may be eligible at no charge for counseling and help in finding childcare. A sliding-fee scale covers services for other parents. DOE contracts with ChildCare Connections, Inc. in Anchorage, NAEYC Southeast in Juneau, and Fairbanks Native Association in Fairbanks to provide resource and referral services under this program.

"The **Child Care Subsidy Program** enables low and moderate income families to afford child care while parents are working or in training. It provides a subsidy for childcare payments for eligible families.

Municipalities or unincorporated communities with licensed childcare facilities may apply to the program if a community agency can demonstrate the administrative capacity to manage the program.

The program is subject to annual state and federal legislative appropriations. The funding level is about \$13.8 million. There are approximately 25 communities participating, serving about 2,900 children per month. Some smaller rural communities (e.g. Craig and Metlakatla) participate in this program. Most of the larger rural communities, such as Dillingham, participate.

Quality childcare programs are an integral part of the economic viability of communities throughout the state. Earnings of working parents stimulate local economies. New childcare businesses are started to meet the needs of growing numbers of working parents. Local services attract additional business and enterprise. These child care resources help strengthen the economic base of the community.

"The **Child Care Resource Development** program provides child care providers with education and training in their field. Child care providers and administrators, who are licensed by the State of Alaska for child care can take classes and workshops, as well as, receive a quarterly newsletter and other educational opportunities at little or no charge. The program is subject to annual state and federal legislative appropriations."¹⁴ The department contracts with the following to provide the services:

¹³ <http://www.eed.state.ak.us/EarlyDev/ccresource.html>

¹⁴ <http://www.eed.state.ak.us/EarlyDev/ccresource.html>

Grantee	Areas Served	Amount of Contract
Child Care Connection, Inc.	Anchorage, Bethel, Cordova, Dillingham, Glenallen, Homer, Kenai, Kodiak, Mat-Su Borough, Seward, Soldotna, Valdez, Unalaska	unknown
NAEYC-SEA	Craig, Haines, Juneau, Ketchikan, Metlakatla, Sitka, Skagway, Wrangell	unknown
Fairbanks Native Association	Delta Junction, Fairbanks, Kotzebue, North Pole, Point Hope	unknown

Child Care Facilities: This is a database on the Early Development website that allows people to find contact information about licensed or registered on child care facilities in their area. A person can search for the child care facility by using one or all of the fields: Last Name, Facility, City, Zip Code, Registered, Licensed, and Status.¹⁵

Child Care Programs – FY'00					
Expenses			Revenues		
Personal Services	521,100	14.21%	Federal Receipts	106,000	2.9%
Travel	60,600	1.65%	GF Match	500	0.0%
Contractual	416,100	11.34%	General Fund	195,200	5.3%
Commodities	20,600	0.56%	I/A Receipts	3,366,700	91.8%
Equipment	10,000	0.27%			
Grants	2,640,000	71.97%			
TOTAL	3,668,400	100%	TOTAL	3,668,400	100.0%

Child Care Program Employees – FY'00			
Position	Range	# Emp	Location
Program Coordinator	20		1 Anchorage
Grants Administrator III	19		1 Anchorage
Grants Administrator III	17		3 Anchorage
Statistician Tech II	14		1 Anchorage
Project Coordinator	18		2 Anchorage
Administrative Clerk III	10		1 Anchorage
TOTAL			9 Anchorage

VII. Head Start .

HEAD START					
Expenses			Revenues		
Personal Services	189,900	3.15%	Federal Receipts	150,000	2.5%
Travel	31,100	0.52%	GF Match	59,300	1.0%
Contractual	31,900	0.53%	General Fund	3,340,700	55.4%
Commodities	3,200	0.05%	I/A Receipts	2,479,200	41.1%
Grants	5,773,100	95.75%			
TOTAL	6,029,200	100%	TOTAL	6,029,200	100.0%

¹⁵ <http://www.eed.state.ak.us/EarlyDev/ChildCare/search.asp>

Grant Recipients	Amount	# programs
Adult Learning Programs of Alaska	249,103	1
Alaska Partners	15,000	
Association of Village Council Presidents	347,522	9
Central Council of Tlingit and Haida	396,246	11
Chugiak Children's Services	39,897	5
Southcentral Foundation	410,821	1
Kawerak	620,096	13
Kids Corp	26,975	1
Metlakatla	2,309,067	1
RurAL CAP	566,244	28
Tanana Chiefs Conference	71,350	10
Fairbanks Native Association	25,000	1
Bristol Bay Native Association	35,000	2
Aleutian/Pribilof Island Association	6,200	4
Native Village of Tyonek	4,100	5
Kenaitze Indian Tribe IRA	4,100	1
Health and Safety	21,457	3
TOTAL GRANTS	5,148,178	96

VIII. Children's Trust

Missions, Goals & Objectives.

"The Mission of the Children's Trust is to improve the status of children in Alaska by generating funds and committing resources to promote healthy families and to assist in developing healthy communities."¹⁶

Goals:

- Change the climate of tolerance for child abuse and neglect by promoting an awareness of the current plight of many of our children;
- Support the development of safe and nurturing community environments by advocating responsible care giving and learning readiness; and
- Increase the grant-giving ability of ACT by:
 - fundraising to increase the corpus of the fund;
 - pursuing other funding opportunities ¹⁷

Objectives:

- Funding community-based child abuse and neglect prevention programs; Educating the public, initiating media campaigns, and providing information;
- Coordinating resources and sharing information; and

¹⁶ <http://www.gov.state.ak.us/trust/mission.htm>

¹⁷ <http://www.gov.state.ak.us/trust/mission.htm>

- Encouraging collaboration and developing partnerships with public and private organizations.¹⁸
-

The Children's Trust board has been giving out grants for three years. The grants are funded with interest earnings from the \$8.9 million Children's Trust. The 1999 awards totaled \$290,381, a slight increase over last year. In 1996, year the Legislature reactivated the dormant fund with a \$6 million deposit.

This year, a four-member review committee considered 48 proposals and rated them on innovation, community-initiation, and emphasizes on prevention rather than treatment of child abuse and neglect.

Employees.

Alaska Children's Trust grants program has no funded positions:

CHILDREN'S TRUST					
Expenses			Revenues		
Contractual	55,700	16.11%	Children's Trust	345,700	100%
Grants	290,000	83.89%			
TOTAL	345,700	100%	TOTAL	345,700	100%

Children's Trust Grants - FY '00		
Anchorage Center for Families	to provide counseling and crisis intervention; coordinate child-abuse prevention efforts; and provide information and referrals to families in the Muldoon neighborhood.	\$12,000
Alaska Public Radio Network	to produce and distribute public service announcements on the importance of effective parenting and community support for children.	\$26,800
Boys and Girls Club of Anchorage	to expand to Eagle River an Anchorage peer counseling and mentoring program called SMART Girls.	\$3,935
Passage House	to fund periodic home visits to graduates of this Anchorage residential facility for pregnant and parenting teens.	\$13,500
Eastern Aleutian Tribes Inc.	for parenting classes, support networks, and home visits to parents of children under the age of three.	\$ 20,556
Fairbanks Resource Agency	for an education program for parents with special needs.	\$14,568
Frontier Community Services	to provide home-visits, parent mentoring, and family playgroups in the central Kenai Peninsula area.	\$21,000
Gateway Center for Human Services	for a breakfast program staffed by parent volunteers at a school bus stop in the Southeast community of Saxman.	\$15,000
Homer Children's Services	to extend home- and center-based training and support to parents of children from birth to three years of age, some of whom are developmentally delayed.	\$25,704

¹⁸ <http://www.gov.state.ak.us/trust/mission.htm>

Matanuska-Susitna School District	for development of a program to provide home visits, peer-parent groups, and monthly "family nights" in the Sutton area.	\$25,900
Nome Community Center	to support a Youth Council that will provide at least five ongoing activities that address the causes of child abuse and neglect.	\$28,429
The Resource Center for Parents and Children	to train parent outreach workers in the northern region to positively influence families, raise community awareness, and change attitudes about child abuse and neglect.	\$23,993
St. George Traditional Council	to complete a community assessment and a long-range child-abuse prevention plan for the Aleutian island community of St. George.	\$16,000
Volunteers of America, Alaska	to continue parent education, support, and respite services to grandparents raising children in Anchorage.	\$9,841
Wrangell Community Services	to provide parenting classes and support groups designed to strengthen families.	\$18,980
Yupik School District	to train adult volunteer mentors to help youth work toward specific goals.	\$14,175
TOTAL GRANT AWARDS		\$290,381

Account
RSA/DHSS

Income

Cost
750,000

VIII. Problems or barriers to implementing.

Up to this point, we have not addressed this part of the report. This again is a philosophical conclusion that can be debated by the full Privatization Committee. ChildCare is the responsibility of parents, not government. Early childhood development is the right of parents, not the responsibility of government.

The barrier is the reliance on government for services that government should not be providing and the pressure to preserve government funded jobs because the private sector can not provide those jobs at a rate comparable to state government.

The truth of the matter is that many of our state-funded programs are there to provide jobs. There is no statutory requirement and no plea from the productive sector of Alaska's population for these services.



APPENDICES

Appendix A	Teaching & Learning Support Contracts in FY'99.....	77
Appendix B	Effects of HB 40 of DOE.....	83

APPENDIX A

List Existing Teaching & Learning Support Contracts including amount, contractor, purpose, term, and procurement method

FY'99 Contractor	Description	Amount	begin date	end date
A Sign of Design	Update Quality Schools materials	\$4,905.00	10/30/98	6/30/99
A Sign of Design	Graphic arts services	\$500.00	12/15/98	6/30/99
AK Gateway SD	OASIS	\$5,000.00	5/1/99	6/30/99
Alaska Council/Drug & Alcohol Abuse	Store & distribute kits and materials	\$875.00	8/20/98	11/30/98
Alaska Gateway	Staff Development	\$2,500.00	7/1/98	6/30/99
Alaska Gateway Schools	Medicaid Survey	\$7,852.00	7/1/98	6/30/99
Alaska Research Specialist	Statewide development plan	\$6,000.00	9/8/98	10/30/98
Alaskawrite	Carl Perkins Voc Ed Report	\$4,000.00	3/10/99	3/31/99
Alaskawrite	Gear Up Grant	\$4,915.00	4/1/99	5/3/99
Alaskawrite	Participation Guide	\$1,000.00	4/2/99	4/23/99
Aleutian Region	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Aleutians East	Medicaid Survey	\$4,471.00	7/1/98	6/30/99
Aleutian Region	Staff Development	\$1,500.00	7/1/98	6/30/99
Aleutians East	Staff Development	\$2,500.00	7/1/98	6/30/99
Altschul Group Corp.	Presenter elementary school violence	\$3,000.00	9/24/98	9/26/98
Anchorage	Staff Development	\$20,000.00	7/1/98	6/30/99
Anchorage School District	Special Ed Academies	\$28,540.00		
Anchorage School District	Beginning Literacy Strategies Institutes	\$20,000.00	4/15/99	6/30/99
Anchorage Schools	Medicaid Survey	\$501,120.00	7/1/98	6/30/99
Andrew Lebo	Hearing Officer	\$12,000.00	5/5/99	6/30/99
Annette Island	Staff Development	\$3,500.00	7/1/98	6/30/99
Annette Island Schools	Medicaid Survey	\$8,561.00	7/1/98	6/30/99
Arthur Peterson	Rewrite Part 52 of AAC	\$10,000.00	7/15/98	10/12/98
Aurora Evaluation	Report Card Guide book	\$2,000.00	4/26/99	6/1/99
Barbara Bateman	Consultant Ketchikan SP Ed Project	\$40,000.00	1/15/99	6/30/99
Bartlett Regional Hospital	Food Services Reviewer	\$5,000.00	9/14/98	6/30/99
Bering Strait	Staff Development	\$5,000.00	7/1/98	6/30/99
Bering Strait Schools	Medicaid Survey	\$39,206.00	7/1/98	6/30/99
Betty Barats	Special Ed Investigator	\$15,000.00	7/1/98	6/30/99
Bristol Bay	Staff Development	\$2,000.00	7/1/98	6/30/99
Bristol Bay Borough Schools	Standards 5 District Consortium	\$11,998.00	7/12/98	9/30/98
Bristol Bay Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Brustein & Manasevit	Presenter Adult Basic Ed Meeting	\$4,990.00	2/2/98	2/3/99
Capital Comm Broadcasting	Ad for AK Quality Initiatives	\$3,690.00		
Capital Community Broadcasting	Spots for High School Exit Exam	\$19,760.00	12/15/98	6/30/99
Carolyn Kingry	Food Services Reviewer	\$5,000.00	7/15/98	10/1/98
Carolyn Kingry	Food Services Reviewer	\$14,000.00	9/14/98	6/30/99
Carolyn McGinnis	Food Services Reviewer	\$5,000.00	7/15/98	10/1/98
Carolyn McGinnis	Food Services Reviewer	\$30,000.00	9/14/98	6/30/99

FY' 99 - Contractor	Description	Amount	begin date	end date
Center for Performance Assessment	Professional development workshops	\$12,245.00	7/12/98	7/18/98
Chatham	Staff Development	\$3,000.00	7/1/98	6/30/99
Chatham Schools	Medicaid Survey	\$3,163.00	7/1/98	6/30/99
Chugach	Staff Development	\$1,500.00	7/1/98	6/30/99
Chugach Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Colyar Consulting Group	Prepare/modify/install nutrition program	\$39,500.00	8/22/98	6/30/99
Copper River	Staff Development	\$2,000.00	7/1/98	6/30/99
Copper River Schools	Medicaid Survey	\$7,852.00	7/1/98	6/30/99
Cordova	Staff Development	\$3,500.00	7/1/98	6/30/99
Cordova City Schools	Evaluate & administer district alt.sch.	\$2,000.00	11/1/98	12/31/98
Cordova City Schools	Medicaid Survey	\$2,508.00	7/1/98	6/30/99
Council for Basic Education	Revise AK Standards/reading/writing	\$11,675.00	7/11/98	9/30/98
Craig	Staff Development	\$5,000.00	7/1/98	6/30/99
Craig City Schools	Medicaid Survey	\$3,108.00	7/1/98	6/30/99
CTB McGraw-Hill	Statewide student testing	\$20,044.00	7/31/98	6/30/99
CTB McGraw-Hill	High School Exit Exam	\$1,758,269.00	10/30/98	6/30/99
Dawn Rider-Walsh	Food Services Reviewer	\$12,000.00	9/14/98	6/30/99
Delta Greely	Staff Development	\$5,000.00	7/1/98	6/30/99
Delta/Greely Schools	Medicaid Survey	\$15,650.00	7/1/98	6/30/99
Denali	Staff Development	\$3,500.00	7/1/98	6/30/99
Denali Borough Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Diane Hoffbauer	Develop health course	\$2,500.00	8/15/98	9/30/98
Diane Hoffbauer	Complete school health profile report	\$1,600.00	11/2/98	11/30/98
Dillingham	Staff Development	\$3,000.00	7/1/98	6/30/99
Dillingham City Schools	Standards 5 District Consortium	\$11,998.00	7/12/98	9/30/98
Dillingham City Schools	Medicaid Survey	\$7,252.00	7/1/98	6/30/99
Dillon & Findley	Revise state regulations	\$10,000.00	10/12/98	2/28/99
Dillon & Findley (Art Peterson)	Write Regulations	\$8,000.00	5/24/99	6/30/99
Dr. Lilly Wong Fillmore	Presenter for statewide meeting	\$2,500.00	2/20/99	3/2/99
Effective Communication	Develop reports education reforms	\$4,880.00	10/20/98	12/31/98
Elizabeth Shapleigh	Food Services Reviewer	\$6,000.00	9/14/98	6/30/99
Fairbanks	Staff Development	\$15,000.00	7/1/98	6/30/99
Fairbanks North Star Schools	Medicaid Survey	\$128,250.00	7/1/98	6/30/99
Fairbanks School District	Assistance with Exit Exam	\$60,000.00	7/1/98	6/30/99
Fairbanks School District	Manage alternative school	\$3,000.00	12/13/98	12/31/98
Fairbanks SD	OASIS	\$7,000.00	5/1/99	3/30/99
Fielding Cooley	Meeting participant fed/state ed. Req.	\$2,200.00	12/16/98	12/20/98
Fielding Cooley	Coordinate Ketchikan Special Ed Project	\$80,000.00	1/1/99	6/30/99
- Galena	Staff Development	\$3,500.00	7/1/98	6/30/99
Galena Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Geotech Services	Write Alliance Reporter Issue	\$2,000.00	3/31/99	6/30/99
Haines	Staff Development	\$2,000.00	7/1/98	6/30/99

FY' 99 - Contractor	Description	Amount	begin date	end date
Haines Borough Schools	Medicaid Survey	\$4,471.00	7/1/98	6/30/99
Hoonah	Staff Development	\$4,500.00	7/1/98	6/30/99
Hoonah City Schools	Medicaid Survey	2290.00	7/1/98	6/30/99
Hydaburg	Staff Development	\$2,000.00	7/1/98	6/30/99
Hydaburg City Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Hydaburg SD	OASIS	\$5,000.00	5/1/99	6/30/99
Iditarod	Staff Development	\$3,500.00	7/1/98	6/30/99
Iditarod Area Schools	Medicaid Survey	\$7,961.00	7/1/98	6/30/99
Janice Gabe	Presenter alcohol & drug symposium	\$2,650.00	11/15/98	11/19/98
Jeanne M. Kincaid	Presenter Special Ed Conference	\$10,000.00	2/20/99	2/23/99
Jennifer Coggins	Coordinate METAB Meetings	\$34,650.00	10/26/98	6/30/99
Jim Rich	Consultant Ketchikan SP Ed Project	\$30,000.00	1/15/99	6/30/99
Josephina Wooding	Food Services Reviewer	\$5,000.00	9/14/98	6/30/99
Judi Hall	Keynote speaker Special Education Conference	\$2,500.00	9/14/98	9/17/98
Judi Hall	Presenter Special Ed Conference	\$3,000.00	2/19/99	2/24/99
Julianne Honey	Presenter Early Childhood Prevention	\$1,850.00	11/15/98	11/19/98
Juneau	Staff Development	\$15,000.00	7/1/98	6/30/99
Juneau City Schools	Medicaid Survey	\$47,385.00	7/1/98	6/30/99
Juneau City Schools	Administrative Alternative School	\$4,300.00	12/1/98	1/31/99
Juneau City Schools	Beginning Literacy Strategies Institutes	\$30,000.00	4/15/99	6/30/99
Kake	Staff Development	\$1,000.00	7/1/98	6/30/99
Kake City Schools	Medicaid Survey	\$2,835.00	7/1/98	6/30/99
Kashunamiut	Staff Development	\$2,000.00	7/1/98	6/30/99
Kashunamiut School District	Medicaid Survey	\$10,524.00	7/1/98	6/30/99
Kenai	Staff Development	\$15,000.00	7/1/98	6/30/99
Kenai Peninsula Schools	Medicaid Survey	\$111,073.00	7/1/98	6/30/99
Kenai SD	OASIS	\$4,000.00	5/1/99	6/30/99
Ketchikan	Staff Development	\$5,500.00	7/1/98	6/30/99
Ketchikan Gateway Schools	Medicaid Survey	\$28,518.00	7/1/98	6/30/99
Klawock	Staff Development	\$1,000.00	7/1/98	6/30/99
Klawock City Schools	Medicaid Survey	\$2,018.00	7/1/98	6/30/99
Kodiak	Staff Development	\$10,000.00	7/1/98	6/30/99
Kodiak Schools	Medicaid Survey	\$23,938.00	7/1/98	6/30/99
Kuspuk	Staff Development	\$2,000.00	7/1/98	6/30/99
Kuspuk Schools	Medicaid Survey	\$12,869.00	7/1/98	6/30/99
Lake & Peninsula	Staff Development	\$1,000.00	7/1/98	6/30/99
Lake & Peninsula Schools	Medicaid Survey	\$11,942.00	7/1/98	6/30/99
Lake & Penn SD	OASIS	\$5,000.00	5/1/99	6/30/99
Lake & Penn SD	OASIS - ALASBO	\$39,000.00	5/14/99	6/30/99
Laura Lucas Design	Graphic arts services	\$500.00	12/15/98	6/30/99
Leadership Experiences International	Statewide Institute Best Practices	\$40,000.00	12/14/98	6/30/99

FY' 99 - Contractor	Description	Amount	begin date	end date
Logistics LLC	Coordinate SPP2 Conference	\$17,000.00	9/10/98	10/30/98
Logistix Productions, Inc.	School-To-Work Management Information System	\$21,000.00	11/16/98	6/30/99
Lorrie Wright	Special Ed investigator	\$8,000.00	7/1/98	6/30/99
Lower Kuskokwim	Staff Development	\$10,000.00	7/1/98	6/30/99
Lower Kuskokwim School District	Administer Bethel Boarding School	\$2,500.00	10/20/98	12/31/98
Lower Kuskokwim School District	Medicaid Survey	\$87,463.00	7/1/98	6/30/99
Lower Yukon	Staff Development	\$2,000.00	7/1/98	6/30/99
Lower Yukon Schools	Medicaid Survey	\$69,687.00	7/1/98	6/30/99
Lucille Eber	Keynote speaker Special Education Conference	\$2,500.00	9/14/98	9/17/98
Lwr Kuskowin	Beginning Literacy Strategies Institutes	\$30,000.00	4/15/99	6/30/99
Madden Associates	Quality Education Initiative	\$5,000.00	8/15/98	9/30/98
Margaret J. Sumption	Presenter CSPD State Improve Plan	\$1,000.00	1/6/99	1/9/99
Marilyn Swierk	Presenter Professional Develop Conference	\$2,700.00	10/14/98	10/16/98
Marsha Buck	Special Ed investigator	\$8,000.00	7/1/98	6/30/99
Matanuska-Susitna	Staff Development	\$15,000.00	7/1/98	6/30/99
Matanuska-Susitna Schools	Medicaid Survey	\$165,983.00	7/1/98	6/30/99
Matanuska-Susitna Schools	Spring 99 Vocational Education Conference	\$45,535.00	1/13/99	6/30/99
Matanuska-Susitna Schools	Quality Schools Institute	\$22,730.00		
Mat-Su	Restructuring Institute	\$22,730.00	6/1/99	9/30/99
Melissa Muchewicz	Food Services Reviewer	\$5,000.00	7/15/98	10/1/98
Melissa Muchewicz	Food Services Reviewer	\$34,000.00	9/14/98	6/30/99
MPR Associates, Inc.	Presenter Professional Develop Conference	\$4,554.00	10/14/98	10/16/98
MPR Associates, Inc.	Speakers, Strengthening Professional Practice	\$7,450.00	10/4/98	10/8/98
National School Conference Institute	Standards/Assessment training	\$147,400.00	1/15/99	6/30/99
National School Safety Center	Present workshop school safety	\$17,500.00	10/25/98	10/29/98
Nenana	Staff Development	\$1,500.00	7/1/98	6/30/99
Nenana City Schools	Medicaid Survey	\$2,399.00	7/1/98	6/30/99
Nine Star Enterprises	Coordinate AK Bilingual Ed. Equity Co.	\$19,000.00	10/1/98	6/1/99
Nome	Staff Development	\$5,500.00	7/1/98	6/30/99
Nome Schools	Medicaid Survey	\$7,089.00	7/1/98	6/30/99
North Slope	Staff Development	\$5,500.00	7/1/98	6/30/99
North Slope Borough Schools	Medicaid Survey	\$5,344.00	7/1/98	6/30/99
Northwest Arctic	Staff Development	\$5,500.00	7/1/98	6/30/99
Northwest Arctic Schools	Medicaid Survey	\$37,243.00	7/1/98	6/30/99
Northwest Regional Educational Lab	Presenter, Common Ground Reading	\$2,277.00	10/6/98	10/12/98
Patricia West	Food Services Reviewer	\$10,000.00	9/14/98	6/30/99
Pelican	Staff Development	\$1,500.00	7/1/98	6/30/99
Pelican City Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Petersburg	Staff Development	\$5,500.00	7/1/98	6/30/99

FY' 99 - Contractor	Description	Amount	begin date	end date
Petersburg City Schools	Standards 5 District Consortium	\$8,350.00	7/12/98	9/30/98
Petersburg City Schools	Medicaid Survey	\$5,289.00	7/1/98	6/30/99
Pribilof	Staff Development	\$2,500.00	7/1/98	6/30/99
Pribilof Schools	Medicaid Survey	\$2,181.00	7/1/98	6/30/99
Rebecca Severeide/Early Child. Strat.	Department profile/program develop.	\$4,975.00	1/13/99	2/12/99
Rebecca Severeide/Early Child. Strategy		\$3,000.00	4/14/99	4/28/99
Robert Toomer	Present Healthy Edge 2000 course	\$4,000.00	10/13/98	10/18/98
Roberta Sundberg	Food Services Reviewer	\$8,000.00	9/14/98	6/30/99
Robin Hill	Develop Health Kits	\$3,331.00	4/15/99	6/30/99
Rocky Mt. Cen. Health Promo&Ed.	Seminar Skills for Healthy Life	\$24,350.00	10/1/98	11/30/98
Sandra Johnson	Food Services Reviewer	\$5,000.00	9/14/98	6/30/99
Sara C. Mooney	Special Ed investigator	\$15,000.00	7/1/98	6/30/99
Saragraphics	Graphic arts services	\$500.00	12/15/98	6/30/99
SERRC	Migrant Education Terminal Center	\$350,000.00	7/1/98	6/30/99
SERRC	Interviews, Teacher recognition Program	\$2,875.00	8/15/98	9/1/98
SERRC	Consolidate documents	\$3,500.00	8/24/98	9/2/98
SERRC	Revise "every child a reader"	\$2,473.00	10/27/98	11/3/98
SERRC	Write Grant Application	\$5,000.00	3/16/99	4/15/99
Sherri Anderson	Food Services Reviewer	\$7,000.00	9/14/98	6/30/99
Sitka	Staff Development	\$10,000.00	7/1/98	6/30/99
Sitka Borough Schools	Standards 5 District Consortium	\$5,500.00	7/12/98	9/30/98
Sitka Borough Schools	Medicaid Survey	\$12,978.00	7/1/98	6/30/99
Skagway	Staff Development	\$3,000.00	7/1/98	6/30/99
Skagway City Schools	Standards 5 District Consortium	\$9,254.00	7/12/98	9/30/98
Skagway Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Southeast Island	Staff Development	\$1,500.00	7/1/98	6/30/99
Southeast Island Schools	Medicaid Survey	\$3,599.00	7/1/98	6/30/99
Southwest Region	Staff Development	\$2,000.00	7/1/98	6/30/99
Southwest Region Schools	Medicaid Survey	\$22,138.00	7/1/98	6/30/99
Special Education Service Agency	Conference admin. Deaf programs	\$26,700.00	8/14/98	6/30/99
St. Mary's	Staff Development	\$1,000.00	7/1/98	6/30/99
St. Mary's Schools	Medicaid Survey	\$4,362.00	7/1/98	6/30/99
St. Mary's SD	OASIS	\$5,000.00	5/1/99	6/30/99
Strokes of Genius, Inc.	Presenter Professional Develop Conference	\$2,600.00	10/15/98	10/17/98
Susan Hennon	Food Services Reviewer	\$16,000.00	9/14/98	6/30/99
T&G Consulting	Special Education mediation services	\$73,956.00	7/1/98	6/30/99
Tanana	Staff Development	\$2,000.00	7/1/98	6/30/99
Tanana Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Unalaska	Staff Development	\$1,500.00	7/1/98	6/30/99
Unalaska Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
University of Oregon	AKCIS System	\$40,000.00	7/1/98	6/30/99
University of Oregon	Development SIG Application	\$66,907.00	2/1/99	6/30/99

FY' 99 - Contractor	Description	Amount	begin date	end date
Valdez	Staff Development	\$2,000.00	7/1/98	6/30/99
Valdez City Schools	Medicaid Survey	\$4,635.00	7/1/98	6/30/99
William Case Buck II	Special Ed investigator	\$8,000.00	7/1/98	6/30/99
Wrangell	Staff Development	\$4,500.00	7/1/98	6/30/99
Wrangell City Schools	Medicaid Survey	\$5,344.00	7/1/98	6/30/99
Yakutat	Staff Development	\$1,500.00	7/1/98	6/30/99
Yakutat City Schools	Medicaid Survey	\$2,000.00	7/1/98	6/30/99
Yakutat SD	OASIS	\$5,000.00	5/1/99	6/30/99
Yukon Flats	Staff Development	\$1,500.00	7/1/98	6/30/99
Yukon Flats Schools	Medicaid Survey	\$8,397.00	7/1/98	6/30/99
Yukon/Koyukuk	Staff Development	\$3,500.00	7/1/98	6/30/99
Yukon-Koyukuk Schools	Medicaid Survey	\$9,542.00	7/1/98	6/30/99
Yupiit	Staff Development	\$3,500.00	7/1/98	6/30/99
Yupiit Schools	Medicaid Survey	\$11,451.00	7/1/98	6/30/99
TOTAL CONTRACTS		\$ 5,392,332.00		

APPENDIX B

HB 40 CONSOLIDATION EMPLOYEE REDISTRIBUTION FOR DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT* (FY2000 Full Time and Part Time Positions)
--

Approved by the Conference Committee and Adjusted for HB40 (Consolidation)

BRU Component Name	Source	Full Time	Part Time
Teaching & Learning Support			
Special and Supplemental Services	Conference Committee	25	0
Special and Supplemental Services	HB40 to Labor	-1	0
Quality Schools	Conference Committee	32	0
Teacher Certification	Conference Committee	6	0
Child Nutrition Administration	Conference Committee	5	0
	Subtotal	67	0
Early Development			
Child Care	HB40 from DCRA	13	0
Day Care Assistance Programs	HB40 from DCRA	0	0
Head Start Grants	HB40 from DCRA	3	0
	Subtotal	16	0
Executive Administration			
State Board of Education	Conference Committee	1	0
Commissioner's Office	Conference Committee	4	1
Administrative Services	Conference Committee	23	0
Administrative Services	HB40 to Labor	-2	0
Administrative Services	HB40 from DCRA	4	0
Information Services	Conference Committee	7	0
Information Services	HB40 from DCRA	2	0
District Support Services	Conference Committee	8	0
Educational Facilities Support	Conference Committee	7	0
Donated Commodities	Conference Committee	2	0
	Subtotal	56	1
Alyeska Central School	Conference Committee	22	25
Commissions & Boards			
Professional Teaching Practices Commission	Conference Committee	2	0
Alaska State Council on the Arts	Conference Committee	4	1
Alaska Vocational Technical Center Operations	Conference Committee	21	49
Mt. Edgecumbe Boarding School	Conference Committee	9	25

State Facilities Maintenance

Conference Committee 11

BRU Component Name**Vocational Rehabilitation**

Client Services
Federal Training Grant
Voc Rehabilitation Administration
Independent Living Rehabilitation
Disability Determination
Special Projects
Assistive Technology
Americans with Disabilities

Source	Full Time	Part Time
Conference Committee	80	1
Conference Committee	0	0
Conference Committee	11	0
Conference Committee	1	0
Conference Committee	26	0
Conference Committee	2	0
Conference Committee	1	0
Conference Committee	1	0
Subtotal	122	1
HB40 to Labor	-122	-1

Alaska Library and Museums

Library Operations
Archives
Museum Operations

Conference Committee	38	2
Conference Committee	9	0
Conference Committee	16	4
Subtotal	63	6

Alaska Postsecondary Education Commission

Program Administration
Student Loan Operations

Conference Committee	14	0
Conference Committee	84	0
Subtotal	98	0

Total	369	107
Total without HB40	472	108

* Representative Eldon Mulder's Office

**Commission on Privatization
Department of Education and Early Development**

**Minority Report to Certain Recommendations - November 24, 1999
Submitted by subcommittee members Rich Kronberg and Jeff Walters**

This minority report responds to our concerns about five specific recommendations being presented to the full Commission. The recommendations address three general areas: federal involvement in public education, school vouchers and the role of Alyeska Central School. This report lists each recommendation followed by the minority report.

Vouchers

General Recommendations: Recommendation #6 - That the legislature consider some form or variation of a voucher system that is useable in both the public and private school system and put the issue before voters of Alaska.

Minority Report

Our current expenditures exceed current revenues by a huge amount. Depending upon the price of oil, this deficit will be between \$500,000,000 and \$800,000,000. Schools in each community find it more and more difficult each year to fund computers for children, provide innovations in instruction, challenging curriculum, reduce overcrowded classrooms, hire qualified licensed teachers, and prepare students to pass the 2002 exit examinations.

A proposal to offer funding to every child in Alaska who attends a private, home or parochial school is too costly. Offering public funds to private schools will not only weaken public schools but also weaken private schools as well. Private schools have historically been exempt from the intrusive effective of government regulation and oversight; however, when private schools begin to receive public dollars, demands for accountability and responsibility will follow. If allowed, the millions of dollars to be spent in private, home and parochial schools will not be spent without strings attached and oversight.

A program allowing private, home and parochial children to be funded at the state's expense will easily cost over \$45 million if approximately 12,000 children are provided the Base Student

Allocation, let alone the millions of dollars in add-ons required in Alaska statute. Where will Alaska get the money to fund vouchers?

School funding will be wrecked.

Alaska values education. The Education Clause of the Alaska Constitution guarantees all children a right to a public education. Judge John Reece in *Kasayulie vs. Alaska* said, "Education is not a benefit, it is a constitutional right." Universality of educational opportunity is the single most important right offered all people.

The principal of universality will be cheapened.

Vouchers are argued because parents need more choice. We agree that opportunities for choice within public schools should be expanded. That would create a win/win situation for parents and for the public. Parents would have more choices for their children's' education and the public would retain oversight and accountability over public dollars. One way to promote increased choice for many families is to subsidize the cost of transportation for students to attend schools outside their home attendance area, something that is not currently being done.

We must remind the Commission that many students and families in urban communities already have numerous choices. In rural homes, villages and communities choice is limited. Furthermore in these same homes, villages and communities a voucher is worthless when compared to urban communities.

Equal opportunities are best achieved for all in Alaska through adequately funded public schools.

The mission of the Privatization Commission was to identify those areas of government where equivalent services could be provided by the private sector in order to generate savings. This voucher proposal flies in the face of that mission for several reasons: (1) vouchers have never been shown to produce superior education for students once other factors have been accounted for, and (2) providing public funding for students to attend private and religious schools would add a significant cost burden to the taxpayers of this state.

**Commission on Privatization
Department of Education and Early Development**

**Minority Report to Certain Recommendations - November 24, 1999
Submitted by subcommittee members Rich Kronberg and Jeff Walters**

Federal Role in Education

Division of Early Development: Recommendation #3 - When federal funding for a federally mandated program established in the State of Alaska falls below the 50% funding, the service shall be considered unessential at the state level and passed on to the option of local governments for funding.

Executive Administration: Recommendation #4 - The federal government should get out of K-12 education.

Minority Report

In 1996-97, Alaska's schools received \$1.2 million in revenue for public elementary and secondary schools. Of that total, 11.8% came from the federal government. Nationally, total revenues were \$305 billion with 6.6% coming from federal sources. It is clear that Alaska receives a greater share of federal funding than most other states for extra support for students with special needs, such as disability or limited proficiency in English.

Recently the federal government provided needed funding to hire more teachers to reduce class size. From school meal programs to the Individuals with Disabilities Education Act to funding professional development opportunities, Alaska must not weaken its position when taking full advantage of federal funding opportunities.

New educational initiatives in Alaska mirror initiatives on the national level, so receipt of federal funding enhances Alaska's efforts to accomplish our own initiatives. We must remind the Commission, Alaska's efforts to reform schools originated in our legislature and with our Governor. The reforms are far reaching. School employees know that unfunded state mandates create a greater burden on education and weaken the financial position of schools.

Adoption of a proposal stating that "when the funding for a federally mandated program established in the State of Alaska falls below the 50% funding, the service shall be considered unessential at the state level and passed on to the option of local governments for funding," seems misdirected. The greatest causes of unfunded mandates come from the legislature and the Governor. When can

public schools expect the Governor and the legislature to show fiscal responsibility by requiring 100% funding of state mandates and expectations?

We are compelled to remind the Commission that the federal government provides needed essential funding to Alaska's schools. We agree that the level of support from the federal government for mandated programs must be increased. We have testified to that effect numerous times.

Nonetheless, telling the federal government to get out of K-12 education makes as much sense as telling Alaska politicians to get out of K-12 education. It will not happen and in our case where funding has been weakened by Alaska's structural deficit, it makes no sense.

**Commission on Privatization
Department of Education and Early Development**

**Minority Report to Certain Recommendations - November 24, 1999
Submitted by subcommittee members Rich Kronberg and Jeff Walters**

Alyeska Central School

Executive Administration: Recommendation #1 - Privatize services provided by Alyeska Central School.

Alyeska Central School: Recommendation #1 - It is recommended that Alyeska Central School be closed, with the responsibility for providing correspondence study transferred to those school districts which have a correspondence program.

Minority Report

Alyeska Central School (ACS) is an accredited school with over 60 years of experience in correspondence and distance education in Alaska. It provides an important choice for parents and students in our state.

Why should the state support efforts to privatize ACS when most private services are out of state? Private services providing correspondence courses are primarily out-of-state schools such as North Dakota, the University of Nebraska, the American School, Calvert School and many private and/or religious based programs.

Of the Alaska school districts offering correspondence services, some allow statewide enrollment, while some do not. Many only purchase courses from one of the out-of-state schools. Some purchase teaching services, some, like Galena's IDEA program, generally do not even have teaching services. It is up to parents to request help from a teacher. The responsibility is on the to evaluate the child's work and give "grades." The only accountability seems to be statewide test scores. No Alaska school district, at this point, is required to offer services to students residing outside their district.

We must remind the Commission that the ACS curriculum has not "fallen into the category of remedial study." ACS is trying to provide options on both ends of the spectrum to help students pass the high school qualifying examination. The ACS summer program has emphasized that focus.

We are mindful that public schools in Alaska, through the provisions of the Quality School's Initiative embodied in Senate Bill 36 and through regulation of the Department of Education, are implementing educational standards and accountability measures. Alyeska Central School is necessary to the successful delivery of curriculum to students who for one reason or another do not attend public schools.

Alyeska Correspondence is expected to meet and exceed the state's standards through curriculum offered to students enrolled in the correspondence program. ACS does not duplicate the services offered by school districts. ACS staff develop their own courses and in doing so achieve an economy of scale not attained on the school district level. ACS is not exempt from program certification regulations of the Department of Education and Early Development. ACS is required to comply with the same requirements as school districts, including the requirement to serve special education needs.

Courses are offered students in grades K-12. Courses are written and taught by certified teachers. Parents have access to ACS teachers for help and assistance at all grade levels and subject areas. The school addresses individual student needs and provides academically challenging college-preparation courses as well as courses for remediation oriented to the high school qualifying examination.

While there are a number of school districts that offer correspondence programs, the type of program offered varies. Some programs are only available to students who live within that school district. Some programs make it difficult for students and parents to take advantage of their services.

We remind the Commission that during testimony on the issue of closure, it was acknowledged that closing Alyeska would not result in any savings to the State of Alaska. One quality correspondence program is more efficient than 20 to 30 separate correspondence programs. Administrative and operational expenses can be kept to a minimum through a single system, than through several systems duplicating expenditures and personnel.

For the reasons above, we argue that Alyeska should remain open and serve the needs of the children and families of Alaska as they have for 60 years.