

SCOMM

122:26

COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES
Anchorage, Alaska
November 10, 1999
9:07 a.m.

COMMISSION MEMBERS PRESENT

Senator Jerry Ward, Co-Chair
Representative Tom Brice
Commissioner Bill Allen
Commissioner Tom Fink
Commissioner Michael Harper
Commissioner Kathryn Thomas
Commissioner Don Valesko
Commissioner George Wuerch

COMMISSION MEMBERS ABSENT

Representative John Cowdery, Co-Chair
Senator Al Adams
Commissioner Emil Notti

COMMISSION AGENDA

Presentation of subcommittee reports for the:
Alaska State Legislature
Alaska Court System
Alaska Department of Administration

PREVIOUS ACTION

See Commission on Privatization minutes dated 7/20/99, 8/16/99, 9/20/99, 10/28/99 and 11/4/98.

WITNESS REGISTER

Court System Subcommittee Members:

Ms. "B" Jarvi
Ms. Shirley Willford
Ms. Colleen Van Hatten
Mr. Al Tamagni
Mr. Doug Wooliver (Court System Representative)

Department of Administration Subcommittee Members:

Mr. Joe Henri
Ms. Andree McLeod
Deputy Commissioner Alison Elgee (Department of Administration Representative)

Legislature Subcommittee Members:

Mr. Kip Knudson

Ms. Pam Varni (Legislative Affairs Agency Representative)

ACTION NARRATIVE

TAPE 99-11, SIDE A

COMMISSIONER THOMAS called the Commission on Privatization and Delivery of Government Services to order at 9:07 a.m. Present at the call to order were Commissioners Fink, Harper, Thomas, Valesko, and Wuerch; Senator Ward; and Marco Pignalberi, Commission Director.

COMMISSIONER WUERCH moved to approve the minutes from the 10/28/99 and 11/4/99 meetings.

MR. MARCO PIGNALBERI, Commission Director and staff to Co-Chair Cowdery, informed Commission members that he has not yet reviewed the minutes from the November 4 meeting.

COMMISSIONER WUERCH amended his motion to approve the minutes from the 10/28/99 meeting and asked that the minutes from the 11/4/99 meeting be approved at the next meeting. There being no objection, the motion carried.

MR. PIGNALBERI informed Commissioners that DEC staff has requested one more week to finalize their comments to the DEC subcommittee report presented to the Commission the previous week.

COMMISSIONER THOMAS asked whether comments on subcommittee recommendations have been received from Department of Labor staff.

MR. PIGNALBERI said that Dwight Perkins of the Department of Labor has asked for another week to complete his review of the recommendations, as he is on travel status.

COMMISSIONER THOMAS announced that the Department of Community and Economic Development Subcommittee formed a working group to review the Alaska Railroad Corporation (ARRC). Members of the working group are Linda Leary, Kathryn Thomas, Jean Foreman, Jim Sanders, and Lee Wareham. That subcommittee also formed a working group, headed by Lee Wareham, to look at privatizing components of the Alaska Energy Authority.

COMMISSIONER THOMAS asked Bertha Jarvi, Co-Chair of the Court System Subcommittee, to present the subcommittee's report. Commissioner Thomas also noted that Representative Brice was on-

line from Fairbanks.

[MS. JARVI testified via teleconference from Fairbanks.]

MS. "B" JARVI, Co-Chair of the Alaska Court System Subcommittee, informed Commissioners that Co-Chair Joyce Harris was unable to attend today's meeting due to work commitments. She informed Commissioners that Ms. Harris did a lot of the work to tie the report together and finalize it.

MS. JARVI stated that the Court System Subcommittee has been very active. Members met with court officials and amongst themselves and discussed at length privatizing many of the Court System's functions and increasing the efficiency of delivery of its services. The subcommittee looked at all facets of the Court System including its budget, technology, recording systems, and hearing-assisted devices. The hearing assisted devices are a big issue in Fairbanks because the acoustics in the Fairbanks courtroom are very poor. The subcommittee also looked at privatizing security, interpretive services, building design, and all other functions.

MS. JARVI made the following comments about the subcommittee's recommendations. The subcommittee recommends that the Court System disclose more information about how its operating budget expenditures relate to the activities and services it performs. The Court System's operating budget is very difficult for the average person to understand and although more detailed budget information is available, one must ask for it.

Determining how recovered fees lessen the impact of the total cost of the Court System is very difficult to do. The subcommittee believes the Court System should keep, and periodically update, a record of all equipment leases versus purchases.

The subcommittee feels the Court System should refrain from hiring additional personnel in order to maintain its current level of services because some services could be privatized and the Court System appears to have a surplus of employees.

The subcommittee reviewed fees charged by the Court. Filing and usage fees have not been increased since 1991. Members also found that the fines and assessments levied by the Courts should be periodically reviewed.

The subcommittee believes an updated computer system would increase the efficiency of the Court System with fewer personnel and it would improve communications. The subcommittee spent a lot of time

reviewing the computer system and believes that its replacement is an absolute must and that installation and maintenance of a new system by the private sector should be considered. A new system should reduce man hours, transaction time and costs, and the cash investment return should be sufficient to offset the cost of the program.

The subcommittee would like the Legislature to review the judicial retirement system and add another tier to it. Currently, benefits to employees in that system exceed 17 percent of salary, in relation to other employees whose benefits equal about eight percent.

The Appellate and Superior Courts need to reduce the backlog of cases in a more timely manner, meet the national standard, and provide better service to the public. The subcommittee believes those changes can be accomplished while maintaining integrity and quality.

MS. JARVI continued. After speaking with judges and court officials, the subcommittee believes the legislature should more actively support the use of alternative dispute resolution mechanisms. Alternative dispute resolution has not been widely accepted due to a lack of established minimum qualifications for mediators and arbitrators. The subcommittee recommends that the legislature support and encourage court connected mediation and utilization of private alternative dispute resolutions, and that a task force be appointed to establish minimum qualifications for certification of mediators and arbitrators.

Regarding fee collection, the Court System Subcommittee found that no standardized procedure for the collection of statutorily mandated fees for court appointed legal representation for the indigent is in place. The problem is made worse by the fact that more than one agency is charged with the appointment and collection responsibility and the collection process varies among agencies. A significant portion of the fees for court appointed representation is incurred by attorneys under contract with the Office of Public Advocacy (OPA). Their attorneys often serve in probate court, and provide criminal defense and guardian ad litem services. Many times they are appointed to represent respondents only during specific litigation but if the fee cap for their services has not been met, they may continue in a case for several years. The fees 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 or no investigation into the actual indigence of the individual. No evaluation process to re-evaluate the original

finding of indigence is in place, nor is a mechanism established to revert to a client-pay system. The present system to collect mandated fees is dependent on reporting by the agencies, not just the Court System, so no standardized reporting or collection of fees is in place at that level.

The subcommittee recommends that 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 the amount outstanding. The legislature should consider privatizing the collection of unpaid court assessed fees throughout all state agencies. The subcommittee also recommends that the Court System do a true finding of indigence before appointing attorneys at public expense, and that findings of indigence be re-evaluated and confirmed. In addition, all court-appointed attorneys should be required to submit billings for their services to the client or his/her conservator for payment. The Court System should establish standards to allow for the termination of a Court appointed attorney when publicly-funded representation has served its purpose.

The subcommittee's fourth recommendation pertains to the reporting of statutes which are difficult and/or costly to implement, or in direct conflict with other statutes. Court System officials are uncomfortable with the current reporting system of such statutes. A mechanism should be designed so that judicial officers can submit anonymous report forms. In addition, the Court System should prepare a written report for the public and the legislature identifying statutes that conflict with others, statutes that are impossible to achieve or too expensive to implement, and statutes that are outmoded. The subcommittee believes all forms should be made available for public review for a period of at least one year.

The subcommittee had extensive discussions on pro se litigation, an area reviewed by Mr. Rollins who could not be present. The subcommittee felt the Court System should continue to explore the development of a pro se litigant center patterned after one being looked at in Anchorage. The court administrator should continue to ensure equal access for pro se litigants and the alternative resolution process. That could be achieved, to a great extent, if the Court System made available a pro se litigation clerk and literature.

The subcommittee also felt the statute that prohibits small corporations from representing themselves in a court action, except as otherwise excluded, should be rewritten to be more specific about the exclusion. If pro se litigation is available to individuals and all corporations, the subcommittee suggests

amending the statute to exclude all corporations operating under the service provisions of AS 13.26 as well as the statute governing the filing of petitions for mental health and alcohol commitment. At this time, no agency, hospital or clinic can represent its own petitions in court. The definition of a small corporation needs to be defined, as well as which small corporations can get a waiver to have an authorized corporate officer represent the corporation pro se.

The subcommittee believes the replacement of the Court System's outdated computer system needs to be addressed. The hardware and software that service the existing system are no longer available. The current system operates as a discrete and separate system, and it is not a true database; the statewide network is incapable of handling the data for an integrated computer system. A fully integrated system, including infrastructure, hardware, and digital recording ability will cost between \$2.5 to \$3 million. With the funding, a new system should be operational within a six-month period for all major courts, and within a two-year period the outlying, smaller courts could be integrated. Fewer staff hours would be spent handling court files and mailing costs would decrease substantially if court staff could access a statewide database. To maintain such a system would cost about five percent of its total value on an annual basis.

The subcommittee recommends that the Court System publish a request for information from the private sector to satisfy the Court System's computer needs and submit the solicitation to the legislature to request the necessary funds.

The child custody investigator is a court employee whose original role was to provide services for indigent families. The Court System changed the role of that position to one who provided services to all families, regardless of income. A Supreme Court order had to be issued to require the Fairbanks' Court to use that position to provide services to indigent families only. The Court System strongly supports retaining this employee due to what it believes is a lack of expertise in the private sector. The subcommittee disagrees and believes that service could be privatized because there is no shortage of trained individuals in the private sector who could provide the service.

The collection of victim restitution is frequently ignored by the Court System. The Court System gave many reasons, one that became obvious was that nobody knows whose job it is to help victims get the restitution they are entitled to. The subcommittee recommends that the legislature privatize that function. The Department of Corrections (DOC) should encourage the signing of restitution

agreements between offenders and victims and DOC should make an annual written report to the legislature regarding the amount of restitution owed and collected.

The subcommittee decided to include the recommendations of Legislative Audit Digest 02-4577-99 in its report because that audit does impact the Court System.

MR. PIGNALBERI informed Commission members that he served as a member of the subcommittee on the Court System. He acknowledged the names of the Fairbanks contingent of the subcommittee who did the lion's share of the work: "B" Jarvi, Joyce Harris, Chuck Rollins, Colleen Van Hatten, and Shirley Willford, and commended participants for their work. He noted that Commissioners Brice and Allen who are also from Fairbanks should be aware of their good work.

COMMISSIONER WUERCH thanked Ms. Jarvi and other subcommittee members for their comprehensive report. He noted the biggest dollar cost, other than employee benefits, will be replacing the computer system. He pointed out that the subcommittee's report states that the Court System uses a UNIX-based operating system for two-thirds of its case management for which terminals are no longer produced, and that one-third of the court locations use Pentium PCs with Windows. He asked whether the subcommittee looked at the availability of private enterprises that could install new equipment, provide the software and training, and maintain the system for an annual fee, rather than purchasing a system.

MS. JARVI replied that Recommendation 6 states that the Court System should publish a request for information from the private sector and solicit cost analyses or bids to satisfy the Court System's computer needs. Those proposals should be reviewed and then submitted to the legislature for an appropriation. The subcommittee believes the private sector could better provide and maintain an upgraded computer system. It also believes that by privatizing the Court System's computer system, it will be kept in a state of updated technology more readily than if a one-time appropriation is made to the Court System to purchase a new system.

COMMISSIONER WUERCH thanked Ms. Jarvi for clarifying the subcommittee's recommendation.

COMMISSIONER VALESKO asked if the subcommittee looked at the current method the Court System is using to maintain its computer system.

MS. JARVI said that the computer system is part of the capital

outlay for each Court, which is why the systems are so different. The subcommittee is advocating statewide standardization. The computer system in Fairbanks is a "hodgepodge" collection of computers, as is the Court System's computer system throughout the state.

COMMISSIONER VALESKO asked whether the current system is provided and maintained by the private sector.

MS. JARVI asked Shirley Willford to answer that question.

MS. SHIRLEY WILLFORD, subcommittee member, informed Commissioners that she found that different repair people are called in each location. She does not believe the Court System has in-house repair people. The Court System also leases equipment. She repeated that the computer system in the Fairbanks' Court is a "hodgepodge" of equipment and that some of the computers are so old she does not know how the employees function with them. She noted that the Court System desperately needs a system that is integrated with the Department of Public Safety and the Department of Corrections because their work ties in closely with the Court System.

COMMISSIONER THOMAS noted that Doug Wooliver, a representative from the Court System, was present.

COMMISSIONER VALESKO agreed that the Court System's computer system needs to be upgraded, but he expressed concern that the cost of maintenance by the private sector runs between \$120 and \$150 per hour. In addition, an in-house person hired to fix equipment will know that particular system. He asked whether the subcommittee looked into that aspect of maintenance.

MS. WILLFORD said the subcommittee originally suggested a lease system with a maintenance agreement so that the company that installs the system will be responsible for its maintenance.

COMMISSIONER WUERCH pointed out that the state has had success in leasing equipment such as copying machines in which the state leases the equipment on a long term basis and the company that leases the equipment maintains it.

Number 445

COMMISSIONER HARPER asked about the Court System's response to that recommendation.

DOUG WOOLIVER, Administrative Attorney for the Court System,

introduced himself and informed Commission members that he attended all subcommittee meetings. He noted the Deputy Director of the Court System gave a presentation to the subcommittee about the status of the Court System's computerization effort. The Court System is in the middle of a long process of upgrading and integrating its computer system. It has looked at leasing versus purchasing and has found many drawbacks to leasing. To outsource an integrated system would cost far more than the legislature has ever appropriated to the Court System for computers. At present, adequate technology does not exist to provide a wide area network to integrate all of the agencies' systems, including DOC and the Department of Public Safety. The Court System is dependent on capital appropriations to make improvements. It has a statewide integrated plan but it is an expensive operation. He noted that leasing gets more expensive when secure information is involved as firewalls need to be built into the system.

COMMISSIONER VALESKO asked if the existing system was purchased from, and is being maintained, by the private sector.

MR. WOOLIVER answered that all computers are purchased from the private sector and that all software is provided through contracts with providers. He was not sure about individual maintenance on computers but offered to get that information for the Commission.

COMMISSIONER VALESKO asked if the Court System has in-house computer technicians to work on the hardware.

MR. WOOLIVER said it does.

COMMISSIONER FINK asked whether any subcommittee members are associated with the Court System.

MS. JARVI said that she is a professional guardian conservator and she works within the court, however she is not a court employee.

MR. PIGNALBERI added that one member is a court reporter.

MS. JARVI noted that member is not a court employee.

COMMISSIONER THOMAS asked, regarding the recommendation pertaining to victim restitution, at what point DOC would take charge of that duty.

MS. COLLEEN VAN HATTEN explained that when a judge orders restitution, its payment is often made a condition of probation. Probation is under the jurisdiction of DOC. The problem lies in the fact that caseloads are so heavy for probation officers they

cannot monitor the collection of restitution. Sometimes the offender's permanent fund dividend is garnished, but otherwise collection is ignored.

COMMISSIONER VALESKO asked, regarding Recommendation 1, whether the subcommittee looked into recruitment problems that might occur if a new tier with reduced benefits is added to the retirement system.

COMMISSIONER THOMAS informed Ms. Jarvi that Al Tamagni, a subcommittee member, was present in Anchorage.

MR. AL TAMAGNI, a subcommittee member, explained that he looked at the standard for retirement and benefits in the private sector which is about five to six percent lower.

COMMISSIONER VALESKO asked if Mr. Tamagni compared the wages with the private sector.

MR. TAMAGNI said he considered the employees to be on the same level as trade people.

COMMISSIONER WUERCH asked if the subcommittee compared the judicial retirement system with PERS.

MR. TAMAGNI explained that PERS benefits for court employees equal about eight percent of wages while PERS benefits for judges equal about 17 percent.

COMMISSIONER THOMAS thanked Ms. Jarvi and subcommittee members for their work.

NUMBER 554

MR. PIGNALBERI asked Mr. Wooliver when the Court System's response to the recommendations would be available.

MR. WOOLIVER said the Court System's response would be ready the following week.

MR. PIGNALBERI thanked Mr. Wooliver for the Court System's outstanding cooperation with the subcommittee.

MS. JARVI also expressed appreciation for subcommittee members' efforts and noted that all members acted professionally. She also thanked Mr. Wooliver for his cooperation.

MR. WOOLIVER also noted that no acrimony was experienced among subcommittee members and that he found it a pleasure to work with

them.

TAPE 99-11, SIDE B

COMMISSIONER THOMAS asked Joe Henri, Chairman of the Subcommittee on the Department of Administration (DOA), to present the subcommittee's report to the Commission. She noted that Alison Elgee, Deputy Commissioner of the Department of Administration (DOA), was participating via teleconference from Juneau.

Number 574

MR. JOE HENRI, Chairman of the Subcommittee on the Department of Administration, introduced Andree McLeod, a subcommittee member. He noted the subcommittee was a hard working group but it did not review every facet of DOA. DOA is now the third largest department with 1,300 employees, as opposed to about 280 when he was the DOA Commissioner from 1971 to 1974. DOA has taken on many more functions since that time.

MR. HENRI directed Commissioners' attention to the subcommittee's recommendations beginning on page 1 of the report. In its review, the subcommittee was struck by the large number of functions within DOA that are already privatized. Much of the work in the Division of Retirement and Benefits is contracted out to private companies. Because that work requires specialized expertise, it lends itself well to privatization. He noted the question of whether privatization is always in the best interest of Alaska's economy has to be looked at carefully. In general, privatization would appear to work better where there is a lot of competition in the private sector, however if the state privatizes with the only company who provides the service, chances are that costs will increase. He cautioned that a company may offer a low introductory price, however when the contract renewal period comes about, that company may raise its rate substantially if it is the only company available to do the work. He noted the University of Alaska experienced such a situation about five years ago. The University ceased to get coal for its power plant by train because a company offered to truck the coal in at a much lower cost. The railroad tracks were removed and this year, when the contract was up for renewal, the trucking company increased its price monstrosly, and the University had no alternative but to renew the contract. He repeated that when looking at privatization, the state needs to look down the line at the consequences five to ten years from now.

MR. HENRI discussed the 12 collective bargaining units of the state which all address contracting work outside of the state workforce. In general, those contracts allow union employees to submit a

proposal in the case of privatization.

COMMISSIONER FINK noted that the subcommittee pointed out the problem with the collective bargaining contracts and the Davis-Bacon provision, but it did not make any recommendations.

MR. HENRI said the subcommittee highlighted those conditions because they will be obstacles to privatization. The Davis-Bacon wage rule means the cost of contracting out for labor will be higher.

COMMISSIONER FINK asked if the subcommittee recommended that the legislature consider changing the statutes relating to the part of the contracts pertaining to the Davis-Bacon wage rule.

MR. HENRI said the subcommittee did not make an explicit recommendation but it pointed out the situation as one that will adversely affect privatization.

MR. HENRI repeated that the subcommittee did not review all of the functions performed by DOA, it picked a few items that the volunteer group had some insight into. He noted that Recommendation A on page 3 suggests returning DOA to the kind of an agency it was at the time of statehood. The statehood committee, in the two years before statehood, contracted with a group of experts on state government from New Jersey. DOA was set up to be the right hand of the Governor in administering the functions of the state.

COMMISSIONER THOMAS asked if the subcommittee recommended a mission statement.

MR. HENRI said it did not but that would be the logical next step.

COMMISSIONER FINK asked for clarification of Recommendation A.

MR. HENRI replied that if DOA focussed on acting as staff, it would be able to concentrate on efficiency. For that reason, the subcommittee recommended an internal audit be conducted to examine what each employee is doing. The efficiency would not result from getting rid of programs but would result from the ability of staff to concentrate more. When former Governor Keith Miller was in office, the legislature enacted program budgeting. At that time, the Office of Management and Budget was originally named as such so that it would exercise managerial influence. That idea seems to be obscure now.

COMMISSIONER FINK asked if DOA took any position on the idea of

stripping the agency out.

MR. HENRI replied that DOA staff like the way the agency is right now.

MR. HENRI referred to Recommendation B on page 3, and explained that the subcommittee originally felt that the Office of Public Advocacy (OPA) should assign attorneys to cases, however the idea of providing free defense banished with the DeLisio case. It would be much more expensive for the state to contract out the work of the public defender. The federal court requires that any defendant accused of a felony is entitled to a free public defense, and the state court ruled likewise for defendants charged with misdemeanors, which is what prompted the need for the OPA. The subcommittee was unable to find any way around the courts' rulings, however the cost to the state of providing that service is about \$10 million.

MR. HENRI noted that Recommendation C pertains to Pioneer Homes. The subcommittee recommends that the legislature take a serious look at privatizing the Pioneer Homes but the subcommittee did not have enough definitive facts to determine whether privatization would be cost efficient. The subcommittee thought that an outfit that is in that business would be more competent to run the homes. Although Deputy Commissioner Elgee has argued that DOA staff who run Pioneer Homes are very competent, he does not believe that argument washes. Ms. Elgee also argued that DOA is able to run the Pioneer Homes less expensively than the private sector, but Mr. Henri believes that point is also disputable. He noted that the Pioneer Home Advisory Board is very active in looking out for the interests of clients. The population of the Pioneer Homes' clients has changed over the years; 85 percent of current residents have either dementia or Alzheimer's Disease.

COMMISSIONER THOMAS asked why Alaska opted out of Medicaid coverage for clients with Alzheimer's Disease.

MR. HENRI did not know, but stated that Alabama and Alaska are the only two states that do not have Medicaid coverage for residents with Alzheimer's Disease.

DEPUTY COMMISSIONER ELGEE replied that Alaska never opted into that coverage. Alzheimer's Disease is one condition that the states can elect to cover but they have to take a proactive action to do so.

COMMISSIONER FINK asked why DOA did not opt in.

DEPUTY COMMISSIONER ELGEE said the senior population in Alaska has

been very small up until recently so it has not been an issue from the coverage perspective. If Alaska opts into Alzheimer's coverage today, it would opt into coverage for people suffering that condition regardless of placement. Therefore, residents of Pioneer Homes and clients who receive home and community based care services would also benefit. DOA estimates that between 2,000 and 3,000 Alaskans suffer from Alzheimer's Disease at this time.

COMMISSIONER FINK asked if the fact that 85 percent of the population of Pioneer Homes suffer from Alzheimer's Disease is accidental or by selection.

DEPUTY COMMISSIONER ELGEE replied that about 80 percent of clients suffer from some degree of dementia, and the average age of clients is 87. The ratio of people suffering dementia after the age of 85 is over 50 percent, therefore the 80 percent rate is to be expected. DOA has also expanded the availability of home and community based care for people who need extra assistance. DOA is finding that people want to remain in their own homes and communities as long as possible therefore people are not asking for admission to the Pioneer Homes until about the age of 82. In general, the people applying for admission to the Pioneer Homes have already exhausted the community resources.

COMMISSIONER FINK asked if the Pioneer Homes have a wait list.

DEPUTY COMMISSIONER ELGEE replied that DOA has both an active and inactive waiting list. Approximately 150 people are on the active waiting list at any given point in time and approximately 2500 are on the inactive waiting list.

MR. HENRI commented that when he was the Commissioner of DOA 25 years ago, the cost to stay at a Pioneer Home was about \$280 per month. That amount was nominal as the state heavily subsidized the program. The cost to clients now is about \$2,000 per month and costs continue to rise. He thought the legislature should have budget analysts look at privatizing that program.

MR. HENRI explained that Recommendation D pertains to the purchasing function of DOA, a function which is quite complex. Appendix D contains some of the contradictions in the purchasing statutes. Central purchasing was designed to get the best quality products at the lowest price. Appendix D, part 2, details the reasons why the current system does not allow the state to get the best quality products for the lowest price. The statutes are not conducive to efficiency, but they do benefit small businesses in Alaska. The subcommittee learned that the central purchasing office is not informed of purchases costing less than \$100,000,

even though 85 percent of the state's purchases fall in that category. That division does not have as much influence over purchasing activity as it should so it is trying to adjust its procedures to get that information. He advised that there may be a cost associated with the change in procedures. The subcommittee is recommending that the procedural changes be made.

COMMISSIONER FINK asked if the subcommittee can give the dollar value of the amount that could be saved if the purchasing policies are changed.

MR. HENRI said he could not give the dollar amount.

COMMISSIONER FINK asked if Mr. Henri had a feel of whether or not the amount saved would be minimal.

MR. HENRI said he does not think it would be minimal and that it may involve the need for more purchasing agents.

COMMISSIONER FINK asked Ms. Elgee to address the question.

DEPUTY COMMISSIONER ELGEE stated vendor preferences vary depending on the goods being purchased. Alaska vendors receive a five percent preference but additional preferences are given to minority firms and for special products, such as wood and agricultural products. She noted that the preferences are a huge public policy issue that were established in an attempt to support Alaskan firms.

Number 300

MR. HENRI commented that the subcommittee is recommending that the state sell the telephone system that it owns and allow the private sector to handle that service in the future. One factor that will need to be reviewed is how the rural areas will get service. He noted the subcommittee's report contains a copy of Commissioner Poe's presentation to the subcommittee (Appendix E) on this topic. DOA is in the process of requesting proposals for the state telephone system. Commissioner Poe intends that the successful bidder continue to provide services to those areas that are not economically beneficial.

COMMISSIONER THOMAS questioned whether the subcommittee gave any thought to the way DOA proposes to contract out the state telephone system. She noted, as a contractor, she is aware of the importance of how job specifications are written. If the specifications are not written to achieve the department's goal, the project is doomed to fail. She stated that she sees the proposal as a very expensive one because of the way the state wants to remain involved. She

asked whether the subcommittee accepted Commissioner Poe's power point proposal without question.

MR. HENRI remarked that the subcommittee neither accepted nor objected that proposal; they merely included it in the report to show the activity occurring at this time.

COMMISSIONER THOMAS questioned whether the subcommittee looked at what the result of that proposal may be.

MR. HENRI said the subcommittee did not critique the proposal. He noted that the subcommittee's ideas are contained in the first part of Appendix E.

COMMISSIONER THOMAS asked if the subcommittee determined that the state should remain involved in the telephone system as DOA plans to do.

MR. HENRI directed Commissioners to the first part of Appendix E which contains the subcommittee's concerns about privatization of the telephone system. Those concerns are that service be maintained to less profitable bush areas, privacy, responsiveness to emergency situations, labor union contractual obligations, and the financial stability of the new vendor.

COMMISSIONER WUERCH remarked that the telecommunications industry is changing very rapidly and that Alaska could lead the nation in new directions. He noted that the inter-agency billing rate for intrastate calls is about 25 cents per minute. He asked whether Commissioner Poe discussed getting that rate as low as the individual consumer rate.

MR. HENRI said that point was brought up, however the subcommittee did not take a stand on it. If the entire state system is privatized, the bidders will have to submit a rate.

COMMISSIONER WUERCH pointed out that he learned as an Anchorage Assembly member that the three largest municipally owned phone companies in the United States are located in Ketchikan, Anchorage and Fairbanks. Anchorage and Fairbanks have since privatized their systems. He felt the state has been a "sleeper" in this area because the public does not understand that the state runs its own independent communications business. He applauded the subcommittee's efforts to put a spotlight on that issue. He asked Commissioners to consider this issue because he believes it has far-reaching impacts. He expressed concern that the Court System does not have sufficient band widths to each courthouse.

MR. HENRI agreed that wide band widths are not available in many remote places. He added that the same problem exists for the distance learning program of the University of Alaska because many small towns do not have the technological capacity to receive.

COMMISSIONER WUERCH noted that courthouses are not situated in the smallest towns.

COMMISSIONER VALESKO said the State of Alaska is the only operator of a microwave line of sight facility between the mainland and Kodiak Island. He pointed out that the private sector is coming into some areas, however the state had to get into the business because no one else was providing a microwave system.

MR. HENRI remarked that the state got involved in many things because no private company was available or willing to do the work.

COMMISSIONER THOMAS acknowledged that Mike Abbott from the Governor's Office was present.

MR. HENRI explained that Item F on page 4 pertains to information services. The subcommittee suggests outsourcing, but not getting rid of entirely, the function because the state has some highly skilled people. Outsourcing some of this work will allow DOA to keep its payroll down.

MR. HENRI stated that Recommendation G was a fascinating idea, but the subcommittee cannot give the Commission concrete suggestions. The state payroll, accounts payable, and retirement and benefits operation is huge, and if the state were to privatize that operation to a firm in Alaska, and induce the firm to take on other functions, it could provide an economic boost in Alaska. The subcommittee was not able to research whether such a change is feasible.

COMMISSIONER VALESKO commented that he began working as a state employee in 1964. Prior to 1974, when collective bargaining began, state payroll functions were at best a "hit or miss" operation. Seasonal employees were paid once per month, and employees had a two week waiting period, therefore an employee did not receive the first paycheck for six weeks. If the payroll division made a mistake, the employee had to wait another month. With the onset of collective bargaining, penalty pay provisions were included in a lot of contracts. Those first provisions had no time limits. An employee could collect \$5000 in penalty pay for receiving a paycheck that was short \$200. He expressed concern that any new system pay employees on time because errors could cost the state a lot of money.

MR. HENRI noted the state paid over \$20 million for its present accounting system.

TAPE 99-12, SIDE A

MR. HENRI discussed a major company that changed over to a new warehouse and delivery computer program and more or less ruined itself this year.

MR. HENRI discussed privatizing the state mail distribution system and acknowledged DOA's question regarding where the profits would occur from converting that system. He referred the Commission to Appendix H and stated that if the items in Appendix H are accomplished, the state's postage bill could be reduced by approximately one-third. He indicated the need to modernize the mail room functions which could save \$1 million per year.

DEPUTY COMMISSIONER ELGEE commented that DOA has no way to refute Mr. Henri's potential savings amount. However, DOA's major mailings, such as the longevity bonus and payroll checks, are already sorted by zip code by the computer that issues those checks. To the extent that savings are anticipated due to the assumption that DOA doesn't currently sort bulk mailings by zip code, that assumption is incorrect.

MR. HENRI said that the recommendations are not definitive.

MR. PIGNALBERI noted that he sat in on the meetings at which this issue was discussed. He commented that he was impressed with the expertise that a couple of the subcommittee members had on this issue. He emphasized that the key point is that private companies exist that want this kind of business.

MR. HENRI referred the Commission to page 5, Appendix I, regarding state travel. The subcommittee only submitted the memorandum from Marsha Hubbard, Director of the Division of General Services, Department of Administration, which describes DOA's attempts to save money on travel. The subcommittee did not have any significant recommendation. He surmised that the best way to save in this area would be for fewer employees to travel.

COMMISSIONER WUERCH asked whether the subcommittee inquired into the number of airplanes the state owns.

MR. HENRI answered that the subcommittee didn't look into that, although the Department of Fish & Game does have "Grumman Goose" airplanes. Mr. Henri did not believe those planes are available to general state employees. The subcommittee only discussed travel

between Juneau, Anchorage, and Fairbanks. He reiterated that the subcommittee could only recommend that fewer people be allowed to travel and that conference calls and video conferencing be used more often.

COMMISSIONER FINK asked Mr. Henri if he felt that DOA would welcome offers of privatization or whether the department is not looking for such offers. Commissioner Fink noted, from his experience with the Municipality of Anchorage, he believes that those companies that feel they can offer savings would make proposals if the state was open to such.

MR. HENRI reiterated that Commissioner Poe has opted to privatize the phone system but he doesn't believe the bureaucracy is geared toward privatization.

COMMISSIONER FINK asked whether part of the Commission's report should say that all departments should make it clear that they are receptive to offers of privatization without the loss of efficiency.

MR. HENRI responded that such language might be worthwhile. He said that a state official charged with a function is usually concerned about getting the job done, not whether the function is privatized.

COMMISSIONER FINK commented that this Commission is charged with finding the most cost-efficient ways to perform the job. He believes it is appropriate to place the burden on the private sector to prove it can perform the job efficiently at a lower cost.

MR. HENRI said that he believes if a private sector contractor came in with a proposal, the state could issue a request for proposal (RFP).

MS. McLEOD referred the Commission to Appendix I, which contains DOA's response. The second to last paragraph reads:

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.

MS. MCLEOD commented that it seems the state is subsidizing Alaska Airlines. She informed the Commission that someone in the finance section of DOA came up with a cost of \$12 to \$14 million. She did not know whether that is the exact cost because much of the travel costs are couched in the accounting system due to the manner in which the financial coding is set up. She pointed out that Alaska Airlines does not enter into negotiations with the state because the state does not know exactly how much it spends on airfare.

MR. HENRI informed the Commission that a few subcommittee members wanted to eliminate the Labor Relations Office, however the vast majority of the subcommittee did not support that idea. He noted that Mr. Liston, a subcommittee member, charged that Mr. Henri didn't want to eliminate this particular office because he created it. Mr. Henri denied Mr. Liston's charge. Mr. Henri believes this office is necessary to interpret labor contracts and perform labor negotiations. The subcommittee, however, recommends that this office be more responsive.

COMMISSIONER VALESKO commented that if the Labor Relations Office is eliminated, no one will be there when disputes arise as there are inconsistencies between the various state departments. He indicated that this office is helpful in creating consistency with regard to interpretations of collective bargaining. Commissioner Valesko said that he would recommend giving the office division status with a director in order to perform more efficiently. Commissioner Valesko continued by saying without this office, those in Labor would have an advantage. He commented, "There is also quite a bit to be said for good labor relations, consistent labor relations. That takes place over a matter of years rather than just coming in and making jumps to changes." He explained that when major changes occur in labor relations, litigation increases, as do costs.

MR. HENRI stated, "Productivity of the state workforce ... always something to be desired." He requested that Ms. McLeod discuss this area which pertains to state employees.

MS. MCLEOD informed the Commission that she has a very rudimentary knowledge of the state accounting system since she has worked as an accounting clerk since 1985, which is when the new accounting system began. During that time, the departments were given leeway to use the accounting system as they saw fit, which lead to nonstandard use of the system. Ms. McLeod stated that the use of the accounting system needs to be standardized. With regard to the productivity of state employees, she believes the best way to increase productivity is to have everyone fill out time sheets. Then, through the accounting structure, the time spent by each

employee on each task could be identified. Ms. McLeod recommended that a cost accounting system be established to identify all costs associated with tasks performed by state employees. She explained that each program and project has code numbers, therefore filling out a time sheet using those codes would make it easy to identify the cost of each task. She noted that an equipment component is contained in the coding system. Ms. McLeod pointed out that the state accounting system is only about 14 years old and is fairly innovative. Standardization across departments could create a tool to determine the state's costs for providing a service and compare it to the private sector's cost. This structure is available and will not cost the state any money to implement. Such a system would merely require all the finance officers to meet and determine how to use this accounting structure.

COMMISSIONER VALESKO asked if the subcommittee reviewed state employee training and the legislative system of funding state positions. He has noticed in DOT/PF over the years that the positions that are getting cut are lower level entry positions. For example, when a crew of equipment operators is told to eliminate positions, that crew eliminates the lowest level. The crew cannot afford to eliminate higher level operators which require talent and expertise with the equipment. He expressed concern that younger people are receiving less experience and training to move up the system. Training programs are not allowed. Furthermore, the less technical jobs are now being performed by higher wage employees. This sort of situation perpetuates itself.

COMMISSIONER THOMAS asked if Commissioner Valesko had any suggestions.

COMMISSIONER VALESKO suggested that the Commission review the legislative process of recommending "across the line" cuts. He suggested that review of services occur to determine whether the service is desired or not. He stressed that the departments should be able to perform necessary jobs. Furthermore, the legislature should allow training. For example, Alyeska is concerned with its pipeline maintenance because that workforce is aging and no new employees are being hired. He noted that Alyeska is also concerned with a training budget.

MR. PIGNALBERI noted that the legislature no longer makes PCN (position control number) cuts. He explained that the Administration decides which positions have to be cut.

COMMISSIONER WUERCH agreed with Commissioner Valesko that most often the individuals who deliver the real service are cut. He commented that it is troubling that the Administration has not been

looking at support staff in the last few years. DEC has curtailed inspections of waste water and water systems throughout the state. Although the department retains researchers, staff analysts, and public relations people, those employees that deliver the service to the public are eliminated.

COMMISSIONER VALESKO agreed with Mr. Pignalberi that the legislature does not cut PCNs, but it does "across the line" cuts leaving the managers to decide which positions will be eliminated. Often, the lowest level person is cut. Commissioner Valesko stressed that the legislature did recommend and push for cuts eliminating maintenance stations and road maintenance.

COMMISSIONER THOMAS repeated her question to Commissioner Valesko asking for his recommendations to the Commission on this matter.

COMMISSIONER VALESKO asked if the subcommittee, in its review of productivity, had reviewed any training needs.

MR. HENRI responded that the state does do training, but he did not know how much or what is being done with regard to Commissioner Valesko's concern. He referred to paragraph (1) on page 5, which speaks to the idea of partnering with license issuing agencies. One of the subcommittee members, Gerri Wakefield, is a private partner with DMV; she performs duties outside of normal office hours. That partnership seems to work well. Mr. Henri noted that Ms. Wakefield is ill, and therefore her report should be forthcoming. He informed the Commission that another subcommittee member, Dale Nelson, an engineer, had an idea of how to partner with architects, engineers, and licensees. He indicated that partnering is a way to reduce pressure on state workforces. The subcommittee recommends that the state review that possibility seriously.

COMMISSIONER VALESKO thanked the subcommittee for doing an excellent job in the limited time frame. He commended the subcommittee for not automatically presuming that everything could be done more cheaply if privatized.

COMMISSIONER THOMAS thanked the subcommittee. She requested that the subcommittee provide the commission with a one page cover sheet of recommendations. Commissioner Thomas announced that the Commission would take an at-ease for ten minutes. When the Commission reconvened, Commissioner Thomas called for the report from the Legislative Subcommittee.

KIP KNUDSON, Chair of the Legislative Subcommittee, said that the legislature already seems to be privatized in that the citizens

contract with legislators to go to Juneau, therefore, the actual business of lawmaking is already contracted. Mr. Knudson turned to the subcommittee's report and explained that it is divided into three sections: a process to analyze privatization of services in the legislature; programs that are obvious starting points for the process; and services in the legislature that can be made more efficient in the short term. Mr. Knudson stated that the public and the legislature should be able to understand the legislature's budget; yet nearly every subcommittee member could not understand the current format of that budget, even former House Finance Chairman Mark Hanley. The subcommittee recommends that the budget document be divided into service components. Once that budget document is created and the cost per service is apparent, a request for proposals can occur. All services should be put out to bid regularly.

MR. KNUDSON stated that an immediate and easy money saver would be to shorten the legislative session by 30 days, which would save at least \$1.4 million in per diem and personnel costs alone. Also moving the legislative session would save some money. Mr. Knudson said that contrary to the Executive Director's memorandum, the legislature would not need a statute change to meet for less than 120 days. With regard to moving the session, he pointed out that the Constitution states that the capital is located in Juneau and that legislative sessions are to be held in the capitol. Therefore, a statute change would be necessary for the legislature to convene in a different location.

COMMISSIONER THOMAS noted that Pam Varni, Executive Director, Legislative Affairs Agency, and Mike Robbins, Alaska State Employees Association and American Federal, State, County and Municipal Employees, are present in Juneau and available to speak via teleconference.

COMMISSIONER VALESKO referred to Mr. Knudson's comment that the legislature is already privatized because the citizens elect legislators and thus are in a contract with the public. He asked why legislators are eligible for the Public Employee Retirement System (PERS) and whether legislators are private or public employees.

MR. KNUDSON clarified that was a "tongue in cheek" statement. If the public is unsatisfied with legislators' PERS eligibility, the public could elect different candidates who could repeal the legislation that allows legislators to participate in PERS. Mr. Knudson informed the committee that the subcommittee determined that every function associated with the legislature, except voting on legislation, could be privatized.

COMMISSIONER VALESKO addressed the recommendation to move the session to Anchorage and asked if the subcommittee considered the cost required to transport state officials and staff to Anchorage for legislative meetings.

MR. KNUDSON said that cost was discussed. The general feeling was that it would be an even trade. Many of the officials who testify during session travel to Juneau from other parts of the state. He acknowledged that a more careful analysis could be performed, but the end result may be a "wash."

COMMISSIONER HARPER inquired as to the notion of having legislative sessions every other year, as do other states.

MR. KNUDSON answered that the subcommittee did not discuss that idea in detail. He estimated that about \$15 million would be saved if session was held every other year. The subcommittee discussed biannual budgeting in which an operating budget would be done one year and a capital budget the next year. Mr. Knudson said the expensive part is gathering everyone in Juneau and hiring the extra staff for the session.

PAM VARNI, Executive Director, Legislative Affairs Agency, agreed that there would be a cost savings on per diem but she noted the report makes no mention of where the legislature would be housed elsewhere. Currently, the Capitol building in Juneau is fully paid for. One would need to consider the cost of leasing space for the House and Senate chambers.

COMMISSIONER THOMAS thanked the subcommittee and requested that the subcommittee provide its recommendations in a bullet points format.

COMMISSIONER FINK informed the Commission that he and Commissioner Valesko would not be able to attend the November 18, 1999 meeting.

COMMISSIONER FINK expressed the need to poll members with regard to whether they can attend the meetings. He suggested that more could be accomplished if the Commission met several days a week.

COMMISSIONER VALESKO recognized the difficulty in scheduling meetings for 11 people, especially near holidays. He said he could foresee the same attendance problems with daily meetings for a week. Commissioner Valesko commented that those who are not present during the recommendation stage are likely to have more questions later and lengthen the decision stage of the full Commission.

TAPE 99-12, SIDE B

COMMISSIONER HARPER pointed out that the commission is mandated to provide a report by January 1 and that polling members could be helpful. He expressed concern that only four members were present today. The subcommittees have put in many hours and it is a shame that six or seven Commissioners are not present. He said that he should be able to attend most of the meetings.

COMMISSIONER VALESKO understood that the Commission will hear subcommittee reports through November 30, 1999, and complete its report on December 13, 1999.

MR. PIGNALBERI reviewed the meeting schedule through November which he believes should allow the Commission to hear all subcommittee reports. He expressed concern that the Commission wait until December 13 to start the deliberation process. Mr. Pignalberi explained that December 13, 1999 is the date that staff plans to have the final report completed. He suggested that some meetings be scheduled during the first two weeks of December.

COMMISSIONER THOMAS expressed concern about the lack of meetings between November 30, 1999, and December 13, 1999 and agreed that Commissioner Fink's suggestion to meet several days in a row in December is in order. She indicated that the Commission may want to sit down and generate thoughts beyond those in the subcommittee reports. As acting chair, Commissioner Thomas said she would formulate a letter to the Commission regarding the schedule.

MR. PIGNALBERI said that staff would poll Commission members about meeting during the first two weeks of December. He pointed out that the Commission has three more meetings scheduled to hear from about ten more subcommittees, although some of those reports will be very short.

COMMISSIONER THOMAS suggested the meeting dates of December 1, 7, 8, 13, and 14. She stated that she could outline a letter to send to Commissioners explaining how this new schedule was arrived at.

MR. PIGNALBERI commented that staff could probably use one day after the last subcommittee report in order to get recommendations together.

COMMISSIONER THOMAS stated that individual Commissioners have indicated that they have ideas about how they want to finish this up, therefore the Commission would not need the materials.

COMMISSIONER FINK asked that Commissioner Thomas' letter ask that Commissioners indicate what dates they can and cannot attend.

COMMISSIONER THOMAS expressed the need to let Commissioners know they are really needed.

There being no further business before the commission, the Commission on Privatization and Delivery of Government Services adjourned at 11:52 a.m.