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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE



Division of Legislative Finance

P.O. Box 113200
Juneau, AK 99811-3200
(907) 465-3795
FAX (907) 465-1327

MEMORANDUM

DATE: October 6, 1999

TO: Representative John Cowdrey

FROM: Ginger Blaisdell
Fiscal Analyst *Blaisdell*

SUBJ: Department of Revenue, Treasury Division

The Revenue Subcommittee of the Privatization Commission requested information through your office and the Legislative Budget and Audit Committee about the Treasury Division. The questions are addressed below.

Is 70% of the Division of Treasury's work related to the State's pension funds?

You stated that 70% of the Division of Treasury budget is paid from earnings of the state managed pension funds. The percent of FY00 total funding for the division from Alaska State Pension Investment Board (ASPIB) is \$1,527.2 of \$2,837.5, or 53.8%.

The receipts from the ASPIB to the Treasury Division pay for personal services, supplies, equipment, information services (like Bloomberg or Telerate) and telephone costs. Portfolio management fees are specific to the funds and are paid by the investor. Travel is generally charged according to the purpose. Other contract services are generally charged according to purpose although; if the division were to do an "overall" project (like a server upgrade), the costs would be split 70/30.

In 1995 or 1996, the Treasury Division conducted a time study to determine a reasonable cost allocation methodology for charging all the funds the division manages. Both time and asset size are accepted cost allocation methods and both methodologies were considered.

- **Time-Study:** Investment officers, accountants, data processing and the cash manager all spend significant amounts of time managing retirement asset issues. Approximately 58% of all hours counted were spent on ASPIB accounts. When salaries were weighted by actual wages, because higher paid investment officers spend the greatest amount of the time, 70% of the division's personal services were spent for individuals managing the retirement accounts.
- **Asset Size:** The percentage of total assets managed for ASPIB are 68-69%.
- The ASPIB Board agreed that 70% was a reasonable cost allocation for personal services and purchases directly related to the management of the ASPIB funds.

A cost allocation study to be performed by an independent third party is planned for late May 2000.

Is there a danger in having a single entity steer the Treasury Division and Permanent Fund Corporation's major investment activities?

The danger in having a single entity advising several state agencies is minimized by the type of services the state purchases. Investment advice is not a speculative activity; a primary objective of the advisors is to limit risk (volatility) through asset allocation.

The Treasury Division uses Callan and Associates as its general financial consultant. The Treasury Division also uses the Investment Advisory Council that is made up of three major consulting firms. Representatives from the Investment Advisory Council attend investment meetings to assist the division in investment planning. The Treasury Division also uses Townsend Group for real estate consultation.

Other state agencies that use Callan and Associates as their primary financial consultant include the Permanent Fund Corporation, University of Alaska, and a newly awarded* contract for the Alaska Industrial Development and Export Authority. The cities of Anchorage, Juneau and Valdez also contract with Callan and Associates for financial consultation.

The Alaska Housing Finance Corporation contracts with O'Brien Partners, New York for financial consultation due to their national expertise with housing authorities.

Other financial consultants are used in Alaska. Examples of two of the primary consultants are Wrts Associates contracted by Anchorage Fire and Police; and Dorne and Helliesen contracted by Doyan Corporation.

Callan and Associates is a well respected national firm and continues to be selected through the Request For Proposal (RFP) process by Alaska's state agencies as well as other Alaska businesses. Treasury and the Permanent Fund Corporation solicit requests for services approximately every 5 years.

When an RFP is issued, two primary types of consulting firms typically respond.

1. Smaller organizations would provide the state with the data to conduct its own simplistic query and analysis scenarios. The data provided is usually gathered through a co-op process where information is shared with multiple small firms, then sold as a total package. The smaller firms would also provide consultation services.
2. Larger firms such as Callan and Associates and Frank Russel (Tacoma) have their own data bases. Large firms conduct query and analysis as part of the contract for the state. This data base style seems to be more current with market trends. Callan and Associates performs due diligence activities for the state that are not typically offered by the smaller firms.

Please contact me at 465-5432 or ginger_blaisdell@legis.state.ak.us if you would like me to gather additional information regarding the use of funding for the Treasury Division or of Callan and Associates as the state's primary financial consultant.

* The contract for the Alaska Industrial Development and Export Authority may still be in the appeal stage and may not yet be technically awarded to Callan and Associates.

Memorandum

To: Co-Chairs: Representative John Cowdery
Senator Jerry Ward

From: John Main, Revenue Subcommittee Member

Date: 11/02/99

Re: IRS response to use of IRS Form 1099 by private contractors of Child Support.

Attached is the response by Robert Uhar, Special Agent, Office of Safeguards, IRS as request by myself concerning information he presented at the Administration of Children and Families (ACF) Users Group meeting held on October 18-20, 1999 at Cocoa Beach, Florida. Additionally, at the meeting SA Uhar said that no contractor could have any access to any program or database where IRS Form 1099 may reside. This is to include those contractors doing programming for Child Support Enforcement agencies.

Office of Child Support Enforcement (OCSE), Washington, DC disagrees with the IRS in some of the areas that they claim need to be safeguarded. They are currently discussing these issues with the IRS, Washington, DC. However, OCSE did agree with the IRS in some areas after they were audited and found that they needed to correct safeguarding issues as well. An example of how the IRS is treating the safeguarding of their information was stated by Donna Bonar, Director, OCSE. She stated that they agreed with the IRS that a contracted courier service that transports the IRS 1099 magnetic tape information from one office of OCSE to another was a violation. The courier service was bonded and had to sign the confidentiality statements required by OCSE.

Furthermore, SA Uhar stated that if IRS Form 1099 information is currently available to private contractors of child support enforcement those states that have allowed this to happen would be told that they can't renew the contracts. Additionally, the IRS will advise states that planned to let contracts to private contractors that they cannot do so as long as private contractors may have access to IRS Form 1099 information.

The difficulty SA Robert Uhar's response poses is that IRS Form 1099 information permeates all of the information currently held by CSED within its physical case files and computerized case management database.

FAX Transmittal



Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

TO:

JOHN MAIN

Fax No:

907 787 3135

Telephone:

907 269 6832

From:

Buz Utman

Office of Safeguards and Tax Checks
CP:EX:GLD:ST

Fax No:

(202) 622-4274

Telephone:

202622 3367

Comments:

John, as discussed

Number of pages 3 (Including cover)

This communication is intended for the sole use of the individual to whom it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this communication is not the intended recipient or the employee or agent responsible for delivering the communication to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication may be strictly prohibited. If you have received this communication in error, please notify the sender immediately by telephone call, and return the communication at the address above via the United States Postal Service. Thank you.

November 2, 1999

To: John Main - Alaska

From: Bob Uhar -IRS
Office of Safeguards

Bob

Subject: Child Support Enforcement

John, as we discussed on Monday, November 1, 1999, IRS provides the Federal Office of Child Support Enforcement (OCSE) with FPLS and Form 1099 tax return information. OCSE provides this information to the state child support enforcement agencies (CSEA). Effective 1/1/99, Treasury's Financial Management Services (FMS) provides the tax refund offset (TRO) data to state CSEA. The relevant Internal Revenue Code (IRC) sections are:

- 6103(I)(6) - Disclosure of Return Information to Federal, state and Local Child Support Enforcement Agencies,
- 6103(I)(10) Disclosure of Certain Information to Agencies requesting a Reduction under Section 6402(c) or 6402(d) - (tax refund offsets).

Internal Revenue Code Section 6103(I)(6)(B) states that the *following information* disclosed to any child support enforcement agency with respect to any individual to whom child support obligations are sought to be established or enforced may be disclosed by such agency to any agent of such agency which is under contract with such agency to carry out the purposes described in 6103(I)(6)(C):

- The amount of the tax refund offset (TRO),
- The taxpayer's/absent parent's social security number,
- The taxpayer's/absent parent's address,

Internal Revenue Code Section 6103(I)(6)(C) states that the 3 pieces of information noted above can be disclosed only for the purpose of, and to the extent necessary in establishing and collecting child support obligations from and locating individuals owing such obligations.

The 3 pieces of information are the only information that may be disclosed to a contractor to which a state child support enforcement agency has assigned responsibilities with respect to the collection and distribution of child support under a state's Title IV-D program. The contractor may only redisclose such tax information to the same extent, as the child support enforcement agency is itself, authorized to do so.

Therefore, no Form 1099 information can be disclosed to a contractor for any reason.

To the extent that a contractor is operating or accessing the State Case Registries of Child Support Orders, or operating the automated disbursement unit, such contractor would be limited to the 3 items of tax data noted above and any redisclosure would be limited as noted above.

Neither child support enforcement agencies, nor their contractors have authority under IRC Section 6103(i)(7) to disclosure TRO tax information to agencies responsible for administering programs such as TANF, Food Stamps, SSI, etc.

As for storage of federal tax information, the specific situations must be carefully reviewed. Normally, when the physical control of storage is maintained by the state agency, there is more assurance we have that the necessary safeguards are in place.

Please give me a call if you wish to discuss further.

AHFC
Rev

**Alaska Industrial and Development Export Authority
Response to Consolidation of AIDEA and Alaska Housing Finance Corporation**

**from Randy Simmons
November 30, 1999**

Potential Impact of Merging the AIDEA with AHFC

I am going to try to limit my discussion of the potential impacts of merging the Alaska Industrial and Export Authority (AIDEA) into the Alaska Housing and Finance Corporation (AHFC), to the issues as they relate to AIDEA and not AHFC, who can speak for themselves. Any discussion of a merger between AIDEA and AHFC must be based on a clear answer to the following question: "What are the State's goals regarding AIDEA's future mission and programmatic responsibilities?" There is a spectrum of possibilities ranging from on the one hand essentially "shutting AIDEA down" and extracting the maximum amount of cash possible, to "leaving AIDEA alone" and having it continue to serve as an economic catalyst through its variety of lending, project development, debt financing and other programs. How State policy makers answer this question should ultimately drive any investigations regarding restructuring either of these two important State Agencies.

My remarks today are premised on the assumption that the recommendation of the sub-committee is not to affect AIDEA's mission, but to allow AIDEA to continue providing the financing mechanisms necessary to participate in long-term commercial loans, to own projects that promote economic development and to manage the affairs of our sister agency, the Alaska Energy Authority (AEA).

In arriving at their recommendation, it is interesting that the sub-committee never talked to AIDEA. It is not clear whether the sub-committee spoke with any of the banks that utilize AIDEA for the purchase of loan participations or any of the private entities that operate the development projects that AIDEA owns or manages for AEA. I do not believe that the sub-committee fully understands AIDEA's programs or the true financial ramifications of merging AIDEA into AHFC. Of note is the fact that no mention is made of the energy programs that AIDEA personnel manage for the AEA, a billion dollar corporation in its own right, including the recent addition of the rural energy programs that were transferred from the previous Department of Community and Regional Affairs, Division of Energy.

I am not going to suggest that a merger of AIDEA with AHFC is impossible to accomplish. However, before it can be successfully accomplished, we truly have to understand what we are trying to accomplish and many important points need to be considered and resolved. The report references the "smooth merger of the Alaska State Housing Authority ("ASHA") a few years ago". AIDEA is a far more complex financial entity than ASHA. It is my understanding that ASHA had only a minimal amount of bonds outstanding. AIDEA has approximately \$300 million of bonds outstanding and a variety of agreements with project participants (Cominco, Federal Express, etc.) that must be considered.

Any discussion of restructuring must be done with the recognition that capital market participants such as bond investors and bond rating agencies will be closely watching to understand if this is a "financial raid" or if there are justifiable business reasons for the restructuring. Any perceived raid on either corporation will not be looked on favorably regardless of the underlying strengths of the entities. Investors and bond rating agencies will also want to ensure that any credit implications caused by structural changes are well understood by the State, are disclosed, and are executed pursuant to all existing financing arrangements, contracts and covenants. Failure to do so could either reduce market access or increase borrowing costs to either or both agencies. Since providing access to cost-effective capital for Alaskan businesses and residents is central to the missions of both AIDEA and AHFC, stringent due diligence should be taken.

In the course of reviewing the viability and implications of any change in the corporate form of AIDEA, the following key areas must be thoroughly researched:

- **Contractual arrangements which limit the ability to extract cash** – These include leases, financing documents such as bond resolutions, bond covenants, trust agreements, bond purchase contracts etc., investment agreements, power sales contracts, loan agreements, loan funding commitments and similar documents.
- **Credit, security, cost of funds and tax impacts** – In addition to the contractual, legal implications of any changes, any change in corporate structure and financial wherewithal will automatically trigger a comprehensive credit review by the bond rating agencies. As a general matter, a reduction in the amount of assets available to pay a debt obligation will have a dilutive effect on security. This puts downward pressure on bond ratings and upward pressure on cost of funds. It also potentially creates tax issues under the IRS re-issuance regulations.
- **Defeasance of debt may be necessary** – AIDEA has approximately \$300 million of long-term debt outstanding and the removal of vast amounts of cash and securities will most likely require the retirement or defeasance of all of the outstanding general obligation bonds. AHFC has approximately \$2.2 billion of bonds outstanding. Due to existing contractual provisions with bondholders, a portion of this debt may have to be defeased to effect any structuring change. Depending on market conditions, the defeasance of AIDEA or AHFC bonds could be very costly to the State. To the extent any defeasance cost is generated, it must offset any expected savings from combining the agencies.

The sub-committee reported that \$847 million, the amount of AIDEA's equity at June 30, 1999, could be re-appropriated to the State's general fund as the result of the merger. This amount of cash does not exist at AIDEA. The Authority's assets include a combination of cash, investment securities, loans and investments in development projects. AIDEA had \$456 million of cash and investment securities at June 30, 1999; \$38 million of this amount was restricted for use under Authority contractual agreements or non-general obligation bond resolutions.

Therefore, AIDEA had less than half of the amount of cash that the sub-committee suggests could be transferred to the general fund. Depending on market conditions, the defeasance of AIDEA's outstanding bonds would require an amount that at a minimum approximates the amount of outstanding bonds. The combined amount of funds required to transfer \$847 million to the general fund and defease AIDEA's outstanding bonds leaps to over \$1 billion. We believe that the removal of in excess of \$1 billion of liquid funds from the combined AHFC/AIDEA would leave the remaining entities in a weakened financial state, precluding their ability to provide "business as usual", at least as we currently know it.

Finally, the sub-committee report indicates that \$2.5 million or half of AIDEA's operating budget could be eliminated as duplicative administrative costs. Whereas there doubtless would be some efficiencies created by the combination of the two Authority's, I do not believe that the savings would amount to the level projected by the sub-committee. The roughly \$5 million quoted is the combined budgets of both AIDEA and AEA which includes double counting of over \$300,000. The personal services component of AIDEA's budget, not including AEA is only \$2 million. Achieving the indicated savings would be difficult, if not impossible, especially since there are few positions that may be duplicative with AHFC positions due to the nature of our responsibilities.

Thank you.

Education

Subject: RE: clarification

Date: Mon, 29 Nov 1999 12:02:41 -0900

From: "Clarke, Janet E." <Janet_Clarke@health.state.ak.us>

To: "Marco Pignalberi" <Marco_Pignalberi@legis.state.ak.us>

Marco:

The items that I can think of (off the top) would be CAMA (Chronic Acute Medical Assistance) and Infant Learning Program and Developmental Disability grants (because these are both individual grant programs).

Hope this helps.

Janet

> -----Original Message-----

> From: Marco Pignalberi [SMTP:Marco_Pignalberi@legis.state.ak.us]

> Sent: Wednesday, November 24, 1999 2:57 PM

> To: Janet Clarke

> Subject: clarification

>

> hi Janet, thanks for offerring to "speculate" about the program names

> that might be part of the Subcommittee recommendation no. 13. Please

> don't spend a lot of time on it. Your offhand reflection via email will

> suffice.

> tx, Marco P

AGENDA

COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES

SUBCOMMITTEE – REVENUE

September 29, 1999

8:00 A.M.

- **Summary/Overview from 9-15-99 meeting – Leonard Steinberg**
 - Recommendations for focus/report:
 - CSED
 - Alcohol, Tobacco and Gaming
 - Oil and Gas Audit division and Income and Excise Audit division
 - Legal charges to AHFC
- **Recap of Commission meeting of 9-20-99 - Mary Ann Pease**
 - Federal review of privatization
- **Combination of Alcohol, Tobacco and Gaming – John Main**
 - Consolidation of functions:
 - Enforcement
 - Licensing and audit
 - Funding and Budgetary impacts
 - Other state comparisons
- **Child Support Enforcement Division – Elisa Roberts**
 - Privatization of cases that are in arrears
 - Cases without existing support orders – privatization of the locate and investigation function
 - Electronic solutions
- **"Explain the rationale for each recommendation, the number of votes for and against it....."**
- **Next Meeting and Finalization of report and signatures from committee participants – October 8, 1999**

PRIVATIZATION REPORT

DRAFT
DATE: _____
FILE NO: _____
BY: _____

Alcohol Beverage Control Board

By John Main

DRAFT
DATE: _____
FILE NO: _____
BY: _____

- I. The Alcoholic Beverage Control (ABC) Board consists of five members appointed by the Governor and confirmed by the Legislature. Two of the members are associated with the liquor industry and three members represent the public (AS.04.06.020). The ABC Board is an independent policy, regulatory, and quasi-judicial entity that is within the Department of Revenue for administrative purposes only (AS 04.06.010).
- II. The budget for the ABC Board is in the Alcoholic Beverage Control Board BRU consisting of a single Component of the same name.
- III. The operations of the ABC Board are funded entirely by program receipts to the General Fund derived from liquor license fees, permit fees, application fees, fines, penalties, and service fees. The ABC Board also refunds all applicable retail liquor license fees to municipalities that enforce local, state, and federal liquor laws. The ABC Board budget for FY 2000 is \$636, 200.
- IV. The revenue collected from fees, fines and penalties generally total between \$1.7 and \$1.93 million. The funding for the ABC Board operation has consistently been about \$640,000. About \$800,000 is refunded to local governments with the remaining funds, between \$250,000 and \$360,000, going to the general fund. The alcoholic beverage industry also pays taxes of between \$11.5 to \$12 million per year collected by the Division of Income and Excise Audit, Department of Revenue.
- V. The 21st Amendment to the United State Constitution repealed the national prohibition of alcoholic beverage and delegated the regulation of this class of products to the states. This is the main reason that alcohol regulation varies so much from state to state. Alaska has historically, and remains, more private sector oriented as a "License State" that chooses to regulate private businesses engaged in retail sales, wholesale trade, and manufacturing of alcohol products. "Control States" actually engage in portions of the alcohol trade by operating directly or contracting out the operation of retail package stores and/or some aspects of wholesales and storage of alcoholic products. Some "Control States" are moving to privatize some or all of these state-controlled businesses.

Article III, Section 26 of the Alaska Constitution establishes boards and commissions with members appointed by the Governor and confirmed by the Legislature meeting in joint session. Title 4 of the Alaska Statutes contains the alcoholic beverage laws for Alaska and AS 04.06.010 establishes the ABC Board. AS 04.06.020 sets out the qualifications and appointment method for five board members, AS 04.06.070 addresses the appointment and removal of the ABC Board Director, and AS 04.06.090 sets the broad powers and duties of the ABC Board.

- VI. The Mission of the ABC Board is "To protect the health, safety, and welfare of Alaskans by limiting the misuse of alcohol." Some of the Alaska's most significant social, criminal, and health problems can be traced to the misuse of alcoholic beverages. The focus of the ABC board in addressing these large problems is the point of sale or access between the retail seller and the consumer. Misuse of alcohol in this context would include sale and consumption by an intoxicated person, sale and possession by a juvenile (under 21 years of age) and sale in areas of the state that have banned alcohol sale or possession. The ABC Board's goals for the next year are to "reduce underage access to alcoholic beverages" and "reduce alcohol related accidents and deaths."
- VII. The ABC board has nine employees. The five board members are volunteers who receive travel and per diem only. Additionally, the ABC Investigators need to possess training and a professional background in law enforcement due to the nature of their enforcement efforts.
- VIII. The ABC Board manages its licenses on a Microsoft Access based system and provides a great deal of information via its web site. The ABC Board is working to provide application forms and additional information on its Internet site.
- IX. The ABC Board has no agency contracts.
- X. At present the only privatization practice is the difference between the "Control States and the License States". Since the State of Alaska is a "License State" we have already privatized the retail sales, wholesale trade and manufacturing of alcohol products. Additionally, alcohol server training is provided by private organizations. The ABC Board approves the curriculum. The ABC staff often talks to the trainers of alcohol servers. The issue of possibly giving the retail licensing to the local cities was raised. Municipality of Anchorage Assemblyman George Wuerch was asked what he thought of this concept. Assemblyman Wuerch said that it would politicize the process and he wasn't in favor of giving it to the local cities but keeping it with a state agency. He was in favor of more tobacco enforcement though.

XI. Recommendation:

Modify the ABC Board responsibilities to include tobacco and gaming enforcement by passing legislation that would place the tobacco and gaming enforcement under the ABC Board. Incorporate the personnel, budgets and funding sources from both the Divisions of Income and Excise Tax (Charitable Gaming) and Division of Public Health (Tobacco Enforcement) into the Division of Alcohol Beverage Control Board's personnel, budget and funding sources.

XII. Rationale:

This would take the responsibilities of three agencies and place them under one agency. This should increase the effectiveness and efficiency of the three programs by combining them under one agency that has one board that would oversee all three programs.

The investigative personnel could be combined or increased to enforce all pertinent laws and regulations. There are many states that are adopting this method of regulating these areas. There are 18 states that combine enforcement of alcohol and tobacco. There are seven states that combine alcohol and gaming.

An example of what this new revised agency could be doing is in the area of tobacco enforcement. Currently, the Division of Public Health, Department of Health and Social Services oversees the tobacco enforcement for the State of Alaska and the FDA through a grant. The agency contracts with local police departments and local police officers to oversee undercover activities that use minor children to catch violators.

The contract enforcement with the local police departments and contract enforcement with individual police officers netted or credited by FDA standards 1072 visits to retail stores since the investigations started in November 1998. 579 of these visits resulted in complete investigations. The breakdown below is what was accomplished during this time. (Note: most of this enforcement was accomplished during the last 8-9 months.)

Department	Contract	Billing & to be billed	Visits
Anchorage PD	\$112,000	\$65,392	450
Fairbanks PD	27,022	2,750	38-40
Homer PD	32,800	15,757	200
North Pole PD	15,869	8,698	60
Soldotna PD	8,202	4,288	40
Contract Officers (3)	20,000	12,300	150
Subtotal contracts	\$215,893	\$109,185	940

Additionally,
Juneau State Staff

?

150

Total

1090

This is approximately 500 visits less than was required under the FDA contract.

Anchorage Student Interns (Minors)
hour.

Approximately 400 at \$12.68 per

The contractors charge per hour is below:

Anchorage PD	\$60.00 per hour per officer
Fairbanks PD	\$50.00 per hour per officer
Homer PD	Not provided
North Pole PD	\$40.00 per hour per officer
Soldotna PD	Not provided
Contract Officers (3)	\$40 per hour per officer plus travel & food costs
Juneau State Staff	Not provided

Additionally, the Division of Public Health awarded contracts totaling \$20,000 to the Anchorage PD, Fairbanks PD and Homer PD to enforce state tobacco laws from a budgeted \$200,000. The other monies went as grants to local community organizations for tobacco coalition activities and cessation campaign, funding a part-time position for surveying the use of tobacco products by youth and providing funds to the Department of Law and Department of Commerce and Economic Development for various enforcement activities.

Next years proposed cost is \$263,795 of which \$174,000 is for contracted services.

Included is the proposed concept that I requested Alcohol Beverage Control Board Division to provide with the premise that the division would receive all the funds now given to the other agencies and the part of the personnel without counting Administration, Auditors and Support Staff. Since this is conceptual in nature it would need additional work but I believe the premise is accurate.

**PROPOSAL IN BRIEF FOR THE COMBINATION OF ALCOHOL, TOBACCO,
AND GAMING ENFORCEMENT FOR THE STATE OF ALASKA
September 14, 1999**

CONCEPT

Presently, the enforcement of the controlled and highly regulated substances of beverage alcohol and tobacco and the controlled activity of charitable gaming are carried out by three separate organizations. The Alcoholic Beverage Control Board regulates alcoholic beverages and is authorized to enforce gambling and prostitution on licensed premise to under Title 4 of Alaska Statutes. Program receipts from license fees and permits fund the ABC function. Enforcement of the ban on tobacco sales to persons under 19 years of age is done by the Department of Health and Social Services, Division of Public Health, Section of Community Health and EMS using grants funds from the Federal Food and Drug Administration. The Department of Revenue, Division of Income and Excise Audit perform charitable gaming enforcement and tobacco and alcohol tax collection enforcement. Tobacco enforcement of the ban on sales to minors is done by contracting with local police departments for enforcement of state statutes regarding the sale of tobacco products. Combination of these enforcement functions may present opportunities to more effectively and efficiently regulate legal controlled substances and controlled activities. Eighteen other states have combined alcohol and tobacco enforcement and seven states combine alcohol and gaming.

STRUCTURE

The enforcement of alcohol beverage laws is presently understaffed and under funded. There are two fewer investigators now working for the ABC Board than it had prior to construction of the Trans-Alaska Pipeline. One of the benefits that the ABC Board would want to see in any type of consolidation would be increased enforcement efforts to reduce sales of alcohol to underage persons and other major alcohol law violations. The staffing required for minimal effective enforcement of alcohol laws is six investigators. It is anticipated that tobacco enforcement would require a minimum of two full time equivalent investigators. Gaming is presently under staffed with only two investigators statewide. Gaming needs a third position, but might benefit in a pooled enforcement agency to get more services over and above the two FTEs it presently has on staff. A clerk typist would be needed to provide clerical support. The enforcement team would be as follows:

Alcohol Enforcement	6 Investigators
Tobacco Enforcement	2 Investigators
Gaming Enforcement	2 Investigators
 Total	 10 Investigators + one clerical position

Many of the same businesses are engaged in alcohol, tobacco, and charitable gaming activities. Having a single agency represented by a single investigator involved in the oversight of this business would promote efficiency and effectiveness.

OVERSIGHT AND POLICY DEVELOPMENT

This consolidation of enforcement raises a question regarding the role to the ABC Board, an independent regulatory and quasi-judicial agency. The main reason that consolidation of charitable gaming and assignment of tobacco sale enforcement were not viable options earlier was the clear and specific statutory mandate given to the ABC Board to focus on regulation of beverage alcohol only within Alaska. The role of the ABC Board, its membership, and other fundamental aspects of Title 4 may need to be amended to accommodate the inclusion of tobacco and gaming under the alcohol enforcement umbrella. Alternatively, the ABC Board could remain focussed on alcohol regulation, but its director and staff would take on the other duties outside of its jurisdiction. This option accomplishes the goal of consolidation and efficiency within the existing statutory structure.

LICENSING AND AUDIT

The other side of enforcement is the licensing and audit functions that are a critical part of regulating controlled activities. Three staff that are constantly challenged to meet the demands of licensees and prospective licensees carry out the ABC licensing function. The Department of Commerce and Economic Development provide tobacco permits. Tobacco stamps do not require the extensive local review and background checks required in alcohol beverage licensing. Gaming permits are issued to operators and charities by the charitable gaming section of the Division of Income and Excise Audit. Further investigation and discussion needs to take place to see how these components of regulating alcohol, tobacco, and gaming may be aligned or consolidated to create greater efficiency and effectiveness.

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(Revised July 14, 1999)

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BUSINESS PROPOSAL
(Revised July 14, 1999)

The following business proposal is predicated on all the terms and conditions of the United States Department of Health and Social Services Federal Food and Drug Administration (FDA) request for proposals (RFP) #223-98-4813.

A. Cost Data/Budget, Budget Specification, Budget Justification

The Section of Community Health and Emergency Medical Services (CHEMS), Division of Public Health, Department of Health and Social Services, will receive contract funds. Contract funds will be combined with in-kind support from CHEMS, the Division of Alcoholism and Drug Abuse (DADA), and local police departments under contract with the State to implement various components of the proposed project.

Following is a budget summary for the project, assuming a one-year contract.

Budget Summary for Project to Enforce 21 CFR 897.14 (a) & (b)
(Revised July 14, 1999 to reflect modifications described in narrative.)

Object Class Category	Federal Funds	In-kind	Total
Personal Services (Direct Labor)	43,072	2,309	45,381
Fringe Benefits (Direct Labor)	11,993	693	12,686
Travel	17,321	0	17,321
Contractual Services (Subcontracted Effort)	154,000	20,000	174,000
Supplies (Direct Materials)	250	1,000	1,250
Equipment (Special Equipment)	0	3,000	3,000
Other Direct Costs	2,550	1,000	3,550
Total Direct Costs	229,186	28,002	257,188
Indirect Costs (Overhead, General, and Administrative Expenses)	6,607	0	6,607
TOTAL:	235,793	28,002	263,795

The budget is based on the following four objectives:

Objective 1: Conduct at least 2 investigations in 100 percent of the retail stores that sell tobacco products, other than stores with limited entry of 21 years of age or older, in a minimum of 47 communities in the state, for a minimum total of 1,600 investigations.

Objective 2: Conduct a follow-up investigation of all retail stores that sold a tobacco product as part of an investigation conducted under Objective 1. These

follow-up investigations will be completed within 90 days of receipt of noncompliance revisit forms from the FDA.

Objective 3: Conduct a follow-up investigation of all retail stores that sold a tobacco product during a subsequent investigation. These follow-up investigations will be completed within 90 days of receipt of noncompliance revisit forms from the FDA.

Objective 4: As a result of the implementation of the State's quality control program, reduce the number of investigation forms returned for modification by 50 percent.

Following is a specification/justification for the proposed budget.

Personal Services and Fringe Benefits (Direct Labor)

Federal Funds	\$55,065
In-Kind Funds	\$3,002
Total	\$58,067

Federal:

\$30,408	Salary of .5 FTE Health Program Manager II for 12 months. Larry Bussone, Health Program Manager II, will serve as FDA State Project Coordinator for the project. Mr. Bussone will be responsible for overall coordination of the project, administration of federal contract funds, administration of contracts to police departments and individual police officers, submittal of quarterly reports, and maintenance and implementation of the State's quality control plan. Mr. Bussone also will complete investigations and will train additional FDA officers and minors as necessary.
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\$5,000	Total hourly wage of 4 CHEMS staff who have been commissioned by the FDA and who will complete investigations in southeast Alaska and outlying communities in the state, and for one of the four, who will provide support with quality control efforts. The four staff and their hourly wages are as follows: Lance Brown, Administrative Clerk II, hourly wage \$14.68; Melanie White, Administrative Clerk III, hourly wage \$18.87; Susan Mason-Bouterse, Health Program Manager II, hourly wage \$28.03; and Kim Busch, Medical Assistance Administrator IV, hourly wage \$36.78. Because of the large difference in cost for the four staff, as much of the work as possible will be accomplished by Mr. Brown and Ms. White (Ms. White will provide support with quality control). It will be only in rare instances that Ms. Mason-Bouterse or Ms. Busch will become involved in investigations. However, to have
----------------	---

these two women available for travel with a minor (along with an adult male) is important.

\$7,664	Total hourly wage of up to 12 minors employed by the State of Alaska to participate in investigations in southeast Alaska, Anchorage, and outlying communities (total of 800 hours at \$9.58 per hour).
\$43,072	Total personal services.
\$9,538	Benefits costs for .5 FTE Health Program Manager II for 12 months. (at a benefits rate of 31.4 percent.)
\$1,750	Benefits costs for 4 CHEMS staff who will participate in the project (at an average benefits rate of 35.0 percent). Benefits for the four staff range from 30.5 percent for Ms. Busch to 44.1 percent for Mr. Brown. Not knowing how many hours each of the four staff will work, we have set a very conservative benefits rate of 35.0 percent.
\$705	Benefits costs for minors to be used in investigations (at a benefits rate of 9.2 percent).
\$11,993	Total benefits.

In-Kind:

\$2,309	Personal services in-kind from the State will include 25 hours of the salary of Mark Johnson, Chief of CHEMS (at \$39.62 per hour), and 50 hours of Mary Collins, Research Analyst III for DADA (at \$26.36 per hour).
\$693	Benefits for Mr. Johnson and Ms. Collins (at an average benefits rate of 30.0 percent). Again, the benefits for Ms. Mason-Bouterse are not included as in-kind.
\$3,002	Total in-kind for personal services.

Travel:

[Federal Funds	\$18,821
In-Kind Funds	\$0
Total	\$18,821]
Federal Funds	\$17,321
In-Kind Funds	\$0
Total	\$17,321

Please be aware that the "Technical Proposal" calls for two visits two every retail store that sells tobacco products but not alcohol in 47 communities in the state. Please also be aware of the following: (1) 12 of the 47 communities where investigations will be completed can be reached only by air; (2) investigations in several of the communities to be visited require drives of over 200 and 300 miles round trip; (3) any investigations conducted by the State FDA Project Coordinator, CHEMS staff, or minors employed by the State and stationed in Juneau, other than investigations in Juneau, require air travel; and (4) the costs of air travel in Alaska is very expensive.

Travel costs projected for the State of Alaska will include the following: (1) travel of CHEMS staff and a minor for investigations in southeast Alaska (4 communities twice during the project period) and outlying communities, as necessary, and any potential possible re-visit trips because of noncompliance during the second and subsequent trips; (2) travel of the FDA State Project Coordinator **and two State staff members** to Anchorage to conduct a "refresher course" for personnel from contracted police departments as part of the State's quality control plan; (3) travel of the FDA State Project Coordinator and a minor for investigations in outlying communities, as necessary; (4) travel of minors employed by the State of Alaska and stationed in the Municipality of Anchorage for investigations in outlying communities, as necessary; *[(5) travel of the FDA State Project Coordinator to the national FDA conference, if it occurs and if out-of-state travel is allowed by the State (currently, the State is disallowing almost all out-of-state travel, even that supported by federal funds); and (6)]* **and (5)** any travel required of the FDA State Project Coordinator for technical assistance, training of officers, and quality control.

Much of this travel is uncertain, as explained below:

(1) The only certain travel of that listed above is the 8 trips to complete investigations in southeast Alaska and the travel of the FDA State Project Coordinator to Anchorage to conduct the refresher course. Even the investigation trips have a degree of uncertainty, in that additional trips will be required if noncompliance occurs during the second and subsequent visits to these communities ("subsequent" meaning if noncompliance occurs on a re-visit for non-compliance after the second visit).

(2) All travel related to investigations in outlying communities (i.e., for CHEMS staff and minors employed by the State) depends on what communities will not be visited by personnel from contracted police departments or individually contracted police officers, as well as the level of noncompliance during the second and subsequent visits in these outlying communities investigated. As many of the communities as possible will be visited through contractual arrangements, and the communities to be visited under contract with police departments will be established during the first 30 days of the beginning of the project as contracts are negotiated. Contracts with police officers will be negotiated shortly thereafter. Still, it is likely that CHEMS staff, including minors

employed by the State, will need to travel to some of these outlying communities to complete investigations.

[(3) Travel of the FDA State Project Coordinator to a national conference depends upon the FDA sponsoring such a conference and the current out-of-state travel freeze for State of Alaska employees being lifted.]

(3) Travel of the FDA State Project Coordinator for technical assistance, training of officers, and quality control depends on the need that arises. Most, if not all, technical assistance and quality control activities can be achieved by telephone and telefax. Most training of police officers can be done by police officers already commissioned by the FDA. Still, there might be some need for travel for these purposes.

With the above considerations in mind, following are the anticipated travel costs:

\$3,000	Two CHEMS staff and one minor to Ketchikan two times (requires overnight stay)
\$1,320	Total cost of airfares
\$886	Total cost of lodging
\$504	Total cost of per diem (funds for meals)
\$140	Total cost of rental car and gas
\$150	Total cost of ferry from airport to city
\$3,000	Two CHEMS staff and one minor to Petersburg two times (requires overnight stay)
\$1,350	Total cost of airfares
\$800	Total cost of lodging
\$504	Total cost of per diem (funds for meals)
\$140	Total cost of rental car and gas
\$1,292	Two CHEMS staff and one minor to Sitka two times
\$900	Total cost of airfares
\$252	Total cost of per diem (funds for meals)
\$140	Total cost of rental car and gas
\$1,232	Two CHEMS staff and one minor to Haines two times
\$840	Total cost of airfares
\$252	Total cost of per diem (funds for meals)
\$140	Total cost of rental car and gas
[\$2,500	<i>Potential costs of two CHEMS staff and one minor re-visiting a community where noncompliance occurs during the second and subsequent visits to a community]</i>

\$1,906	Potential costs of two CHEMS staff and one minor re-visiting a community where noncompliance occurs during the second and subsequent visits to a community
[\$297	<i>FDA State Coordinator to Anchorage to conduct a refresher course for personnel from contracted police departments</i>
	 [\$220 <i>Total cost of airfares</i>
	 \$42 <i>Total cost of per diem (funds for meals)</i>
	 \$35 <i>Total cost of rental car and gas]</i>
\$891	State Coordinator and two State staff members to Anchorage to conduct a refresher course for personnel from contracted police departments
	 \$660 Total cost of airfares
	 \$126 Total cost of per diem (funds for meals)
	 \$105 Total cost of rental car and gas]
\$5,000	Potential costs of State FDA Coordinator and/or CHEMS staff and minors employed by the State traveling to outlying communities for investigations
[\$1,500	<i>Potential cost of State FDA Coordinator to attend FDA national conference]</i>
\$1,000	Potential cost of State FDA Coordinator providing technical assistance, training, or quality control to contracted police departments
[\$18,821	<i>Projected potential travel costs]</i>
\$17,321	Projected potential travel costs

Contractual Services (Subcontracted Effort)

Federal Funds	\$154,000
In-Kind Funds	\$20,000
Total	\$174,000

Contractual costs also can only be estimated. Contracts will be awarded to six police departments and, as needed, to individual police officers (who already are commissioned by the FDA). Police departments will complete investigations in their own jurisdictions, nearby communities, and, in some instances, outlying communities. Individually contracted police officers will conduct investigations in outlying communities, as needed.

Experience from the current FDA project has shown that the amount of funding for individual contracts can change, as police departments become more efficient and can complete more investigations per hour than anticipated, as they agree to complete investigations in outlying communities, as they find the level of noncompliance more than anticipated (requiring more re-visits than expected), and so forth. Likewise, until police departments commit to investigations in outlying communities, the amount of funding necessary for contracts with individual police officers is uncertain.

The communities to be visited under contract with police departments will be established during the first 30 days of the project as contracts with them are negotiated. Contracts with individual police officers will be negotiated after police departments have committed to investigations in specific outlying communities. Contracts with these individual officers will include as many of the remaining outlying communities as possible (thereby reducing the number of communities to which the FDA State Project Coordinator and/or CHEMS staff must travel).

Based on contracts established, and sometimes amended, with police departments for the current FDA enforcement project, as well as activities accomplished under these contracts, projected contracts with police departments are as follows:

Federal:

\$63,000	Anchorage Police Department
\$15,000	Homer Police Department
\$27,000	Fairbanks Police Department
\$15,000	North Pole Police Department
\$9,000	Palmer Police Department
\$5,000	Soldotna Police Department
\$134,000	Total contract awards to police departments

Contracts will include hourly wages and benefits for police officers (which vary by police department), hourly wage and insurance coverage for minors employed by the police departments (for four of the six departments), "buy funds," and travel costs when the police departments travel outside their own jurisdiction (either in surrounding communities in their borough or to outlying communities). It is standard police department practice in Alaska to work two police officers together when accompanying minors; this standard practice is reflected by the amount of the awards.

\$20,000	Maximum cost of contracts with individual police officers, depending on the number of trips these officers need to make to outlying communities.
\$154,000	Total for contractual services.

Inkind:

\$20,000 Police departments under contract will contribute approximately \$20,000 in-kind through the use of their own vehicles, computer equipment, fax machines, administrative time (contract administration, billing, reporting requirements, etc.), and rental space for maintenance of evidence.

Supplies (Direct Materials)

Federal Funds	\$250
In-Kind Funds	\$1,000
Total	\$1,250

Federal:

\$250 Funds for tobacco purchases for investigations completed by FDA State Coordinator and CHEMS staff.

In-Kind:

\$1,000 Approximately \$1,000 in in-kind supplies (office and copying supplies)

Equipment (Special Equipment)

Federal Funds	\$0
In-Kind Funds	\$3,000
Total	\$3,000

There will be no equipment purchases under this contract. Approximately \$3,000 in in-kind equipment from CHEMS will be contributed (use of department vehicle during investigations, computer equipment, fax machine, copier, and telephone).

Other Direct Costs

Federal Funds	\$2,550
In-Kind Funds	\$1,000
Total	\$3,550

Federal:

\$1,000 \$500 for postage and \$500 for telephone charges for overall coordination of project.

\$1,550 One-half of the rental costs for space occupied by the project coordinator/lead staff for the 12 month period.

\$2,550 Total for other direct costs.

In-Kind:

\$1,000 In-kind will include a \$500 match from the State for both postage and telephone (a total of \$1,000).

Indirect Costs (Overhead, General and Administrative)

\$6,607 12 percent of total personal services costs (direct labor), the lowest indirect rate allowed by DHSS under the current cost-allocation plan.

There is no request for grant funds for special testing or consultant service.

B. Government-Owned Property

The State of Alaska purchased and has under inventory seven secure file cabinets that serve as evidence files for the six police departments under contract and for CHEMS.

C. Financial Capacity

The Alaska Department of Health and Social Services has the necessary financial capacity, working capital, and other resources to perform the contract without assistance from outside sources.

D. Determining Management Capability and Responsibility

The State of Alaska, Department of Health and Social Services (DHSS), has all the necessary capabilities of responsibly managing the proposed FDA contract, including: the capability of meeting the performance schedule; a record of past performance and business integrity in the management of federal grants and contracts; possession of necessary organization, experience, and technical skills; and the possession of the required facilities.

In state fiscal year 1998, DHSS had a total operating expenditures of \$868.8 million, \$377.1 million of which were federal funds. The department is divided into 8 divisions and employs almost 2,000 staff (who provide services statewide).

**Privatization Report
Alaska Housing Finance Corporation
Prepared by Terry Duszynski**

- 1) Alaska Housing Finance Corp.
- 2) Component Names as listed in State Budget: AHFC Operations
- 3) Total Budget, All funds: \$33,678,961
Identify fund sources: Revenue earned from Loans
- 4) Total Revenue derived: \$33,678,961
- 5) Identify Constitutional and Statutory Provisions Governing Agency Operation:
- 6) Agency Mission, Goals and Objectives: Alaska Housing Finance serves two functions: 1) to manage State Housing units and objectives. 2) To provide specialized loan programs for all Alaskans.
- 7) Number of Employees: 316 Full time - 33 Temporary
Identify Specialized Expertise Needed for Mission: 1) Mortgage Lending
2) Bonding Specialists
3) HUD Housing Specialists
- 8) Describe Technology Used to Perform Mission: Unique Financial Computer Programs
- 9) List Existing Agency Contracts including amount, Contractor, purpose, term, and procurement method. See Attached List.
- 10) Identify existing Privatization Practices, if any. Evaluate them for effectiveness and public accountability. See item 9.
- 11) MAKE RECOMMENDATIONS PER Section 5 in SB 33, including suggestions for new legislation: Recommend further investigation of cost to corporation of Attorney General's Office. Determine per hour cost for AG's office compared to private sector. The corporation currently spends approximately 40% of its legal expenses with private firms. Determine why and what cost differential is for corporation.
- 12) Explain rationale for each recommendation, the number of votes for and against it. N/A
- 13) List problems or barriers to implementing proposed privatization: An in depth look at how the Department of Law is used and whether it is better to have the corporation represented by State Counsel or private counsel.

SUMMARY: AHFC currently contracts out approximately 30% of its operating budget. The areas I looked at were Housing Maintenance, Mortgage Lending, Information Services, and Legal Services.

Housing Maintenance: There are currently 54 positions statewide in 17 communities. AHFC is required to provide a 24-hour response to any problem in housing. HUD rates the corporation on its response time. If there is a poor response time, then HUD

matching funds may be withheld. It is important that the corporation have a tight handle on personnel. All new construction is contracted out.

Mortgage Lending: Within the Mortgage lending department, there are currently 14 positions. The servicing of the majority of mortgage loans is currently contracted to NBA and Alaska USA. The in house staff manages and services the rural loans. There are approximately 27,000 mortgage loans outstanding. Currently there are 4 mortgage loan underwriters on staff. Discussion was held concerning Direct Underwriting of banks. AHFC is looking into that process, however, the four underwriters would become auditors for the statewide Direct Underwriters. There would be no direct savings, only a shorter turnaround for loan approval.

Information Services: There are 16 positions in the IS Department. Due to the specialized proprietary loan computer programs, it is important for the corporation to have control of the staff providing support.

The amount of time available to look at a budget as large as AHFC's was not sufficient to provide a realistic look at the potential for privatization. The agency currently provides approximately \$100M to the state budget each year on an operating budget of \$33M and a capital budget of \$32M. There are no general funds that go to AHFC. When AHFC took over ASHA (Alaska State Housing Agency) and portions of DCRA (Dept of Community and Regional Affairs) the general fund was increased by the corporation taking over all cost of those two functions. Housing (public) is now being paid for by profits from mortgage loans. Housing is paying for housing. There may be many opportunities for privatization not examined due to time constraints. I would urge the legislature to give this committee several years to look at government agencies in depth.

**AHFC FY2000 Contractual Line Item
 Summary**

Dept. of Law RSA/Legal fees	1,046.0	641.0 Dept. of Law 405.0 Legal services
Auditing fees	62.0	
Subscriptions/Ads/Annual Report	254.0	
Postage	152.5	
Overhead	183.6	
Copy Services	128.7	
Lease	1,209.9	
Telephone	542.6	
Professional Services	1,461.3	Architect&Engineers Rural Exchange/Regional Housing Authority Mediation/hearing services Security Training Marketing
Equipment Rental/Maintenance	2,920.4	Elevators Auto Expenses Freight Services Microfilm Janitorial
Computers/Y2K	433.7	
Insurance	210.8	
Utilities	2,359.4	366.8 water 737.2 electricity 337.0 sewer 280.0 garbage 638.4 fuel oil
TOTAL	10,964.9	

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716 West 4th Ave., Suite 320
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**Representative
John J. Cowdery**

Session:
State Capitol Bldg., Suite 416
Juneau, AK 99801

Phone: 907-465-3879
Fax: 907-465-2069
Toll Free: 1-888-269-3879

September 1, 1999

Rep. Gail Phillips, Chair
Legislative Budget and Audit Committee
State Capitol Building, Suite 411
Juneau, Alaska 99801

Dear Gail:

Two issues emerged during a recent meeting of the Revenue Subcommittee of the Privatization Commission that may be appropriate for investigation by LB&A.

First, the department stated that 70% of the Division of Treasury budget is paid from earnings of state managed pension funds. The issue is whether 70% of the Treasury's work is related to those pension funds, or, are the pension funds subsidizing the operating budget and thereby cheating the pension recipients.

Second, the department stated that a consulting firm, Callen & Associates (phonetic), does performance analysis for both the Permanent Fund Corporation and the Treasury Division. I have to wonder if there's a danger in having a single entity steer both of the state's major investment activities.

Yours truly,

A handwritten signature in cursive script that reads "John J. Cowdery".

John J. Cowdery
Representative

Cc: Privatization Commission

1. letter asking for act that already privatized
2. CSED - Lima - see net sites
3. P.F. - J. Timmons.
4. ABC BOARD - LICENSING -
COMBINE GAMING & TOBACCO (USE MINORS)
Pay police dept. OT to do tobacco enforcement.
5. Fee Paid to Regs -
Do Inv. Regs. get in the way

Callen of Assoc. - work for both PF & Treasury

9-1-99

Department of Revenue Subcommittee Membership							
Pease	MaryAnn	277-1003	277-1006	Aurora Power	mapease@aurorapower.com	345-6322	
Barry	Mike	344-2581	349-2411	Dimond Center	mbdcmall@aol.com	243-4039	
Cox	Frank	274-4022	274-4545	Federal Government - SBA	frank.cox@sba.gov	333-0956	
Delay-Wilson	Samantha	277-1127	277-1137		sdwmoney@alaska.net	278-2535	
Duszynski	Terry	479-3324	479-9819	Duszynski & Assoc	tduszynski@compuserve.com	479-3324	Fairbanks
Griffith	Joe	762-4740	762-4574 14	Chugach Electric	joe_griffith@chugachelectric.com	696-1868	
Hoffman	Buz	357-3101	357-3102 cell		buz@GCI.net	357-3101	Wasilla
Main	John	269-6832	787-3135	APEA	MJTAKAHASHI@NETSCAPE.NET	345-2161	
McQueary	Frank	265-5368	265-5695	GCI	fmcqueary@GCI.com	243-2999	
Owen	Dana	465-2302	465-2389	Department of Revenue - Dept Contact			Juneau
Roberts	Lelsa	285-6092	285-1515	ARCO, Alaska	lroberts3@mailarco.com	696-0624	
Schmedlen	Doug	562-5592	562-5598	Century 21 Crawford Real Estate	crawford@aol.com	276-8503	
Steinberg	Leonard	258-2000	258-2001	Brena Bell & Clarkson	lsteinberg@brenalaw.com	272-3763	
Timmons	Gerald	456-7195	455-8885	Timmons Contracting, Inc.	gtimmons@ptialaska.net	455-7195	Fairbanks
Wood	Pheobe	265-1600	265-6339	ARCO	pwood@mail.arco.com		
Wuerch	George	563-2737	561-3793	Municipality of Anchorage	wuerch@alaska.net		

~~LIST Roberts~~

tax collections ?

Ross KINVER -

ASHA - pub. housing maintenance / DOT / PF / ADARIE
public bldg.

— OVER —

15148

8-25-99

Board
supervisor
BoardCED
Dir. of Investment

To:
MaryAnn Pease
Chairperson
Commision on Privatization
And
Delivery of Government Services

From:
Buz Hoffman, Member

Subject: Alaska State Pension Investment Board
BRU- Revenue Operations FY2000 Budget, \$3,200,500

ask LB 4A
pay 70% of treasury salaries

Attached to this report is a copy of the "Mission Statement" of the Alaska State Pension Investment Board and their FY 2000 Operating Budget. No identifiable general funds are used in this operation.

A total budget of \$3,200,500 was authorized and the Department of Revenue charges the Board that amount for contractual services, which are in turn charged to the various pension funds under the Boards control. That income and expense is accounted for in the Department of Revenue general budget.

Do to a change in accounting procedures, fees for Investment Contractual Services to outside experts are not accounted for in this budget. In FY99, roughly \$30,000,000 was paid for Investment Management and Custody fees by the Board in their management of these multi billion dollar funds. Those fees were in turn charged to the various pension funds.

It is difficult to imagine further "Privatization" of the management of these funds but I would suspect it could be done with either a greater or smaller cost to these funds. The State could turn over the management of these multi billion dollar funds along with benefit payment duties to their respective Boards and avoid the need for contracual Department of Revenue employees. This would mean a loss of control that I doubt would be acceptable to all involved.

Buz Hoffman

ask LB 4A
for benchmark

The information and attachments to this report was obtained by reviewing the excellent Webb Site for this operation and discussions with Laurie Perkins of the Department of Revenue.

Attached are:

Mission statement

Enabling legislation, AS 37.10.210 and 220

Letter dated 12-15-98 to the Governor outlining the Comprehensive Financial Report for the year ended 6-30-98

FY 2000 Component Detail of the Operating Budget for this Board



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The Alaska State Pension Investment Board (ASPIB) was established pursuant to AS 37.10.210 on July 1, 1993. The purpose of the board is to provide prudent and productive management and investment of state pension funds.

The Systems and Plans for which the ASPIB manages and invests funds are the:

- Public Employees' Retirement System
- Teachers' Retirement System
- Judicial Retirement System
- National Guard/Naval Militia Retirement System
- Alaska Supplemental Annuity Plan
- Alaska Deferred Compensation Plan

The board consists of eight trustees and is staffed by the Department of Revenue, Treasury Division. The board is required to appoint an investment advisory council (IAC) composed of at least three and more than five members who possess experience and expertise in financial investments and management of investment portfolios. ASPIB also contracts with an external consulting firm for assistance with asset allocation and strategy, performance measurement, and general consulting purposes.

Powers and duties of the board in managing and investing for the funds are:

- Hold regular and special meetings, including annual joint meetings with the Public Employees' and Teachers' Retirement Boards.
- Establish investment policies.
- Submit investment reports to the Legislative Budget and Appropriations Committee.
- Prepare reports to the governor and employers participating in the retirement systems concerning investments, policies, and performance.

Guidelines

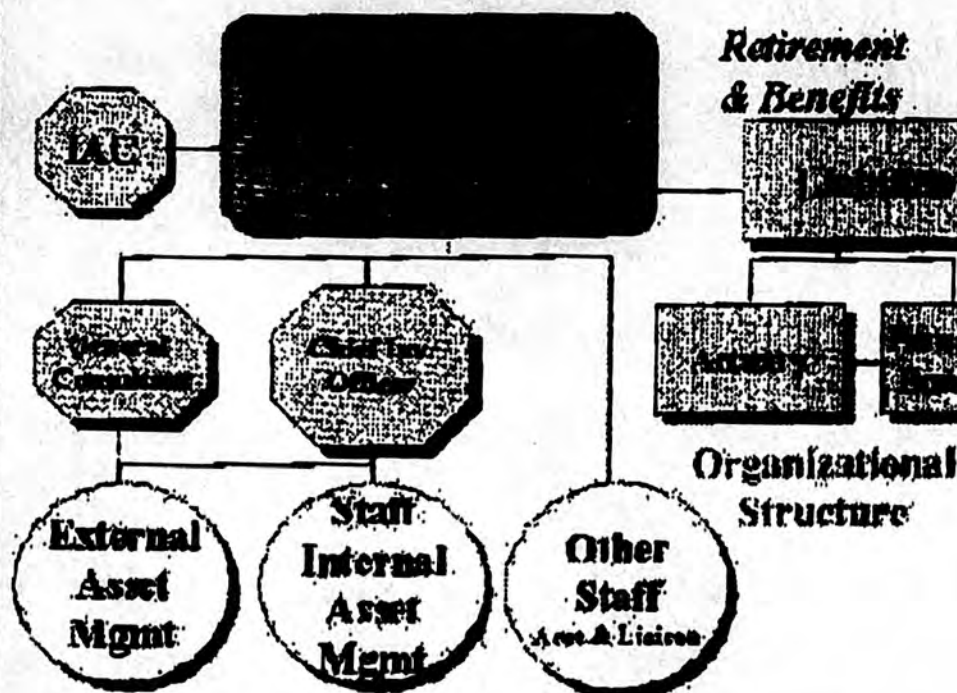
Equity
Performance
Fixed Income

Private Equity
Partnership
Real Estate

Life Insurance
Mutual Funds
Commodities

performance.

- Contract with external performance evaluators and report e year on the funds' condition to the board of trustees and oth appropriate boards.
- Engage independent certified public accountants to perform annual audit.
- Review actuarial earnings assumptions.
- Select and retain external investment managers and custodi
- Develop annual operating budget plan.

Organizational structure for management of retirement funds:

For more information
regarding the ASPIB
contact:

Judy Hall
ASPIB Liaison Officer
P.O. Box 110405
Juneau, AK 99811-0405
(907) 465-3749

For information regarding the
retirement systems or SBS,
contact:

Department of Administration
Division of Retirement &
Benefits
P.O. Box 110203
Juneau, AK 99811-0203
(907) 465-4460

Alaska Supplemental Annuity
Plan

Suggestions for this web site may be directed to Debbie McBride.



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Alaska Statutes.

Title 37. Public Finance

Chapter 10. Public Funds

Section 210. Alaska State Pension Investment Board

previous: Section 100. Costs of Action and Disposition of Amount Recovered.

next: Section 220. Powers and Duties of the Board.

AS 37.10.210. Alaska State Pension Investment Board.

(a) There is established the Alaska State Pension Investment Board in the Department of Revenue. The purpose of the board is to provide prudent and productive management and investment of state pension funds and, upon agreement with the commissioner of the department or the fiduciary responsible for the fund, of other state funds.

(b) The board consists of eight trustees. Two of the trustees shall be elected by the members of the public employees' retirement system from the membership of the system. Nominations may be made by the Public Employees' Retirement Board or by petition signed by at least 10 persons eligible to vote in the election. One of the trustees elected from the membership of the public employees' retirement system must be a participant in the supplemental employee benefits program established under AS 39.30.150 - 39.30.180. Two of the trustees shall be elected by the members of the teachers' retirement system from the membership of the system. Nominations may be made by the Teachers' Retirement Board or by petition signed by at least 10 persons eligible to vote in the election. The governor shall appoint three trustees. At least one of the appointed trustees must represent employers, other than the state, who participate in one of the retirement systems. The appointed trustees must have business and investment experience. The commissioner of revenue serves as a trustee.

(c) The appointed and elected trustees shall serve for staggered terms of four years and may be reappointed or reelected to the board.

(d) The governor may, by written notice to the trustee, remove an appointed trustee for cause. The Public Employees' Retirement Board may, by written notice to the trustee, remove a member elected from the membership of that retirement system for cause. The Teachers' Retirement Board may, by written notice to the trustee, remove a member elected from the membership of that retirement system for cause. After a trustee receives written notice of removal, the trustee may not participate in board business and may not

be counted for purposes of establishing a quorum.

(e) A vacancy on the board of trustees shall be promptly filled in the same manner as the seat was originally filled. A person filling a vacancy holds office for the balance of the unexpired term of the person's predecessor. A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

(f) The board of trustees shall annually elect a chair from among its members.

(g) Five trustees constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

(h) A trustee may not designate another person to serve on the board in the absence of the trustee.

(i) The board shall adopt a policy concerning investment education for trustees.

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SOFTWARE

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If it is critical that the precise terms of the Alaska Statutes be known, it is recommended that more formal sources be consulted. For statutes adopted after the effective date of these statutes, see, [Alaska State Legislature](#). If any errors are found, please e-mail Touch N' Go systems at touchngo@touchngo.com. We hope you find this information useful.

Last modified 6/14/1999

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Alaska Statutes

Title 37. Public Finance

Chapter 10. Public Funds

Section 220. Powers and Duties of the Board

previous: Section 210. Alaska State Pension Investment Board.

next: Section 230. Conflicts of Interest.

AS 37.10.220. Powers and Duties of the Board.

(a) The board shall

- (1) hold regular and special meetings at the call of the chair or of at least four members;**
- (2) establish investment policies for the funds for which it is responsible after reviewing recommendations from the investment advisory council and the Department of Revenue;**
- (3) submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee;**
- (4) report to the governor and employers participating in the retirement systems by the first day of each regular legislative session concerning the investment of funds for which the board is responsible, including financial and investment policies established by the board, and enclose a summary of the most recent performance evaluations of the funds managed by the board; the board shall notify the legislature that the report is available;**
- (5) contract with external performance evaluators to review the performance of each fund for which the board is responsible and report each year on the fund's condition to the board of trustees and to the other appropriate boards;**
- (6) engage independent certified public accountants to perform an annual audit of each of the funds for which the board is responsible and to report to the board with the results of the audit;**
- (7) review the actuarial earnings assumption for each fund for which the board is responsible every two years and report its findings and recommendations to the appropriate board or agency;**

(8) after reviewing the recommendations from the Department of Revenue and the advisory council, select and retain the external investment managers and custodians for the funds managed by the board;

(9) develop an annual operating budget plan and present it to the Department of Revenue and the office of management and budget; the board shall notify the legislature that the plan is available.

(b) The board may

(1) employ outside investment advisors to review investment policies and make recommendations to the board;

(2) employ legal counsel subject to the approval of the attorney general;

(3) contract for services necessary to carry out its powers and duties;

(4) enter into an agreement with the commissioner of the department or the fiduciary responsible for another state fund to assume fiduciary or management responsibilities for investing the other state fund;

(5) do all acts necessary to carry out the powers expressly granted or necessarily implied in this chapter.

(c) The board shall meet annually, either jointly or separately, with the Public Employees' Retirement Board, the Teachers' Retirement Board, and the Department of Administration to review benefit administration of each of the retirement systems and of the employee benefits program established under AS 39.30.150 - 39.30.180 and the deferred compensation program under AS 39.45. The Department of Administration and each retirement board shall report to the investment board on benefit administration and other issues for that retirement system or program that may affect the investment and management of the fund.

(d) The chair of the board shall appoint a trustee to present the board's position to legislative committees when the committees are considering the board's operating budget. The board is otherwise subject to AS 37.07

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SOFTWARE

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Note to HTML Version:

The Alaska Statutes were automatically converted to HTML from a plain text format. Every effort has been made to ensure their accuracy, but neither Touch N' Go Systems nor the Law Offices of James B. Gottstein can be held responsible for any possible errors. This version of the Alaska Statutes is current through December, 1998.

If it is critical that the precise terms of the Alaska Statutes be known, it is recommended that more formal sources be consulted. For statutes adopted after the effective date of these statutes, see, Alaska State Legislature. If any errors are found, please e-mail Touch N' Go systems at touchngo@touchngo.com. We hope you find this information useful.

Last modified 6/14/1999

December 15, 1998

December 15, 1998

The Honorable Tony Knowles, Governor
 Members of the Alaska State Legislature
 Public Employees' Retirement Board
 Teachers' Retirement Board
 Alaska State Pension Investment Board
 Employers and Members of the Systems

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) (Systems) for the fiscal year ended June 30, 1998. This report is intended to provide comprehensive information on the financial operations of the Systems for the year. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the Systems.

Although financial, investment, actuarial, and statistical information for both PERS and TRS is presented in this report, they are legally and financially two separate systems. The report is separated into two components, one for PERS and the other for TRS, with a common Introductory Section. The Introductory Section contains the administrative organization, the Certificate of Achievement for Excellence in Financial Reporting, and a letter of transmittal. Each component is divided into the following four sections:

- a **Financial Section**, which contains the Independent Auditors' Report, financial statements, schedules and supplementary information;
- an **Investment Section**, which contains a report on investment activity, investment results, and various investment schedules;
- an **Actuarial Section**, which contains the Actuarial Certification letter and the results of the annual actuarial valuation; and
- a **Statistical Section**, which includes various graphs and tables of significant data.

TRS was established in 1955 to provide pension and postemployment healthcare benefits for teachers and other eligible participants. PERS was established in 1961 to provide pension and postemployment healthcare benefits for eligible state and local government employees. Normal service, survivor and disability benefits are provided to all members who attain the age and service requirements of the Systems.

	PERS			TRS		
	FY98	FY97	FY96	FY98	FY97	FY96
Net Assets (millions)	\$ 7,438.4	6,566.2	5,567.7	3,915.2	3,492.1	3,030.6
Participating Employers	148	150	156	62	62	61

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December 15, 1998

Reporting Entity

The Systems are considered component units of the State of Alaska for financial reporting purposes. Because of the closeness of the Systems' relationship to the State, they are included in the State of Alaska CAFR as blended component units.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the Systems. In order to meet the statutory requirements of administering the Systems, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the Systems.

The Public Employees' Retirement and the Teachers' Retirement Boards prescribe policies and regulations, hear appeals and approve employers' contribution rates prepared by the Systems' independent actuary.

The Alaska State Pension Investment Board (ASPIB) is the fiduciary of the funds. ASPIB has statutory oversight of the Systems' investments and the authority to invest the Systems' monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The Systems continued to make progress on continuing projects and completed several new ones during the year. Most of these efforts focused on improvements in technology, providing additional methods for members to obtain information about the Systems and their benefits, and complying with new accounting requirements.

Changes to the current computer systems to improve current operations and to become Year 2000 compliant are proceeding. A conversion of employer reporting to electronic media is in progress.

On July 1, 1997, the Systems became self-insured for all postemployment healthcare benefits and contracted with a third party claims payor. The advantages to self-insuring include allowing greater flexibility in developing health care options. A link to the web site of our new health claims payor, NYLCare Health Plans Northwest, has been added to the Systems' home page. This site was created specifically for the Systems' health plans. At the site, members can print out claims forms and have access to information on benefits, wellness resources, hospitals, pharmacies, and providers.

Our web site has been expanded to include Projection Estimators that will estimate a member's monthly benefit at retirement. Members can estimate their PERS or TRS benefit and review their potential benefit under the Retirement Incentive Program (RIP).

The Systems adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25,

and Statement No. 26,

, in FY97. The major changes resulting from the adoption of these statements were disclosing investment expenses separately from administrative expenses and

- 3 -

December 15, 1998

distributing plan net assets between pension and postemployment healthcare. In addition, the newly revised Government Finance Officers Association's (GFOA's) have been incorporated into this CAFR.

During FY98, the Systems granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

To comply with OMB Circular A-87, the division must allocate operating costs among pension trust funds using an updated allocation base. The updated allocation plan will be implemented beginning in FY99, provided approval is secured from the cognizant agency.

The RIP continues to impact the Division by increasing the number of members retiring. The Division retired more people for the month of July 1998 than during the entire calendar year 1993.

During FY97, a bill was passed that amended the Retirement Incentive Programs for municipalities and school districts. Senate bill 130 allows for an administrator of a political subdivision, public organization, or school district to establish one or more periods during which eligible employees may apply to participate in the RIP. Window periods may be established from September 18, 1997, through June 30, 1999.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Systems for their CAFR for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. The Systems have received a Certificate of Achievement for the last five years. We believe this report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the Systems are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

Additions to Plan Net Assets

The revenues required to finance retirement benefits are accumulated through a combination of investment income and employer and employee contributions.

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December 15, 1998

	PERS				TRS			
	Millions		Inc/(Dec)		Millions		Inc/(Dec)	
	FY98	FY97	Amt	%	FY98	FY97	Amt	%
Employee Contributions	\$ 89.3	88.0	1.3	1.5%	\$ 50.1	49.6	0.5	1.0%
Employer Contributions	112.4	154.6	(42.2)	(27.3)%	77.8	66.3	11.5	17.3%
Net Investment Income	<u>937.8</u>	<u>997.4</u>	<u>(59.6)</u>	(6.0)%	<u>497.0</u>	<u>530.6</u>	<u>(33.6)</u>	(6.3)%
Total	<u>\$1,139.5</u>	<u>1,240.0</u>	<u>(100.5)</u>	(8.1)%	<u>\$624.9</u>	<u>646.5</u>	<u>(21.6)</u>	(3.03)%

The decrease in employer contributions for PERS was primarily due to a decrease in employer rates. The increase in employer contributions for TRS was primarily due to additional contributions required for the Retirement Incentive Program. The rate of return on investments decreased from 18.18% to 14.73% for PERS and from 18.12% to 14.83% for TRS, accounting for a major part of the decrease in net investment income.

Deductions From Plan Net Assets

The primary expense of the Systems is the payment of pension benefits, the principle reason the Systems exist. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the Systems comprise the costs of operation.

	PERS				TRS			
	Millions		Inc/(Dec)		Millions		Inc/(Dec)	
	FY98	FY97	Amt	%	FY98	FY97	Amt	%
Pension Benefits	\$195.5	177.3	18.2	10.3%	\$169.8	157.6	12.2	7.7%
Healthcare Benefits	56.2	48.4	6.8	14.0%	26.1	22.7	3.4	15.0%
Refunds	13.6	13.0	0.6	4.6%	3.5	2.6	0.9	34.6%
Administrative Expenses	<u>2.9</u>	<u>2.8</u>	<u>0.1</u>	3.6%	<u>2.2</u>	<u>2.2</u>	<u>-</u>	-
Total	<u>\$267.2</u>	<u>241.5</u>	<u>25.7</u>	10.6%	<u>\$201.6</u>	<u>185.1</u>	<u>16.5</u>	8.9%

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the Systems granted a discretionary cost-of-living (post retirement pension adjustment or PRPA) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits. The increase in administrative expenses was largely attributable to temporary and permanent staff increases to handle the RIP retirees.

Investments

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts its strategic asset allocation. This is to ensure the asset mix will remain at an optimal risk/reward level with respect to retirement systems' constraints and objectives. During FY98, ASPIB adopted its asset allocation that includes 38% in Domestic Equities, 15% in International Equities, 33% in Domestic Fixed Income, 6% in International Fixed Income, and 8% in Real Estate.

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December 15, 1998

During the year, ASPIB completed its funding on International fixed income. ASPIB also continued its diversification in investments through an increase in investment to real estate, and added alternative investments as a subclass of our domestic equity asset class during the year. ASPIB concluded real estate and alternative investments would be funded over a period of years. This is to ensure the funds are invested over a complete market cycle. At the close of the year, ASPIB has 3% in real estate investments and less than 1% in alternative investments.

For FY98, PERS investments generated a 14.73% rate of return and TRS investments generated a 14.83% rate of return. The PERS annualized rate of return over the last three years was 15.55% and 12.86% over the last five years. The TRS annualized rate of return over the last three years was 15.78% and 13.05% over the last five years.

Funding

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The funding objective of the Systems is to fund each participant's benefits as they accrue through contributions that are approximately level as a percent of payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The Systems continue to increase the level of funding, thereby assuring the membership of their continued financial soundness.

There were no significant changes in the actuarial assumptions during 1998. The PERS FY99 consolidated rate increased from 6.71% to 9.85%, producing a total average rate for all employers in the System of 7.74%.

	PERS Millions		TRS Millions	
	1997	1996	1997	1996
Valuation Assets	\$5,885.5	5,271.3	3,120.0	2,858.8
Accrued Liabilities	5,534.1	4,980.0	3,320.0	2,940.4
Funding ratio	106.3%	105.8%	94.0%	97.2%

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the Systems. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory section with the exception of investment professional consultants, who are listed in the Investment sections of this report.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the Systems. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

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December 15, 1998

The report is being mailed to all employer members of the Systems. They form the link between the Systems and the membership. Their cooperation contributes significantly to the success of the Systems. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Public Employees' Retirement Board, the Teachers' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the Systems.

Respectfully submitted,

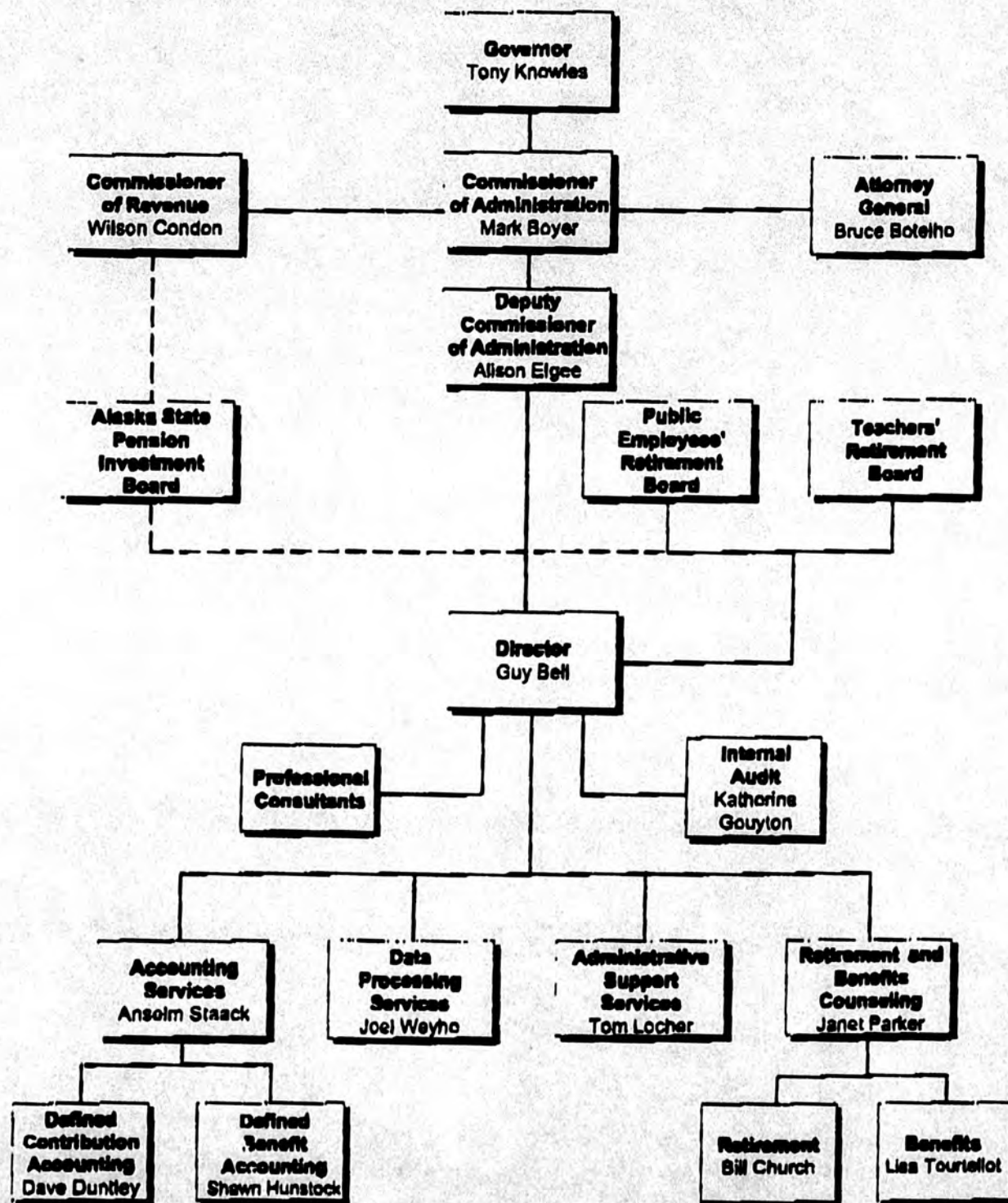
Mark Boyer
Commissioner

Guy Bell
Director

Janet L. Parker
Deputy Director

Anselm Staack, CPA, JD
Chief Financial Officer

Shawn Hunstock
Accountant

Introductory Section**ORGANIZATION CHART**

Introductory Section**Section Responsibilities**

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for administering the retiree benefit payments system which issues monthly and on demand retirement benefit payments to members and their beneficiaries. The section maintains the employee and employer records and accounts in the plan, produces financial reports, and assures compliance with the Internal Revenue Service requirements for Defined Benefit plans.

The **Defined Contribution Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

PROFESSIONAL CONSULTANTS

Actuary Consultant
William M. Mercer, Incorporated
Seattle, Washington

Independent Auditors
KPMG Peat Marwick, LLP
Anchorage, Alaska

Benefits Consultant
Deloitte & Touche, LLP
Minneapolis, Minnesota

Third Party Health Claim Administrator
NYLCare Health Plans Northwest
Seattle, Washington

Legal Counsel
John Gaguine
Kathleen Strasbaugh
Assistant Attorney General
Juneau, Alaska

Legal Counsel - Retirement Boards
Wohlforth, Argetsinger, Johnson & Brecht
Anchorage, Alaska

Consulting Physicians
Kim Smith, M.D.
William Cole, M.D.
Juneau, Alaska

A list of investment professional consultants for the Systems can be found on pages 42-43 and 114-115.

Component Detail - FY00 Operating Budget

Agency: Department of Revenue

Component: Alaska State Pension Investment Board
BRU: Revenue Operations

	FY98 Act	FY99 CC	FY99 Auth	Gov Amd	House	Senate	ConfComm	FY99 Auth to ConfComm	
								0.0	0.0%
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Travel	138.3	157.9	157.9	157.9	157.9	157.9	157.9	-250.0	-7.9%
Contractual	24,913.6	3,172.6	3,172.6	2,922.6	2,922.6	2,922.6	2,922.6	0.0	0.0%
Commodities	18.6	50.0	50.0	50.0	50.0	50.0	50.0	0.0	0.0%
Equipment	100.7	70.0	70.0	70.0	70.0	70.0	70.0	0.0	0.0%
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-250.0	-7.2%
** Total Expend.	25,171.2	3,459.5	3,459.5	3,290.5	3,290.5	3,290.5	3,290.5	0.0	0.0%
1017 Ben Sys	67.8	105.5	105.5	105.5	105.5	105.5	105.5	-162.5	-7.5%
1029 P/E Retire	16,199.8	2,157.4	2,157.4	1,994.9	1,994.9	1,994.9	1,994.9	-87.5	-7.5%
1034 Teach Ret	8,747.3	1,168.7	1,168.7	1,081.2	1,081.2	1,081.2	1,081.2	0.0	0.0%
1042 Jud Retire	119.3	15.8	15.8	15.8	15.8	15.8	15.8	0.0	0.0%
1045 Nat Guard	37.0	3.1	3.1	3.1	3.1	3.1	3.1	0.0	0.0%
Perm Full Time	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Perm Part Time	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Non-Perm	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%

8-23-99

To:
MaryAnn Pease
Chairperson
Commision on Privatization
And
Delivery of Government Services

From:
Buz Hoffman, Member

Re: Department of Revenue, Alaska Municipal Bond Bank Authority
BRU- Municipal Bond Bank authority

Attached to this report is the mission statement of the Bond Bank along with a copy of their fy 2000-operating budget authorizing a \$462,400 budget from interest income and fees. No general funds are used in this operation.

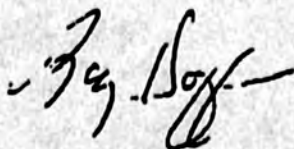
The Bond Bank is a model of complete privatization in that they have no employecs, do not pay rent and don't even have a full time Executive Director. Instead, they pay to the Department of Revenue, \$64,100 per year in lieu of rent and salaries. The Department of Revenue provides shared employees and office space as needed to complete bond transactions.

This information was obtained from the excellent "Home Page" of the Bond Bank and discussions with Deven Mitchell, the Department of Revenue employee who acts as the Executive Director.

For your review, the following items are attached:

Forwarding letter for the FY 98 financial statement
Mission statement and program outline
Component Detail-FY00 Operating Budget
Budget update, year ended 6-30-99

It is my opinion that the State should be commended for the excellent job of Privitization of Services of the Alaska Municipal Bond Bank Authority.



Forwarding Letter

December 31, 1998

The Honorable Tony Knowles
Governor of the State of Alaska

The Honorable Drue Pearce
President of the Senate

The Honorable Brian Porter
Speaker of the House of Representatives

Dear Governor Knowles,
Madam President and Mr. Speaker:

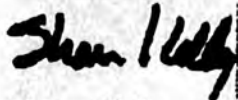
The fiscal year 1998 report of the activities and financial condition of the Alaska Municipal Bond Bank Authority (Bond Bank) is submitted in accordance with Alaska Statute 44.85.100.

During fiscal year 1998, the Bond Bank issued \$20,135,000 general obligation bonds for construction projects in the cities of Ketchikan and Wasilla and the Aleutians East Borough, and revenue bonds of \$15,225,000 for additional projects in Ketchikan. The very favorable interest rates and interest savings received from the bond sales were passed on to each participating community.

Our financial position remains strong. The Bond Bank will remit \$719,794 to the State of Alaska General Fund from its fiscal year 1998 operations. Since 1977 the Bond Bank will have paid \$20,923,663 to the state. This amounts to \$2,322,250 more than the original State of Alaska capital appropriation of \$18,601,413.

We are proud of the Bond Bank's accomplishments in fiscal year 1998 and we are pleased to share them with you.

Sincerely,



Sharon Kelly
Chairperson



Alaska Municipal Bond Bank Authority

[revenue bond applic](#)[C.O. bond applic](#)[AMBBB Board](#)[meeting minute](#)[FAQ's about AK](#)[E-mail](#)

FY 98 Annual Report

(Requires Adobe Acrobat Reader to open— See Adobe's [web site](#) to download a free copy of Adobe Acrobat Reader.)

[Treasury II](#)[Revenue Ho](#)[Alaska Ho](#)

Program Goals: To assist local governments with the financing of capital projects.

Program Resource: Direct loans. No set limits. Interest rates depend on the national market for tax exempt bond issues.

Eligibility: Any organized local government in need of capital project financing should contact the Bond Bank.

Alaska Program Status: The Bond Bank was established to assist Alaska municipalities that have difficulty financing capital improvement projects such as schools, water and sewer systems, public buildings, harbors and docks. The Bond Bank is a public corporation, created through the passage of the Alaska Municipal Bond Bank Act (AS 44.85).

It was created because these communities often are at a disadvantage in the financial markets. They may have low bond ratings or, although credit worthy, have not issued bonds or notes, have little outstanding debt, or lack investor familiarity.

Generally, the Bond Bank sells its bonds on the national market and utilizes the proceeds of its sales to purchase the bonds of Alaskan municipalities, thereby providing these municipalities with the funds for the construction or purchase of their capital projects. As municipalities pay principal and interest to the Bond Bank to liquidate their debt, the Bond Bank utilizes these payments to liquidate its debt to its bondholders.

Because the Bond Bank has received an "A" rating from both

Moody's and Standard & Poor's, it is able to borrow money at favorable interest rates.

The Bond Bank is self-supporting. It does not use General Fund monies, and, in fact, returns about \$600,000 to the General Fund each year. The Bond Bank has an excellent loan record, with no defaults. The Bond Bank has five directors consisting of three public members appointed by the Governor, the Commissioner of Revenue, and the Commissioner of Community and Regional Affairs.

The Department of Revenue provides administrative and management staff to the Bond Bank.

The Bond Bank can be reached as follows:

Alaska Municipal Bond Bank Authority
Deven Mitchell, Acting Executive Director
P.O. Box 110405
Juneau, AK 99801

Phone: (907) 465-2388
Fax: (907) 465-2902

E-Mail: AMBBA@revenue.state.ak.us

Physical address for express mail:

Alaska Municipal Bond Bank Authority
333 Willoughby Avenue, 11th Floor
Juneau, AK 99801

-
- [Application for Revenue Bonds](#)
 - [Application for General Obligation Bonds](#)
 - [Frequently asked questions](#) regarding State of Alaska bonds
 - Most recently approved [minutes](#) of the Board meeting of the Alaska Municipal Bond Bank Authority

[Return to Top](#) [Revenue Home](#) [Treasury Home](#) [Alaska Home](#)

Suggestions for this web site may be directed to [Debbie McBride](#).

[State Web Page Disclaimer](#)

Component Detail - FY00 Operating Budget

Agency: Department of Revenue

Component. Municipal Bond Bank Authority
BRU: Municipal Bond Bank Authority

	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
								0.0	0.0%
Personal Services	42.9	63.8	64.1	64.1	64.1	64.1	64.1	0.0	0.0%
Travel	6.3	10.1	10.1	10.1	10.1	10.1	10.1	0.0	0.0%
Contractual	379.4	384.4	384.4	384.4	384.4	384.4	384.4	0.0	0.0%
Commodities	1.5	3.8	3.8	3.8	3.8	3.8	3.8	0.0	0.0%
Equipment	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
** Total Expend.	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
1104 MBS Rcpts	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
Perm Full Time	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0%
Perm Part Time	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Non-Perm	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%

Alaska Municipal Bond Bank Authority
Budget Update
Year Ended June 30, 1999
With Prior Year Comparative Amounts and FY2000 Proposed Budget

	FY98	FY99	
Actual	Actual	Budget Projected Thru June 30, 1999	Budget
Personal Services	92,800	42,943	64,100
Travel	11,945	6,275	10,100
Contractual			
Trustee/Paying Agent	101,375	104,734	100,000
Investment Manager	69,557	68,471	70,000
Bond Counsel	54,377	58,885	60,000
Financial Advisor	29,211	45,367	55,700
Rating Services	16,500	31,250	25,000
Print/Advertising	13,931	23,710	30,000
Audit/Accounting	32,308	25,666	22,000
Custody Services	5,000	4,800	7,500
Other Prof Services	4,860	4,608	5,000
Telephone	7,332	2,095	7,200
Training/Dues/Subscriptions		1,913	2,000
Office Rent/Relocation	29,224	8,337	-
	363,473	378,436	384,400
Supplies	6,244	2,526	3,800
Equipment		4,059	-
	474,462	435,239	482,400

J:\BETTYM\1\DATA\FL\AMBSA\SUBGET\FY99\upd\JLG\070899

Prepared 7/7/99 by Betty Martin, Comptroller

Re: privatization

From: AMBBA Sample Graphic Bank.doc

Subject: Re: privatization

To: buz <buz@gci.net>

Buz,

The report looks good. One final point which would be nice to have incorporated is that the Bond Bank gives the State an annual dividend from interest income and fees generated. For FY 98 this dividend was \$719,794. Deducting the FY 99 operating budget from the dividend amount results in a net deposit of approximately \$384,000 to the State's General Fund

Deven

buz wrote:

>

> Deven,

> Hope you can open my report. If not, let me know and I will fax it.

> I think I'm factually correct but if not or if you want changes, please

> let me know.

> Buz

>

>

> -----
> Name: Alaska Mutual Bond Bank.doc
> Alaska Mutual Bond Bank.doc Type: Microsoft Word Document
> (application/msword)

>

Encoding: base64

AGENDA**COMMISSION ON PRIVATIZATION
AND
DELIVERY OF GOVERNMENT SERVICES****SUBCOMMITTEE - REVENUE
AUGUST 18, 1999
9:00 A.M.**

- Overview
- Mission

Our mission is to identify state government functions capable of more efficient performance in the delivery of government services, and determine whether those identified functions could most effectively be provided by other means which include:

*Transferring to the private sector or contract out
Transferring to other levels of government
Consolidating or making other efficiency changes, or
Any combination of the above*

- Key Revenue Departments
 - Income and Excise Audit
 - Oil and Gas Audit
 - Treasury
 - Child Support Enforcement Division
 - Permanent Fund Division
 - Alcoholic Beverage Control Board
 - Municipal Bond Bank Authority
 - Alaska Permanent Fund Corporation
 - Alaska Housing Finance Corporation
 - Alaska Mental Health Trust Authority
 - Alaska State Pension Investment Board
- Senate Bill 33
- Commission Schedule
- Suggested Outline for Subcommittee Reports
- Subcommittee schedule and division of workload
- Resources
 - a. Meeting and schedules
 - b. Copying and distribution of data
 - c. Correspondence
- Next Meeting

Agency Totals - FY00 Operating Budget

Agency: Department of Revenue

	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
Totals for Agency	122,746.3	144,017.7	144,936.7	146,259.7	144,742.3	144,574.5	141,805.4	-3,131.3	-2.2%
Objects of Expenditure:									
Personal Services	44,152.2	44,838.3	45,010.4	46,352.7	46,135.3	46,080.8	46,080.8	1,070.4	2.4%
Travel	1,377.9	1,696.1	1,717.1	1,691.5	1,639.8	1,678.2	1,678.2	-38.9	-2.3%
Contractual	72,391.4	94,894.1	95,013.5	93,879.6	94,201.3	93,879.6	93,879.6	-1,133.9	-1.2%
Commodities	1,757.0	1,668.0	1,671.5	1,705.2	1,705.2	1,705.2	1,705.2	33.7	2.0%
Equipment	1,561.4	906.2	909.2	1,015.7	995.7	1,015.7	1,015.7	106.5	11.7%
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	%
Grants, Claims	1,506.4	615.0	615.0	615.0	615.0	615.0	615.0	0.0	0.0%
Miscellaneous	0.0	-600.0	0.0	0.0	-550.0	-400.0	-3,169.1	-3,169.1	%
Funding Sources:									
1001 CBR Fund	529.2							0.0	%
1002 Fed Rcpts	26,583.2	28,172.8	28,324.5	29,403.0	28,686.7	28,686.7	28,686.7	362.2	1.3%
1003 G/F Match	1,884.2	1,799.5	1,807.2	1,945.0	-0.0	-0.0	0.0	-1,807.2	-100.0%
1004 Gen Fund	7,597.0	7,432.0	7,454.1	7,962.8	7,529.4	7,461.6	7,461.6	7.5	0.1%
1005 GF/Prgm	1,443.3	1,432.3	1,438.4	2,582.7	4,141.7	4,141.7	1,372.6	-65.8	-4.6%
1007 I/A Rcpts	4,073.4	2,756.1	2,763.4	2,788.6	2,788.6	2,788.6	2,788.6	25.2	0.9%
1011 Educ Trust	17.4	19.2	19.2	19.2	19.2	19.2	19.2	0.0	0.0%
1016 Fed Incent	3,057.5	3,517.3	3,528.3	2,500.0	2,500.0	2,500.0	2,500.0	-1,028.3	-29.1%
1017 Ben Sys	67.8	3,405.5	3,405.5	105.5	105.5	105.5	105.5	-3,300.0	-96.9%
1027 Int Airprt	30.4	31.0	31.1	31.1	31.1	31.1	31.1	0.0	0.0%
1029 P/E Retire	16,199.8	18,937.3	18,937.3	20,919.8	20,919.8	20,919.8	20,919.8	1,982.5	10.5%
1034 Teach Ret	8,747.3	10,123.8	10,123.8	11,191.3	11,191.3	11,191.3	11,191.3	1,067.5	10.5%
1042 Jud Retire	119.3	157.6	157.6	157.6	157.6	157.6	157.6	0.0	0.0%
1045 Nat Guard	37.0	39.9	39.9	39.9	39.9	39.9	39.9	0.0	0.0%
1046 Stdnt Loan	21.9	22.2	22.2	22.2	22.2	22.2	22.2	0.0	0.0%
1050 PFD Fund	4,564.4	4,626.8	4,643.0	4,793.0	4,793.0	4,793.0	4,793.0	150.0	3.2%
1053 Invt Loss	95.3	17.3	31.5	17.3	17.3	17.3	17.3	-14.2	-45.1%
1061 CIP Rcpts	1,101.2	1,290.3	1,302.4	1,353.6	1,353.6	1,353.6	1,353.6	51.2	3.9%
1066 Pub School	74.8	67.6	67.7	67.7	67.7	67.7	67.7	0.0	0.0%
1094 MHT Admin	881.9	881.5	882.9	924.8	907.4	907.4	907.4	24.5	2.8%
1098 ChildTrEm	33.0	33.9	34.0	34.0	34.0	34.0	34.0	0.0	0.0%
1103 AHFC Rcpts	14,475.9	14,990.7	15,160.6	15,849.7	15,849.7	15,849.7	15,849.7	689.1	4.5%
1104 MBB Rcpts	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
1105 PFund Rcpt	30,676.9	43,801.0	43,808.1	41,596.9	41,530.3	41,430.3	41,430.3	-2,377.8	-5.4%
1108 Stat Desig			491.6	491.6	491.6	491.6	491.6	0.0	0.0%
1133 IndCostRe					1,102.3	1,102.3	1,102.3	1,102.3	%
Positions:									
Perm Full Time	786.0	781.0	782.0	790.0	790.0	790.0	790.0	8.0	1.0%
Perm Part Time	33.0	32.0	32.0	30.0	30.0	30.0	30.0	-2.0	-6.3%
Non-Perm	72.0	55.0	55.0	58.0	58.0	58.0	58.0	3.0	5.5%

Agency Totals - FY00 Operating Budget

Agency: Department of Revenue

FY98 Act

FY99 CC

FY99Auth

Gov Amd

House

Senate

ConfComm

FY99Auth to ConfComm

Component Summary - FY00 Operating Budget

Agency: Department of Revenue

Page	Budget Component	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
Child Support Enforcement										
1	Child Support Enforcement	15,350.8	15,813.5	15,894.0	16,548.8	16,548.8	16,548.8	13,779.7	-2,114.3	-13.3%
	* BRU Total	15,350.8	15,813.5	15,894.0	16,548.8	16,548.8	16,548.8	13,779.7	-2,114.3	-13.3%
Alcohol Beverage Control Board										
2	Alcohol Beverage Control Board	644.7	633.4	636.2	636.2	636.2	636.2	636.2	0.0	0.0%
	* BRU Total	644.7	633.4	636.2	636.2	636.2	636.2	636.2	0.0	0.0%
Municipal Bond Bank Authority										
3	Municipal Bond Bank Authority	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
	* BRU Total	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
Permanent Fund Corporation										
4	Permanent Fund Corporation	30,676.9	7,961.0	7,968.1	8,266.2	7,966.2	7,866.2	7,866.2	-101.9	-1.3%
	* BRU Total	30,676.9	7,961.0	7,968.1	8,266.2	7,966.2	7,866.2	7,866.2	-101.9	-1.3%
PFC Custody and Management Fees										
5	PFC Custody and Mgt Fees		35,840.0	35,840.0	33,330.7	33,330.7	33,330.7	33,330.7	-2,509.3	-7.0%
	* BRU Total	0.0	35,840.0	35,840.0	33,330.7	33,330.7	33,330.7	33,330.7	-2,509.3	-7.0%
Alaska Housing Finance Corporation										
6	Operations	14,995.9	12,454.4	12,626.0	33,679.0	33,679.0	33,679.0	33,679.0	21,053.0	166.7%
7	Rural Housing	3,290.4	3,178.8	3,194.3	0.0	-0.0	-0.0	0.0	-3,194.3	-100.0%
8	Public Housing	12,945.6	16,410.6	16,501.5	-0.0	0.0	0.0	0.0	-16,501.5	-100.0%
9	Anch State Office Bldg	1,786.4	1,984.7	1,984.7	1,984.7	1,984.7	1,984.7	1,984.7	0.0	0.0%
	* BRU Total	33,018.3	34,028.5	34,306.5	35,663.7	35,663.7	35,663.7	35,663.7	1,357.2	4.0%
Alaska Mental Health Trust Authority										
10	Mental Health Trust Authority	881.9	881.5	882.9	924.8	907.4	907.4	907.4	24.5	2.8%
	* BRU Total	881.9	881.5	882.9	924.8	907.4	907.4	907.4	24.5	2.8%
Revenue Operations										
11	Income and Excise Audit	4,012.9	4,042.2	4,080.0	4,111.2	4,011.2	4,011.2	4,011.2	-48.8	-1.2%
12	Oil and Gas Audit	2,768.7	2,754.3	2,763.3	2,763.3	2,663.3	2,663.3	2,663.3	-100.0	-3.6%
13	Treasury Management	2,805.1	2,311.4	2,317.8	2,837.5	2,837.5	2,837.5	2,837.5	519.7	22.4%
14	Ak State Pension Investment Bd	25,171.2	3,450.5	3,450.5	3,200.5	3,200.5	3,200.5	3,200.5	-250.0	-7.2%
15	ASPIB Custody and Mgt Fee		29,213.6	29,213.6	29,213.6	29,213.6	29,213.6	29,213.6	0.0	0.0%
	* BRU Total	34,757.9	41,772.0	41,805.2	42,126.1	41,926.1	41,926.1	41,926.1	120.9	0.3%

Component Summary - FY00 Operating Budget

Agency: Department of Revenue

Page	Budget Component	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
Administration and Support										
16	Commissioner's Office	1,218.8	868.4	1,362.1	1,362.1	1,362.1	1,362.1	1,362.1	-0.0	-0.0%
17	Administrative Services	1,162.3	1,094.4	1,100.2	1,109.6	1,109.6	1,109.6	1,109.6	9.4	0.9%
18	Unallocated Reduction						-67.8	-67.8	-67.8	0.0%
	* BRU Total	2,381.1	1,962.8	2,462.3	2,471.7	2,471.7	2,403.9	2,403.9	-58.4	-2.4%
Permanent Fund Dividend										
19	Permanent Fund Dividend	4,600.5	4,662.9	4,679.1	4,829.1	4,829.1	4,829.1	4,829.1	150.0	3.2%
	* BRU Total	4,600.5	4,662.9	4,679.1	4,829.1	4,829.1	4,829.1	4,829.1	150.0	3.2%
*** Total Agency Expenditure		122,746.3	144,017.7	144,936.7	145,259.7	144,742.3	144,574.5	141,805.4	-3,131.3	-2.2%
Federal Funds		26,583.2	28,172.8	28,324.5	29,403.0	29,789.0	29,789.0	29,789.0	1,464.5	5.2%
General Funds		10,924.5	10,663.8	10,699.7	12,490.5	11,671.1	11,603.3	8,834.2	-1,865.5	-17.4%
Other Funds		85,238.6	105,181.1	105,912.5	103,366.2	103,282.2	103,182.2	103,182.2	-2,730.3	-2.6%



and Delivery of Government Services

www.privatizealaska.org

NOTICE OF SUBCOMMITTEE MEETINGS

Subcommittee Name: **DEPARTMENT OF REVENUE**

Chairperson: MaryAnn Pease

Phone: 277-1003

Fax: 277-1006

Committee Members:

MaryAnn Pease	Mike Barry
Frank Cox	Terry Duszynski
Will Gay	John Main
Dana Owen	Jim Picard
Doug Schmedlen	Jerry Timmons
George Weurch	Buzz Hoffman
Frank McQueary	Phoebe Wood
Leonard Steinberg	Lisa Roberts

Date: **Wednesday, September 1, 1999, 8:00 A.M.**
Wednesday, September 8, 1999, 8:00 A.M.
Wednesday, September 15, 1999, 8:00 A.M.

Place: **Legislative Information Office**
716 W. 4th Avenue
Second Floor Conference Room
Fairbanks, Juneau , Mat-Su LIO Teleconference On-line

If you have any questions please call Representative John Cowdery's office at 269-0222 or the Chairman of the Committee MaryAnn Pease.

The web site that has a current list of members and schedule of meetings posted daily!

www.privatizealaska.org

Department of Revenue Subcommittee Membership							
Pease	MaryAnn	277-1003	277-1006	Aurora Power	mapease@aurorapower.com	345-6322	
Barry	Mike	344-2581	349-2411	Dimond Center	mbdcmall@aol.com	243-4039	
Cox	Frank	271-4022	271-4545	Federal Government - SBA	frank.cox@sba.gov	333-0956	
Duszynski	Terry	479-3324	479-9319	Duszynski & Assoc	tduszynski@compuserve.com	479-3324	Fairbanks
Gay	Will	345-7773	343-6616Pat				
Main	John	269-6832	787-3135	APEA	MJTAKAHASHI@NETSCAPE.NET	345-2161	
Owen	Dana	465-2302	465-2389	Department of Revenue - Dept Contact			Juneau
Schmedlen	Doug	562-5592	562-5598	Century 21 Crawford Real Estate	crawford@aol.com	276-8503	
Timmons	Gerald	456-7195	455-8885	Timmons Contracting, Inc.	gtimmons@ptialaska.net	455-7195	Fairbanks
Wuerch	George	563-2737	561-3793	Municipality of Anchorage	wuerch@alaska.net		
Hoffman	Buz	357-3101	357-3102 call		buz@GCI.net	357-3101	Wasilla
McQueary	Frank	265-5368	265-5695	GCI	fmcqueary@GCI.com	243-2999	
Wood	Pheobe	265-1600	265-6339	ARCO	pwood@mail.arco.com		
Steinberg	Leonard	258-2000	258-2001	Brena Bell & Clarkson	lsteinberg@brenalaw.com	272-3733	
Roberts	Lisa	265-6092	265-1515	ARCO, Alaska	lroberts3@mailarco.com	696-0624	

DEPARTMENT OF REVENUE **CONTACTS**

DIVISION	NAME	NUMBER
Commissioner's Office	Dana Owen	465-2302
Treasury	Ross Kinney	465-4880
Income & Excise Audit	Larry Meyers	269-6620
Oil & Gas Audit	Dan Dickinson	276-1363
Child Support Enforcement	Barbara Miklos	269-6800
Permanent Fund Dividend	Nanci Jones	465-2323
Alcoholic Beverage Control Board	Doug Griffin	269-0350
Alaska Municipal Bond Bank	Ross Kinney	465-4880
Alaska Permanent Fund Corporation	Byron Mallott	465-2047
Alaska Housing Finance Corporation	John Bitney	338-6100
Alaska Mental Health Trust Authority	Jeff Jessee	269-7960
Alaska State Pension Investment Board	Ross Kinney	465-4880

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To	MARCO PENNACCHI	From	DANA OWEN		
Co./Dept.		Co.			
Phone #		Phone #	465-2302		
Fax #	907-269-0223	Fax #			

REVENUE Subcommittee
Contact Information Sheet

Name:

Mike Barry ✓

Work Phone:

344 2581 ✓

Home Phone:

243 4039 ✓

Fax:

349 2411 ✓

Company:

Diamond Center

Email:

mbdcwall@aol.com ✓

Address:

Suite 3-500
800 E. Diamond Blvd
Anchorage AK 99515

REVENUE Subcommittee
Contact Information Sheet

Name: JOHN MAIN ✓

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Fax: 787-3135 ✓

Company: APCA
~~Dept of Revenue~~
~~Child Support Enforcement~~

Email: ~~John.Main@Revenue.State.NY.US~~
- NJTAKA HASHI@NETSCAPE.NET ✓

Address:

Caps

REVENUE Subcommittee
Contact Information Sheet

Name: *LEISA ROBERTS*

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Fax: *265-1515*

Company: *ARCO Alaska, Inc. ✓*

Email: *lrobert3@^{mail}~~ar~~arco.com*

Address:

REVENUE Subcommittee
Contact Information Sheet

Name: Mary Ann Pease ✓

Work Phone: 277-1003 ✓

Home Phone: 345-6322 ✓

Fax: 277-1006 ✓

Company: Aurora Power ✓

Email: mapease @ aurorapower.com ✓

Address: Aurora Power Resources
work 310 K Street, suite 601
Anch., AK. 99501

REVENUE Subcommittee
Contact Information Sheet

Name: Joe Griffith

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Home Phone: 646 1868 ✓

Fax: 762 4514 ✓

Company: Clugach Electric Assn, Inc ✓

Email: Joe-griffith@clugachelectric.com ✓

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REVENUE Subcommittee
Contact Information Sheet

Name: Doug Schmedken

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Home Phone: 907-276-8503

Fax: 907-562-5598 ✓

Company: Century 21 Crawford ✓
Real Estate

Email: Small letters → CRAWFrd@aol.com ✓

Address: 500 E. Tudor Rd.
Anchorage, AK 99503

REVENUE Subcommittee
Contact Information Sheet

Name: Leonard Steinberg ✓

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Home Phone: 272 3763 ✓

Fax: 258-2001 ✓

Company: Brena Bell & Clarkson ✓

Email: lsteinberg@brenalaw.com ✓

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Anchorage AK 99501

REVENUE Subcommittee
Contact Information Sheet

Name: Cox, Frank D. ✓

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Fax: (907) 271-4545 ✓

Company: Fed. Gov. SBA ✓

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701 C St
Box 67
Anch. Ak.
99573

REVENUE Subcommittee
Contact Information Sheet

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Email: *fmigueary@gci.com*

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ANCHORAGE, AK 99502

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Name:

TERRY Duszynski ✓

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479-3324 ✓

Home Phone:

SAME ✓

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479-9319 ✓

Company:

Duszynski & ASSOC. ✓

Email:

TDUSZYNSKI@COMPUSERVE.COM ✓
all small letters

Address:

P.O. Box 83149
FBK, AK 99708

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To	ANNETTE	
From	FOX LIO	
Co.	Co.	
Dept.	Phone #	
Fax #	Fax #	

REVENUE Subcommittee
Contact Information Sheet

Name: *GERALD D. TIMMONS* ✓

Work Phone: *907 - 456 - 7195* ✓

Home Phone: *907 - 455 - 7195* ✓

Fax: *907 - 455 - 8885* ✓

Company: *TIMMONS CONTRACTING, INC.* ✓

Email: *gtimmons@ptialaska.net* ✓

Address: *PO BOX 74520*
FAIRBANKS
ALASKA 99707-4520

REVENUE Subcommittee
Contact Information Sheet

Name: *Buz Hoffman* ✓

Work Phone: *907 357-3101* ✓

Home Phone: *Same*

Fax: *907 357-3102* ✓

Company: *Retired*

Email: *buz@gc.net* ✓

Address: *Po Box 877534
Wasilla, AK 99687*

AGENDA**COMMISSION ON PRIVATIZATION
AND
DELIVERY OF GOVERNMENT SERVICES****SUBCOMMITTEE - REVENUE
AUGUST 18, 1999
9:00 A.M.**

- Overview
- Mission

Our mission is to identify state government functions capable of more efficient performance in the delivery of government services, and determine whether those identified functions could most effectively be provided by other means which include:

*Transferring to the private sector or contract out
Transferring to other levels of government
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- Suggested Outline for Subcommittee Reports
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Contractual	72,391.4	94,894.1	95,013.5	93,879.6	94,201.3	93,879.6	93,879.6	-1,133.9	-1.2%
Commodities	1,757.0	1,668.0	1,671.5	1,705.2	1,705.2	1,705.2	1,705.2	33.7	2.0%
Equipment	1,561.4	906.2	909.2	1,015.7	995.7	1,015.7	1,015.7	106.5	11.7%
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	%
Grants, Claims	1,506.4	615.0	615.0	615.0	615.0	615.0	615.0	0.0	0.0%
Miscellaneous	0.0	-600.0	0.0	0.0	-550.0	-400.0	-3,169.1	-3,169.1	%
<u>Funding Sources:</u>									
1001 CBR Fund	529.2							0.0	%
1002 Fed Rcpts	26,583.2	28,172.8	28,324.5	29,403.0	28,686.7	28,686.7	28,686.7	362.2	1.3%
1003 G/F Match	1,884.2	1,799.5	1,807.2	1,945.0	-0.0	-0.0	0.0	-1,807.2	-100.0%
1004 Gen Fund	7,597.0	7,432.0	7,454.1	7,962.8	7,529.4	7,461.6	7,461.6	7.5	0.1%
1005 GF/Prgm	1,443.3	1,432.3	1,438.4	2,582.7	4,141.7	4,141.7	1,372.6	-65.8	-4.6%
1007 I/A Rcpts	4,073.4	2,756.1	2,763.4	2,788.6	2,788.6	2,788.6	2,788.6	25.2	0.9%
1011 Educ Trust	17.4	19.2	19.2	19.2	19.2	19.2	19.2	0.0	0.0%
1016 Fed Incent	3,057.5	3,517.3	3,528.3	2,500.0	2,500.0	2,500.0	2,500.0	-1,028.3	-29.1%
1017 Ben Sys	67.8	3,405.5	3,405.5	105.5	105.5	105.5	105.5	-3,300.0	-96.9%
1027 Int Airprt	30.4	31.0	31.1	31.1	31.1	31.1	31.1	0.0	0.0%
1029 P/E Retire	16,199.8	18,937.3	18,937.3	20,919.8	20,919.8	20,919.8	20,919.8	1,982.5	10.5%
1034 Teach Ret	8,747.3	10,123.8	10,123.8	11,191.3	11,191.3	11,191.3	11,191.3	1,067.5	10.5%
1042 Jud Retire	119.3	157.6	157.6	157.6	157.6	157.6	157.6	0.0	0.0%
1045 Nat Guard	37.0	39.9	39.9	39.9	39.9	39.9	39.9	0.0	0.0%
1046 Stdnt Loan	21.9	22.2	22.2	22.2	22.2	22.2	22.2	0.0	0.0%
1050 PFD Fund	4,564.4	4,626.8	4,643.0	4,793.0	4,793.0	4,793.0	4,793.0	150.0	3.2%
1053 Invst Loss	95.3	17.3	31.5	17.3	17.3	17.3	17.3	-14.2	-45.1%
1061 CIP Rcpts	1,101.2	1,290.3	1,302.4	1,353.6	1,353.6	1,353.6	1,353.6	51.2	3.9%
1066 Pub School	74.8	67.6	67.7	67.7	67.7	67.7	67.7	0.0	0.0%
1094 MHT Admin	881.9	881.5	882.9	924.8	907.4	907.4	907.4	24.5	2.8%
1098 ChildTrEm	33.0	33.9	34.0	34.0	34.0	34.0	34.0	0.0	0.0%
1103 AHFC Rcpts	14,475.9	14,990.7	15,160.6	15,849.7	15,849.7	15,849.7	15,849.7	689.1	4.5%
1104 MBB Rcpts	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
1105 PFund Rcpt	30,676.9	43,801.0	43,808.1	41,596.9	41,530.3	41,430.3	41,430.3	-2,377.8	-5.4%
1108 Stat Desig			491.6	491.6	491.6	491.6	491.6	0.0	0.0%
1133 IndCostRe					1,102.3	1,102.3	1,102.3	1,102.3	%
<u>Positions:</u>									
Perm Full Time	786.0	781.0	782.0	790.0	790.0	790.0	790.0	8.0	1.0%
Perm Part Time	33.0	32.0	32.0	30.0	30.0	30.0	30.0	-2.0	-6.3%
Non-Perm	72.0	55.0	55.0	58.0	58.0	58.0	58.0	3.0	5.5%

Agency Totals - FY00 Operating Budget

Agency: Department of Revenue

FY98 Act

FY99 CC

FY99Auth

Gov Amd

House

Senate

ConfComm

FY99Auth to ConfComm

Component Summary - FY00 Operating Budget

Agency: Department of Revenue

Page	Budget Component	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
	Child Support Enforcement									
1	Child Support Enforcement	15,350.8	15,813.5	15,894.0	16,548.8	16,548.8	16,548.8	13,779.7	-2,114.3	-13.3%
	* BRU Total	15,350.8	15,813.5	15,894.0	16,548.8	16,548.8	16,548.8	13,779.7	-2,114.3	-13.3%
	Alcohol Beverage Control Board									
2	Alcohol Beverage Control Board	644.7	633.4	636.2	636.2	636.2	636.2	636.2	0.0	0.0%
	* BRU Total	644.7	633.4	636.2	636.2	636.2	636.2	636.2	0.0	0.0%
	Municipal Bond Bank Authority									
3	Municipal Bond Bank Authority	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
	* BRU Total	434.2	462.1	462.4	462.4	462.4	462.4	462.4	0.0	0.0%
	Permanent Fund Corporation									
4	Permanent Fund Corporation	30,676.9	7,961.0	7,968.1	8,266.2	7,966.2	7,866.2	7,866.2	-101.9	-1.3%
	* BRU Total	30,676.9	7,961.0	7,968.1	8,266.2	7,966.2	7,866.2	7,866.2	-101.9	-1.3%
	PFC Custody and Management Fees									
5	PFC Custody and Mgt Fees		35,840.0	35,840.0	33,330.7	33,330.7	33,330.7	33,330.7	-2,509.3	-7.0%
	* BRU Total	0.0	35,840.0	35,840.0	33,330.7	33,330.7	33,330.7	33,330.7	-2,509.3	-7.0%
	Alaska Housing Finance Corporation									
6	Operations	14,995.9	12,454.4	12,626.0	33,679.0	33,679.0	33,679.0	33,679.0	21,053.0	166.7%
7	Rural Housing	3,290.4	3,178.8	3,194.3	0.0	-0.0	-0.0	0.0	-3,194.3	-100.0%
8	Public Housing	12,945.6	16,410.6	16,501.5	-0.0	0.0	0.0	0.0	-16,501.5	-100.0%
9	Anch State Office Bldg	1,786.4	1,984.7	1,984.7	1,984.7	1,984.7	1,984.7	1,984.7	0.0	0.0%
	* BRU Total	33,018.3	34,028.5	34,306.5	35,663.7	35,663.7	35,663.7	35,663.7	1,357.2	4.0%
	Alaska Mental Health Trust Authority									
10	Mental Health Trust Authority	881.9	881.5	882.9	924.8	907.4	907.4	907.4	24.5	2.8%
	* BRU Total	881.9	881.5	882.9	924.8	907.4	907.4	907.4	24.5	2.8%
	Revenue Operations									
11	Income and Excise Audit	4,012.9	4,042.2	4,060.0	4,111.2	4,011.2	4,011.2	4,011.2	-48.8	-1.2%
12	Oil and Gas Audit	2,768.7	2,754.3	2,763.3	2,763.3	2,663.3	2,663.3	2,663.3	-100.0	-3.6%
13	Treasury Management	2,805.1	2,311.4	2,317.8	2,837.5	2,837.5	2,837.5	2,837.5	519.7	22.4%
14	Ak State Pension Investment Bd	25,171.2	3,450.5	3,450.5	3,200.5	3,200.5	3,200.5	3,200.5	-250.0	-7.2%
15	ASPIB Custody and Mgt Fee		29,213.6	29,213.6	29,213.6	29,213.6	29,213.6	29,213.6	0.0	0.0%
	* BRU Total	34,757.9	41,772.0	41,805.2	42,126.1	41,926.1	41,926.1	41,926.1	120.9	0.3%

Component Summary - FY00 Operating Budget

Agency: Department of Revenue

Page	Budget Component	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
Administration and Support										
16	Commissioner's Office	1,218.8	868.4	1,362.1	1,362.1	1,362.1	1,362.1	1,362.1	-0.0	-0.0%
17	Administrative Services	1,162.3	1,094.4	1,100.2	1,109.6	1,109.6	1,109.6	1,109.6	9.4	0.9%
18	Unallocated Reduction						-67.8	-67.8	-67.8	0.0%
	* BRU Total	2,381.1	1,962.8	2,462.3	2,471.7	2,471.7	2,403.9	2,403.9	-58.4	-2.4%
Permanent Fund Dividend										
19	Permanent Fund Dividend	4,600.5	4,662.9	4,679.1	4,829.1	4,829.1	4,829.1	4,829.1	150.0	3.2%
	* BRU Total	4,600.5	4,662.9	4,679.1	4,829.1	4,829.1	4,829.1	4,829.1	150.0	3.2%
	*** Total Agency Expenditure	122,746.3	144,017.7	144,936.7	145,259.7	144,742.3	144,574.5	141,805.4	-3,131.3	-2.2%
	Federal Funds	26,583.2	28,172.8	28,324.5	29,403.0	29,789.0	29,789.0	29,789.0	1,464.5	5.2%
	General Funds	10,924.5	10,663.8	10,699.7	12,490.5	11,671.1	11,603.3	8,834.2	-1,865.5	-17.4%
	Other Funds	85,238.6	105,181.1	105,912.5	103,366.2	103,282.2	103,182.2	103,182.2	-2,730.3	-2.6%

Marco,

Please pass along the attached materials to the sub-committee on the Dept. of Revenue. ANYTHING that could help CSED improve it's services are worth looking into.

The president of PSI, the company that has privatized some state's CSED services, is Bob Williams and can be reached at 1-303-863-0900.

Thanks,

Kevin Jardell



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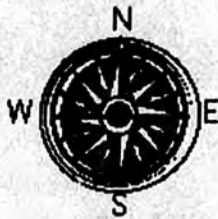
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Pioneer Institute
for Public Policy Research

Exploring
New Directions

Private Contracting in Human Services

Robert Melia

**Vice President,
Policy Studies Incorporated**

Executive Summary

The 1990s have seen a major debate over how government delivers services. The goal is to make government less bureaucratic, more responsive and flexible, and therefore to deliver more and better service for every taxpayer dollar consumed. At the federal level, the President has launched a "reinventing government" program. Locally, cities and states have attempted to introduce competition into the provision of many government services through the use of private contracting and selective privatization.

Although the terms are often used interchangeably, there is an important difference between privatization and private contracting. "Privatization" of government services occurs when government actually gets out of the business of delivering a service and lets the market determine the quantity and quality of service that will be provided. When government hires a private company to deliver a service, but maintains control over quantity and quality, the arrangement is more accurately termed "private contracting." For example, when Britain sold its stake in British Airways, it was truly privatizing air service-the newly private British Airways could provide more flights or fewer flights, drop or add destinations, and choose whether it wanted to offer premium service at a premium price or no-frills service at a bargain price. With private contracting, however, the government purchases a fixed amount of service and requires the private company to meet specific quality measures.

Most of the true privatizations have occurred in Europe and Latin America, where governments have traditionally provided services that Americans assume will be provided by the private sector-telephone service, banking, electric service, airline service, etc. In the United States, the debate has focused on

private contracting. Private contracting is more appropriate than privatization for many government services, especially in the human services arena. While we can easily imagine a government getting out of the business of owning and operating golf courses and skating rinks, it is highly unlikely that government would get out of the business of income maintenance, child protection services, or providing health care access for the poor and elderly. This paper focuses on private contracting in the human services area and examines the following issues:

- **Cost:** Is private contracting cost-effective? Can a private company be efficient enough to absorb the necessary marketing costs, make a reasonable profit, and still deliver the service for less than a public agency?
- **Quality:** Can private companies be trusted to perform quality work, or is the temptation to cut corners and increase profits too great to resist? Can government establish reasonable quality measures and hold private companies accountable for providing good service without simply recreating the overhead costs that burden government-run operations?
- **Methods:** Do private companies operate differently than public agencies? If so, do those differences translate into lower cost or better service?

This paper will use a case study to examine these issues and conclude with a postscript about Massachusetts, which has a unique law designed to limit private contracting.

Contracting for Human Services

Unfortunately, there is very little data about whether private contracting can provide quality human services more efficiently than a government agency. There has been relatively little written on the subject of private contracting in human services in general, although this is a very large segment of government operations. Total human service spending exceeds \$200 billion a year in the United States, and administrative costs exceed \$21 billion. Most literature on private contracting discusses such straightforward services as snow removal, highway maintenance, golf course and skating rink operations, and trash collection. These services are well suited to private contracting. Compared to many other government services, quality is easy to measure. Moreover, private companies routinely perform all of these functions. Many human services are, at least on the surface, not good candidates for private contracting because the quality of human service programs is hard to define. In 1989, the Massachusetts Executive Office of Administration and Finance concluded that Massachusetts was spending more than \$1 billion per year on the purchase of human services, but that it did not know exactly what services it was buying, how much it was buying, or what the unit cost of those services was. Because many human services are hard to define precisely, it is also difficult to measure their results and costs. In turn, this makes it difficult to write a tight contract and makes government agencies understandably wary about hiring a private company. Moreover, there are certain human services programs for which there is no significant private sector capacity or expertise. Nonetheless, if private

contracting is ever to have more than a peripheral role in government, the human services frontier must be crossed.

CASE STUDY: CHILD SUPPORT ENFORCEMENT

This paper examines the use of private contracting in the child support enforcement program. In looking at whether private contracting is suitable for human service programs, child support enforcement makes an especially good case study for several reasons: Complexity. Child support enforcement is a complex service involving both human service and enforcement functions. It therefore forces us to confront the issue of whether private companies can be trusted to perform in an arena where quality is hard to measure and the opportunity exists to maximize profits by skimping on service in ways that would be difficult to detect.

Available data. Thirteen states have privately contracted a portion of their child support enforcement programs, and enough data exist to draw some meaningful comparisons. GAO report. The General Accounting Office has recently finished a study comparing privately contracted child support offices to those run directly by government. The GAO carefully selected offices on the basis of similar caseload and demographics, allowing us to isolate the impact of private contracting on performance.

In addition, the author worked in the Massachusetts Child Support Enforcement Program from 1986 to 1989, and again from 1991 to 1995, as director of the program. Since January 1996, the author has worked for Policy Studies Inc. (PSI), a private company that runs child support programs in six states. Having delivered the same service as both a public official and as a private businessperson, the author has experienced the strengths and weaknesses of both approaches and uses this perspective to dig beneath the data and explain why performance differences exist.

Background

Before examining the data, it is helpful to have a general overview of the child support enforcement program and to understand the reasons so many states have started to move toward private contracting. Child support enforcement is a joint federal and state program. Since 1975, the federal government has reimbursed states for most (80 to 85 percent) of the cost of running their programs. As a condition for receiving federal funding, states must agree to follow detailed federal rules on what services states must provide, how they are to be provided, and in what time frame. The most recent federal report (for the year ending September 30, 1994) provides a good sense of the size of the child support program. The report notes that collectively, the 50 states

- managed 18.6 million cases
- determined paternity for 590,819 children
- established 1,023,792 support orders
- collected \$9.9 billion in child support

- spent \$2.6 billion in administrative costs
- employed 49,069 staff.

Child support programs perform three basic functions. First, they establish paternity for children born out of wedlock. For the most part, the mothers of these children receive public assistance payments. If a state collects child support from a father whose children are receiving such payments, the state keeps the money to help offset the cost of providing them. As a result, there is no immediate financial incentive for the mother to cooperate in identifying the father. Research in this area is inconclusive but suggests that about half of all mothers receiving aid with children born out of wedlock do not help identify the father. Sometimes, the parents may work out an agreement in which the father pays the mother a small amount of money (say, \$75 a month) in return for the mother not providing the child support enforcement agency with information about the identity of the father. Both parents benefit from such an arrangement. The mother receives additional money to supplement her welfare grant and the father pays less than he would be required to pay if he were legally established as the father. Also, many mothers do not identify the father because of a fear of reprisal.

Once the identity of the father is known, the next major step is to locate him. Most often, this is accomplished by accessing other government databases, such as driver's license data, tax return data, etc. Less often, it involves paying a sheriff, constable, or private investigator to search for the missing father. The last key task is collecting child support. Most child support is collected by identifying the father's employer and instructing the employer to withhold child support directly from the father's paycheck. Other enforcement tools include bank levies, real estate liens, income tax refund intercepts, seizure of personal property (cars, boats), threats to revoke driver's and/or occupational licenses, and contempt of court. Despite the array of tools available to child support agencies, much child support remains uncollected. On average, states collect about half of all the money that is due on outstanding orders. Moreover, there are more than 8 million cases without child support orders (primarily because paternity has never been established). The Urban Institute estimates that a perfect child support system-where all cases have a support order and all support is paid-would collect more than triple what states actually collect. Any system that operates at less than one-third of peak performance clearly suffers from significant problems, and there is a consensus among child support professionals as to the most important problems:

Fragmentation. In most states, the child support enforcement program is split among a state agency, county agencies, and the judiciary. The fact that no one entity is truly in charge makes it difficult to coordinate actions and introduce innovations.

Archaic rules. Child support enforcement suffers from extremely inefficient work processes, many of which are enshrined in legislation. Support orders issued in one state are not valid in any other state unless they have been properly "registered." This registration process is labor- and paper-intensive. A GAO

study indicated that it takes child support agencies an average of seven months to complete the paperwork necessary to enforce a case across state lines. Another study found that when an absent parent's income increases enough to warrant increasing his support order, it takes 6.4 months to implement that increase.

Obsolete technology. Despite more than \$1.5 billion in spending on technology nationally, only a handful of states have modern computer systems. Most states are making do with computer systems that do not track critical data elements and therefore cannot help caseworkers prioritize their workloads nor alert them to important dates and events.

Micro-management. For the most part, federal funding is simply open-ended reimbursement-the more a state spends, the more federal reimbursement it gets. In an attempt to make sure that states spend money effectively, the federal government intensively regulates every aspect of the program. There are regulations governing when cases must be opened. There are regulations governing when cases must be closed. There are regulations governing how many letters and notices must be sent, what those notices must say, when they must be sent, and which can be sent first class mail and which must be sent registered mail. As a result, child support enforcement staff have to spend time obeying regulations rather than collecting child support.

Understaffing. During the last few years, staffing has grown at an average of 7 percent annually, but the caseload has grown even faster. Moreover, ever more staff must be devoted to following the archaic rules and obeying the detailed federal procedures discussed above. With heavy caseloads and inefficient work processes, most states are significantly understaffed.

In 1988, and again in 1996, Congress passed legislation designed to ease these problems. The 1988 legislation required states to develop comprehensive new computer systems and committed the federal government to paying 90 percent of the cost of those systems. In 1996, Congress passed additional legislation designed to reduce the paperwork needed to enforce cases in which the parents live in different states and to make state child support agencies less dependent on the judiciary. Both the 1988 and 1996 legislation required that all state legislatures give their child support enforcement agencies stronger enforcement powers, such as the ability to seize bank accounts and revoke drivers' and occupational licenses. Also, as part of President Clinton's reinventing government initiative, the federal Office of Child Support Enforcement has begun to rethink its voluminous rules and regulations restricting how state child support agencies can act, with the goal of creating instead a system that recognizes and rewards success.

This movement toward creating a more flexible, efficient system has not yet demonstrated significant results, and the program's cost-effectiveness has not increased. In 1988, just before states began implementing stronger enforcement tools and developing their computer systems, the program collected \$3.94 for every dollar of administrative cost. In 1994 (the most recent year available), the

program collected \$3.86 per dollar spent. This complete lack of improvement in cost-effectiveness is a major force behind the move toward private contracting. The Urban Institute has estimated that over \$34 billion in child support goes uncollected each year. At the current rate of cost-effectiveness, states would have to spend an additional \$8.8 billion to collect all of this money. With most states unwilling to make this level of investment, child support enforcement directors have begun to look at all available means to increase cost-effectiveness, including private contracting.

The Move Toward Private Contracting

In 1991, Tennessee became the first state to use private contracting when it hired a private company to run the child support program in one of its 39 judicial districts. Today, 13 states have hired private companies to run full-service child support enforcement programs. To date, no state has asked a private company to run the program in the entire state. Instead, states hire private firms to run the program in one or more selected counties or districts. All these states pay private companies a percentage of the child support they collect. The rates range from 6.6 percent to 40 percent, depending on the case mix, the enforcement powers available in a given state, the exact services involved, and the amount of up-front private investment in equipment that must be recouped over the life of the contract. Most contracts pay private contractors 15 to 20 percent of collections. This payment structure gives private companies an incentive to be efficient and to invest additional resources up to the point where additional child support case workers no longer generate enough revenue to cover their costs.

Private companies under contract for child support enforcement generally have a free hand to introduce new technology, bring in new managers, and streamline organizational structures. However, private contractors must obey all the same rules and federal regulations as state agencies. In part, those rules are designed to ensure that all child support cases receive attention. The easiest way for a private contractor to make a large profit is to focus on the easy cases and ignore the hard cases where collections, if they materialize, will never cover the cost of the staff time needed to work the case. The victims of this strategy would be primarily low-income women who may be accustomed to inadequate service and unlikely to complain. Several states audit the performance of the private companies they hire, to make sure that these companies are performing all of the required services and are working all appropriate cases, not just those that are easiest to enforce and therefore the most profitable.

Private contracting now has enough of a track record to allow us to examine the three key issues: cost, quality, and methods.

Cost

On average, the 50 states spend 26 cents to collect one dollar of child support, but states vary widely in their cost-effectiveness. Most of this variance is explained by the fact that different states have different laws for establishing

child support orders and collecting those orders. Some states use a simple, inexpensive administrative process to establish a child support order, while others use a more expensive judicial process. Some states require employers to report promptly the names and social security numbers of everyone they hire, giving child support workers a fast, inexpensive way to garnish the wages of absent parents; other states do not yet have such a law.

While legislative and organizational differences make it difficult to compare cost-effectiveness among states, we can compare the cost-effectiveness of private offices versus public offices within the same state, because they both operate under the same laws and constraints. PSI operates full-service child support offices in six states, more than any other private contractor. In one state, West Virginia, the PSI office has been open less than a year and therefore has not yet established an independent track record. However, in the other five states (Arizona, Georgia, Nebraska, Tennessee, and Wyoming), PSI offices have been running for up to six years.

Table 1 shows that in each state in which it operates, PSI spends less to collect a dollar of child support than do public offices. Taking a weighted average, PSI collects a dollar of child support for 35 percent less than what public offices spend.

Table 1. Cost to Collect \$1 of Child Support

State	PSI Cost (\$)	Public Agency Cost (\$)
Arizona	0.28	0.48
Georgia	0.11	0.22
Nebraska	0.14	0.15
Tennessee	0.15	0.16
Wyoming	0.17	0.28
Weighted Average	0.15	0.23

Source: Public Agency data is taken from the preliminary version of the Office of Child

Support Enforcement, U.S. Department of Health and Human Services, Twentieth Annual Report to Congress. For public agencies, we have excluded the cost of distributing payments and developing new computer systems. PSI does not perform these functions in any of its contracts, and excluding these costs creates a level playing field. PSI data are from 1996. The average collections for both PSI and the public agencies were weighted by public agency collections.

Quality

The first question we should ask about this 35 percent cost advantage is whether it comes at the expense of quality. To help answer this question, Congress commissioned a General Accounting Office (GAO) report on the subject. The GAO examined private contracting in Arizona, Tennessee, and Virginia. In each state, the privately contracted office was run by a different company. The GAO

compared the performance of these three companies to the performance of state-run child support offices and concluded, "Fully privatized offices performed at least as well as or, in some instances better than, public child support programs in locating noncustodial parents, establishing paternity and support orders, and collecting support owed."

To arrive at this conclusion, the GAO conducted a "paired comparison" analysis of privately contracted versus government-run child support offices in Virginia, Arizona, and Tennessee. In each state, the GAO selected an office that had been under private contract long enough to have a track record. The GAO then selected a government-run office that had a three-year performance record similar to the performance record of the privately contracted office during its last three years of government management. The GAO made sure that the two offices served areas with similar demographics, caseload size and composition, and staffing levels.

By controlling for external influences (median household income, minority population, percentage of households headed by a single parent), resources (caseload-to-worker ratios), and past performance, the GAO study isolated the influence of private management as a performance factor. The GAO sampled cases from the six offices (three public, three private), determined what type of action was needed (locate the father, establish paternity, etc.), and then reviewed the case files to determine whether the appropriate action was taken. Table 2 presents the combined results from the private-public paired offices in Virginia and Arizona. (GAO did not present the findings from the Tennessee offices because its sample of cases in the public office turned out to be too small to be statistically significant.)

Table 2. Percentage of Cases with Successful Outcomes

Activity	Private Office	Public Offices
Location of Absent Parent	61	41
Establishment of Paternity	30	16
Issuance of Support Order	29	13
Collection of Support Payments	32	17

Source: Data are from the GAO report.

In all four key activities, the private offices outperformed their public counterparts by a wide margin. The performance difference on paternity establishment is especially significant. Cases requiring paternity establishment are generally the most labor-intensive cases, and they also tend to result in lower child support orders. If a private company were trying to skimp on service, this would be an area that would likely be affected. However, the GAO results seem to indicate that private companies were performing acceptably across the entire range of cases.

This conclusion is supported by comparative data on collections per case. Derived by dividing total collections by the number of cases in the company's

assigned caseload, the collections per case figure will be quite low for a private company that works only the easy cases. The GAO study did not present information on collections per case. However, as table 3 shows, PSI collects more per case in four of the five states in which it operates, and on average collects 30 percent more per case, than do public offices in the five states.

Table 3. Collections per Case

State	PSI (\$)	Public Agency (\$)
Arizona	418	405
Georgia	708	543
Nebraska	610	694
Tennessee	709	271
Wyoming	492	425
Weighted Average	615	472

Source: Public agency data are found in the Twentieth Annual Report to Congress.

PSI data is for 1996. Because the Twentieth Annual Report covers the federal fiscal year ending September 30, 1995, we have increased the public agency data. A multiplier consisting of the average increase in each state over the last four years was applied 1.25 times. (The PSI data is five quarters more current than the data found in the Twentieth Annual Report.)

Methods

Both the GAO report and PSI's performance record indicate that private companies have a significant cost advantage and achieve that advantage without sacrificing quality (in fact, the evidence suggests that quality also improves). We now discuss some of the reasons why private contractors perform better.

The GAO auditors asked both public and private child support enforcement managers about the advantages of private contracting. These managers reported that the most significant advantages include the following:

- the ability to purchase equipment in days or weeks that public agencies, laboring under elaborate purchasing rules, needed up to seven months to procure
- the ability to replace under-performing managers quickly
- (Interestingly, the GAO report did not cite the ability to replace under-performing front-line employees as a source of advantage. This focus on managers is exactly the opposite of what conventional wisdom takes as a source of advantage—that private contractors focus on removing under-performing rank and file employees.)
- the ability to operate during evening and weekend hours, which public agencies could not do without renegotiating union contracts
- the ability to install productivity-enhancing technology such as case tracking systems and bar-coded files quickly.

While the GAO auditors asked both government and private managers for their opinions regarding the advantages of private contracting, the report does not attempt to verify or quantify these opinions. Delving deeper into these supposed sources of competitive advantage is extremely important. Without a clearer understanding of why private contracting produces better results, we will be unable to determine whether, and under what conditions, private contracting can be used advantageously in other human services programs.

THE PSI EXPERIENCE

The primary cost of running a child support program is labor. Salaries and fringe benefits account for about two-thirds of the total cost. Add those expenses that are directly related to the number of staff (rent, furniture, workstations), and labor and labor-related expenses comprise about three-quarters of the total cost of running a child support enforcement program. If private contractors are in fact more efficient, the very first thing we should expect to see is a significant advantage in collections per FTE. As table 4 shows, PSI staff collect an average of 39 percent more child support per FTE than their government counterparts and out-collect government employees in all five states in which the company has been operating for more than a year.

Table 4. Collections per FTE

State	PSI (\$)	Public Agency (\$)
Arizona	185,172	97,475
Georgia	376,066	247,605
Nebraska	356,429	254,401
Tennessee	293,657	268,542
Wyoming	279,440	180,190
Weighted Average	321,868	230,747

Note: Costs have been weighted using public agency collections. Public Agency data found in the Twentieth Annual Report were used as a base. Because the Twentieth Annual Report covers the federal fiscal year ending September 30, 1995, and PSI data are for 1996, we have adjusted the public agency data. This data was increased by a multiplier consisting of the average increase in each state over the last four years, applied 1.25 times.

Before analyzing the reason for this very large productivity advantage, we should first discuss some of the common misconceptions about why the private sector is more cost-effective. Proponents of private contracting often state that the private sector hires better managers and better employees. In fact, some privatization proponents act and talk as if government were the employer of last resort and that government managers, "bureaucrats," are innately less intelligent, talented, and hardworking than private sector managers.

The child support enforcement experience with private contracting refutes this assertion. First, all three private companies that run child support enforcement programs have reached into state governments and hired senior child support officials to run their child support operations. Several of these ex-public

officials have helped to shape federal child support law and policy and have generally been regarded as able, innovative administrators. Before joining private companies, they managed programs in states (Virginia, Massachusetts, Missouri, Washington) generally regarded as leaders in child support enforcement. To be sure, private companies do have the advantage of being able to recruit from a national pool of highly regarded public managers. Some state governments may not have this luxury, either because their pay scales are too low or because their capital cities are not considered desirable places to live. Nonetheless, the individuals who are today delivering improved results as private managers are almost all former government managers.

Second, it does not seem to make any difference whether a private company opens a new child support office with all new employees or whether it "inherits" public employees. In some of the states in which PSI operates, the state transferred to PSI's payroll all or most of the government child support employees. In other states, the purpose of the contract was to expand services, and PSI was discouraged from raiding the state staff of experienced child support employees. Regardless of whether a particular PSI office is staffed primarily by ex-government employees or almost exclusively by employees newly hired from the private sector, PSI offices quickly begin to out-perform government offices. PSI's performance edge is not related to whether its staff are former government employees. Opponents of private contracting often assert that private companies achieve whatever competitive advantage they have by cutting the wages of their front-line employees, skimping on the service offered to the public, or both. Again, the facts do not support this argument. State agencies are usually sensitive to this issue, and if the contract involves transferring existing staff to a private company's payroll, states typically insist that the compensation package be substantially similar. Even without this requirement, private companies need to pay market rates to attract quality staff. As table 5 shows, the salary and benefits of PSI front-line child support workers are virtually identical to the compensation packages of their government counterparts.

Table 5. Compensation Comparison for Private and Public Child Support Workers

State	PSI (\$)	Public Agency (\$)
Arizona	30,914	30,271
Georgia	29,829	30,537
Nebraska	30,570	28,196
Tennessee	26,817	26,180
Wyoming	25,587	21,236
Weighted Average	29,425	28,902

Source: Public agency data derived from Renee R. Jackson, Occasional Paper No. 3, U.S. Department of Health and Human Services, Office of Child Support Enforcement, November 1995. PSI salary data are from 1997. Public agency salary data are from 1994 and have been increased by 4 percent per year to estimate 1997 costs.

None of PSI's cost advantage, then, comes from reducing wages or benefits. Another possible source of advantage is to reduce staffing levels below what the public agencies provided. This might reduce overall service levels, but it could also increase the profit margin, because there might be only enough staff to work the easiest, most profitable cases. A comparison of staffing levels shows that this is not the case.

Table 6. Staffing Levels

State	Public Agency	PSI Bid	PSI Current
Arizona	5	12	21
Georgia	25	40	49
Nebraska	57	62	72
Tennessee	18	25	45
Wyoming	20	23	46

Source: PSI's proposal to the Virginia Department of General Services, RFP #910-62, April 28, 1997. PSI has three contracts in Georgia. However, only one contract, for Fulton County (Atlanta) has been operational for more than a year. Therefore, Georgia data are for the Fulton County contract only.

In every instance, PSI's bid committed the company to higher staffing levels than those the public agencies were using, because the nature of the contracts gave PSI an incentive to increase collections. And, over time, PSI staffing levels have risen significantly, to enable the company to provide more service and work more difficult cases.

The partisan explanations-private sector employees and managers are inherently more talented and diligent than government bureaucrats, or private companies cut back on staff, wages, and benefits-do not stand up to examination and do not explain any of the significant performance and cost-efficiency advantages that private companies such as PSI enjoy. What, then, are the true sources of competitive advantage?

Having delivered the same service as a public manager and as a private manager, the author's experience has been that private companies have a significant advantage in five areas: technology, performance incentives, overhead, personnel flexibility, and competition. Each of these areas is worth discussing in some detail.

Technology

Almost every human service agency has a huge caseload, and child support enforcement is no exception. The 50 states struggle with 18.6 million child support cases. It is impossible to manage such a caseload intelligently without modern technology. Computers can increase effectiveness by applying decision-rules to cases and determining which cases need which actions, and when. Computers can also increase staff productivity by eliminating the need to search through paper files for important data, and by automatically generating standard

documents. Voice response systems can allow clients to access information about their own cases without speaking to a caseworker, thereby allowing caseworkers to spend more time actually working cases.

Private companies can and do identify specific applications in which technology can improve productivity and quickly buy or build the necessary technology. In Nebraska, for example, PSI realized that a bare-bones case-tracking and document generation system would significantly increase caseworker productivity; the company developed and implemented such a system within six months of starting operations.

Government agencies usually do not have the same freedom to identify specific applications and design targeted technology solutions. The nature of the government budget process encourages huge, cumbersome, costly, all-or-nothing solutions. Computer systems are normally purchased via special appropriations. In 1988, the child support enforcement system got its bite at the technology apple when Congress required that states develop comprehensive computer systems and agreed to pay 90 percent of the cost of building these systems.

These opportunities are few and far between. An agency is lucky to get such an appropriation once a decade. This encourages agency managers to ask for everything they think they may need during the next 10 years. As the request winds its way through the budget process, other interested parties add additional requirements. In the case of child support systems, the federal Office of Child Support Enforcement added a layer of reporting requirements that makes it easy for them to determine whether states are complying with all of the federal regulations that govern the program.

By this point, the proposed computer systems are so large and complex that once Congress reaches high level agreement about what these systems will do and agrees to fund them, it often takes another two or three years for the federal oversight agency (in this case the Office for Child Support Enforcement) to issue detailed regulations defining precisely what tasks these huge systems will perform. It then takes another two or three years to hire a computer consulting company to develop such a system. (In the case of child support systems, the systems are so complex that most states opted to hire a second consulting company to monitor the consulting company that was actually building the system.) As a result, nine years after Congress voted to require and pay for such systems, only three states have completed their computer systems and received federal approval that the systems work as advertised. Ironically, the 1996 welfare reform law that the President signed eliminated a number of the tasks that these computer systems were designed to perform and added new tasks that many of these systems will be unable to perform without expensive enhancements. These systems, developed at a cost that will approach \$2 billion, are literally obsolete the day they become operational.

The contrast between how government and private contractors develop and use technology is highlighted by looking at PSI's Nebraska operation. With only a

five-year contract, PSI could not afford to spend months or years defining all of the tasks it wished to automate. Instead, the company focused on the most immediate and pressing needs—those needs it thought would generate the largest and quickest payback. The computer system PSI installed in six months in 1993, although rudimentary in many ways, provides staff with productivity-enhancing case management and document-generating capabilities that Nebraska government employees still do not have and goes a long way toward explaining why PSI's Nebraska staff collect 40 percent more child support per person than their government counterparts.

Performance Incentives

All PSI child support enforcement employees are eligible to earn bonuses. Naturally, the bonuses are tied to actions that increase child support collections. By establishing more child support orders, tracking down more absent parents, and issuing more income withholding orders, front-line staff can earn bonuses of up to 10 percent of their base salaries. Such bonuses are highly motivating. In its Nebraska office, PSI staff are divided into four teams, and if a team reaches its income withholding goal, everyone on the team receives a bonus. If at least two teams exceed the goal, the goal for the next quarter is increased. The chart on the next page shows that the income withholding goal has increased by more than 60 percent over a three-year period. Teams consistently manage to reach or exceed the goal. The chart also shows that child support collections have increased along with the number of income withholdings issued. Income withholding is the most important collection tool; in some states more than 70 percent of all child support is collected via income withholding. To increase income withholdings by 60 percent over three years, PSI staff have had to increase their productivity in this area by 17 percent annually. By contrast, few government employees are eligible for bonuses, and nationally, the cost-effectiveness of the child support enforcement program has not improved at all over the last decade.

Public agencies are usually unable to pay bonuses. Even more startling, public agencies are sometimes unable to establish quantifiable performance goals for line staff. In Massachusetts, collective bargaining agreements prohibit the establishment of quantifiable performance measures for child support employees, thereby depriving public managers of a very powerful productivity tool. As the old management saying goes, you can't manage what you don't measure. With government managers often unable to measure performance—much less reward it—it should come as no surprise that productivity is lower in government-run offices.

Overhead

At the turn of the century, most government agencies had very little in the way of checks and balances. George Washington Plunkitt (of Tammany Hall fame) took great advantage of this absence of controls and explained how he acquired great wealth on a small salary by saying, "I seen my opportunities and I took 'em."

Today, government employs a large administrative oversight structure to ensure that proper checks and balances exist. Opportunities for malfeasance have been greatly reduced, but at a significant cost. Take the rental of office space, for example. If a public agency needs to move to a new site, it must follow an elaborate process of determining how much space it needs, and of what quality. Its work is then second-guessed, modified, and ultimately approved by a separate agency. After obtaining the necessary approval, the agency can develop what is known as a Request for Proposals (RFP). Typically, agency managers, facilities personnel, and lawyers are involved in developing the RFP, which specifies everything from how much space is needed, to the size and quality of the signage, to the number of bathrooms required. Notice of the RFP is usually published in a government publication devoted exclusively to these matters. Prospective landlords read the RFP and submit responses. After the closing date (usually about a month after the RFP is issued), a committee of public employees reads all of the responses and scores them according to a pre-determined formula that assigns points to factors such as location, quality of space, price, access to public transportation, etc. The highest scoring proposal is then forwarded to the appropriate oversight agency for approval. Once approved, the winning landlord is notified. It is not unusual for this process to take about a year and to involve 20 or more staff.

When a private company wins a contract and needs to acquire office space, the process is much different. Typically, the company will call a commercial real estate broker and describe its general needs-how much space, price range, and general location. A few days later the broker will call back with a description of half a dozen properties that meet the general criteria. After touring the properties, the company picks one or two that seem most suitable, negotiates price, and signs a lease. The process usually takes about 10 days and involves two employees (a contract manager and a facilities manager).

This streamlined process gives private companies an enormous advantage over public agencies. Public managers must go through the process described above, or something very similar, every time they want to purchase computers or equipment, hire staff, or shift money from one budget line item to another. This elaborate system of controls triggers an administrative staff "arms race." If you are a commissioner of a line agency and you want to accomplish anything, you must have enough of your own administrative oversight staff to do battle with the staff of overhead agencies-fill out the necessary forms, write the RFPs, and respond to the endless requests for information from the state's central personnel, budget, computer, and facilities departments. And the more administrative staff the line agencies have, the more staff the central overhead agencies need to process all of the requests from the line agencies. The Administrator of the Office of Federal Procurement Policy, Steven Kelman, says, "In the name of fighting corruption we have created a very over-bureaucratized, over-controlled, distrustful procurement system. We've gone way, way overboard." To estimate the cost of this administrative oversight apparatus, we can compare the "overhead" staffing of a private company (PSI) with a public agency (the Massachusetts child support program). Table 7 shows

that Massachusetts has 572 FTEs involved in the direct provision of child support and 152 in overhead positions, for a total of 724 staff. Administrative staff amount to 21 percent of total staff. PSI employs 38 administrative staff and 393 staff involved in direct provision of service, for a total of 431 staff. At PSI, administrative staff amount to just 8.8 percent of total staff. PSI collects \$321,868 per FTE, \$91,000 more than our public agency counterparts. If PSI had the same overhead ratio as the Massachusetts child support program, its collections per FTE would decline by \$37,000. More than 40 percent of PSI's total productivity advantage, then, comes from having a much simpler overhead structure. If public agencies need to spend an additional 12 percent of staff on administrative oversight, and if we assume that expenses roughly follow staffing patterns, then nationwide, the excess administrative cost is about \$300 million annually.

This estimate of excess administrative staff does not allow for the fact that state child support agencies must maintain a policy making staff that private contractors do not require. It also does not account for the fact that if private contracting were to become widespread, states would need to hire staff to monitor contract performance. Together, these two factors might account for 5 percent of total staff. I have also excluded administrative staff in the central oversight agencies. If private contracting were to become widespread, the need for such staff would decline.

Personnel Flexibility

This case study establishes that, for the most part, the quality of management and staff is not that much different between the public sector and the private sector. There are two exceptions to this general rule. First, public agencies find it more difficult to keep their most talented staff. Public agencies can almost never create promotional opportunities through rapid growth, and some talented employees, realizing their promotional opportunities may be blocked until others quit or retire, leave in search of greater opportunity. Other staff, especially those with technology expertise, can earn a substantial premium in the private sector and leave for more money. In most cases, government personnel systems simply lack the flexibility to provide the incremental opportunities and compensation needed to keep certain key employees.

At the other end of the spectrum, public agencies find it excruciatingly difficult to dismiss under-performing employees. The "progressive discipline" process (informal warning, formal warning, performance improvement plan, suspension, and finally termination) can easily take more than a year. Many public managers (the author was among them) will often take the path of least resistance and tolerate, isolate, or compensate for such problem employees rather than put in the many hours needed to terminate them. These two problem areas—the difficulty in keeping the most talented staff and the difficulty in dismissing the least talented—probably affect less than 5 percent of the total workforce. Nonetheless, losing a few high performers and dealing with a few chronic under-achievers can sap an organization's strength.

Competition

The final source of advantage is the competitive nature of the private sector. The child support enforcement program has not improved its cost-effectiveness in 15 years, perhaps because public agencies have no incentive to improve productivity. For the most part, the federal government simply reimburses states-the more states spend, the more federal reimbursement they receive. Ron Haskins, staff director of the House subcommittee with jurisdiction over the child support enforcement program, notes that "even if states spend a great deal of money on activities of dubious value in collecting child support, they can nonetheless count on 66 percent reimbursement from the Federal Government."

Private companies are always searching for ways to improve productivity, lest they be overtaken by more productive rivals. This constant search for more productive ways of doing business is reflected in the structure of child support contracts. Most of these contracts are three- to five-year arrangements, and competition typically forces a private company to reduce its percentage fee every year. In Nebraska, for example, PSI charged the state 15 percent of collections during the first year of the contract, but that percentage declined by half a point each year, until it reached 13 percent in the fifth year. This forces PSI to improve productivity by 3 or 4 percent each year or watch its profit margin evaporate. Three percent per year may not sound like much. But compounded over 15 years-the period of time in which there has been no overall improvement in cost-effectiveness in the child support program-this amounts to 56 percent. If the program were 56 percent more cost-effective, an additional 1.7 million families would receive child support each year, lifting many of them out of poverty and off the public assistance rolls.

CONCLUSION

This case study establishes that private contracting can deliver a human service cost-effectively and at a level of quality that is at least as good as government agencies. The study also shows that state governments can create both measurable performance standards for private contractors and the auditing capabilities needed to ensure that those performance standards are met. The case study also illustrates the major reasons why private contracting can be more efficient. Two advantages of private contracting seem particularly important: lower administrative oversight costs and a much greater ability to improve productivity via technology. At least in the child support enforcement arena, these advantages outweigh the two areas where private companies are at a disadvantage relative to public agencies-marketing costs and the need to make a profit.

The fact that private companies need to make a profit has caused many people to oppose the use of private contracting in the human service arena. Human service problems will always outstrip the funds available to address those problems, and the idea that some human services funds will be converted to profit disturbs many people. However, taxpayers have always paid more than

the cost of the service actually delivered. A century ago, widespread corruption and nepotism increased the cost of providing public services. Today, a Byzantine administrative oversight structure soaks up many of the dollars that, in an ideal world, would directly fund human services.

To maximize the percentage of the human service budget actually devoted to providing service, we need to identify those programs where the handicaps of government (excessive overhead, inflexibility, obsolete technology, lack of performance incentives) outweigh the handicaps of private contracting (profit and marketing costs). This is not always an easy issue to decide. The GAO study emphasizes that governments must be careful when arranging for private contracting. The study found that in one state, the private companies charged 11.5 cents to collect \$1 in child support, while the public cost was 18.4 cents. In a second state, the private contractor charges between 24 and 29.5 cents, while the public cost was 34.8 cents. However, a third state paid a private company 15 cents, while the publicly run "control" office could do the job for just 9.9 cents. These examples, in which a private company charges from 37 percent less to 56 percent more, indicate either that a private company is not always more cost-effective than government or, perhaps more likely, that a private company does not always pass those savings along to the taxpayers in the form of lower costs or better service.

Several organizations and governments have begun to provide a checklist of activities that governments should undertake to ensure that they benefit from private contracting. The checklist includes the following tasks:

Determine if the service in question is a core function. Policy making, regulatory, and other sensitive public functions should rarely, if ever, be privately contracted. But most government employees work in non-core functions-filling potholes, taking applications, or determining benefit eligibility. For the most part, these functions require little discretion, and private companies usually have experience in providing identical or similar service. The same logic has been followed in child support enforcement. While the day-to-day operations have been contracted in some states, the policy making and regulatory functions remain firmly in government hands in all states.

Determine how to measure the quality of the service. For some services (snow plowing or janitorial services), a couple of straightforward measures will suffice. But for many human services, especially those that require discretion, it is much harder to get a good measure of quality. However, the GAO study, which sampled cases to determine what action was needed and then examined the case record to determine if the action was in fact taken, shows that quality measures can be established even for complex human services.

Establish the true cost of performing the service. This is not nearly as easy as it sounds. Most government managers do not know the true cost of the service they provide, because important costs are either buried in other agencies' budgets or not recognized by government accounting systems. For example, most departmental budgets do not include any provision for depreciation nor do

they account for the fact that state employees will eventually retire and draw a pension. No state would knowingly pay a private company a higher price to perform a service. The reason the GAO found that one state paid a private company 56 percent more to collect child support was that the state did not know its own costs at the time it hired the private company.

Define the unit of service. If a government agency is going to engage in private contracting, it should define exactly what service it is buying. A highway department might purchase lane-miles of snow plowing or potholes filled. In the child support enforcement contracts discussed above, states were buying "dollars of child support collected."

Establish the unit cost of performing the service. Once a government agency has determined its true budget for a program and has defined the unit of service, it can establish its unit cost. The fact that most public agencies do not measure unit costs means that most government agencies cannot focus on improving productivity and cost-effectiveness. This, in and of itself, is a major reason private companies are usually more cost-efficient.

Empower public employees to reduce their costs. There is considerable evidence that public employees can significantly reduce their costs, provided that they know what the components of their costs are and have some flexibility to change work procedures. For example, Indianapolis reports that public employees reduced the cost of street repairs by 25 percent (and have won 80 percent of all crack sealing/pothole bids).

Ideally, all of this work should be done before inviting private contractors to bid on a service. Having carefully defined the service in question, developed quality measures, and determined unit costs, and having worked to deliver the service as efficiently as possible in-house, a government agency is now in a good position to judge whether a private bid represents good value. If the agency does elect to engage in private contracting, it will have already done much of the work needed to establish and monitor performance standards.

In addition to the guidelines mentioned above, the child support enforcement experience highlights several additional guidelines that public agencies should follow to maximize their benefits from private contracting:

Avoid the temptation to micro-manage. States that get the maximum benefit from private contracting hold the private company responsible for results, but avoid, insofar as legally possible, dictating how the private company should obtain those results. In an example of what not to do, one state recently issued an RFP for child support enforcement services and required that the private company replicate the existing state organization chart, including the large number of administrative oversight and management staff. As we have seen, this will negate one of the single largest sources of cost savings.

Provide accurate information. Human service agencies are notorious for not knowing how many cases they have or what services those cases need. When

private companies are asked to manage an operation with such uncertainties, they will often increase their bids to account for the increased risk of bidding on such uncertainties. PSI recently won a contract to manage 20,000 child support cases. After hiring enough staff to handle 20,000 cases, equipping them all with computers, and signing a multi-year lease for sufficient space, the company began operations-only to find that there were really only 12,000 cases. This has to happen only once for a private company to learn to adjust its bid to reflect this risk factor. By following some of the suggestions made earlier-defining unit costs and working to reduce the in-house cost of providing the service-public agencies will improve the quality of their information about the caseload.

Don't create a private monopoly. The process of private contracting is complicated and tedious. Once having made a decision to contract privately for a service, the temptation is to write a large contract and give the entire service to one company, so as not to have to repeat the contracting process. Unless there are compelling economies of scale, this is usually a mistake. Over the past 20 years, experience has shown that competition produces better value, even in areas such as telephone, airline, and electricity service, where monopolies were once thought to be the most efficient way to do business. States are encouraging competition in child support enforcement by writing multiple, smaller contracts.

Keep some in-house expertise. Even if private contracting is more effective, it is probably a good idea to continue to have government directly deliver at least a small portion of the service, for three reasons. First, government employees become another source of competition, which will tend to keep the price lower in the long run. Second, it allows government to continue to experiment with ways to improve quality and reduce cost, and permits government to maintain a (hopefully) constantly improving benchmark against which to compare contractor performance. Third, maintaining the expertise needed to take back a service is the ultimate insurance policy against an incompetent contractor.

Research companies' past performance and weigh references appropriately. In our private lives, the more important the purchase, the more research we do before we buy. When we buy a car, most of us ask friends who drive the same model how they like it, and whether they would buy another. Human services are perhaps the most important purchase a government can make, but unfortunately, relatively little weight is given to past performance and references of potential contractors. Most government contracts are scored according to a formula, with such factors as the proposed service plan, the resumes of the key individuals providing the service, and price all having a pre-determined weighting. While government agencies almost always ask for references, it is common for references to account for as little as 5 percent of the total score.

Evidence is accumulating from around the country that governments can offer more and better service if they make judicious use of private contracting. To date, most of that evidence has been at the municipal level and has involved such basic services as trash removal, snow plowing, and park maintenance. This case study suggests that private contracting can also be used to improve the

quality and cost-effectiveness of human services, and has attempted to both explain and quantify the advantages of private contracting. Our last task is to look at private contracting in Massachusetts.

A MASSACHUSETTS POSTSCRIPT

No one keeps track of the total number or value of private contracts let by governments. Anecdotal evidence suggests that the trend toward private contracting is accelerating, and that trend is evident in the child support program. Tennessee was the first state to move toward private contracting for child support in 1991. By 1995, eight states had hired a private contractor to manage part of their caseload. By the end of 1996, 13 states were using private contractors. And through the first four months of 1997, three more states have begun the process of private contracting. Massachusetts is not among this group. In Massachusetts, there has been very little private contracting done since 1993, when the state legislature passed a law making it more difficult for agencies to use private contractors. The law (commonly called the "Pacheco" law, after its sponsor, Senator Marc Pacheco) has the following major provisions:

1. The purchasing agency must establish quantitative performance measures that the contractor must meet in the areas of quality, timeliness, and effectiveness.
2. Contractors must base their bids on wage and benefit costs that closely approximate the wages and benefits paid to public employees currently performing the work.
3. Displaced public employees must (assuming they are qualified) be offered jobs with the private contractor.
4. The private contractor must offer equal quality at a lower cost or better quality at an equal or lower cost.
5. The private contractor's bid must be compared not to the current in-house cost but to the cost that would result if public employees worked in the most cost-efficient manner possible.
6. All contracts must be approved by the State Auditor before they can be awarded.

Requirements number one and four are good common sense. Requirements number two and three are neutral as far as private contracting is concerned. As this case study shows, private contractors can and do hire displaced public employees and tend to offer similar wages and benefits. Requirements number five and six, however, are problematic.

There are three major problems with the requirement that a private company must not only be able to beat the current cost of providing the service, but be able to beat the cost of the public agency if that agency operated "in the most cost-efficient manner." First, the constraints of managing in the public sector (civil service regulations, capital budgeting caps, etc.) may often prevent the most cost-efficient solution from being implemented. Second, no organization anywhere in the world ever does anything in the most cost-efficient manner. New and better ways of organizing work are constantly being discovered—that is

the nature of innovation. Third, if a public agency is currently cost-inefficient, it is suffering from a management problem. Why should the public have any confidence that the same managers who developed and/or tolerated an inefficient process will suddenly operate in the most cost-efficient manner possible?

Perhaps most importantly, the Pacheco bill, through requirement number six above, sets up an adversarial process. By the time an agency has prepared an RFP, reviewed proposals, and selected a private company to manage part of its operations, it has decided, correctly or incorrectly, that a particular service should be delivered via private contracting rather than directly by state employees. The requirement that another arm of government, which does not have any expertise in the service being provided, second guess the contract adds delay and additional cost. This is especially true because government accounting systems are not designed to determine the cost of any given government service—they are designed to make sure that employees do not steal. Many government costs are indirect and must be allocated to the service in question. Reasonable people can and do disagree over how best to allocate indirect costs. That is one reason the State Auditor often disagrees with agency management about whether private contracting saves money.

The knowledge that government accounting systems give the Auditor considerable discretion in deciding whether a private bid in fact saves money, combined with the knowledge that one is bidding against a hypothetical in-house bid, acts as a powerful deterrent to private contracting. Putting a good RFP together and evaluating bids takes a lot of effort, and agency managers are understandably reluctant to put in the effort if they think that all of their work will be for naught. Likewise, private companies are less likely to bid if they think that the contract will be delayed for several months and very possibly not issued at all. To the extent that this happens, the Pacheco law, rather than insuring fair competition, discourages competition.

Both taxpayers and human services clients can benefit from real competition. We have already seen that private contracting can increase child support collections by 39 percent per FTE. With the child support program employing 49,000 staff nationwide, that is a potential increase of \$4 billion in child support collections. If this type of performance edge—or anything close to it—can be obtained in other human service areas, then agencies ought to move forward and experiment with private contracting as quickly as they can. With the results of a small-scale private contract in hand, managers can decide whether it makes sense to move toward large scale private contracting or whether it is better to continue providing the service in-house. This type of competition—comparing the results of real private contractors with the results of real public employees—is far more likely to improve service than a process designed to compare the bids of private contractors with a hypothetical "most cost-efficient" in-house solution.

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RECOMMENDATIONS

REVENUE SUBCOMMITTEE

COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES

OCTOBER 6, 1999

The mission of the Revenue subcommittee to the Commission on Privatization and Delivery of Government Services is to identify state government functions capable of more efficient performance in the delivery of government services, and determine whether those identified functions could most effectively be provided by other means that include:

- Transferring to the private sector or contracting out
- Transferring to other levels of government
- Consolidating or making other efficiency changes, or
- Any combination of the above.

The aforementioned mission statement and Senate Bill 33 clearly define the responsibilities of this Subcommittee to the Commission on Privatization and Delivery of Government Services. We are submitting our written report summarizing the findings and recommendations for each subunit of the Department of Revenue. We have focused our recommendations to the Child Support Enforcement Division and the Alcoholic Beverage Control Board.

The reports from each Revenue subunit have been included for your consideration as well as the more detailed reports on the two departments that were the primary focus of our attention. Before any of the recommendations on privatization can be carried out, it will be necessary to do a detailed audit, placing primary emphasis on the areas that we have brought forth in the individual reports.

The following is a breakdown of the departments with the ensuing recommendations:

1. Income and Excise Audit Division

The Revenue Subcommittee reviewed the operations of this government unit. The Revenue Subcommittee noted that the Income and Excise Audit Division and the Oil and Gas Audit Division already have a plan to merge into a single unit; the Subcommittee agrees with and encourages this move toward consolidation. The Subcommittee also noted that the Division already engages in limited outsourcing of services and encourages the Division to continue seeking opportunities for outsourcing where it is economically efficient to do so.

2. Oil and Gas Audit Division

The Revenue Subcommittee reviewed the operations of this government unit. The Revenue Subcommittee noted that the Oil and Gas Audit Division and the Income and Excise Tax Audit Division already have a plan to merge into a single unit; the Subcommittee agrees with and encourages this move toward consolidation. The Subcommittee also noted that the Division already engages in limited outsourcing of services and encourages the Division to continue seeking opportunities for outsourcing where it is economically efficient to do so.

3. Treasury

The Revenue Subcommittee reviewed the operations of this government unit. The Subcommittee has no recommendations for changes to the Treasury unit at this time.

4. Child Support Enforcement Division

Some exceptionally committed Subcommittee members invested considerable time and resources investigating and producing a report on the operations of this government unit. The Subcommittee voted unanimously to accept the report and its recommendations. The Subcommittee further voted unanimously to recommend a thorough review and analysis by an independent efficiency expert particularly with regard to the CSED functions identified below. This review should incorporate a review of state/federal requirements/laws for potential changes, waivers, limitations. Additionally, a cost/benefit analysis should be performed.

Identify cases in arrears for privatization (includes collections and accounting)

Review the following sections for privatization:

adequacy of computer

- Investigations
- Locate
- Paternity
- Case Management Team under Establishment Section for privatization
- Cash Control
- Client Services

Review New Hire Reporting Section for business process redesign

Review Accounting Section for business process redesign

Competitively bid services currently provided by other government agencies (included current provider as a bidder)

Additionally, the following suggestions could improve the efficiency within the organization:

- Not allowed by feds
- 1) Reduce caseload by informing all parents of the option to withdraw from CSED services and get paid direct.
 - 2) Allow employers to garnish the wages and send the check directly to the custodial parent. The eliminates the need for 2 checks to be cut (one by the obligor and one by SCED, additionally, this eliminates SCED as the middleman.
 - 3) Establish a non-custodial parent's team to monitor cases and when an obligor becomes delinquent for more than two months contact him/her and see what services can be provided.
 - 4) Establish a more customer oriented user/friendly attitude with the employees, a pro-active non-custodial parent team would remove much of the anger and animosity that is felt toward the agency.
 - 5) Review functions for consolidation.

5. Permanent Fund Division

[Not Reviewed -- No Recommendations]

6. Alcoholic Beverage Control Board

Some exceptionally committed Subcommittee members invested considerable time and resources investigating and producing a report on the operations of this government unit. The Subcommittee voted unanimously to accept the report and its recommendations. The Subcommittee further voted unanimously to recommend two legislative changes. The Subcommittee voted unanimously to modify state law to shift the enforcement duties for the state's tobacco and gaming laws to the Alcoholic Beverage Control Board. The Subcommittee also voted unanimously to recommend, in the alternative, that the legislature modify Title 4 to allow the Alcoholic Beverage Control Board to enforce tobacco and gaming laws under contract to the responsible state agencies.

7. Municipal Bond Bank Authority

The Revenue Subcommittee reviewed the operations of this government unit. The Subcommittee has no recommendations for changes to the Municipal Bond Bank Authority at this time.

8. Alaska Permanent Fund Corporation

The Revenue Subcommittee reviewed the operations of this government unit. The Subcommittee has no recommendations for changes to the Permanent Fund Corporation at this time.

9. Alaska Permanent Fund Corporation

The Revenue Subcommittee reviewed the operations of this government unit. The Subcommittee has no recommendations for changes to the Permanent Fund Corporation at this time.

10. Alaska Housing Finance Corporation

The Revenue Subcommittee reviewed the operations of this government unit. The Subcommittee has no recommendations for changes to the Alaska Housing Finance Corporation at this time. However, the Subcommittee recognized that it lacked the resources to fully investigate and review such a large and complex organization as AHFC. Consequently, the Subcommittee voted unanimously to recommend a thorough review and analysis by an independent efficiency expert.

11. Alaska Mental Health Trust Authority

[Not Reviewed -- No Recommendations]

12. Alaska State Pension Investment Board

After reviewing the operations of this government unit, the Revenue Subcommittee has no recommendations for changes to the Alaska State Pension Investment Board.

*

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*

The following group comprised the review team and recommends by signature the adoption of the Revenue Subcommittee report:

Mary Ann Pease, Chair

Mike Barry

Leonard Steinberg

Terry Duszynski

Joe Griffith

Buz Hoffman

John Main

Leisa Roberts

Gerald Timmons

November 3, 1999

Honorable John Cowdery
Co-Chair
Privatization Task Force
716 West 4th Avenue; Suite 320
Anchorage, AK 99501

Dear Representative Cowdery,

At the request of the Privatization Task Force, the Department of Health and Social Services offers the following comments regarding the recommendation of the Department of Revenue Subcommittee to transfer enforcement of the state's tobacco laws from the Division of Public Health to the Alcoholic Beverage Control (ABC) Board.

Until the last three years, enforcement of Alaska's tobacco laws relating to retail sales was essentially non-existent. In 1996, there had been no charges filed or convictions made against any retailer for the illegal sale of tobacco products to minors. With the passage of the tobacco tax increase and the increased scrutiny of tobacco retail sales, the Department of Law coordinated a series of undercover investigations in Anchorage and Juneau, resulting in several convictions and subsequent suspension of convicted retailers' ability to sell tobacco products.

Since that time, the Department of Law, the Department of Commerce and Economic Development, and the Department of Health and Social Services, through their contract with the Food and Drug Administration (FDA), have significantly increased the enforcement of tobacco retail sale laws. In 1998, with the passage of legislation requiring placement of tobacco products behind the counter and requiring clerk assistance with tobacco sales, there is yet another area of tobacco retail sales to be enforced. The new legislation has been added to the enforcement areas that are addressed through the local police department contracts with the State Division of Public Health.

The Department identifies the following serious concerns with the recommendation of transferring responsibility for enforcing tobacco laws to the ABC Board.

1. Tobacco enforcement is just one component of our comprehensive Tobacco Prevention and Control Program. While the ABC Board staff recommendations purport to be a "consolidation" of functions, the actual effect will be a fragmentation of the Tobacco Prevention and Control Program.
2. Our current contracting arrangement with local law enforcement is in keeping with our community based approach to tobacco prevention and control efforts, which is based on the Center for Disease Control's (CDC) best practices model. Research and experience have demonstrated that what is most effective in tobacco control is developing and expanding local capacity and local ownership of tobacco control programs. The current system gives local law enforcement an opportunity to collaborate with other local tobacco control agencies. Centralizing the function with Anchorage-based state employees is counter to our community-based and community-empowerment principles. Enforcement is far more than busting vendors; it's fundamentally about changing prevailing attitudes (social norms) regarding youth tobacco use and nicotine addiction.
3. The legislature has made it clear that our Tobacco Prevention and Control program should be decentralized and should rely as much as possible on local grantees and contractors. The ABC Board staff recommendation would establish more state employees to do work currently done by local law enforcement and local grantees—a sort of reverse privatization.
4. Our Tobacco Prevention and Control Program is a public health program. The ABC Board as currently constituted does not have a public health focus. Any recommendation to expand the duties of the Board should also include expansion of the Board's membership to include persons with expertise in tobacco control. By the same token, care must be taken to avoid domination of the Board by persons with vested interests in tobacco sales. Experience has demonstrated consistently that having tobacco industry representatives regulating themselves is ineffective and counter-productive.
5. The Alaska Tobacco Control Alliance (ATCA), has taken a firm stance in opposition to transferring the enforcement of tobacco laws to the ABC Board (see attached letter). Eric Myers, a representative of ATCA, attended the public meeting of the Commission on Privatization and testified against such an action.
6. The ABC Board's proposed staffing pattern for tobacco enforcement is completely inadequate. FDA funds MUST be expended completely on tobacco enforcement and can not be used to support positions to enforce alcohol or gaming statutes. In order to enforce tobacco statutes, ABC inspectors would have to expand their work to incorporate a vastly greater universe of vendors (Quickmarts, grocery stores, gas stations, drug stores, etc.) It is extremely doubtful that proposed efficiency savings would offset the increased expenses required by the expanded scope of work.

7. The FDA money is "soft" money and there is no guarantee that it will be available over the long-haul. Currently, the Tobacco Industry has filed suit against the FDA, claiming that they do not have the authority to regulate the sale of tobacco products. A federal judge in North Carolina upheld the claim. The FDA has appealed and the case will be reviewed by the Supreme Court in the coming year. Potentially, the FDA regulations on tobacco product resale could be suspended and all FDA monies to states for such activities would cease. Also the Department of Health and Social Services GF allocation for enforcement will vary from year to year based on changes in priorities within the comprehensive tobacco control program. Our GF allocation for enforcement for FY 00 is \$70,000.
8. Because of ongoing collaboration between the Division of Alcoholism and Drug Abuse and the Division of Public Health, we have been able to use FDA funded investigations to comply with the federal Synar Amendment—federal law relating to the sale of tobacco to minors. The State is required to comply with the Synar Amendment or risk a cut of up to 40% of its Substance Abuse Prevention and Treatment Block Grant. The federal government may not accept investigations conducted by ABC Board staff as valid inspections under Synar. In addition, ABC Board staff would be poorly placed to collaborate with other community-based programs funded by the Division of Public Health which also play a key role in Synar and FDA enforcement activities.

To summarize, the Tobacco Prevention and Control Program is a comprehensive, far-reaching, collaborative program that emphasizes community-based activities and local capacity building. Separating tobacco enforcement activities from the other program functions will lead to inefficiency, ineffectiveness, and reduced community support for enforcement of tobacco retail sales laws.

The role of the ABC Board in the control of manufacture, barter, possession, and sale of alcoholic beverages is an important regulatory function. This quasi-judicial agency has an important job to fulfill and should concentrate on improving enforcement of existing alcohol laws.

Sincerely,

Elmer A. Lindstrom
Special Assistant to the Commissioner

CC: Dr. Peter Nakamura, Director
Division of Public Health

Dana Owen, Special Assistant
Department of Revenue

Royce Weller, Special Assistant
Department of Public Safety

Doug Griffin, Director
Alcoholic Beverage Control Board

Marilee Fletcher, Acting Director
Division of Alcoholism and Drug Abuse



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FAX COVER SHEET

To: Leisa Roberts

Number: 245-1515

From: Annette Deel

Number: 269-0223

Date: Oct 11, 99

Subject: CSED - Revenue

of pages including cover: 3

Notes: FYI

NATIONAL CENTER FOR POLICY ANALYSIS

RUDOLPH W. RICHMOND
RICHMOND HOUSE

NCPA POLICY

Why the Private Sector Does Better

Why should taxpayers pay for private businesses to make a profit delivering public services when the public sector can deliver them on a nonprofit basis? An analysis of child support enforcement programs in five states contracted out to Policy Studies, Inc. (PSI) finds that the private firm performed better and more efficiently than government agencies doing the same job. The reason was not that government managers were any less talented or hardworking, nor was it that the private company paid its employees less. But there were five areas where the private sector had a competitive advantage.

- **PSI developed and implemented a computerized tracking and document generation system in its Nebraska operation within six months, whereas state governments require two to three years just to define what they want their system to do.**
- **Since the private firm gives worker teams bonuses for reaching higher quarterly collection goals, which are then increased, the workers have met 60 percent higher goals over the past three years, whereas in Massachusetts collective bargaining agreements prevent measuring employee performance.**
- **A private company can rent space in about 10 days using two employees, whereas government checks and balances generally require a year and involve 20 or more employees to rent space.**
- **A private company can reward star employees**

and rid itself of deadwood, whereas public agencies often find it difficult to keep their best staff and to dismiss their worst.

- **Private companies typically receive a percentage of their child support collections as a fee, with the percentage decreasing each year, forcing improved productivity or lost profit, whereas state agencies are generally reimbursed a set percentage of what they spend by the federal government, regardless of how productively the money is spent.**

Source: "Public Vs. Private Service Delivery: A Case Study," Center For Restructuring Government Newsletter, May 1997, Pioneer Institute for Public Policy Research, 85 Devonshire Street, 8th Floor, Boston, MA 02109, (617) 723-2277.



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FAX COVER SHEET

To:

Number:

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Subject:

of pages including cover:

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Notes:

From Fax # 269-0223

Department of Revenue Subcommittee Membership			
Pesse	MaryAnn	277-1006	Aurora Power
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Delay -Wilson	Samantha	277-1137	
Duszynski	Terry	479-9319	Duszynski & Assoc
Griffith	Joe	762-4514	Chugach Electric
Hoffman	Buz	357-3102 call	
Main	John	787-3135	APEA
McQueary	Frank	265-5695	GCI
Owen	Dana	465-2389	Department of Revenue - Dept Contact
Roberts	Lelisa	265-1515	ARCO, Alaska
Schmedlen	Doug	562-5598	Century 21 Crawford Real Estate
Steinberg	Leonard	258-2001	Brena Bell & Clarkson
Timmons	Gerald	455-8885	Timmons Contracting, Inc.
Wuerch	George	561-3783	Municipality of Anchorage

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Division of Legal and Research Services*

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February 15, 1996

MEMORANDUM

TO: Representative Terry Martin

FROM: Patricia Young
Legislative Analyst

RE: Privatization of Child Support Enforcement
Research Request 96.022

You asked us to provide information on the number of states that have privatized child support enforcement efforts and to ascertain the success rate of privatized collections relative to collections by government agencies. You also requested information on the advantages and disadvantages of state and private enforcement systems.

At least 37 states are contracting out some child support enforcement functions. The contracts vary in scope from single service to full service and can include any combination of those functions that traditionally have been reserved to state or local agencies. Although many states have privatized one or more child support enforcement services on a statewide basis, and many states have contracted for full service in certain locations, no state has completely privatized all services statewide.

Proponents of privatization maintain that it is a way to stretch resources. They cite as advantages improved services, increased collections, and improved cost-effectiveness. More specific advantages include the centralization and streamlining of functions and defragmentation of service, as well as potential reductions in staff or the relieving of existing staff from ever-increasing caseloads so that they can work with more focus and more success. Additionally, some see privatization as a way for a state to capitalize on the dynamics of federal funding for child support enforcement.¹ Opponents express concern about oversight, the uncertain climate for

¹Briefly, the child support enforcement program, established under title IV-D of the Social Security Act, is a joint undertaking in which the federal government pays the predominant share of each states' program costs. Alaska receives a federal match of two-thirds of the administrative costs; half of the collections made for families on Aid to Families with Dependent Children (AFDC); and federal incentives of 6 to 10 percent of AFDC collections based on collections efficiency ratios established by federal regulation (45 CFR 304.12). For non-AFDC collections, the state receives 115 percent of the AFDC incentive amount.

contracting with the private sector in the face of impending welfare reform, the potential for negative public impression, the potential loss of personal familiarity with individual cases through centralization, and large percentages of collections going to private companies rather than to children. Opponents--as well as many who are undecided--question the cost-effectiveness of privatization efforts.

Indeed, a November 1995 report by the U.S. Government Accounting Office (GAO) entitled "Child Support Enforcement: States and Localities Move to Privatized Services" (attaches) was instigated, in part, to ascertain what is known about the cost-effectiveness of privatization activities. According to Kevin Kumanga, GAO senior evaluator, no comprehensive study of cost-effectiveness currently exists. The next phase of the GAO's ongoing project, therefore, will be a cost-benefit analysis to be completed late in the year. Susan Notar, at the policy branch of the federal Office of Child Support Enforcement (OCSE), noted that OCSE has a contract for a similar analysis. Ms. Notar also expects that analysis to be complete sometime next year.

The GAO report appears to contain the most current inventory of privatization of child support enforcement activities. According to the GAO findings,

- one or more child support services are privatized statewide in 20 states and at the local office level in 18 states;
- there are 21 full-service contracts for child support services currently operating, half of which are served by one major contractor;
- four major contractors provide most of the services for 40 other collection and parent locator service contracts; and
- there are nine contracts for processing and disbursement of payment services and eight contracts for parent locator services only.²

²Services traditionally contracted out--such as genetic testing, legal services, and automated systems--were not included. Also not included were contracts solely for establishing paternity or for customer service. According to the GAO, the inventory may not be complete because "where programs are state-supervised but locally administered, state officials said that they were not always fully aware of local privatization efforts."

Both Mr. Kumanga and Ms. Notar note that privatization of *collections* is a particularly strong trend, but states seem "generally happy" with their privatization experiences regardless of the functions privatized. According to Mr. Kumanga, "states, pretty clearly, are benefiting from privatization." He notes, however, that how well a company does is based largely on the situation before privatization occurs. Areas without previously automated management information systems, for example, have experienced tremendous increases in collections with privatization.

We spoke with representatives from child support offices in five states as well as the owner of one of the largest private firms, Policy Studies, Inc. (PSI).³ The following are the most salient of their comments within broad categories of positives, negatives, and advice and recommendations. Parenthetical information following each comment identifies the type of service to which the comment refers.

Successes/Positives

- We're getting good service. The contractors are able to automate beyond government capability. They have the flexibility with employees that the bureaucracy doesn't: they can up and downsize quickly. They can offer incentive bonuses. Private contractors have hired the employees from the district attorneys' offices at equal or better salaries. (Local, full service.)
- Private companies have an edge over government--it's a combination of profit motive and flexibility. (Local, full service.)
- The contractor takes a percentage, but the alternative may be no collection at all. (Statewide collections of uncollectible cases.)
- They're doing a tremendous job. They still have to meet all the federal requirements. They're very professional and responsive. (Local, full service.)
- A significant portion of the cost comes out of incentive payments. (Local, full service.)

Obstacles/Concerns

³Sample states included Mississippi, New York, Tennessee, Texas, and Wyoming. In some cases, we spoke with more than one representative.

Representative Martin

February 15, 1996

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- If it had been done in a different manner, everyone would have been more cooperative. (Local, full service.)
- Change is inherently stressful and impacting. (PSI)
- The most difficult obstacle to overcome has been the reluctance of case workers to let go of individual cases. (Statewide collections of uncollectible cases.)
- You can't always go on raw collection data. Sure they look good, but a disproportionately high percentage of state resources are being dumped into that area to make it work. That puts an added strain on the state caseworkers. (Local, full service.)
- If the federal funding dynamic changes, privatization could become less cost-effective. (Local, full service.)
- Even though monitoring is in the contract, we haven't maintained supervisory control. We should have a full scale monitoring system. (Local, full service.)
- A long run concern is that private companies, in time, might not be as responsive to some people. (Local, full service.)
- One thing to wonder about is--where do they get all the qualified people? They hired one person I consider to be a moron, then presented that person as an expert. (Local, full service.)
- With a centralized operation, a different person answers the phone every time; there is no one person who follows a case and becomes personally familiar with it. With centralization, we lose that familiarity. (Statewide, payment processing and disbursement.)

Advice and Recommendations

- Should the federal incentive structure change, privatization might become more costly to states. For this and other reasons, include a cancellation clause in the RFP/contract that the state may cancel the contract with 90 days' notice without penalty, and language stating that the entire contract is dependent on available funding. (Local, full service.)
- Privatization is not a magic solution suitable and beneficial for every state and every situation. There are risks involved. Pick a contractor you want to represent you.

During the bidding process, if cost is the primary focus, that might lead to inadequate services, which means inadequate revenue for the state. Also, a more exploitative posture with employees probably means minimal benefits and training. That means a succession of short term employees and poor job performance. (PSI)

- In regard to contracting in the face of welfare reform, construct break even points: show formulas; guarantee no loss to the state; fund programs out of federal incentive payments. (Kumanga, GAO)
- I like the variety of having some offices run privately and some run by the district attorneys' offices and local governments. I hope we never have a single contractor statewide. I would be concerned about control. (Local, full service.)
- Handing over the cases we've given up on is a great idea. I wish we'd done that. That's money the state and kids will never get. (Local, full service.)
- Maintain oversight; build-in safeguards against "creaming"; hold contractors to a higher standard than is federally required. (Local, full service.)
- The state must be the boss. All of the companies should answer to the state; all complaints should be logged; there should be common practices, policies, procedures for both public and private agencies doing the job; there should be a built-in corrective action plan that's carried out if necessary. (Local, full service.)
- Watch out for self-serving advertisements (after the contracts are in place) that make the state look bad. (Local, full service.)
- Include disclaimer language in the RFP and contract stating that the numbers in regard to caseloads and collections may be inaccurate; make it the bidders' responsibility to sort that out so there is no liability to the state. (Local, full service.)
- Has it been cost-effective? I don't know. An independent report said yes, but critics have torn that report to pieces. We think the contractor has done an outstanding job, but the way the administration brought it in engendered fear and mistrust and that's been very difficult to overcome. The controversy is really over saving state jobs, even though the contractor absorbed all the staff that chose to accept and gave them better benefits, better resources, everything. (Local, full service.)

In most cases individuals refer to their own state's experiences; in a few cases, they refer to the experiences of other states. Some individuals were reluctant to comment, and while each

Representative Martin
February 15, 1996
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acknowledged benefits, some candidly expressed significantly ambiguous feelings about privatization.

We have attached a copy of the GAO report, several articles from issues of the *Child Support Report* (published by the OCSE), pertinent pages from the *Compendium of State Best Practices*, 2nd edition (OCSE), executive summaries from two analyses of contracts, and various other articles. We have also included information provided by two contractors. We hope this information is helpful. If you have questions or need further information, please let us know.

Attachments

September 14, 1994

MEMORANDUM

TO:

FROM: Paula d. Scavera
Legislative Analyst

RE: **Privatization of Child Support**
Research Request 95.012

You requested information concerning states that have turned to the private sector for service delivery of child support programs. You were interested in any state statutes that specifically allow contracting any child support services to private vendors. We spoke with authorities from the U.S. Department of Health and Human Services and the Arizona Department of Economic Security to obtain the following information.

Years ago, child support programs contracted for specific services to expedite the work of child support staff. Process servers and blood testing for paternity were the first areas that were put out to bid for private providers. Today, all aspects of child support services have been privatized in one state or another.

Child support contracts range from a single service to a combination of services. They may be implemented in one locale or statewide. Services may be contracted for certain classes of cases (such as closed arrearage cases) or for all cases. The most common contracts are described below.

Location and Collection

These contracts include finding the absent parent, verifying employment and assets, contacting the person by telephone, and preparing wage withholding documents for the state child support agency. States with various location and collection contracts include Arizona, Georgia, Massachusetts, Minnesota, Nevada, Texas, and Virginia.

Payment Processing

These contracts include services for receiving and paying child support, such as billing, recording deposit and receipt of payments, as well as account maintenance and audits, and electronic fund transfers. The four states that have privatized their child support payment processing are Colorado, Hawaii, Massachusetts, and New York.

Operation of Local Child Support Offices

Five states have full service contracts to run one or more local child support offices including location and collections tasks, payment processing and enforcing child support orders. These states are Arizona, Mississippi, Nebraska, Tennessee, and Virginia.

Most states have privatized certain segments of their child support program through administrative regulation rather than statutory authority. However, Arizona recently passed comprehensive child support legislation which included statutory authority for private sector involvement in child support collection. Attached is Arizona Chapter 374, SLA 1994, which includes on page 2278, Section 23, that "the department shall implement and evaluate programs that are designed to test the effectiveness of private sector involvement in child support collections enforcement."

We hope this information is useful to you, and if you need further assistance, please contact this office.

Attachments

PC?

Alaska State Legislature

REPRESENTATIVE
GAIL PHILLIPS
Chair



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Legislative Budget and Audit Committee

TO: David Teal, Director
Division of Legislative Finance *David*

FROM: Representative Gail Phillips, Chair
Legislative Budget and Audit Committee *Gail*

RE: Request for Information – Privatization Committee

DATE: September 24, 1999

Attached is a letter from Representative Cowdery containing two issues concerning the Department of Revenue. Please respond back to the Representative as soon as you can. The first issue appears to be quite simple to research; the second will most likely involve some discussions with the Department for their response.

If there are questions, please contact Tom of my staff.

Thank you.

cc: Representative John Cowdery, Co-Chair ✓
Privatization Committee

INTERIM ADDRESS

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