

ALASKA LEGISLATURE

2561

HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004

127

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. _____

ANALYSIS CONTINUATION

Line Item Description	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Contractual Line 360		--			
* (Operating Expenses)					
Utilities (estimated) DEC will incur costs for utilities at the new facility starting mid - 2005. Utility costs at the existing leased facility are included in the lease paid by DOA and DEC. These costs are offset by the lease savings shown below and shown on DOA's fiscal note.		\$52,965	\$105,930	\$105,930	\$105,930
Building Maintenance (estimated) DEC will incur costs for building maintenance at the new facility starting mid - 2005. Maintenance costs at the existing leased facility are also included in the lease paid by DOA and DEC. These costs are offset by the lease savings shown below and shown on DOA's fiscal note.		\$54,800	\$109,600	\$109,600	\$109,600
* (Lease Savings - Palmer Lab) DEC portion of current lease paid to DOA/GS through a RSA, will no longer be required after completion of the new facility.		(\$9,177)	(\$18,353)	(\$18,353)	(\$18,353)
Total Contractual:	\$0	\$98,588	\$197,177	\$197,177	\$197,177

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB312
() Publish Date: _____

Revision Date/Time (Note if correction): 13-May-03 Dept. Affected: Revenue
Title Seafood and Food Safety Lab BRU Revenue Operations
Component Treasury Division
Sponsor Rules Committee
Requester House State Affairs Component No. 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel	10.0					
Contractual	6.0	5.0	5.0	5.0	5.0	5.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		1,362.8	1,362.8	1,362.8	1,362.8	1,362.8
TOTAL OPERATING	16.0	1,367.8	1,367.8	1,367.8	1,367.8	1,367.8

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		1,367.8	1,367.8	1,367.8	1,367.8	1,367.8
1005 GF/Program Receipts						
1037 GF/Mental Health						
COP proceeds	16.0					
TOTAL	16.0	1,367.8	1,367.8	1,367.8	1,367.8	1,367.8

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

SB215 authorizes the sale of \$14.145 million in certificates of participation (COPs) for a lease-financing to finance construction of a new seafood and food safety lab for the Department of Environmental Conservation. The COPs would be issued by the State Bond Committee. Construction costs and issuance costs are expected to total \$14.285 million, which is the amount of the COP sale proceeds plus \$140,000 in estimated construction fund earnings.

Financing assumptions are 15-year level debt service beginning in FY05 and a 5% interest rate/true interest cost. The actual interest rate is very likely to be lower.

Prepared by: Tom Boutin, Deputy Commissioner
Division: Department of Revenue
Approved by: Landa Bally, Special Assistant to the Commissioner
Agency: Department of Revenue

Phone 465-3669
Date/Time 5/13/03 1:50 PM
Date 5/13/2003

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB312
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title An Act...for a lease-purchase agreement for a BRU Leases
seafood and food safety laboratory facility.... Component Leases
 Sponsor Rules by Request of the Governor
 Requester (H) State Affairs Component No. 81

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual		(60.0)	(120.0)	(123.0)	(123.0)	(123.0)
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	(60.0)	(120.0)	(123.0)	(123.0)	(123.0)

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		(50.8)	(101.7)	(104.2)	(104.2)	(104.2)
1005 GF/Program Receipts						
1037 GF/Mental Health						
1007 I/A Receipts		(9.2)	(18.3)	(18.8)	(18.8)	(18.8)
TOTAL	0.0	(60.0)	(120.0)	(123.0)	(123.0)	(123.0)

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill would authorize financing and construction of a new laboratory facility that would replace the current leased location in Palmer. The Division will execute a lease purchase agreement for the lease purchase of a new seafood and food safety laboratory in Anchorage.

Lease savings would begin mid way through (January) FY2005 when we anticipate occupying the new facility. Annual costs for the Palmer lease in FY2004 are budgeted in the Department of Administration's (DOA) Leases component as \$99.1 of General Funds and in the Department of Environmental Conservation's (DEC) operating budget and paid to DOA via a \$17.9 RAS. Future years estimated lease savings have been adjusted to reflect the January 2005 occupancy date.

Costs for the design, construction, acquisition and construction contract com... are not included in this fiscal note as those costs and associated work will be borne by other state departments.

Prepared by: Vern Jones, Chief Procurement Officer Phone 465-5684
 Division: General Services Date/Time 5/12/03 10:52 AM
 Approved by: Mike Miller, Commissioner Date 5/12/2003
 Agency: Administration

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. HB312a

ANALYSIS CONTINUATION

Current Palmer Laboratory Lease

Lease #: 2359

Location/Property: Palmer/Palmer Lab

Sq Ft: 9,252

Term: Firm Term thru 1/31/03, W/ 3 One Year Renewal Options (extended expiration = 12/31/06)

FY2004:

Total Cost per Year (annual): \$117.0

RAS (amount paid by DEC) Amount (annual): \$17.9

DOA Budget Amount (annual): \$99.1

FY2005:

Total Cost per Year (annual): \$120.0

DOA Reduction (1/2 year): \$50.8

RAS (amount paid by DEC) Amount (1/2 Year): \$9.2

FY2006:

Total Cost per Year (annual): \$120.0

DOA Reduction (annual): \$101.7

RAS (amount paid by DEC) Amount (annual): \$18.3

FY2007 (increased by 5% replacement factor):

Total Cost per Year (annual): \$123.0

DOA Reduction (annual): \$104.2

RAS (amount paid by DEC) Amount (annual): \$18.8

FY2008 & 2009:

Lease costs estimated to be the same as the FY2007 rate.

DEPARTMENT OF ENVIRONMENTAL CONSERVATION
COMMISSIONER BALLARD HB 312 TESTIMONY
HOUSE FINANCE

Thank you for the opportunity to testify today. HB 312 provides the funding mechanism for a new Seafood and Food Safety Laboratory. This expense has been included in the capital budget.

As Commissioner of the department responsible for protecting the environment and human health, I can testify to the importance of this lab. In our seafood and food safety lab we analyze raw, finished and value-added food products for bacteria, chemicals, and toxic contaminants. We maintain capabilities and FDA certifications that private labs cannot. We operate on schedules that are not available from private labs and can assume the greater liability needed to perform analysis for paralytic shellfish poisoning. We cooperate with emerging industry, such as the growing dive fisheries to be sure time-critical water and raw product analysis is available and market commitments are met. We are qualified to train and certify private labs so that they can operate in established and high-demand testing markets.

DEC has leased a facility in Palmer for 34 years. This facility will not be available after 2006. It is overcrowded and not fully compliant with safety codes and laboratory design standards. It was originally placed in Palmer when the principal lab business was agriculture and dairy. The emerging value added seafood industries in coastal Alaska have added significant and time-sensitive testing demands for our service. Our proposed new lab will be in Anchorage where valuable hours can be saved between sample collection and testing for raw and live seafood products.

Our laboratory functions are essential to protect the health of all Alaskans. The Governor, past legislatures, and the Commissioners of Revenue, DOT and DEC have reviewed the design specifications, equipment requirements and expense of this lab. We considered alternative locations and financing mechanisms for a modern facility sized and equipped for long term service to the state. Specifically, we carefully considered the possibility of locating in remodeled space at the ASI facility in Anchorage. Our requirements would occupy approximately 5% of that space.

The process of acquiring a new seafood and food safety lab began seven years ago with a feasibility study. We received an appropriation of \$150,000, to obtain an independent evaluation of both build and lease options. This analysis showed that the most economical choice is a state owned laboratory financed with lease/purchase bonds known as Certificates of Participation. The legislature agreed and in 2001 appropriated \$1,300,000 to design this facility. This is a conservative and cost conscious proposal. The building design, specifications, space allocations, and the financing plan are all conservative. The building contains only laboratory and lab support space: meeting and classroom facilities will be available in the adjacent public health lab. The building materials were selected for low and simple maintenance. The design and materials are similar to the public health lab that was built several years ago on schedule and within budget.

We are reviewing the fees the laboratory charges for services and are comparing them to other states' fees. It is clear we can, and should charge more. We will begin drafting the necessary regulations this summer.

Representatives from DOT and Revenue are here today and can join me in answering your questions.

STATE OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR
410 Willoughby Ave., Ste 303
Juneau, AK 99801-1795
PHONE: (907) 465-5065
FAX: (907) 465-5070
<http://www.state.ak.us/dec/>

DEPT. OF ENVIRONMENTAL CONSERVATION OFFICE OF THE COMMISSIONER

May 12, 2003

The Honorable Bill Williams
Co-Chair, House Finance Committee
Alaska House of Representatives
State Capitol, Room 515
Juneau, AK 99801

The Honorable John Harris
Co-Chair, House Finance Committee
Alaska House of Representatives
State Capitol, Room 507
Juneau, AK 99801

Dear Representatives Harris and Williams:

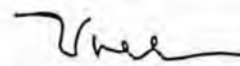
The Department of Environmental Conservation requests a hearing on HB 312 an "Act giving notice of and approving the entry into and the issuance of certificates of participation for a lease-purchase agreement for a seafood and food safety laboratory facility." The State Seafood and Food Safety Laboratory plays a vital role in protecting the health of Alaskans and supporting the growth and development of a vibrant seafood industry.

The state's bivalve and growing geoduck industry cannot exist without the ability to guarantee the safety of these products. The lab is the only facility certified to test for paralytic shellfish poisoning a deadly toxin. The state must be prepared with laboratory services capable of providing essential tests that will allow these industries to prepare to respond to an unanticipated outbreak of disease or the presence of contamination in food, water and animals.

The Department has planned for construction of a Seafood and Food Safety Laboratory for over six years. The funding mechanism is certificates of participation. I look forward to coming before the House Finance Committee to further explain the importance of this laboratory to Alaska.

Kristin Ryan, Director of the Division of Environmental Health, and Mike Maher, the Director of Administrative Services can provide you with any additional information you might require regarding this bill. You can contact Ms. Ryan at 269-7645, Mike Maher at 465-5256, or Melanie Lesh, the department's legislative liaison, at 465-5290. Thank you for your consideration.

Sincerely,


Ernesta Ballard
Commissioner

cc: Mike Tibbles, Legislative Director, Office of the Governor
Kristin Ryan, Environmental Health, DEC

DEC Seafood and Food Safety Laboratory

Using Certificates of Participation, the Department will build a new Seafood and Food Safety Laboratory in Anchorage that is prepared to respond to unanticipated outbreaks of disease or presence of a contaminant in food, water or animals; and

Protects Alaskans by

- Preventing disease through sanitation and sanitary practices.
- Providing essential risk screening services.
- Monitoring animals for zoonotic diseases--transferred from animals to humans—such as Brucellosis.
- Testing food products for Salmonella, Listeria and fecal coliforms to ascertain they are safe to eat.
- Testing public drinking water for Giardia and Cryptosporidium.

Supports industry by

- Working with industry to pre-certify areas for safe harvesting of geoducks so that a more valuable product can be sold live.
- Testing geoducks, oysters and mussels for PSP contamination prior to sale.
- Analyzing seafood samples for contaminants such as mercury and pesticides through its seafood-monitoring program.
- Testing dairy products so they can be sold to the military and schools.

Supports Alaska's private laboratories by

- Conducting on-site evaluations of, and certifying drinking water laboratories and water system operators for bacteriological monitoring as required by Safe Drinking Water Act.
- Training 190 private lab staff a year in EPA approved procedures for testing drinking water.
- Making available its expertise, knowledge, and resources.

Based on lab functions, proximity to a major airport, sample movement, cost of utilities, and access to Alaska's Public Health Laboratory, Anchorage was chosen as the best site for the new facility.

Seafood and Food Safety Laboratory

Division of Environmental Health, Department of Environmental Conservation

The lab will close without an appropriation to build a new one. *Here's how we got to this point:*

1997

- Department of Administration determines it can no longer allow long-term leases at the facility because statutory rent reduction requirements.

1998

- Department of Transportation and Public Facilities hires Livingston Slone to produce feasibility study that considers leasing versus owning, best location, and consolidation of the two labs the Department of Environmental Conservation operates.
- Legislature appropriated \$145.7 to evaluate replacement options.

1999

- Private contractor assessment concludes Seafood and Food Safety Lab cannot be co-located with Public Health Lab primarily because construction of the Public Health Lab is already under way and its lab activities are very different, requiring detached, separate labs.

2000

- Department of Environmental Conservation explores the possibility of housing its lab at Alaska Seafood International. However, according to Alaska Seafood International, its microbiological laboratory cannot fully meet the department's requirements. Alaska Seafood International lab space is 540 square feet and was never intended to be a broad-spectrum test facility. (The new Seafood and Food Safety lab is designed to be 19,312 square feet.)
- Department of Environmental Conservation selects site near Boniface and Tudor with Dept. of Transportation & Public Facilities oversight based on lab functions (proximity to major airport), cost of utilities, and access to Public Health lab. The Anchorage Planning and Zoning Commission approves the site selection report.
- Livingston Slone, hired by Dept. of Transportation & Public Facilities, determines that any existing market rental space would require a major renovation; and that building a new facility on state owned land is more cost effective than renovating an existing space or contracting for the construction of a leased facility.
- Legislature appropriates \$240.0 updating Livingston Slone's 1998 Feasibility Study to reflect the facility's being located on state land.

2001

- Dept. of Natural Resources initiates land exchange with Municipality of Anchorage to acquire parcel.
- Dept. of Transportation & Public Facilities develops a construction timeline and budget.
- Dept. of Transportation & Public Facilities selects Livingston Slone for the design and engineering work with an expected completion date of June 2003.
- Legislature appropriates \$1,300.0 to design the facility.

2002

- The design contractor, Livingston Slone, updates the construction cost estimate after completing the schematic design: \$14,085,200.
- Dept. of Administration easing approves extending the lease until December 2006 under the provision DEC actively pursue another option.
- A bond bill (HB51), designating lab construction funds, is introduced in the first session, but dies before final adjournment.

February 6, 2003

- Anchorage Assembly approves the land exchange and Dept. of Natural Resources completes an Interagency Land Management Agreement giving DEC the authority to manage the selected site adjacent to the Public Health Lab.

What the Seafood and Food Safety Lab does

- Conducts product and water sampling required by the National Shellfish Sanitation Program so that bivalve shellfish can be commercially marketed.
- Routinely tests commercial bivalve shellfish for marine toxins responsible for paralytic shellfish poisoning and domoic acid poisoning.
- Is analyzing over 600 samples of salmon (all five species), halibut, pacific cod, sablefish, black rockfish, lingcod and pollock for heavy metals (methyl mercury, lead, and cadmium).
- Conducts on-site evaluations of, and certifies drinking water laboratories and water system operators for bacteriological monitoring as required by Safe Drinking Water Act.
- Works with commercial industries to develop safe, ready-to-eat food products to make sure the water activity, water phase salt, and salt moisture of their products are within acceptable levels.
- Evaluates raw and finished dairy products for bacterial contamination, antibiotics, butter fat content, and effectiveness of pasteurization.
- Performs animal testing to maintain USDA brucellosis- and TB-free certification, which is required for interstate and international shipment of cattle.
- Tests for equine infectious anemia in horses intended for interstate shipment or that will be entered in state fairs or other special events.

-
- No other lab in Alaska tests for PSP (paralytic shellfish poisoning).
 - A lab does not currently exist within the State of Alaska with the authority to test food or water that's been potentially poisoned with highly dangerous contaminants.
 - To be sold in international markets, Alaska's food products must be tested for compliance with federal food standards.
 - The shellfish industry depends on the Food Safety Lab to quickly test for marine toxins so they can sell their products in interstate commerce.
 - The Food lab is the only lab in the state that is permitted by the Food and Drug Administration to evaluate dairy products.

For more information, please contact Kristin Ryan at 907-269-7644

The Seafood and Food Safety Lab funding mechanism is Certificates of Participation (COP) Lease/Purchase Bonds

The department plans to construct a laboratory facility to replace the badly outmoded facility using Certificates of Participation as the funding mechanism.

Certificates of Participation:

- Do not require general fund appropriation.
- Is a funding mechanism that gives a trustee bank a title interest in the entire structure, similar in concept to a home mortgage
- Allow a lease/purchase contract.
- Take advantage of currently low bond interest rates.
- Do not require a vote as would GO bonds.
- Allow the state to conserve its GO debt capacity for future situations where other revenues are not available.

Using COP's means the project can be started and finished faster.

Authority to expend the COP's is in the Department's approved Capitol budget

MEMORANDUM

STATE OF ALASKA
Department of Revenue

TO: Mike Maher
Administrative Services Director
Department of Environmental Conservation

DATE: March 28, 2003

FROM: Deven Mitchell
Debt Manager

TELEPHONE: 465-3750

SUBJECT: Food and Safety Laboratory Financing

The Department of Revenue has been asked to explain what impacts there might be from issuing Certificates of Participation to fund construction of a new Food and Safety Laboratory in the Alaska Seafood International (ASI) building. This is not a new matter for the Department as the Department of Environmental Conservation has been attempting to replace the lab over the past several years using different financing options. The type of financing that has been proposed in each of the last three legislative sessions is called Certificates of Participation. How this type of financing works is a lease is created and investors are asked to participate (Certificates of Participation (COPs)) in the lease. This means that the state can offer an investment that pays interest semi-annually until it matures at some point during the lease life, and use the investors' money to build the proposed facility. The lease payments are subject to annual appropriation by the legislature and as a result the COPs have achieved credit ratings one level below the state's general obligation ratings.

The lease in the COP structure is created by giving a trustee bank (that is obligated to act on behalf of COP purchasers) a title position on the facility being financed and the state entering a lease for the facility (in the amount of the annual interest and principal payments to investors). A failure to pay would result in the trustee bank claiming the facility on behalf of COP holders and either obtaining an alternate use or liquidating the facility to pay COP holders.

Folks have proposed using roughly 5 percent of the ASI facility to house the proposed Food and Safety Laboratory. If the cost of building the lab are funded with COPs it will require the Alaska Industrial Development and Export Authority (AIDEA) give a title interest to a trustee on the ASI building and the ground upon which it resides. From a credit perspective this is a significant credit enhancement as a failure to appropriate on the lab not only causes a loss of use of the proposed laboratory for the state, but also a loss of use of the entire ASI building. From AIDEA's perspective this financing would impact the ability to sell the ASI building (due to the title interest), and possibly also impact the rental value of the remaining 95% of the building due to the inability of AIDEA to provide a guarantee on space availability (in the event of a payment default by the state).

Samples processed at the Seafood and Food Safety Laboratory

Department of Environmental Conservation, Division of Environmental Health

Samples received:

	FY00	FY01	FY02
Samples received	9,148	7,282	6,256
Tests ran on those samples	21,337	25,346	26,926

The amount of samples received varies greatly each year. We are expecting a big jump in 2003. The number of tests ran has not increased over the past years but our tracking has. In FY00, we did not track every test ran such as quality control tests when we make sure the result gotten is correct. In FY01 and FY02, we implemented a tracking system so that we could capture every analysis done.

Samples broken down by category

	FY00	FY01	FY02	Areas
Animal Health & Dairy	5993	4067	3519	South Central
Drinking Water	541	569	545	State wide
Food	0	26	54	Anchorage
Seafood	2351	2393	1908	South Central (30%) Southeast (70%)
Miscellaneous	89	114	39	State wide
Training sessions	174	113	191	At laboratory

Vibration sensitive equipment:

Microscopes: When looking at a liquid at a magnification of 100+, significant vibration such as a machine shop would make it impossible to identify the organism.

Torsion Balance: Used to weigh chemicals as light as 1 millionth of a gram. Since the scale is on a fulcrum, it is extremely sensitive to movement. When in use, no one is allowed to enter the room because of vibration.

Concern also exists with the Liquid Chromatograph and Atomic Absorption processes. Both send a beam of light through a minute amount of substance and measure the refraction.

Kristin Ryan, Director, 269-7644

S	Southeast
A	Alaska
R	Regional
D	Dive
F	Fisheries
A	Association



Mission Statement: To develop, expand, and enhance new and existing dive fisheries in Southeast Alaska.

Julie Decker, Executive Director
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 Ph: 907-874-3110; Fax: 907-874-4270
 info@sardfa.org
 www.sardfa.org

Governor Frank Murkowski
 P.O. Box 110001
 Juneau, Alaska 99801
 Ph: 907-465-3500; FAX: 907-465-3489
 Email: Governor@gov.state.ak.us

May 9, 2003

RE: Support for New Seafood & Food Safety Lab

Dear Governor Murkowski,

On behalf of the Southeast Alaska Regional Dive Fisheries Association, SARDFA, I would like to express support of your bills, SB 215 and HB 312, regarding the construction of a new Seafood & Food Safety Lab in Anchorage.

For two years, SARDFA has been supportive of building a new lab in Anchorage for two reasons. First, the lab is a necessary infrastructure component in order to conduct the commercial geoduck fishery (as well as for other shellfish fisheries and all aquatic farming activities). The lab runs tests for water quality and paralytic shellfish poison (PSP), along with many other tests for the seafood industry.

Second, the new location in Anchorage will be an overall better site for the statewide users of the facility. Relocating the lab in Anchorage may, unfortunately, be a hit to Palmer residents, however, it will be better for the statewide users of the lab who will no longer need to have samples make the extra journey from Anchorage to Palmer. This can be a critical factor in getting samples to the lab in time. For example, the water samples, which are taken in remote areas of Southeast Alaska, must make it to the lab within 30 hours in order to perform testing. If the samples are even one hour late, they must be taken again by sending planes out to the remote areas again, which is very costly.

The cost of building a new lab is significant, however, this facility will be able to serve the seafood industry, and its projected growth, for decades into the future.

Thank you for your time and consideration.

Sincerely,

Julie Decker, Executive Director

Members of:
Southeast Conference,
United Fishermen of Alaska, &
Alaska Fisheries Development Foundation

Cc: Commissioner Ballard, DEC
Senator Lyda Green, Co-Chair, Senate Finance
Senator Gary Wilken, Co-Chair, Senate Finance
Senator Gary Stevens, Chair, Senate State Affairs
Representative Bill Williams, Co-chair, House Finance
Representative John Harris, Co-Chair, House Finance
Representative Bruce Weyrauch, Chair, House State Affairs
Bobbie Thorstenson, President, UFA
Tom Gemmel, Executive Director, UFA
Steve LaCroix, President, SARDFA
Kristin Ryan, DEC

Hicks, Molly

From: Ballard, Ernesta
Sent: Friday, May 09, 2003 11:05 AM
To: Fredriksson, Kurt; Ryan, Kristin J.; Lesh, Melanie; Siroky, Mary; Hicks, Molly
Subject: FW: New Seafood and Food Safety Lab Bill.

fyi

-----Original Message-----

From: John Scoblic [mailto:Jscoblic@norquest.com]
Sent: Friday, May 09, 2003 9:01 AM
To: Governor@gov.state.ak.us
Cc: Ernesta_Ballard@dec.state.ak.us
Subject: New Seafood and Food Safety Lab Bill.

Dear Governor Murkowski,

Yesterday late in the afternoon it was brought to my attention that you may be looking for testimony for a new Seafood and Food Safety lab. I whole heartedly support any new development of a Seafood and Food Safety lab. In particular the people of Southeast in the Seafood Industry and Foodservice Industry would benefit greatly with the addition of a lab somewhere in Southeast.

In the current situation it is very cumbersome process to get seafood products needing testing to the Palmer D.E.C lab from Southeast. In the best of situations it takes the better part of a day in transportation time to get products to the Palmer lab for testing. Once the specimens are to the lab it take half a day to do the test. In the blossoming Geoduck fishery I have many first hand experiences with the pitfalls one must endure to get a geoduck sample to the Palmer lab for Paralytic Shellfish Testing in a timely manner. Having a new Seafood and Food Safety lab here, in Southeast, a region were we harvest products needing testing would save time and money for all of those involved. Having a lab in the region would speed up the testing process. If the transportation time to the lab took less time to transpire, we could offer an even fresher product to our customers. Once again using Geoduck as an example, live product is the product of choice in the market. If the Geoducks test clean of PSP we can ship them live as soon as we get lab results. So you can see if we have to wait a day to a day and a half for test results, the freshness and liveliness of the products diminishes greatly. Time is money, and in this case a lot a revenue has slipped away due to the time an logistics involved in getting Geoducks tested for PSP in Palmer.

Mr. Governor, thank you for your time. I appreciate the opportunity to have given you this brief report. Please take into serious consideration what I have stated here in this e-mail. I support development of a Seafood and Food Safety Lab. I also think that a lab would be best positioned in Ketchikan.

John M. Scoblic
Fleet Manager

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35477 Suite 101-B Spur Hwy
Soldotna, Alaska 99669
Phone 907-260-5236
Fax 907-260-3044

Representative Ken Lancaster
District 8

April 12, 2001

MEMORANDUM

To: Representative Eldon Mulder, Co-chairman
Representative Bill Williams, Co-chairman
House Finance Committee

From: Representative Ken Lancaster

Subject: Department of Environmental Conservation, Division of Environmental Health,
Seafood and Food Safety Laboratory, Cost and Location,

Per your request, I have conducted a fact finding mission to help determine the reasonable cost for the proposed DEC Seafood and Food Safety Laboratory.

The cost per square foot for a laboratory is high, when compared to an office building, or warehouse. This is do import to the fact that laboratories require a more powerful heating, ventilating, air conditioning, (HVAC) system. This system must not only move more air (minimum 10 to 12 air exchanges per hour) but also pressurizes parts of the building. This pressurization is very important as it keeps that area of the building not used for testing completely separated environmentally from pathogens used in the test area. In addition, higher requirement for lights, power distribution system and special construction to facilitate cleaning is required in this type of complex.

I have made informal inquires with several architectural engineer's firms and based on that have concluded that \$400.00 per square foot, less equipment, is a fair and reasonable cost.

The location also makes good, logical sense. With the building built in Anchorage, at the Tudor Road location, it would help develop a State campus setting. This concept could make for cost saving in the future, by allowing for the combining of services, building maintenance, snow removal, etc.

The proximity to a major airport, and the availability of ground transportation, should better serve the people of the State of Alaska in conducting business with the lab.

I have enclosed three reports prepared by Livingston Slone, Inc for your information; Laboratory Cost Factors, Laboratory Plan Efficiency, and a Timeline for Seafood and Food Safety Laboratory Replacement. This information helps explain the process that the Department went through, in addition to cost factors.

Should you require more information or have any question, please fell free to contact me.

HB

313

HAFIN

FILE

House Finance Committee Vote Sheet

DATE:

5/13

SUBJECT:

Amended #1 Berk

MEMBER

YES

NO

HAWKER		✓
JOULE <i>Kerttula</i>	✓	
MEYER		✓
MOSES		✓
STOLTZE		✓
WHITAKER		✓
CHENAULT		✓
GROFF <i>Bulcowitz</i>	✓	
FOSTER		✓
WILLIAMS		✓
HARRIS	_____	
TOTAL:		

PASSED: _____

FAILED: _____

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: May 8, 2003

FURTHER REFERRALS:

Date of Committee Action: 5/13/03

The FINANCE Committee considered:

HB 313

HOUSE BILL NO. 313

STATE PROCUREMENT PILOT PROGRAM

"An Act authorizing a pilot program relating to state procurement and the use of electronic commerce tools; and providing for an effective date."

Recommends it be replaced with HCS or CS for _____ (_____)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

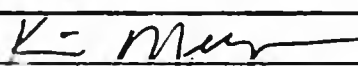
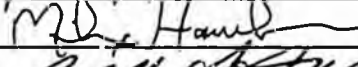
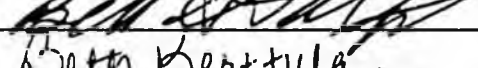
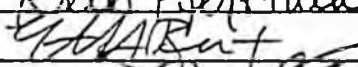
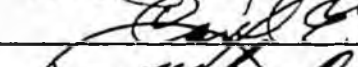



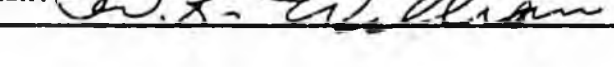
- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:

- ADM
- CED
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- HSS
- LEG
- LAW
- LWF
- MVA
- DNR
- DPS
- REV
- DOT
- UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
ADM				✓

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Meyer	✓			
	Hawk	✓			
	STOLTZ			✓	
	KERTTULA			✓	
	Berkowitz			✓	
	MOSES			✓	
	Chenault			✓	
	Foster	X			
Chair: 	Williams	✓			

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB313
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act authorizing a pilot program relating to state BRU Centralized Administrative Services
procurement ...and providing an effective date. Component Purchasing
Sponsor Representative McGuire
Requester (H)Finance Component No. 60

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill would authorize a pilot program related to state procurement and use of electronic commerce tools.

The cost of the pilot program is undetermined. The bill will not require an additional appropriation.

Prepared by: Vern Jones, Chief Procurement Officer Phone (907)465-5684
Division General Services Date/Time 5/10/03 2:30 PM
Approved by: Mike Miller, Commissioncr Date 5/10/2003
Agency Administration

Passed as is

23-LS1118A

HOUSE BILL NO. 313

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE MCGUIRE

Introduced: 5/8/03

Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing a pilot program relating to state procurement and the use of
2 electronic commerce tools; and providing for an effective date."

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

4 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
5 to read:

6 **LEGISLATIVE FINDINGS.** The Alaska State Legislature finds that

7 (1) the fiscal condition of the state requires that any opportunity to reduce
8 state costs in a way that does not directly reduce program delivery must be actively and
9 thoroughly explored;

10 (2) the costs associated with procurement and supply management are
11 significant areas of the state's administrative costs and represent an area of potentially
12 substantial cost savings;

13 (3) as a basic administrative function, procurement and supply management
14 represent appropriate opportunities for achieving cost savings through the use of process

1 management specialists in the private sector;

2 (4) electronic commerce tools offer opportunities to reduce the amount of
3 labor resources required to requisition, procure, and otherwise administer the acquisition of
4 goods and services, as well as to reduce the actual costs of goods and services.

5 * **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to
6 read:

7 **PILOT PROGRAM.** (a) The Department of Administration may enter into a pilot
8 program under which the department contracts (with a person from the private sector) to
9 provide for the delivery of procurement services and electronic commerce tools.

10 (b) The pilot program authorized by (a) of this section may not apply to more than
11 two state departments and two other instrumentalities of the state and may not exceed three
12 years in length.

13 (c) A procurement conducted by the person selected under (a) of this section is not
14 subject to AS 36.30.

15 (d) In this section, "instrumentality of the state" means a state public corporation, a
16 state enterprise, or another administrative unit of state government that handles its
17 procurement and supply management in a manner that is separate from a department of the
18 state.

19 * **Sec. 3.** Section 2 of this Act is repealed July 1, 2006.

20 * **Sec. 4.** This Act takes effect July 1, 2003.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB313
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act authorizing a pilot program relating to state procurement ...and providing an effective date. BRU Centralized Administrative Services
Component Purchasing
Sponsor Representative McGuire
Requester (H)Finance Component No. 60

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill would authorize a pilot program related to state procurement and use of electronic commerce tools.

The cost of the pilot program is undetermined. The bill will not require an additional appropriation.

Prepared by: Vern Jones, Chief Procurement Officer Phono (907)465-5684
Division: General Services Date/Time 5/10/03 2:30 PM
Approved by: Mike Miller, Commissioner Date 5/10/2003
Agency: Administration

Alaska State Legislature

Session:
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Interim:
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Fax: (907) 269-0249

Representative Lesil McGuire

Chair, Judiciary Committee

Sponsor Statement for HB 313

"An Act authorizing a pilot program relating to state procurement and the use of electronic commerce tools; and providing for an effective date"

A Pilot E-commerce Procurement and Supply Chain Management Program

In our current fiscal situation, the Alaska Legislature has a duty to seek out cost savings and efficiencies in government. Especially important are savings in the *overhead costs of government* — i.e., "back office" functions. These functions can and should be streamlined, leaving more funds available for core government services such as education, public safety, and transportation.

The costs of procurement and supply chain management represent a substantial portion of the state's back office overhead. With only a few exceptions, the state performs these functions using outdated business processes and systems that do not take full advantage of electronic commerce opportunities and other strategies like the use of third party specialists.

Many Alaskans share a desire to become world leaders in modern logistics and supply chain management. Here in Alaska we have companies that are quickly becoming leaders in Internet e-commerce, procurement and related fields. Utilizing this specialized expertise will not only reduce the cost of government, but also strengthen Alaska's competitive position.

A controlled pilot program is a responsible approach to this opportunity. It will let the Alaska Legislature monitor progress, validate the cost savings and review other benefits (and drawbacks) before making a full commitment. It is a gradual approach that minimizes the risk of failure and provides tremendous potential for reducing the size and cost of government.

It is important that the pilot program be sufficient to justify technological and operational transition costs. The Commissioner of Administration will select a maximum of two departments plus two state enterprises for the pilot.

To be effective, a private sector specialist will need delegated authority to represent the state in performing electronic commerce, procurement and vendor performance management, hence the need for enabling legislation and temporary exemption from AS 36.30 (State Procurement Code). The Commissioner of Administration will be responsible for establishing controls and procurement procedures for the pilot program. This pilot will provide the Alaska Legislature with valuable information with which to evaluate the future modernization of AS 36.30.

Alaska State Legislature

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Fax: (907) 465-6592



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Anchorage, AK 99501-2133
Phone: (907) 269-0250
Fax: (907) 269-0249

Representative Lesil McGuire

Chair, Judiciary Committee

Sectional Analysis

HB 313

"An Act authorizing a pilot program relating to state procurement and the use of electronic commerce tools; and providing for an effective date"

A Pilot E-commerce Procurement and Supply Chain Management Program

Section 1 – Amends the uncodified law of Alaska by adding a new section of Legislative Findings which include among other things that:

- The fiscal condition of the state requires any opportunity to reduced state costs in a way that does not directly reduce program delivery must be actively explored;
- The costs associated with procurement and supply management are significant areas of the state's administrative cost and represent potentially substantial cost and
- Procurement and supply management represent appropriate opportunities for achieving cost savings through the use of process management specialists in the private sector.

Section 2 – Amends the uncodified law of Alaska by adding a new section that authorizes the Department of Administration to enter into a pilot program under which the department contracts with a person from the private sector to provide for the delivery of procurement services and electronic commerce tools. Further, Section 2 stipulates that this pilot program may not apply to more than two state departments and two other agencies or political subdivisions of the state, and that the program may not exceed three (3) years in length. Lastly, this section provides that procurement conducted under the pilot program is not subject to AS 36.30, the State Procurement Code.

Section 3 – Provides a sunset date for the pilot program of July 1, 2006.

Section 4 – Provides an effective date for the Act of July 1, 2003.

webMethods

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Information **PRESS RELEASES****U.S. DEPARTMENT OF DEFENSE SELECTS WEBMETHODS
INTEGRATION PLATFORM TO STRENGTHEN ELECTRONIC
PROCUREMENT SYSTEM***Department of Defense EMALL Will Increase Connection to Suppliers and Marketplaces for a More Robust Procurement Process Using webMethods Integration Platform*

FAIRFAX, Va. -- January 03, 2002 -- webMethods, Inc. (Nasdaq: WEBM), a leading provider of integration software, today announced that the U.S. Department of Defense (DoD) selected the webMethods integration platform at the end of the Government's recent fiscal year. webMethods will integrate the Department's internal marketplace and procurement system, called EMALL, to other applications required for managing a robust electronic procurement system.

DoD EMALL uses the Internet to give single access to enter and to procure off-the-shelf, finished goods from commercial marketplaces and the government's suppliers, to all of its customers throughout the DoD. By leveraging the simple and universal nature of the Internet, DoD EMALL automates purchasing processes that were paper-based and serial-processing intensive. This strategy enables the DoD to leverage the Department's buying power through volume discounts and streamlines the procurement process for commercial items.

webMethods will further deepen the functionality of the DoD EMALL by providing a common integration platform to connect approximately 30,000 new vendors directly to the user's back-end procurement systems, which will enable a paperless purchasing environment. The DoD will also use the webMethods integration platform to integrate DoD EMALL to major marketplaces, exchanges and suppliers, such as the Ariba® Commerce Services Network™, Exostar and Aeroxchange.

"The webMethods integration platform enriches the functionality of DoD EMALL in a way that was not previously possible," said Don O'Brien, DoD EMALL program manager, Defense Logistics Agency, U.S. Department of Defense. "The goal of the DoD EMALL is to improve material availability and reduce cost for the entire Department. webMethods will be an integral partner, helping the DoD EMALL fulfill that vision."

webMethods has a thriving Public Sector Operations organization with customers throughout the Federal Government and across the country in State and Local Governments. DoD customers include the Army, Navy, Air Force, and other DoD Agencies including: Defense Finance and Accounting Service, and Defense Logistics Agency. Civilian Agency customers include the Department of Transportation, Environmental Protection Agency and General Services

Administration.

"webMethods provides the most comprehensive integration solution for today's government. webMethods offers government agencies the opportunity to automate paper-based business processes without sacrificing security, while increasing flexibility and reliability," said Al Fox, director, Public Sector Operations, webMethods, Inc. "webMethods applauds the innovative vision of the Department of Defense, which leverages the best of today's technology to better serve the members of the Department."

About webMethods, Inc.

webMethods, Inc. (Nasdaq: WEBM - news) is a leading provider of integration software. The webMethods integration platform allows customers to achieve quantifiable R.O.I. by linking business processes, enterprise and legacy applications, databases and workflows both within and across enterprises. By deploying the webMethods integration platform, customers reduce costs, create new revenue opportunities, strengthen relationships with customers, substantially increase supply chain efficiencies and streamline internal business processes.

Founded in 1996, webMethods is headquartered in Fairfax, Va., with offices throughout the U.S., Europe and Asia Pacific. webMethods has more than 750 customers worldwide including Global 2000 leaders such as Citibank, Dell, Eastman Chemical, The Ford Motor Company, Grainger, and Motorola. webMethods' strategic partners include Accenture, AMS, BMC, BroadVision, Cap Gemini Ernst & Young, Deloitte Consulting, EDS, Hewlett-Packard, i2 Technologies, J.D. Edwards, KPMG Consulting, Microsoft, Oracle Corp., SAP AG and Siebel Systems. More information about the company can be found at <http://www.webMethods.com>.

###

webMethods is a registered trademark of webMethods, Inc. In the USA and certain other countries. All other company and product names are the property of their respective owners.

This press release contains various remarks about the future expectations, plans and prospects of webMethods that constitute forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. The actual results of webMethods may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed under the heading "Factors That May Affect Future Operating Results" in the Business section of webMethods' Form 10-K for the year ended March 31, 2001 and in the Management's Discussion and Analysis section of webMethods' Form 10-Q for the quarter ended September 30, 2001, both of which are on file with the U.S. Securities and Exchange Commission. webMethods disclaims any obligation to update or correct any forward-looking statements made herein due to the occurrence of events after the issuance of this press release.

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Department of Information Resources

Assessment of the General Services Commission's Electronic Procurement Project

August 30, 2001

Contents

Executive Summary
Purpose
Background
Project Status
Model Texas Electronic Procurement Environment
Project Strengths and Issues
Next Steps
Appendix A: Texas EP Project Chronology
Appendix B: Pilot User Feedback Details
Notes

Executive Summary

In 1997, the 75th Legislature passed Senate Bill 820 charging the General Services Commission (GSC) to implement an electronic procurement (EP) system for use by all state agencies. In February 2000, GSC awarded a contract to Syscom, Inc., to develop and operate a pilot EP system that would be funded through user subscription and transaction fees. After successful testing in April 2000, GSC encouraged state agencies and political subdivisions to participate in the pilot. Several hundred transactions have been made through the pilot system to date.

During 2000, the Sunset Commission's report on GSC and the Comptroller's e-Texas Report¹ addressed the EP project. While both reports supported electronic procurement and acknowledged progress made by GSC, they identified a number of issues and made recommendations.

In May 2001, the 77th Legislature passed Senate Bill 311, which included several directives concerning electronic procurement.² These directives were based largely on input from the Sunset Commission and the Comptroller. Most significantly, the legislation assigned responsibility to the Department of Information Resources (DIR) to establish and manage the electronic infrastructure of the EP system. Upon passage of Senate Bill 311, DIR immediately began an assessment of the current electronic procurement project and the EP pilot system. This report is the product of that assessment.

DIR finds that, while much progress has been made in the EP project to date and the pilot EP system meets most of the basic procurement requirements, a number of issues must be addressed and resolved before a fully functional Texas EP system can be achieved. In order to advance, it is critical to bring sound project management principles and active stakeholder involvement into the project. The most critical issues are:

- There is no formal definition of project requirements.
- The pilot system does not interface to agency accounting systems.
- The data warehouse component has not been designed.
- The cost recovery model may not generate sufficient revenue.

- Performance and change management standards have not been set.
- The Web site does not comply with state standards.

DIR has identified two major steps needed to successfully complete the EP project: (1) conduct a formal requirements analysis with full input from all project stakeholders, and (2) based on the requirements analysis and addressing the issues identified in this assessment, issue a Request for Offer for development and implementation of a fully functional Texas EP system.

DIR looks forward to working in close partnership with GSC and its successor agency, the Texas Building and Procurement Commission, to develop, implement, and manage a highly successful electronic procurement system for Texas.

[Back to Contents](#)

Purpose

The purpose of this report is to summarize the results of a high-level assessment of the Texas Electronic Procurement project. This project has been managed by the General Services Commission since its inception in 1997. In passing Senate Bill 311, the 77th Legislature transferred responsibility for development and management of the technical infrastructure for the state electronic procurement system to the Department of Information Resources, effective October 1, 2001. DIR began its assessment of the EP project in May 2001 as the first step in assuming this responsibility and in order to ensure that no time will be lost in meeting the mandates of the legislation.

DIR recognizes that development of an electronic procurement system shared by hundreds of state agencies and other public sector entities is a very complex undertaking (as DIR's research with other states and industry experts has indicated), involving a wide range of stakeholders and impacting the procurement of goods and services in the state. This initial assessment is a crucial first step in that undertaking.

Although this report addresses some requirements for a Texas EP system, it is important to note that it does not constitute a formal requirements definition. Similarly, although this report identifies some issues with the current EP project, it is not a project audit.

DIR looks forward to working in close partnership with GSC and its successor agency, the Texas Building and Procurement Commission, to develop, implement, and manage a highly successful EP system for Texas.

Organization. This report begins with a background of the electronic procurement project followed by the current project status. Next is a description of a model Texas electronic procurement environment that would meet the Legislature's requirements. The next section describes strengths and issues of GSC's EP project identified by based on its limited research. After drawing conclusions on these strengths and issues, this report suggests the next steps for DIR and GSC to advance the project to a successful conclusion.

[Back to Contents](#)

Background

In 1997, the 75th Legislature passed Senate Bill 820, charging GSC to implement an electronic procurement system for use by all state agencies. In order to get input, GSC formed the Texas Government to Business (TxG2B) Coordinating Council to oversee the state's efforts to develop this system. As a result of TxG2B recommendations, GSC contracted with Phoenix Planning & Evaluation, Ltd. to conduct a feasibility study of statewide implementation of electronic procurement. The resulting feasibility report, issued in May 1998, included

the following recommendations:

- Establish an Electronic Commerce Project Management Office to coordinate the EP initiative.
- Migrate the state's procurement system to the Internet.
- Reduce procurement approval processes and automate when possible.
- Survey vendors to determine the most effective means of communication between agencies and vendors.

In October 1999, based on input from TxG2B, GSC issued a Request for Offer (RFO) to establish an efficient, cost-effective, Internet-based electronic commerce pilot program for Texas.³ In February 2000, GSC awarded the contract to Syscom, Inc. The initial contract period was through August 2000, with options to extend the contract for up to four one-year periods. The only income to be collected by Syscom under this contract would be EP system subscription and transaction fees charged to agencies and vendors.

Syscom's approach was to expand its existing electronic procurement system under development for the State of Maine. In April 2000, Syscom demonstrated the ability of its system, called PublicBuy, to conduct Texas procurement transactions (term contract orders and bid solicitations). GSC worked with several agencies who began using the system on a pilot basis. In the fall of 2000, GSC began conducting sessions to familiarize vendors with the EP system.

Reviews initiated during 2000 by both the Sunset Commission and the Comptroller referred to the EP project. Contents of the resulting reports that relate to electronic procurement are summarized below.

Sunset Report. The Sunset Commission issued a report on GSC in October 2000. The report addressed the EP implementation effort and found that GSC was meeting the Legislature's requirements. However, the report identified several issues which, if not resolved, would prevent statewide EP implementation. These included:

- The EP system cannot fully interface with many agencies' financial systems.
- Costs of the transaction fees have not been calculated and could result in increased costs for agencies and vendors.
- The requirement for all agencies to participate is not clearly defined in the statute.

e-Texas Report. The e-Texas Report released by the Comptroller in December 2000 devoted an entire section to Internet-based electronic procurement. This report strongly encouraged Texas EP implementation as a means to save money by improving the state's procurement processes and by ensuring that the state gets the best prices for the goods and services it procures. However, the report warned that the design and implementation of such a system could be an expensive and complex endeavor costing up to \$10 million. The report stressed that a high degree of interagency coordination would be needed, given the decentralized nature of Texas government, the widely divergent needs of its agencies, and the many legacy systems involved. The rapid pace of technology requires that any electronic procurement system must be scalable; that is, able to evolve and grow.

The Comptroller hired a consultant, Booz Allen & Hamilton, to evaluate the TxG2B pilot system in June 2000. Based on the consultant's report, the e-Texas Report characterized the EP project as a well-intentioned, but unfunded, effort without the mandate or executive sponsorship needed to drive process improvements to maximize benefits available from the technologies. Nevertheless, the report stated that considerable accomplishments have been made, and suggested that much of this work will have value beyond the pilot test phase.

The e-Texas Report warned that there are significant risks inherent in such a project and advised that best practices and lessons learned from previous projects be rigorously applied. Finally, the report stressed the need for strong leadership and executive commitment to electronic procurement, including business process reengineering and the elimination of regulatory impediments.

The Comptroller made the following recommendations concerning electronic procurement in the e-Texas Report:

- DIR should work with GSC and other agencies to establish a flexible EP system, linked to TexasOnline, that could be accessed by state and local agencies, including school districts.

- The DIR Program Management Office should consult regularly with TxG2B, the Comptroller, the State Auditor, GSC's Vendor Advisory Committee, and representatives from small, medium, and large state agencies, local governments, and school districts.

Senate Bill 311. In May 2001, the 77th Legislature passed Senate Bill 311, the GSC Sunset Bill. This bill, which abolishes GSC and creates the Texas Building and Procurement Commission (TBPC), includes several directives concerning electronic procurement. These directives, which largely reflect recommendations made in the Sunset and e-Texas Reports, partially include:

- All functions and activities related to the establishment and management of the electronic infrastructure of the electronic procurement marketplace and the electronic commerce network⁴ are transferred to DIR, effective October 1, 2001.
- Small and historically underutilized businesses shall have maximum access to electronic commerce opportunities.
- DIR shall assess whether all or part of the EP system should interface with TexasOnline.
- DIR and TBPC shall adopt standards and rules for use of the EP system. DIR is responsible for the technical infrastructure, while TBPC is responsible for the intended use of the EP system.
- TBPC shall integrate the Texas Department of Economic Development's Texas Marketplace, also called the Electronic State Business Daily, into the EP system.
- All state agencies, with certain exceptions, shall use the EP system.
- DIR shall charge a cost-recovery fee to agencies, political subdivisions, and private businesses for electronic procurement network services provided by DIR or a contractor.

Senate Bill 1458. In May 2001, the 77th Legislature passed Senate Bill 1458,⁵ which included a provision exempting Texas higher education institutions from the requirement to participate in the EP system.

EP Project Chronology. Appendix A provides a more detailed chronology of events related to the EP project.

DIR Assessment. Upon passage of Senate Bill 311, DIR immediately began an assessment of the EP project and the pilot EP system. This report is the product of that assessment effort.

DIR used a number of sources in conducting the assessment, including legislation, procurement statutes, and EP project documentation. DIR also studied numerous reports written by electronic commerce market analysts (Gartner Group, Giga Information Group, META Group). The Comptroller's e-Texas Report and the Sunset Commission's GSC report were valuable resources. DIR also reviewed the two most recent State Auditor's Office (SAO) management control audits on GSC.

DIR interviewed many people in person or by telephone during the assessment. State agencies included the General Services Commission, Comptroller of Public Accounts, State Auditor's Office, and the Legislative Budget Board. Pilot contractors included Syscom and its partners, SiCommNet and iNetPurchasing. Electronic Commerce market analysts included Gartner, Giga and META. Pilot system users included DIR, GSC, the Texas Department of Transportation, and Killeen Independent School District. EP contacts from other states included Michigan, Maine, Massachusetts, Florida, and Jackson County, Missouri. The Department of Information Resources thanks all these organizations and individuals for their valuable input.

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Project Status

This section describes the electronic procurement project resources and Syscom, Inc., the company that holds the pilot contract. Next is a summary of pilot system usage and feedback from some of the users. Finally, this section addresses current EP project development activities and plans.

PROJECT RESOURCES

One person in GSC's Central Procurement Division serves as the project manager and pilot contract manager. There is no dedicated budget for the EP project. The pilot has been operating since April 2000. Several agencies have piloted the EP system, as identified in Pilot System Usage.

Included in the pilot contract between GSC and Syscom is a statement by Syscom that the project would need certain minimum resources from the state to assist in the design and implementation of an electronic procurement system. These minimum resources included a total of four full-time equivalent staff in the areas of procurement, vendor relations, and project management. In addition, Syscom estimated that each agency implementing electronic procurement would need to expend approximately 320 hours of system administration for training and setup in the first two months.

PILOT CONTRACTOR

Founded in 1982, Syscom is a privately-held information technology corporation that has supplied systems development, systems management services, and software solutions for international corporations and governmental entities. Syscom serves as the systems integrator for the Texas EP pilot project.

Syscom partners with two companies in the development of the EP system: SiCommNet and iNetPurchasing. Together these companies provide an Internet-based, interactive competitive bidding system and electronic term catalog system known as PublicBuy.net (or PublicBuy). SiCommNet developed BASEC (Buying and Selling by Electronic Commerce), the electronic bidding component of the EP system. The electronic term contract (e-catalog) component was developed by iNetPurchasing.

SiCommNet is the nation's first multiple-agency-capable Internet commerce site with an automated requisition and procurement system for use in a competitive procurement process. SiCommNet markets the system to both public and private entities. The BASEC system is intended to eliminate government's burden of having to acquire and maintain its own hardware and software, while also eliminating 40% to 60% of the direct labor involved in the procurement process.⁶

iNetPurchasing assists state and local governments in reengineering and reforming their procurement systems by providing automated electronic commerce purchasing services. iNetPurchasing began in 1995 as Electronic Commerce and Catalog Services. A Baltimore-based firm restructured the corporation and merged it into the present iNetPurchasing, Inc.

The states currently using or piloting the PublicBuy system are Texas, Maine, and Idaho. Syscom is also implementing the e-procurement solution in Jackson County, Missouri.

PILOT SYSTEM USAGE

To DIR's knowledge, no Texas agency or local cooperative is currently using both the e-catalog and the bidding components of PublicBuy. Usage information follows for each of these components.

E-catalog. Syscom reports that 129 organizations, primarily cooperatives, have been trained on the e-catalog component. (Cooperatives are political subdivisions, often school districts, that are allowed to procure goods and services under state term contracts.) From April 3, 2000 to August 2, 2001, two state agencies (CPA and GSC) and 19 cooperatives have made orders using the e-catalog component. These 21 organizations have initiated 283 purchase orders through PublicBuy. The dollar amount of these purchase orders totals \$632,000.⁷ Most or all of these purchases are for items under state term contracts.

Bid/response. The only Texas entities that have piloted the bid/response component are the Texas Department of Transportation (TxDOT), GSC, and DIR, although only DIR is currently using it. According to Syscom, these three agencies have generated 35 transactions with a total dollar value of \$143,670.

PILOT USER FEEDBACK

DIR interviewed pilot users from Killeen ISD, TxDOT, GSC, and DIR. In general, these four organizations support the concept of electronic procurement and the PublicBuy system. However, problems in implementation have hindered effective use of the system. Appendix B provides more details on user feedback.

DEVELOPMENT ACTIVITIES

GSC and Syscom are continuing development toward the goal of implementing an operational EP system for Texas using PublicBuy.

Change management. Syscom's business approach is to develop a single government EP application that can be shared across governments. Syscom receives requests from its users for software fixes and enhancements and prioritizes them by severity and number of user requests. Both GSC and Syscom maintain a list of necessary and desired changes for PublicBuy. However, there are no criteria in place for change management, which GSC has no control over the priority of changes and may not even be notified when changes are made.

Accounting interface. Input from the Comptroller's e-Texas Report and from agency feedback at a briefing presented by GSC in January 2001 strongly indicated the need for the EP project to take into account how agencies would interface the EP system to their accounting systems. This is necessary for fund encumbrance and vendor payment. GSC and Syscom have responded by devoting more attention to this critical area.

Texas agencies employ a wide variety of software packages to support their accounting functions, and even agencies that use the same package often have unique, customized versions. Agencies also differ in how their procurement and accounting functions interact—from manual data entry to batch processes to sophisticated real-time integration. Implementing a single EP system that will interface to all these environments is a daunting task.

To better understand what is needed, GSC is developing an interface from PublicBuy to its own accounting system, GFAS. First, GSC contracted with Syscom to add the capability within PublicBuy to generate a digital dataset for each agency daily. This dataset contains all the information recorded by PublicBuy for each transaction made by the agency on that day. GSC then contracted with the company that runs GFAS to develop, at a cost of approximately \$40,000, a procurement module within GFAS to input PublicBuy data, as well as information entered manually for non-EP procurements, into accounting. GSC is currently testing the interface.

The daily transaction file that PublicBuy can now produce is a key to how each agency will interface to its own systems. But the cost and time to develop, test, and implement these interfaces must be taken into account. Over 100 agencies use the Comptroller's Uniform Statewide Accounting System (USAS) internally, so a USAS interface is a high priority. GSC reports that it is working on a pilot relationship with the Texas Natural Resource Conservation Commission (TNRCC), which uses USAS, to develop this interface. How portable the interface will be to the other USAS agencies is uncertain. Similarly, it is desired that one interface can be developed to the Integrated Statewide Administrative System (ISAS) that will be usable by all ISAS agencies.

TxDOT, which is moving forward aggressively to implement the bid/response component of PublicBuy, has chosen to contract with Syscom to develop a custom data structure that will load directly into its accounting system.

Implementation Plan. GSC does not have a formal plan or timeline to complete the pilot phase or to implement an operational Texas EP system. In addition to further technical development, rulemaking will be needed to clarify and codify the requirement that state agencies must participate in the system.

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Model Texas Electronic Procurement Environment

Electronic procurement systems vary widely in scope and target business environments. This section describes, at a high level, the scope required of a Texas EP system, based on legislation and the existing state business environment. A short market analysis is also included to provide relevant information about the general EP market and the experience of other states implementing electronic procurement. Information provided in this section is a basis for the identification of current EP project strengths and issues presented in the next section.

Except in some specific vertical markets, EP systems today are Internet-based and utilize Web browser and e-mail technologies. EP systems typically contain tools that in some way support these basic procurement tasks:

Buyer Tasks

- shopping
- ordering
- receiving
- paying

Vendor Tasks

- posting online catalog
- receiving order
- invoicing
- receiving payment

In 2001, the 77th Legislature mandated that GSC/TBPC and DIR implement an electronic procurement system for use by all state agencies that is Web-based, and that provides tools that support basic agency and vendor procurement tasks. Reviewing the legislation, and taking into account the need to fit in the state's existing business environment, DIR has compiled this basic, but non-exhaustive, list of features that must be supported by a Texas EP system:

- Compliance with state procurement statutes and policies
- Full participation by a wide variety of state agencies and other public sector entities
- Vendor registration/qualification
- Full access by any qualified vendor who wants to do business with the state
- Support for vendors who do not use the Internet and/or e-mail
- Fair, competitive bidding
- Statewide term contracts to leverage the buying power of each buying entity
- Approval processes for requisition, purchase order, and payment
- Audit trails
- Daily public posting of state bidding opportunities (even if the solicitation is not being conducted through the EP system)
- Compliance with state Web site standards
- Interface to agency accounting systems
- Central purchasing data repository to support statewide queries and reports
- High performance, reliability, security, and scalability

For the purpose of this assessment, the conceptual model shown in Figure 1 suggests the basic components and interfaces that an operational Texas EP system must support. Each component is described in the text following the diagram.

Figure 1. Texas EP System Conceptual Model

Manage profile. Each participating buying entity and vendor must have the ability to register themselves and establish and maintain a detailed profile in the system. On the vendor side, this is roughly equivalent to the Centralized Master Bidder List (CMBL).

Shop catalogs & term contracts. Catalog shopping theoretically allows an agency to electronically search for a particular good or service across many vendors and then make the best purchase decision. This wide-open

method of shopping on the Internet is not yet a reality, due partly to the lack of electronic catalog standards and the perceived complexity of vendors maintaining their catalogs online. However, the catalog shopping model is an ideal way to support purchasing of items that are on state term contracts. The term contracts constitute a "catalog" that agencies can easily search by item code or keyword to locate the goods or services they need and to determine the cost.

Process requisition. An agency employee can quickly locate a needed item under contract and generate an electronic requisition form with description, price, vendor, and agency information filled out. A link to the form is automatically routed via e-mail to appropriate staff for approval and then to purchasing staff for further processing.

Process bid solicitation, process bid response. If the purchaser determines that the item being requested is appropriate for competitive bidding, the purchaser uses the bid solicitation tool to generate an electronic bid solicitation document with appropriate attachments. The EP system automatically notifies, via e-mail or fax, all registered vendors with a class/item code that corresponds to the good or service needed. Vendors have a specific amount of time to submit a bid; they are encouraged to bid electronically via the EP system. The solicitation is also posted on a public Web page so that non-registered vendors have the opportunity to bid (see Review Business Opportunities). At the specified date and time, the EP system releases bids to the purchaser for possible award.

Process purchase order, process invoice. Given an approved requisition for items under term contract (or other non-competitive bid items), or an acceptable best bid following a bid solicitation, the purchaser uses the system to generate an electronic purchase order. Once submitted, the system immediately notifies the vendor. The vendor can use the system to invoice the buying agency.

Process receipt. The system generates a receipt document that is routed to the appropriate parties to verify that the item was received and that it is acceptable. Once receipt is complete, the system performs a three-way match of the requisition, purchase order, and receipt. This match is legally required before the agency can process payment to the vendor.

Download transaction data, process encumbrance/payment. Before issuing the purchase order, the agency must encumber the dollar amount from the appropriate fund. This involves processing in the agency's accounting system, which in turn triggers a process in the state's central ledger system, USAS. Similarly, payment is processed in the agency accounting system, which triggers a payment request in USAS, resulting in the Comptroller issuing a payment to the vendor. While some agencies have their current procurement process electronically interfaced to their accounting system, most do not. In either case, procurement must flow into the accounting system. It is critical that the EP system provide each agency, on at least a daily basis, an electronic containing all the information about that day's transactions required to go into the agency accounting system in order to encumber funds and issue payment requests.

Generate reports. Each agency needs the ability to generate transaction activity reports from the EP system. In addition, GSC must be able to use the system to generate specialized statewide reports required by the Legislature. This will require a central repository or "data warehouse" of all procurement data, probably housed at GSC.

Manage term contracts. The system must allow GSC to add, modify, and remove term contracts. In addition, GSC should be able to analyze EP system data to identify opportunities to decrease expenditures by pursuing new term contracts.

Manage catalog. Initially, the catalog shopping component of the EP system will primarily support state term contract ordering. Eventually, some vendors should be able to post and update their complete catalogs on the system.

Review business opportunities. Currently, the Texas Department of Economic Development maintains the Texas Marketplace, a public Web site that state agencies must use to post notices of any bid solicitations. Any vendor can use this Web site to review opportunities to bid. Senate Bill 311 transfers this responsibility to GSC and requires that it be integrated into the EP system.

MARKET ANALYSIS

Electronic procurement is still relatively new in both the private and the public sectors. Some view EP narrowly as a collection of software tools used by purchasers and vendors. Others view EP more broadly as an end-to-end solution that integrates and streamlines many business functions throughout the organization. Although the term "end-to-end EP" is common, industry analysts report that this ideal model is rarely achieved.

EP Projects in Other States. Typically, the business environment of a state is less centralized or homogeneous than that of a private business. This makes EP deployment even more of a challenge for states, so it is not surprising that they are lagging the private sector in this area. However, according to the Gartner Group, the past 18 months have seen the rapid deployment of EP solutions, as well as the establishment of new EP initiatives. Gartner estimates that 12 to 15 states have EP projects under way. These include Maryland, Washington, Massachusetts, and Texas. Another 12 to 15 states have just begun EP projects. These include Florida, New York, and Ohio. Other states, including Wyoming, have indicated that online procurement initiatives will likely be pursued with in-house resources.⁸

Several states have reported disappointing results with pilot programs. One problem is the level of buy-in by agencies and vendors. Only one state, Virginia, reports significant participation of both agencies and vendors. Virginia Legislature has mandated rapid agency EP implementation, and Virginia has an advantage over Texas in that its government is more centralized. Another problem is that companies selling EP solutions have over-hyped the cost-saving benefits.

No state fully integrates its EP processes with its financial processes. Industry analysts report that commercial enterprises are also in the early stages of integrating EP with other accounting, control, and strategic planning functions.

Thus it appears that Texas is probably in the middle of the pack regarding electronic procurement. It also seems that a quick return on investment, or rapid cost savings are not likely to materialize.

EP Vendors. Giga Information Group recently produced the following list of general purpose EP vendors and system integrators.⁹ Not all vendors with electronic procurement systems are included in the list. Giga does not track Syscom due to its small size. This is also the case with other companies that track the EP market.

Large EP Vendors	<ul style="list-style-type: none"> • Ariba • ASP • Commerce One 	<ul style="list-style-type: none"> • I2/Rightworks • Oracle • PeopleSoft
Medium EP Vendors	<ul style="list-style-type: none"> • MRO Software • J.D. Edwards • Lawson 	<ul style="list-style-type: none"> • Baan • Clarus • iPlanet
Small EP Vendors	<ul style="list-style-type: none"> • eicom • ICG • Commerce • SupplyCore 	<ul style="list-style-type: none"> • PurchasePro • Works.com • MarketMile
EP Systems Integrators	<ul style="list-style-type: none"> • KPMG • SAIC 	<ul style="list-style-type: none"> • AMS • Accenture

Even though the EP market is quite young, it is already undergoing consolidation. Ariba is now viewed as one casualty that may be procured by a larger vendor or partner such as IBM. Metiom, a partner with SAIC in Maryland's EP system, has declared Chapter 11 bankruptcy, although Maryland's site is still functioning.

One prominent partnership that specializes in the government sector is BuySense.com, a joint venture between American Management Systems and procurement software provider, Ariba. The partnership provides a hosted,

"application service provider" approach similar to Syscom's, but focusing primarily on the top 250 state and local governments and higher education institutions.

Funding an EP Project. Industry analysts indicate that payback for EP systems is turning out to be much slower than proponents advertised; payback should not be expected until the fifth year. The long lead time before a positive cash flow occurs is the main reason analysts are predicting the demise of the fee-based, cost-recovery structure. However, a report by the National Electronic Commerce Coordinating Council (NECCC) on funding EP acquisition indicates that states are not abandoning the self-funding approach at this time, but may be it with various other funding options.¹⁰

Most industry analysts consulted for this report were of the opinion that exclusively fee-based cost recovery would not work as a long-range funding model.¹¹ Feedback from interviews with Michigan, Maine, and Texas suppliers indicate dissatisfaction with paying an additional cost for a service that is perceived primarily to benefit the state. However, Michigan's director of purchasing pointed out that electronic communications eliminate many sources of error on the suppliers' end, and this very likely offsets any fees a state may impose.

According to the NECCC report, few states use an exclusively fee-based approach. Most employ a hybrid funding model in which the state may contribute seed capital, or agencies may pay subscription fees, or participate in similar ways.

The most effective way to reduce funding requirements is to limit the scope of the project or phase in the project over a period of time. For instance, real-time integration with accounting systems represents a huge cost. If this feature is phased in over time, agencies integrating later in the process can build on experiences and designs of early adopters.

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Project Strengths and Issues

This section presents strengths and issues identified by DIR based on limited research performed during the EP project assessment period. This research included interviews with pilot EP system users from TxDOT, GSC, DIR and Killeen ISD.

PROJECT STRENGTHS

The primary strengths of the pilot project are that it satisfies the needs of its primary constituency, agency purchasers. It also requires very few IT resources to implement.

- **The contractor understands public sector procurement.** The partnership behind PublicBuy includes three members with extensive background in public sector procurement. This is an important element of their strategy because nearly all states share the same basic procurement code sponsored by the National Institute of Government Purchasers (NIGP). This code can be procured from NIGP at:

<http://www.nigp.org/press/020101RevCode.htm>

- **Basic procurement functionalities are met.** The marketing strategy of the partnership has been to pursue government markets exclusively. Hence they ensured that the government procurement rules were met. Industry analysts note that e-procurement products in general "...are maturing, but still in the early stages of functionality development for government."¹² Interviews with vendors of current products, as well as states that have implemented electronic procurement, indicate that current commercial offerings must be heavily tailored to meet the demands of government procurement.

As described in the Project Status section, several agencies and political jurisdictions are successfully using PublicBuy to process real transactions (requisitions and purchase orders).

- **Syscom's EP tools can be implemented easily by agencies.** Part of the marketing focus was to create a system in which purchasing users can be quickly trained. For the most part, this objective seems to have been met. The vendor has well-designed, paper-based training materials for users, as well as hands-on training classes for both users and administrators.

Typical training for a purchaser takes about four hours for the catalog system and 2.5 days for creating a bid solicitation. System administrator training takes about two days. This does not appear to be excessive in the industry. Similar systems that require workflow administration often require as much as a week of training for administrators.

A key aspect of the system is that agencies do not host their own servers. Thus users need only an Internet browser. Aside from supporting a browser and some slight increase in network traffic, agency IT departments are not affected.

- **Agency pilot users have endorsed the system.** No agency is using both parts of the product. However, current users and procurement officers who have reviewed the entire product voice support for it. This includes some users who have been through several demonstrations of competing products. The primary reason that purchasers give for liking the product is the way it handles the idiosyncrasies of government procurement.

PROJECT ISSUES

The assessment team identified a number of issues relating to the EP project management, design, and pilot implementation. Issues will arise in any effort as large and complex as implementing electronic procurement for the State of Texas. Identification and resolution of these issues are critical to successful project completion.

- **Project requirements have not been clearly defined.** One of the earliest products of a project such as this should be a requirements document that clearly defines the scope of the project and of the final product. This document, approved by the project sponsor and communicated to all stakeholders, provides the bedrock for subsequent project activities and ensures that the project does not deviate from its original requirements without a formal change process.
- **Stakeholder involvement has been insufficient.** After a good start, the role of the TxG2B Coordinating Council has diminished. Active involvement by all classes of stakeholders is essential for project success. Stakeholders need to be able to monitor project progress and have input at all stages of system design and implementation. This ensures that the resulting EP system will meet their needs, and it improves user buy-in.

Who are the project stakeholders? Since all state agencies (except higher education) will be required to use the EP system, all are stakeholders. Specifically, agency executive directors, purchasing directors, financial officers, and information resources managers need to be informed about the project, have input to the project, and plan in advance for changes that will be needed to accommodate the EP usage requirement. Every vendor that sells goods and services to the state is a stakeholder. EP will have a significant impact on how vendors do business with the state. The system has been mandated to allow maximum participation by small and historically underutilized businesses, so it is essential to receive their input during EP system design. Because of their particular duties, the Comptroller and the State Auditor are a special class of stakeholders; it is imperative that EP system design and implementation have their approval. Finally, the Legislature, which mandated the establishment of a Texas EP system, is certainly a stakeholder in this project, as are the tax-paying citizens of Texas.

- **Standard project management principles have not been followed.** It is critical that a large, complex information technology (IT) project such as an EP system follow proven principles of project management. Adherence to these principles ensures that the product will satisfy requirements and that optimum choices are made between trade-off factors such as scope, time, cost, risk, and quality. One of the first steps for an organization starting such a project should be to adopt a specific IT project management methodology and to acquaint all project participants with it.

GSC has not applied a clear set of project management principles to the EP project. One missing component, a requirements definition, has already been identified. Other critical components that have not been formally addressed include identification of a project sponsor, documented project plan, identification of deliverables, risk analysis, implementation strategy, business continuity/disaster recovery planning, change control process, and task scheduling.

- **Insufficient staff and funding have been committed to the project.** The 75th Legislature called on GSC to implement an EP system for Texas, but no funds were appropriated specifically for this purpose. The theory was that the system could be self-funded through small transaction fees. These fees may provide sufficient revenue to cover the EP system's ongoing operating expenses. However, a project of this magnitude requires significant up-front resources for development and implementation.¹³ GSC has been able to direct only a small amount of staff and funds to the EP project. GSC requested, but did not receive, additional funding for EP in its 2000-2001 Legislative Appropriations Request; no additional funding was sought for 2002-2003.
- **The system may not be viable outside the hands of the pilot contractor.** PublicBuy consists of three separate databases, designed, managed, and hosted by three separate companies. Policies and procedures exist for version control, and for data and program backups. However, if any of these companies were to go out of business or abandon the project for any reason, it is not clear that Texas would be able to use the escrowed code and data backups to reconstitute and operate PublicBuy's complex hardware and software environment. No disaster recovery and business continuity plans exist at GSC for this project.
- **The system does not interface to agency accounting systems.** The lack of an interface to agency accounting systems is the largest barrier to statewide use of the EP system. The Comptroller's e-Texas Report states that interfaces must be developed to integrate existing state computer systems and that the EP system needs to be compatible with TexasOnline.¹⁴ In an interview, SAO stated that an EP system that does not provide an electronic accounting interface would be a step backward for some agencies that already have their purchasing functions electronically linked to their accounting systems.¹⁵
- **The project has not been monitored by the Quality Assurance Team.** Due to the significance of this project and the impact it will eventually have on all state agencies, DIR feels that this project should be monitored by the Quality Assurance Team. External quality assurance review can help minimize risks and ensure a successful project outcome.
- **The data warehouse component has not been fully designed.** The data warehouse, a central repository of all procurement transactions processed by the EP system, was not part of the original project. The concept evolved as a way to help interface the procurement system with existing accounting applications, and to support statewide queries, analysis, and reports.

Without statewide data and reporting, the state lacks basic information needed to evaluate vendor performance and negotiate better term contracts to take full advantage of volume buying to obtain lower prices. The State Auditor's Office emphasized these needs in GSC management control audits released in 1997¹⁶ and 1999.¹⁷

- **The proposed cost recovery model may not generate sufficient revenue to sustain the system.** Industry analysts believe that the self-funding model may collapse during 2001. Some even assert that the volume of transactions alone will never be able to fund EP systems. However, analysts offer no alternative funding schemes. A survey by NECCC found that states tend to favor self-funding.

Part of the difficulty in determining fees for such an approach is developing cost estimates that indicate where savings result from efficiencies of electronic procurement. Washington developed a business model

based on extensive analysis of procurement workflow, and reported that the model accurately predicted the system costs.

The NECCC report also noted many areas in which requirements must be carefully specified because of their impacts on the cost model. At this point, so few requirements have been finalized for the Texas project that any cost recovery models are tentative at best.

- **Procurement tools are not fully integrated.** The pilot EP system is composed of two essentially unconnected subsystems, one handling term contract purchases and the other handling solicitation (bid/response) purchases. Each of these subsystems has its own user interface and database. Common components of these two purchase options, including requisitions, purchase orders, buyer information, vendor information, and approval workflows, are separately implemented in the two subsystems. Data from these two systems is merged through a third "integration database" on a daily basis.

Syscom's response to GSC's Request for Offer for a pilot program proposed a solution "that can integrate the components of an electronic catalog system with those of the electronic competitive bidding model." The current pilot system does not fit this description. Agencies have to load and maintain detailed buyer profile information in two different formats. Also, the person creating a requisition has to know which is the appropriate buy type (catalog or bid/response) and access the corresponding requisition tool. The purchaser may have to cancel the requisition and regenerate it from scratch using the other buy type.

- **Performance and change management standards have not been set.** When fully implemented, a Texas EP system will be required to support a huge volume of data traffic, and agencies will depend on the system to support mission-critical functions. It is essential that the EP system be designed, implemented, and managed according to a defined set of performance and change management standards to ensure acceptable levels of reliability, response time, security, and scalability.

The importance of scalable design must be emphasized. The current pilot system often requires negotiation by telephone between the pilot contractor and vendors to complete a transaction. While frequent human intervention may be acceptable in a pilot test, it would be unworkable in a fully operational EP system processing thousands of transactions daily.

- **The Web site does not comply with state Web standards.** The administrative rule on state Web sites outlines the standards that all state Web sites must follow.¹⁸ The EP system home page address:

<http://www.st.tx.publicbuy.net/home/>

does not follow the state protocol. Other examples of non-compliance are the use of frames, the lack of "alt tags" providing text descriptions of graphic images, the lack of a privacy policy, and the lack of links to the State of Texas home page and statewide search. The site should comply with the standards because it serves a primary point of business with the State of Texas and state employees will be using the site for procurement purposes.

A related issue is that the Web site lacks a consistent "look and feel." The pages should be designed so that buyers and sellers can quickly become familiar with the site, can easily navigate through the various pages, and can access general information about Texas procurement rules and procedures. The ability to go "back" to the previous step is an important user feature that is not always available.

- **The EP system is not customized to users' operational needs.** An example of a real-world operational need is editing a purchase order. Often a purchaser needs to add or drop an item; change a description, quantity, or price; or change the shipping address on a purchase order (PO). The current EP system does not allow a PO to be edited; the purchaser must cancel the purchase order and start a new one.

- **Procedural errors and exceptions are not handled well.** If not detected, a fault or inaction in the e-procurement process can lead to a significant delay. For instance, some vendors don't receive notification of a purchase order because their e-mail address on the CMBL is incorrect. The system lacks a mechanism to detect and respond to this situation (such as looking for an "undeliverable e-mail" reply message and forwarding it to the originating agency). Additionally, some vendors may not read the e-mail message informing them of a purchase order. The system lacks a mechanism to inform the originating agency that the vendor has not accessed the electronic purchase order within a certain amount of time. Finally, some users have reported delays due to poor technical support response from GSC and Syscom staff.
- **The system is not accessible to the public.** Legislation requires that the Texas Marketplace be integrated within the EP system. However, the pilot system can only be accessed by registered buyers and sellers. The Texas Marketplace is intended to inform the public about all opportunities to bid for state business. In addition, it may be the Legislature's intent that agency spending information be more accessible to the public.

CONCLUSIONS

While much progress has been made in the EP project to date and the pilot EP system meets most of the basic procurement requirements, a number of issues must be addressed and resolved before a fully functional Texas EP system can be achieved. In order to advance, it is critical to bring sound project management principles and active stakeholder involvement into the project. The most critical issues identified in DIR's initial assessment are:

- There is no formal definition of project requirements.
- The pilot system does not interface to agency accounting systems.
- The data warehouse component has not been designed.
- The cost recovery model may not generate sufficient revenue.
- Performance and change management standards have not been set.
- The Web site does not comply with state standards.

In addition to these issues, recent technology advances and volatility in the electronic procurement market are significant factors that must be taken into account. Selection of the best contractor to develop and implement a fully functional Texas EP system will only be possible after the state clearly defines its requirements and implementation strategy.

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Next Steps

The assessment team found both strengths and issues with the current management of the EP project and the pilot EP system itself. This final section outlines the next steps needed to successfully complete the project and to achieve the practical and widespread use of electronic procurement by both state governmental entities and vendors.

Develop a partnership between DIR and GSC/TBPC. DIR and GSC/TBPC must work in close partnership to ensure a successful pilot outcome. The technical expertise of DIR combined with GSC/TBPC's knowledge of the functional needs of a procurement system will be an excellent match to making Texas EP a success.

Sign an interagency contract with GSC for EP. Senate Bill 311 requires DIR to establish and manage the electronic infrastructure of the EP system as of October 1, 2001. The bill requires that an interagency contract be signed before October 1, 2001. Terms of this contract should include all resources that will be shared by both DIR and GSC during the development and implementation of the EP system.

Extend the pilot contract. The contract with Syscom should be extended for one year in order to finish the pilot

with TxDOT, GSC, DIR, and the local cooperatives. An extension of the contract will also give vendors, including Syscom, time to mature in providing the necessary components that Texas needs in an EP system. The contract extension should address (1) resolution of the issues identified in this assessment, and (2) the ability to conclude the pilot prior to the end of the one-year extension.

Reconvene and expand TxG2B Coordinating Council. TxG2B is currently inactive. In a project like electronic procurement that will affect every state agency, a group of stakeholders needs to meet regularly to provide guidance and to monitor progress. A strategy meeting should be scheduled in September 2001 to discuss the direction of electronic procurement and the roles and responsibilities of the Council, GSC/TBPC, and DIR. TxG2B needs the involvement of agency executive directors, information resources managers, chief purchasers, and chief financial officers. In addition, agencies of all sizes—small, medium, and large—need to be represented. Likewise, vendors of all sizes are needed, especially small businesses and historically underutilized businesses (HUBs).

Ensure that Legislative Intent for EP Is met. DIR and GSC/TBPC must fully consider issues and concerns of the legislative leadership to ensure that legislative intent is met.

Conduct a detailed requirements analysis. A study should be conducted to determine the detailed functional requirements for the Texas EP system, including the scope, timeline, and potential costs of the project. The requirements should outline the specific functionality expected of the EP system within a specified amount of time. A phased implementation approach should be carefully outlined. In addition, the study should explore what technical requirements are needed to interface the EP system with TexasOnline, either in whole or in part. This study should be started in the Fall 2001 and completed by Spring 2002.

Develop a cost model. Based on the results of the requirements analysis and input from TxG2B, a cost recovery model should be developed to ensure that costs of maintenance, operation, and ongoing development of the EP system will be recovered through fees charged to system users in a fair and reasonable manner.

Issue a Request for Offer for a fully functional EP system. After completion of the above steps, and with full input from TxG2B and GSC/TBPC, DIR should issue an RFO for a fully functional Texas EP system. The RFO may describe a phased implementation approach; if so, the first phase should address agency accounting interfaces, customer support, marketing, public access (providing, at a minimum, public access to state agency bid solicitations), and a Web-based user interface that is simple, consistent, and Texas-branded.

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Appendix A: Texas EP Project Chronology

May 1997

The 75th Legislature passed SB820, which charged GSC with establishing and operating an EP system so that purchasing could be accomplished electronically. This 1997 legislation also committed all state agencies capable of participating in EP to do so. GSC was given authority to charge these agencies a fee for using the EP system.

July 1997

GSC formed the Electronic Commerce Task Force (ECTF). The following agencies were involved: GSC, Office of the Governor, Legislative Budget Board, Comptroller of Public Accounts, Texas A&M, Texas Department of Economic Development, Department of Health, DIR, Department of Mental Health and Mental Retardation, Department of Transportation, Railroad Commission, University of Texas Health Science Center, and the University of Texas System. The task force later renamed itself the Texas Government to Business (TxG2B) Coordinating Council.

December 1997

ECTF contracted with Phoenix Planning & Evaluation, Ltd. to conduct a feasibility study of statewide EP implementation.

FY 1997

State Auditor's Office (SAO) issued a management control audit report on GSC.¹⁹ The report addressed deficiencies in the procurement process. The SAO found that GSC continued to conduct business with poorly performing vendors and there were no assurances that the state was taking full advantage of volume buying to obtain lower prices. Both of these shortcomings in the procurement system stemmed from the fact that GSC had no formal or regular evaluation of procurement trends. Without this evaluation, GSC was not able to analyze vendor performance, nor could they calculate the advantages of volume buying.

May 1998

Phoenix issued the feasibility report.

January 1999

ECTF issued a report and recommendations to the Legislature.

January 1999

GSC requested approximately \$860,000 in its 2000-2001 Legislative Appropriations Request for an Electronic Commerce Project Office. The funds were intended for five FTEs and operating expenses.²⁰ The funds were not appropriated.

FY 1999

State Auditor's Office issued a follow-up management control audit report to its 1997 report on GSC.²¹ The SAO found the same problems in the procurement process and recommended that GSC, in order to ensure maximization of the state's purchasing power, do the following:

- Establish specific criteria for evaluating procurement trends;
- Identify the information needed to perform periodic evaluations and develop a system to track it; and
- Formally evaluate procurement data on a regular basis (quarterly, semi-annually).

October 1999

On behalf of ECTF, GSC issued a Request for Offer (RFO) to establish multiple electronic commerce pilot programs for the State of Texas. The objective of the RFO was to develop a cost-effective and efficient method to conduct EP via the Internet.

February 2, 2000

GSC contracted with Syscom Inc. to develop a pilot EP system.

April 2000

The first term contract orders and bid solicitations were made through Syscom's PublicBuy system by CPA and TxDOT.

June 2000

GSC held a Statewide Electronic Procurement Project Conference in Austin. Over 300 state agency and cooperative purchasing members gathered to hear about the EP initiative and see a live demonstration of the EP system.

August 31, 2000

GSC signed first 12-month extension of the Syscom contract.

October 2000

The Sunset Commission issued a report on GSC. One of the topics addressed was the implementation of EP.

October/November 2000

GSC conducted term contract vendor outreach in six locations across Texas. Term contract vendors were invited, but only ten percent of those invited attended.²²

December 2000

The Comptroller's e-Texas Report recommended that Texas move toward a statewide electronic purchasing system, as maintaining the current paper process will cost more in the long run.

January 8, 2001

GSC briefed agency Executive Directors and Information Resources Managers on the EP project.

February/March 2001

GSC conducted additional vendor outreach sessions in 12 locations across Texas. The sessions focused on how Centralized Master Bidder List (CMBL) vendors use the EP system, PublicBuy. A total of 800 vendors, about 5% of the total CMBL vendors, attended these sessions.

May 2001

The 77th Legislature passed SB311, transferring responsibility for implementation and management of the electronic infrastructure of the EP system to DIR. DIR began an assessment of the GSC electronic procurement project.

August 30, 2001

DIR issued this report, Assessment of the General Services Commission's Electronic Procurement Project.

August 31, 2001

Last day of the contract between GSC and Syscom for current contract extension period.

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Appendix B: Pilot User Feedback Details

Killeen Independent School District. Killeen ISD is the largest user of the e-catalog component, accounting for

almost 75% of total Texas e-catalog usage to date. Killeen uses the e-catalog to procure goods on state term contracts. Previously, Killeen faxed orders for these goods to GSC, who in turn generated the purchase orders and sent them to the vendors.

Killeen ISD reports that, when the system works correctly, users save time compared to the earlier fax process. However, the system frequently does not work perfectly, resulting in the process being more time consuming. Killeen's purchasing director recognizes the potential benefits of EP and understands that "early adopters" should expect a number of problems. He is confident that the pilot system will meet their needs once the bugs are worked out.

Killeen has experienced a variety of problems with the system. Users find the keyword search function that locates contract items to be non-intuitive and time-consuming. Sometimes, when an expected order has not arrived, Killeen calls the vendor and is told that the vendor never received a notification. Sometimes this problem can be tracked to an incorrect e-mail address in the vendor profile (apparently there is no exception process in the system triggered by receipt of an undeliverable e-mail message). Users sometimes have difficulty getting support when they encounter a problem. Users also have been frustrated that they do not receive advance notice of software upgrades that change the way the system works.

Texas Department of Transportation. TxDOT piloted the bid/response system with approximately 12 transactions in 2000. The agency's purchasing director was happy with the pilot results and is preparing to operationally use the PublicBuy bid/response component agency-wide in the near future, after completion of an electronic interface to TxDOT's online purchasing system, APS. TxDOT has contracted for training from Syscom; this training is complete for the General Services Division, Fort Worth District, and Brownwood District.

General Services Commission. Ten procurements have been attempted in the bid/response system, although DIR has not been able to determine the status of these procurements. One group within the agency has received training. GSC/TBPC is developing a procurement module within its GFAS accounting system. This module will streamline the processing of all procurement transactions, and it will input flat files generated by PublicBuy on a daily basis. GSC projects that the entire agency will be using the bid/response system operationally by December 1, 2001.

Department of Information Resources. DIR is the only state agency actively piloting the bid/response system, although it has conducted only two bids to date. These bids are currently in the bid evaluation process and a third bid is in preparation. Overall, DIR staff has had a positive experience with this system. Making a requisition was as easy to do electronically as it is manually. Staff responsible for approving requisitions found the system easy to use after minimal training. The purchaser reaps the most benefits from the bid/response system because he does not have to spend time making paper copies and preparing packets for mailing, spend funds on postage, and mail the requests. He estimates that the turnaround time from requisition to bid release has decreased from three weeks to three days.²³

DIR's purchaser noted a shortcoming in the DIR electronic bidding process. The system does not inform the purchaser how many or which vendors are sent the e-mail request for bid.

DIR found vendor response through the bid/response system to be lower than expected. Despite GSC efforts to market the EP system to vendors, many do not seem motivated to use it. And, of the bids received, the majority were submitted via paper, rather than electronically through PublicBuy. The first bid request (for computer projectors) produced one electronic bid and six paper bids. The second bid request (for servers) generated three electronic bids and seven paper bids.²⁴ The experience that DIR has had with the bid/response system indicates that vendor education and acceptance is key to implementing EP.

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Notes

[1] State of Texas, Comptroller of Public Accounts, *Report of the e-Texas Commission*, Austin, Texas (2000).

- [2] Tex. S.B. 311, 77th Leg., R.S. (2001).
- [3] State of Texas, General Services Commission, "RFO Electronic Commerce," Austin, Texas. October 1, 1999. Retrieved September 26, 2001. <http://www.gsc.state.tx.us/elec_comm/ectf.html>
- [4] The terms *electronic procurement marketplace* and *electronic commerce network* are collectively referred to as the electronic procurement system or the EP system in this report.
- [5] Tex. S.B. 1458, 77th Leg., R.S. (2001).
- [6] SiComm.Net. About Us. Retrieved August 8, 2001. <http://www.sicomm.net/about_us.html>
- [7] Syscom. "Syscom Support for DIR Assessment." August 2, 2001. Pg. 6.
- [8] Sood, R, Gartner Group, "E-Procurement: A Progress Report." Tactical Guidelines, TG-13-5798. Stamford, CT, 2001.
- [9] Bartels, Andrew, "E-Procurement in 2001," Giga Information Group telephone conference, July 16, 2001.
- [10] National Electronic Commerce Coordinating Council, E-Procurement Funding Models and Measurements for Success, December 2000. Retrieved August 6, 2001. <<http://ec3.org/>>
- [11] Hope-Ross, David, "Procurement in the Marketplace" Gartner Symposium Itxpo 2001 presentation (Stamford, CT: Gartner Group, 2001).
- [12] Accenture presentation to the Texas Association of State Systems for Computing and Communication, (TASSCC). Dallas, Texas, August 7, 2001.
- [13] State of Texas, Comptroller of Public Accounts, *Recommendations of the Texas Comptroller. e-Texas: Volume 1, Cross-Cutting Issues*. "Chapter 2: Competitive Government," (2000). Retrieved August 10, 2001. <<http://www.e-texas.org/recommend/ch02/cq04.html>>
- [14] See note 1.
- [15] Interview with Ed Pier and Cindy Reed, Texas State Auditor's Office. Austin, Texas, July 18, 2001.
- [16] State of Texas, State Auditor's Office, *An Audit Report on Management Controls at the General Services Commission*. Austin, Texas, 1997.
- [17] State of Texas, State Auditor's Office, *A Follow-Up Audit Report on Management Controls at the General Services Commission*. Austin, Texas, 1999.
- [18] 1 TAC § 201.12.
- [19] See note 16.
- [20] State of Texas, General Services Commission, *Legislative Appropriations Request Fiscal Year 2000-2001*. Austin, Texas, 2000. Pgs. 151-152.
- [21] See note 17.
- [22] Interview with Jamie Spiegel, Electronic Procurement Project Manager, General Services Commission. Austin, Texas, August 3, 2001.
- [23] Interview with Bill Miller, Director of Purchasing, Department of Information Resources. Austin, Texas, July

26, 2001.

[24] Interview with Stephanie Miller, Contract Manager, Department of Information Resources. Austin, Texas, August 14, 2001.

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HB

319

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB319HCSRES-DNR-O&G
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Remote Rec. Cabin Site Sales/Lottery Sale RDU: Resource Development
Component: Oil and Gas Development
Sponsor: Rep. Fate, Wolf
Requester: House Finance Component No.: 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	22.5	22.5	22.5	22.5	22.5	22.5
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	22.5	22.5	22.5	22.5	22.5	22.5

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	22.5	22.5	22.5	22.5	22.5	22.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	22.5	22.5	22.5	22.5	22.5	22.5

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 319 establishes a new land disposal program under AS 38.05.600. Section 5 of the bill specifies that land offerings may not include mineral land selected by the state or lands identified by DNR as having high mineral potential. A petroleum geologist in the Division of Oil & Gas would need to review the proposed land disposals to ensure that high potential oil and gas were excluded from land offerings.

Prepared by: Mark D. Myers Phone: 269-8800
Division: Oil and Gas Date/Time: 3/15/04
Approved by: Thomas Irwin, Commissioner Date: 3/15/04
Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB319CS(FIN)verWam-DNF
() Publish Date: _____

Revision Date/Time (Note if correction): 4/19/2004 Dept. Affected: Natural Resources
Title: Remote Rec Cabin Site Sales/ RDU: Resource Development
Lottery Sale Component: Land Sales/Municipal Entitlements
Sponsor: Rep. Fate
Requester: (H) FIN Component No.: 2456

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	277.5	433.0	433.0	433.0	433.0	433.0
Travel	10.0	20.0	20.0	20.0	20.0	20.0
Contractual	88.0	95.0	79.0	79.0	79.0	79.0
Supplies	5.0	10.0	10.0	10.0	10.0	10.0
Equipment	10.0	10.0		5.0	5.0	
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	390.5	568.0	542.0	547.0	547.0	542.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1153)		467.5	708.2	948.7	1,189.3	1,432.9
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	390.5	100.5	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (1153 Land Disp Income Fund)		467.5	542.0	547.0	547.0	542.0
TOTAL	390.5	568.0	542.0	547.0	547.0	542.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	5	7	7	7	7	7
Part-time	1	1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill establishes a new land disposal program within AS 38.05.600. It leaves the existing Remote Recreational Cabin Program under that statute in place, although it modifies some of the requirements of the existing program (such as parcel size, river frontage, etc.). This fiscal note analyzes the impacts of the proposed program. The new program adds a maximum size restriction of 10 acres and establishes other guidelines regarding parcel locations.

The schedule for the number of parcels that DNR can process and resultant revenues in this fiscal note are very optimistic in that they assume that survey, appraisal, platting board review, and approval occurs within one year. That process currently takes 3 years. DNR believes that it will be difficult to fulfill the revenue projections, particularly in FY 06 and 07.

Prepared by: Nancy Welch, Special Assistant to the Commissioner Phone 907-269-8431
Division: Commissioner's Office Date/Time 4/19/04
Approved by: Tom Irwin, Commissioner Date 4/19/04
Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. HB319CS(FIN)verWam-DNF

ANALYSIS CONTINUATION

Assumptions. The fiscal note assumes that DNR would be able to process 250 applications per year under the new program which is established in Section 4(e) and 4(f) of the bill whereby DNR would accept and process parcels nominated by individuals. This assumption is on the high side, particularly for FY 06. It assumes none of DNR's best interest findings are appealed and there are no delays, including appeals, in surveying, borough approval of surveys, or appraisals. If more than 250 individuals apply, a backlog would be established or more staff would be needed.

The bill does not eliminate the existing program. Thus, the fiscal note also assumes that the existing program continues at its current level, although that program will require revision to comply with changes to this statute.

The New Program. Section 4(e) of the bill would result in individual processing for 10-acre parcels in locations throughout the state chosen by the applicants. This bill proposes that a member of the public can nominate a specific site and, if DNR determines through the best interest finding and public notice process that the land should be sold, it will be offered for sale. DNR would complete the processing: title search, survey review, appraisal review, best interest finding, public notice, easement decisions, etc. for that individual parcel.

In this fiscal note, DNR assumes that we could process some of the applications in batches. Exactly how many parcels or areas nominated that could be processed together would depend on two factors; 1) how many nominated parcels are in the same geographic area so that we could combine the parcels into one best interest finding and public notice; and 2) how many additional parcels DNR could identify for sale within the areas nominated by the individual. For this analysis, DNR assumes that we could batch process 100 applications, that is, 100 applications would be processed in batches of 10-20 parcels. We will assume that 150 parcels are processed separately, where each has a separate BIF and the applicants pay for individual survey and appraisal.

Cost for Section 4(e). Section 4(e) would result in a combination of individual and batch processing of nominations. Under the existing program, DNR identifies geographic areas open to staking, hence parcels are always processed in groups. For example, under the existing program, 250 parcels can be reviewed in six batches, combining survey reviews, appraisal reviews, best interest findings, and title searches. This fiscal note is based on an additional 250 parcels being processed, 100 in groups and 150 separately, with *separate* survey reviews, appraisal reviews, best interest findings, etc.

Personal Services. DNR estimates that this portion of the program will require the following staff:

FY 05 - Program start-up. The first year will entail drafting new regulations, preparing maps of areas open to staking, developing program guidelines and application forms, and accepting and initial processing of the first round of applications. Personal Services Cost will be \$277.5, for the following positions:

- 1 NRM I (6 months) = @\$32.5
- 1 NRS II - @\$59.0 = \$59.0
- 2 NRS I - @\$52.0/each = \$104.0
- 1 NRS I (part-time) - @\$26.0 = \$26.0
- 1 Cartographer II - @\$56.0 = \$56.0

FY 06 and following years - Subsequent years will entail processing of individual and batched applications, including land title research for each site; drafting best interest findings and public notice for each parcel; issuing survey and appraisal instructions; review and approval of individual surveys and appraisals; preparing additional maps for the public depicting staking areas; updating maps and plats to show sites applied for and approved; issuing sale contracts and deeds; answering public questions about the program; and other tasks. Personal services cost increase to \$433.0, as a surveyor and appraiser will be added to the staffing levels identified for FY 05, and the NRM I becomes a full time position (additional 6 months @ \$32.5). These positions are needed to issue instructions for and review surveys and appraisals.

- 1 Appraiser II - @\$65.0 = \$65.0
- 1 Land Survey Assistant II - @\$58.0 = \$58.0

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. HB319CS(FIN)verWam-DNF

ANALYSIS CONTINUATION

Contractual Costs:

ITEM	FY 05	FY 06	FY 07 and following
Public Notices - 150 notices x \$250	\$0	\$37.5	\$37.5
Printing - brochures and maps	\$10.0	\$10.0	\$10.0
Phones, computer hook-ups, etc. @\$800 ea	\$ 5.0	\$ 6.5	\$ 6.5
Office space rental	\$25.0	\$25.0	\$25.0
New office construction/furniture @\$8.0 ea	\$48.0	\$16.0	\$ 0.0
TOTAL	\$88.0	\$95.0	\$79.0

Revenues. Revenue generated under this bill would be a function of parcel size, per-acre price, number of parcels sold, and scheduling assumptions as outlined below.

Parcel Size. This bill proposes to decrease the maximum size to 10 acres. Under the current program, applicants choose the size of their parcel, up to the 20 acre maximum currently in statute. The average size chosen under the current program is approximately 13.6 acres. The minimum size is 5 to 10 acres depending on the area. Minimum size is established to comply with local platting board or waste disposal requirements.

Parcel Price. Remote land in Alaska is inexpensive. The selling price for remote recreation cabin parcels staked in FY 01 and FY 02 is estimated to average \$620/acre. Small parcels sell for less than larger parcels, though the per-acre price is higher. Currently, the average size Alaskans chose to stake is 13.6 acres. Department appraisers estimate that all else being equal the per-acre price ratio between a 13-acre parcel and a 10 acre parcel is 1.2. Therefore, this fiscal note assumes that a 10-acre parcel will bring in \$750 per acre (= \$620/acre x 1.2). That is, each parcel brings in \$7,500 to the department (= \$750/acre x 10 acres).

Purchase Rate. In the current program, only 43% of the people issued staking authorizations go on to purchase their parcels. The remainder decide not to continue somewhere during the process. The Department is working to bring up the purchase rate. However, this rate is actually greater than similar historical programs. The Department's homestead/homesite programs allowed people to gain ownership through either purchase or prove-up. Only 33% of the people who initially sought parcels followed through to ownership; two-thirds dropped out. It is possible that those who apply in the program proposed by this bill will have a higher purchase rate than past programs. However, individuals do not understand the major cost in time and money until they try to hire a surveyor and appraiser, and so the purchase rate may actually be lower. This fiscal note assumes an optimistic 75% purchase rate or 188 parcels per year.

Financing. The bill assumes current practice for financing: approximately 20% of applicants purchase outright and 80% finance their purchase over 5 years. The current interest rate is 7%.

Schedule. Section 3 of the bill does not change DNR's existing survey and appraisal practice but requires that both be completed within two years. Currently, the Department contracts with private surveyors on behalf of the individuals and is able to complete the survey and appraisal process within two years after the lease is issued. Our experience is that individuals who are unfamiliar with surveyors and appraisers take far longer. Thus, the Department believes that the minimum time for the process is two years. During the first year, the parcels are staked, applications received, DNR issues the best interest finding and public review, and the parcel is surveyed in the summer (survey instructions from DNR, survey by a private contractor). During the second year, the survey is reviewed and approved by DNR and local platting authority (borough or city), the parcel is appraised (instructions from DNR, appraisal by a private contractor, then review by DNR), and then the applicant can purchase the parcel. Therefore, the minimum schedule is as follows: FY 05 to prepare the regulations for this new program, information for the public, and receive initial applications in the second half

(Continued)

Analysis Continued:

of FY 05. DNR processing of applications (title search, best interest finding, public notice, etc.) would occur in FY 05-06, the first land surveys would occur primarily in FY 06. DNR and Borough approval of surveys would occur in FY 06, and appraisals would be completed in late FY 06. Some parcels may be purchased or will enter into sale contracts by late FY 06, but for most parcels, sale will not occur until FY 07. Based on experience with past programs where applicants were required to get their own parcel surveyed and appraised, this is a very optimistic schedule.

Revenue From Fees. The fiscal note assumes DNR will collect the following additional fees at the time of applications or processing of applications or contracts:

Application fee: \$100/application - assume 500 applications/year = \$50,000

Staking authorization fee: \$25 at time applicant submits staking diagram: \$25 x 188 parcels = \$4,700

Document processing fee: \$100 at time applicant requests contract or patent - assume 188 parcels go to purchase = \$18,000

Total Fee Revenue - assuming 500 applications and 188 parcels purchased = \$73,500

Additional Fee Revenue - \$100 document processing fee paid at time when contracts are paid off and request patent, assume starting in FY 07, 20% of all existing purchasers payoff contracts and request patent (30x\$100 in FY 07.)

Summary. In summary, total value sold per year will be \$1,410,000 (188 parcels x \$7,500 per parcel).

FY 06: At best, some parcels may be ready to purchase late in FY 06. This fiscal note assumes that all parcels would be ready for purchase (cash sale or sale contract) in FY 06. If all 188 parcels were purchased by the end of FY 06, the revenues received in FY 06 will be \$394,800 (\$394,800 = \$282,000 through full purchase plus \$112,800 downpayment on the remainder). Fees collected in FY 06 total \$73,500. Total Revenue for FY 06 = \$467,500.

FY 07 and following: An additional \$240,588 will be paid each year through the following 5 years as individuals pay off the parcels assuming 7% interest. In FY 07, revenue is estimated to be \$768,188 (= \$467,500 + \$240,588). Revenue would level off in FY 10.

Technical Issues. This bill does not repeal the current program: Section 4(e) appears to provide that it continues. Therefore, this fiscal analysis assumes the existing program continues at its present level. However, the bill would put the current program out of compliance with the law. To maintain the current program, Section 4(g) should apply only to the new program: that outlined in Section 4(e).

If the new program does replace the existing program, the required additional cost would be somewhat less than outlined in this fiscal note as current staff could implement the new program (with some additions). However, total revenue to the state would be much less than indicated in the fiscal note, as the existing program is a much more cost-efficient and revenue-efficient method to offer lands to Alaska.

Adopted
4.19.04

No Obj.

23-LS0477\W.S
Bullock
4/19/04

Replacement # 2

AMENDMENT

Fate

OFFERED IN THE HOUSE

TO: CSHB 319(), Draft Version "W"

- 1 Page 1, line 2, following "**deeds**";
- 2 Delete "and"
- 3
- 4 Page 1, line 3, following "**sites**";
- 5 Insert "**; and providing for an effective date**"
- 6
- 7 Page 3, lines 6 - 7:
- 8 Delete "Sales under this section may be at public or private sale under (g) of this
- 9 section."
- 10
- 11 Page 3, lines 25 - 28:
- 12 Delete all material and insert:
- 13 "(f) A resident may nominate a parcel for disposal under this section and, if
- 14 the resident has not leased or purchased land under this section during the three-year
- 15 period preceding the date of nomination, may apply for a lease for the nominated
- 16 parcel under (b) of this section."
- 17
- 18 Page 3, line 29:
- 19 Delete "five"
- 20 Insert "10"
- 21
- 22 Page 4, line 2:
- 23 Delete "400"

- 1 Insert "700"
- 2
- 3 Page 4, line 6, following ";":
- 4 Insert "and"
- 5
- 6 Page 4, lines 7 - 9:
- 7 Delete all material.
- 8
- 9 Page 4, line 10:
- 10 Delete "(4)"
- 11 Insert "(3)"
- 12
- 13 Page 4, following line 11:
- 14 Insert a new bill section to read:
- 15 "* Sec. 5. AS 38.05.600(f) as enacted in sec. 4 of this Act, takes effect January 1,
- 16 2005."

adopted 4-13-04

AMENDMENT

NO OBJ

OFFERED IN THE HOUSE

TO: CSHB 319(), Draft Version "W"

1 Page 3, line 20:

2 Delete "public"

3 Insert "residents of the state"

4

5 Page 3, line 22:

6 Delete "the public"

7 Insert "a resident"

8

9 Page 3, line 25:

10 Delete "person"

11 Insert "resident"

12

13 Page 3, line 26, following "refusal":

14 Insert "if the resident has not leased or purchased land under this section during the
15 three-year period preceding the date of nomination"

16

17 Page 4, following line 11:

18 Insert a new subsection to read:

19 "(h) In this section, "resident" means a person who

20 (1) is physically present in the state with the intent to remain in the
21 state indefinitely and to make a home in the state;

22 (2) has maintained the person's domicile in the state for the 12
23 consecutive months immediately preceding the nomination ~~_____~~;

1 (3) is not claiming residency in another state, territory, or country; and ✓
2 (4) is not obtaining benefits under a claim of residency in another state, ✓
3 territory, or country."

23-LS0477W
Bullock
4/2/04

adopted 4/13/04

CS FOR HOUSE BILL NO. 319()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - SECOND SESSION**

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES FATE, Wolf, Foster

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the disposal of state land by lottery; relating to the reservation of
2 rights by the state in land contracts and deeds; and relating to the disposal, including
3 sale or lease, of remote recreational cabin sites."

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

5 * Section 1. AS 38.05.057(a) is amended to read:

6 (a) The commissioner may dispose of land, including land limited to use for
7 agricultural purposes, by lottery. The purchase price of land sold by lottery shall be
8 the fair market value of the land as determined by the commissioner. The
9 commissioner may sell land by lottery for less than the fair market value of the land on
10 a determination that scarcity of land for private use in the area of the land to be sold
11 has resulted in unrealistic land values. The lottery shall be conducted in public by the
12 commissioner. A purchaser selected by lot shall deposit an amount equal to 10 [FIVE]
13 percent of the purchase price within 30 days after receiving notification of the
14 selection.

1 * Sec. 2. AS 38.05.125(a) is amended to read:

2 (a) Each contract for the sale, lease, or grant of state land, and each deed to
3 state land, properties, or interest in state land, made under AS 38.05.045 - 38.05.120,
4 38.05.321, 38.05.600, 38.05.810 - 38.05.825, AS 38.08, or AS 38.50, except as
5 provided in AS 38.50.050, is subject to the following reservations: "The party of the
6 first part, Alaska, hereby expressly saves, excepts, and reserves out of the grant hereby
7 made, unto itself, its lessees, successors, and assigns forever, all oils, gases, coal, ores,
8 minerals, fissionable materials, geothermal resources, and fossils of every name, kind,
9 or description, and which may be in or upon said land above described, or any part
10 thereof, and the right to explore the same for such oils, gases, coal, ores, minerals,
11 fissionable materials, geothermal resources, and fossils, and it also hereby expressly
12 saves and reserves out of the grant hereby made, unto itself, its lessees, successors,
13 and assigns forever, the right to enter by itself, its or their agents, attorneys, and
14 servants upon said land, or any part or parts thereof, at any and all times for the
15 purpose of opening, developing, drilling, and working mines or wells on these or other
16 land and taking out and removing therefrom all such oils, gases, coal, ores, minerals,
17 fissionable materials, geothermal resources, and fossils, and to that end it further
18 expressly reserves out of the grant hereby made, unto itself, its lessees, successors, and
19 assigns forever, the right by its or their agents, servants, and attorneys at any and all
20 times to erect, construct, maintain, and use all such buildings, machinery, roads,
21 pipelines, powerlines, and railroads, sink such shafts, drill such wells, remove such
22 soil, and to remain on said land or any part thereof for the foregoing purposes and to
23 occupy as much of said land as may be necessary or convenient for such purposes
24 hereby expressly reserving to itself, its lessees, successors, and assigns, as aforesaid,
25 generally all rights and power in, to, and over said land, whether herein expressed or
26 not, reasonably necessary or convenient to render beneficial and efficient the complete
27 enjoyment of the property and rights hereby expressly reserved."

28 * Sec. 3. AS 38.05.600(a) is amended to read:

29 (a) The commissioner may provide for the sale or lease of state land for
30 remote recreational cabin sites. Sales under this section shall be at fair market value
31 determined as of the time of entry by the department or by an appraiser from the

1 list of appraisers approved by the department. Land to be sold under this section
2 shall be surveyed before sale by the department or by a surveyor registered
3 under AS 08.48. The appraisal and survey shall be completed within 24 months
4 of entry. The [AND THE] purchaser shall pay for the appraisal and survey or
5 reimburse the state for the appraisal, survey, and platting costs for the recreational
6 cabin site. Sales under this section may be at public or private sale under (g) of
7 this section.

8 * Sec. 4. AS 38.05.600 is amended by adding new subsections to read:

9 (d) Each year, subject to appropriation from the state land disposal income
10 fund under AS 38.04.022, to implement this section, the commissioner shall

11 (1) prepare a schedule of land offerings under this section and identify
12 the parcels for disposal each year; the land offerings may not include mineral land
13 selected by the state or lands identified by the department as having a high mineral
14 potential; the department's identification of land having a high mineral potential shall
15 be based on standards adopted by the department in regulations and shall include
16 consideration of a geophysical survey or geological evaluation, if any, that was
17 conducted within 15 calendar years before the year for which the schedule is prepared;

18 (2) provide public notice of the proposed land offerings; and

19 (3) disclose all land offerings with mineral potential.

20 (e) The commissioner may solicit nominations each year from the public for
21 areas to be offered for disposal under this program. The commissioner may add areas
22 nominated by the public to the schedule prepared under (d) of this section if the land is
23 classified for disposal or the disposal is consistent with other requirements of
24 AS 38.04 and this chapter.

25 (f) A person may nominate a parcel for disposal under this section and request
26 a right of first refusal. If the commissioner accepts the nomination of a parcel for
27 disposal, the commissioner may also provide for disposal of additional parcels in the
28 surrounding area, subject to (d)(1) and (e) of this section.

29 (g) A parcel sold under this section may not exceed five acres. A parcel sold
30 under this section may include lake, river, or other navigable water frontage, subject to
31 the following limitations:

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(1) the lake, river, or other navigable water frontage must be at least 300 feet and may not exceed 400 feet;

(2) only one parcel with frontage on a lake may be sold under this section for each five acres of water of that lake unless, in the public interest, the commissioner adopts a regulation indicating a different ratio of water to each parcel with frontage;

(3) a parcel sold under this section with frontage on a river must be located at least one-quarter of a meander mile from any other parcel with river frontage sold under this section; and

³(4) a parcel sold under this section is subject to 16 U.S.C. 3101(d) and 16 U.S.C. 3213 (Alaska National Interest Lands Conservation Act).

} del.

Replacement # 2

23-LS0477\W.5
Bullock
4/19/04

AMENDMENT

Fate

OFFERED IN THE HOUSE

TO: CSHB 319(), Draft Version "W"

- 1 Page 1, line 2, following "deeds;":
- 2 Delete "and"
- 3
- 4 Page 1, line 3, following "sites":
- 5 Insert "; and providing for an effective date"
- 6
- 7 Page 3, lines 6 - 7:
- 8 Delete "Sales under this section may be at public or private sale under (g) of this
- 9 section."
- 10
- 11 Page 3, lines 25 - 28:
- 12 Delete all material and insert:
- 13 "(f) A resident may nominate a parcel for disposal under this section and, if
- 14 the resident has not leased or purchased land under this section during the three-year
- 15 period preceding the date of nomination, may apply for a lease for the nominated
- 16 parcel under (b) of this section."
- 17
- 18 Page 3, line 29:
- 19 Delete "five"
- 20 Insert "10"
- 21
- 22 Page 4, line 2:
- 23 Delete "400"

269-8904

1 Insert "700"

2

3 Page 4, line 6, following ",":

4 Insert "and"

5

6 Page 4, lines 7 - 9:

7 Delete all material.

8

9 Page 4, line 10:

10 Delete "(4)"

11 Insert "(3)"

12

13 Page 4, following line 11:

14 Insert a new bill section to read:

15 "* Sec. 5. AS 38.05.600(f) as enacted in sec. 4 of this Act, takes effect January 1,

16 2005."

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB319CSRES-DNR-LSME-I
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Remote Rec Cabin Site Sales/ RDU Resource Development
Lottery Sale Component Land Sales/Municipal Entitlements
Sponsor Rep. Fate
Requester (H) FIN Component No. 2456

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	245.0	368.0	368.0	368.0	368.0	368.0
Travel	10.0	20.0	20.0	20.0	20.0	20.0
Contractual	30.0	30.0	30.0	30.0	30.0	30.0
Supplies	15.0	15.0	15.0	15.0	15.0	15.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	300.0	433.0	433.0	433.0	433.0	433.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1153)		126.0	164.5	203.0	241.6	280.1
-----------------------------	--	-------	-------	-------	-------	-------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 G Match						
10L GF	300.0	307.0	268.5	230.0	191.4	152.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (1153 Land Disp Income Fund)		126.0	164.5	203.0	241.6	280.1
TOTAL	300.0	433.0	433.0	433.0	433.0	433.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	4	6	6	6	6	6
Part-time	1	1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill establishes a new land disposal program within AS 38.05.600. It leaves the existing Remote Recreational Cabin Program under that statute in place, although it modifies some of the requirements of the existing program (such as parcel size, river frontage, etc.). This fiscal note analyzes the impacts of the proposed program.

The new program would have DNR negotiate private, non-competitive sales. (This is a significant change from the existing policy of only public, competitive land sales.) It also adds a maximum size restriction of 5 acres and establishes other guidelines regarding parcel locations.

Prepared by: Nancy Welch, Special Assistant to the Commissioner Phone 907-269-8431
Division: Commissioner's Office Date/Time 3/15/04
Approved by: Thomas Irwin, Commissioner Date 3/15/04
Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. HB319CSRES-DNR-LSME-I

ANALYSIS CONTINUATION

Assumptions. The fiscal note assumes that DNR would be able to process 150 applications per year under the new program which is established in Section 4(g) of the bill whereby DNR must process parcels nominated by individuals. (If more than 150 individuals apply, a backlog would be established or more staff would be needed.)

The bill does not eliminate the existing program. Thus, the fiscal note also assumes that the existing program continues at its current level, although that program will require revision to comply with changes to this statute.

The New Program. Section 4(g) of the bill would require individual processing for 5-acre parcels in locations throughout the state chosen by the applicant. This bill proposes that a member of the public can nominate a specific site and, if DNR determines through the best interest finding and public notice process that the land should be sold, that individual can purchase that site without competition. DNR would complete the processing: title search, survey review, appraisal review, best interest finding, public notice, easement decisions, etc. for that individual. This process would be repeated for each individual parcel.

Cost for Section 4(g). Section 4(g) requires individual processing. Under the existing program, DNR identifies geographic areas open to staking, hence parcels are processed in groups. For example, under the existing program, 150 parcels can be reviewed in six batches, combining survey reviews, appraisal reviews, best interest findings, and title searches. This fiscal note is based on 150 *separate* survey reviews, appraisal reviews, best interest findings, etc.

DNR estimates that this portion of the program will require the following staff:

FY 05 - Program start-up. The first year will entail drafting new regulations, preparing maps of areas open to staking, developing program guidelines and application forms, and accepting and initial processing of the first round of applications. Personal Services Cost will be \$245., for the following positions:

1 NRS II - @\$59.0 = \$59.0

2 NRS I - @\$52.0/each = \$104.0

1 NRS I (part-time) - @\$26.0 = \$26.0

1 Cartographer II - @\$56.0 = \$56.0

FY 06 and following years - Subsequent years will entail processing of individual applications, including: land title research for each site; drafting best interest findings and public notice for each parcel; issuing survey and appraisal instructions; review and approval of individual surveys and appraisals; preparing additional maps for the public depicting staking areas; updating maps and plats to show sites applied for and approved; issuing sale contracts and deeds; answering public questions about the program; and other tasks. Personal services cost increase to \$368.0, as a surveyor and appraiser will be added to the staffing levels identified for FY 05. These positions are needed to issue instructions for and review surveys and appraisals.

1 Appraiser II - @\$65.0 = \$65.0

1 Land Survey Assistant II - @\$58.0 = \$58.0

Revenues. Revenue generated under this bill would be a function of parcel size, per-acre price, number of parcels sold, and scheduling assumptions as outlined below.

Parcel Size. This bill proposes to decrease the maximum size to 5 acres. Under the current program, applicants choose the size of their parcel. The average size chosen under the current program is approximately 13.6 acres. (The minimum size is 5 to 10 acres depending on the area. Minimum size is established to comply with local platting board or waste disposal requirements. Maximum parcel size under the existing program is 20 acres).

Parcel Price. Remote land in Alaska is inexpensive. The selling price for remote recreation cabin parcels staked in FY 01 and FY 02 is estimated to average \$620/acre. Small parcels sell for less than larger parcels, though the per-acre price is higher. Currently, the average size Alaskans chose to stake is 13.6 acres. Department appraisers estimate that all else being equal the per-acre price ratio between a 13-acre parcel and a 5 acre parcel is 1.45. Therefore, this fiscal note assumes that a 5-acre parcel will bring in \$900 per acre (= \$620/acre x 1.45). That is, each parcel brings in \$4,500 to the Department (= \$900/acre x 5 acres).

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. HB319CSRES-DNR-LSME-1

ANALYSIS CONTINUATION

Purchase Rate. In the current program, only 43% of the people issued staking authorizations go on to purchase their parcels. The remainder decide not to continue somewhere during the process. The Department is working to bring up the purchase rate. However, this rate is actually greater than similar historical programs. The Department's homestead/homesite programs allowed people to gain ownership through either purchase or prove-up. Only 33% of the people who initially sought parcels followed through to ownership: two-thirds dropped out. It is possible that those who apply in the program proposed by this bill will have a higher purchase rate than past programs. However, individuals do not understand the major cost in time and money until they try to hire a surveyor and appraiser, and so the purchase rate may actually be lower. This fiscal note assumes a 66% purchase rate or 100 parcels per year.

Financi. The bill assumes current practice for financing: approximately 20% of applicants purchase outright and 80% finance their purchase over 10 years. The current interest rate is 7%.

Schedule. Section 3 of the bill does not change DNR's existing survey and appraisal practice but requires that both be completed within two years. Currently, the Department contracts with private surveyors on behalf of the individuals and is able to complete the survey and appraisal process within two years. Our experience is that individuals who are unfamiliar with surveyors and appraisers take far longer. Thus, the Department believes that the minimum time for the process is two years. During the first year, the parcels are staked, applications received, DNR issues the best interest finding and public review, and the parcel is surveyed in the summer (survey instruction from DNR, survey by a private contractor). During the second year, the survey is reviewed and approved by DNR and local platting authority (borough or city), the parcel is appraised (instructions from DNR, appraisal by a private contractor, then review by DNR), and then the applicant can purchase the parcel. Therefore, the minimum schedule is as follows: FY 05 to prepare the regulations for this new program, information for the public, and receive initial applications in the second half of FY 05. DNR processing of applications (title search, best interest finding, public notice, etc.) would occur in FY 05-06, land surveys would occur primarily in FY 06. DNR and Borough approval of surveys would occur in FY 06, and appraisals would be completed in late FY 06. Some parcels may be purchased or will enter into sale contracts by late FY 06, but for most parcels, sale will not occur until FY 07. Based on experience with past programs where applicants were required to get their own parcel surveyed and appraised, this is a very optimistic schedule.

Summary. In summary, total value sold per year will be \$450,000 (100 parcels x \$4,500 per parcel).

FY 06: At best, some parcels may be ready to purchase late in FY 07. This fiscal note assumes that all parcels would be ready for purchase in FY 06. The revenues received in FY 07 will be \$126,000 (\$126,000 = \$90,000 through full purchase plus \$36,000 downpayment on the remainder).

FY 07 and following: An additional \$38,520 will be paid each year through the following 10 years as individuals pay off the parcels assuming 7% interest. In FY 07, revenue is estimated to be \$164,520 (= \$126,000 + \$38,520).

Technical Issues. This bill *does not* repeal the current program: Section 4(f) appears to provide that it continues. Therefore, this fiscal analysis assumes the existing program continues at its present level. However, the bill would put the current program out of compliance with the law. To maintain the current program, Sections 4(e) and (h) should apply only to the new program: that outlined in Section 4(g).

If the new program *does* replace the existing program, the required additional cost would be somewhat less than outlined in this fiscal note as current staff could implement the new program (with some additions). However, total revenue to the state would be much less than indicated in the fiscal note, as the existing program is a much more cost-efficient and revenue-efficient method to offer lands to Alaska.

expect

Sponsor Fiscal Note.

Page 3 of 3

*it may replace
those two attached
dated 3-15-04*

*if they adopt the
new one*

Withdrawn

23-LS0477\W.4
Bullock
4/15/04

~~AMENDMENT~~

will be
withdrawn
↓
replaced
by new
Am #2

OFFERED IN THE HOUSE

TO: CSHB 319(), Draft Version "W"

1 Page 3, lines 6 - 7:

2 Delete "Sales under this section may be at public or private sale under (g) of this
3 section."

4

5 Page 3, lines 25 - 28:

6 Delete all material and insert:

7 "(f) A resident may nominate a parcel for disposal under this section and, if
8 the resident has not leased or purchased land under this section during the three-year
9 period preceding the date of nomination, may apply for a lease for the nominated
10 parcel under (b) of this section."

11

12 Page 3, line 29:

13 Delete "five"

14 Insert "10"

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

*replaced 3/29/04
FN
by sponsor*

Fiscal Note Number: _____
Bill Version: 23-LS0477U
() Publish Date: CSHB 319 (RES)

Revision Date/Time (Note if)
Title Remote Rec. C

Dept. Affected: Natural Resources
RDU Resources Development
Component Land Sales/Municipal Entitlements

Sponsor Fate, Wolf
Requester Sponsor Fiscal Note

Component No. 2456

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY2006	FY2007	FY2008	FY 2009	FY 2010
Personal Services	300.0	421.0	421.0	421.0	421.0	421.0
Travel	10.0	10.0	10.0	10.0	10.0	10.0
Contractual	30.0	30.0	30.0	30.0	30.0	30.0
Supplies	5.0	10.0	10.0	10.0	10.0	10.0
Equipment	10.0	10.0		5.0	5.0	
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	355.0	481.0	471.0	476.0	476.0	471.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	0.0	542.1	881.7	1,000.0	800.0	800.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts	0.0	481.0	471.0	476.0	476.0	471.0
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	481.0	471.0	476.0	476.0	471.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	4	7	7	7	7	7
Part-time	1	1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

CSHB 319 will generate a conservative minimum of \$500,000 annually in land sales revenues that the state currently does not receive. The annual costs of less than \$481.0 will be more than a benefit to the State of Alaska and its people and with any multiplier effect, stimulate local and state economies. Funds will be deposited into the Land Disposal Fund Account, until the balance reaches \$5,000,000 Excess earnings will be deposited into the General Fund to pay for state services (See Attached Narrative)

Prepared by: James F. Dieringer III
Division: Finance Committee Aide
Approved by: Representative Fate
Agency: _____

Phone 465-6824
Date/Time 3/30/04 5:18 PM
Date 3/30/2004

HB 319 Revenue Assumptions

I. FINANCIAL ASSUMPTIONS

- | | | | | | |
|--------------------------|------------|------------|------------|------------|------------|
| 1) Ready Applicants/year | <u>YR1</u> | <u>YR2</u> | <u>YR3</u> | <u>YR4</u> | <u>YR5</u> |
| | 1000 | 800 | 600 | 500 | 500 |
-
- | | | | | | |
|--|-----|-----|-----|-----|-----|
| 2) Ready Willing Buyers
(66% Purchase Rate) | 666 | 528 | 396 | 330 | 330 |
|--|-----|-----|-----|-----|-----|
- A) Two (2) Categories of Buyers:
- o 20 % 100% Cash Purchase/ 0 Financed
 - o 80 % 10% Down/90 % Financed
-
- 3) Average Minimum Price/Acre: \$ 900/acre
-
- 4) Investments:
- A) 5% Annual Yield
-
- 5) Financing
- A) 7% Annual Percentage Rate (Prime +3% on loans)
 - B) 10% Down Payment/90% Financed
 - C) 60 Month Term (10 years, loans 10,000 +)
-

II. PARCEL ASSUMPTIONS

1) Desirable Remote Parcels:

- a. River Frontage
- b. Ocean Frontage
- c. Lakeshore Frontage
- d. Highway Frontage
- e. View Properties

2) Land Characteristics

- a. Fee Simple Ownership
- b. 5.0 acres Parcels/Subdividable into (4) 1.25 acre lots
- c. Some Ground Trans Access (snowmobile, 4-wheeler, boat, vehicle)
- d. Contracts for Sale/Lease option to purchase
- e. No State of Alaska Fire Protection
- f. No State of Alaska "Trail construction or maintenance.

3) Purchasers bears ALL cost of acquiring Fee Simple Title

- o Appraisals
- o Surveys
- o Title Insurance
- o Recording Costs
- o Legal Expenses (documentation)

4) Purchaser will pay for all Site Improvements:

- a. Roads and trail access construction/maintenance
- b. Structures/Buildings
- c. Materials/Supplies
- d. Real Estate Improvements (wells, septic, power, etc.)

5) The land purchase has Value Added Benefits:

- a. Labor/Construction
- b. Materials purchase
- c. Fuel/energy consumption
- d. Future Real estate transactions(Resale/subdivision)

III. NARRATIVE DESCRIPTION

The program is a first come, first serve basis with a right to request first refusal. Applicants apply to DNR for selection of a 5.0 acre parcel. After a best interest finding and public notice, the applicant pays for staking, surveying, and appraisal of the parcel. This data is then submitted to DNR for review. Because HB 319 opens such large areas, there will be considerable public interest regarding what land is available.

Access concerns will be borne by the purchaser. DNR, or local governance authorities will not be expected to develop or maintain access routes or utilities. This new program will place considerable demands on DNR to provide information, particularly through the DNR public information offices in Anchorage, Fairbanks, and Juneau. At least one Natural Resource Tech II will be placed at each location to handle applications.

DNR will need to provide the public with accurate land status information for millions of acres of state land so the public knows what land is available, including the location of existing third-party interests, mining locations, Mental Health Trust Land, Native allotment locations, and trail and access information.

Specific tasks include:

- 1) DNR develops regulations to implement this disposal of land, establish qualifications, methods for resolving conflicting claims, etc.
- 2) DNR identifies land available for entry under this program—from state and federal status plats based upon state ownership, land classifications, municipal entitlements, existing private lands, Native allotments, etc. They would need to make available existing maps of several million acres available for selection.
 - a. Produce additional maps from existing supply.
 - b. Print and distribute maps
- 3) After the Notice period and once accepted by DNR, the purchaser orders and pays for: survey, appraisal, recordation and documentation.
- 4) DNR approves a list of qualified appraisers and surveyors acceptable to the State of Alaska. That list will be provided to the purchasers to choose these services. These individuals are already approved by DNR, therefore, a comprehensive review of their work will not be necessary. Appraisals and surveys will not be accepted by the State of Alaska from any individual who has not been qualified and accepted by the State of Alaska. The higher the designation of the contractor, the lower the amount of review time will be required by the State of Alaska to verify validity and accuracy.

FY04 and following years- The filing period starts in October of 2004 and continues indefinitely. In the first (12) months, funding for (4) Natural Resource Tech II's and (1) Natural Resource Officer II will be required to begin implementation of the new land disposal program. Beginning January 1, 2005 a Cartographer III will be hired and on April 1, 2005, an Appraiser II and a Land Survey Assistant II will be added to staffing. When applications begin 10/1/04, DNR will be fully staffed with (5) Full-time employees. By the end of FY05, (3) more Full-time employees will be added to implement the program. DNR will perform the following functions:

- 1) DNR Public Information Office staff to field program inquiries.
- 2) DNR accepts applications, certifies they qualify.
- 3) DNR reviews and approves applications and land available for selection.
- 4) DNR performs a Best Interest finding and provide Public Notice.
- 5) DNR reviews appraisal and survey
- 6) DNR issues title documents and closes the land sales transaction.

The purchaser performs the remaining functions and pays for the cost of implementation and acquisition of fee simple title.

DNR Analysis Continuation

I. Assumptions

A. Applications

The fiscal note assumes that DNR would process 1000 applications in the first year under the new program. DNR must approve parcels nominated by individuals. (If more than 1000 individuals apply, a backlog could be established and more staff might be needed.) Application volume is anticipated to diminish in the ensuing years.

- ❖ In 2001-2002 Lottery Sales recorded **587 - 776** Applications ("Inferior parcels")
- ❖ In 2002-2003, Subdivision and OTC Sales recorded **894 - 1928** Applications ("Comparable parcels")

This New Land Disposal Program will undoubtedly be more popular than either the lottery or subdivision offerings. Regardless, it seems that DNR estimates 150 applications is extremely low and 1000 applications, is more realistic, based on historical participation regarding land disposal sales.

We anticipated the following application volume:

<u>Region</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
South-Central Applications	500	400	300	250	250
Interior Applications	250	200	150	150	150
Southeast Applications	100	100	50	50	50
Other Applications	150	100	100	50	50
Total Applications	1000	800	600	500	500

This program does not replace the existing program and costs. Especially in platting and mapping, these costs have already been experienced in previous years.

B Staffing

Based on current staffing levels, it is felt volume can be handled as follows:

A. Anchorage (South-Central)

250 work days x 2 Tech Staff = 500 work days
500 Applications/500 work days = **1.0 Application/day**

B. Fairbanks (Interior)

* 125 work days x 1 Officer = 125 work days * (Management Functions)
250 work days x 1 Tech Staff = 250 work days
250 Applications/250 work days = **1.0 Application/day**

C. Southeast and Other

* 125 work days x (1) Officer = 125 work days * (Management Functions)
125 work days x 1 Tech Staff = 125 work days
250 Applications/250 work days = **1.0 Applications/day**

Our assumptions provide (4) Tech Staff positions and (1) Officer II positions. Under these proposed staffing levels, DNR would be expected to process and approve **(1.0) Applications/day**. That seems feasible and realistic.

The bill does not eliminate the existing program. Thus, the fiscal note also assumes that the existing program continues at its current level.

II. The New Program

The bill would require individual processing for **5.0** acres parcels in locations throughout the state chosen by the applicant. This bill proposes that a member of the public can nominate a specific site. DNR would process the title, conduct a best interest finding, and easement decisions, etc. for that individual. The process would be repeated for each individual parcel, with the exception of the best interest findings, which could be used for large areas containing many remote parcels.

III. Cost for HB 319

The new aspect of the program, the bill requires individual processing. For example, under the existing program, parcels can be reviewed in batches, combining survey reviews, appraisal reviews, best interest findings, and title searches. The bill would require prior separate survey reviews and appraisal reviews as state approved private individuals will be utilized.

DNR estimates that this portion of the program will require the following staff:

- 1 Appraiser II - @ \$66.0 FY06**
- 1 NRS II - @ \$58.0
- 2 NRS I - @ \$52.0/each
- 1 NRS I (part time) - @ \$26.0
- 1 Land Survey Assistant - @ \$58.0 FY06**
- 1 Cartographer II - @ \$56.0 FY06**

Total Personal Services 369.0

DNR anticipates needing 4-5 positions in FY05 to begin implementation of this program. The Cartographer II, Appraiser II, and Land Survey Assistant II will be added in FY06 to consummate closings of applications in process for FY05.

We anticipate staff levels to be as follows:

PROJECTED DNR EXPENDITURES

A. STAFFING (7.5)

IV. Anchorage

		<u>Salary</u>	<u>Benefits</u>	<u>Totals</u>
1) Appraiser II	16c	48,000	18,000	66,000
2) Land Survey Asst II	15a	40,000	18,000	58,000
3) Nat. Resources Tech II	12a	36,000	16,000	52,000
4) Nat. Resources Tech II	12a	36,000	16,000	52,000
5) Cartographer III	15a	40,000	16,000	56,000

V. Fairbanks

1) Nat. Resource Off II	16c	42,000	17,000	59,000
2) Nat. Resource Tech II	12a	36,000	16,000	52,000

VI. Juneau

1) Nat. Resource Tech II (part- time)	12a	18,000	8,000	26,000
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TOTAL		\$296,000	\$125,000	\$421,000
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B. EQUIPMENT

Computers, Printers, Copiers, Fax
Office Furniture

TOTAL				10,000
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C. CONTRACTUAL

Map Services

Documentation Preparation/Recording

Printing Expenses

TOTAL

30,000

D. TRAVEL

10,000

E. SUPPLIES

5,000

TOTAL EXPENDITURES

**-----
(\$476,000)**

DNR assumes survey and appraisal reviews must be conducted "in-house." This is not necessary, but the private parties chosen are subject to review by the State of Alaska. Those on the approved list with high designations will require less "review" scrutiny.

This is the bottleneck now in Land Disposal Sales. Private industry is quick and more efficient, thus allowing closings and revenue to be realized within 12-18 months as opposed to 24-36 months as currently is the case with the department.

A Natural Resource Officer II position is needed to make decisions in Anchorage and Fairbanks on pending applications. A review surveyor and appraiser are needed and would allow the timing of the sales process to improve, as these people would be specifically assigned to this program, and would work **only** on those applications.

VII. Revenues

Revenue generated under this bill would be a function of parcel size, per-acre price, number of parcels sold and scheduling assumptions as outlined below. (See **Revenue Projections**)

FY06 REVENUE PROJECTIONS

(July 1, 2005 – June 30, 2006)

I. SALES REVENUE

A. CASH SALES (10/31/05 – 12/31/05) 250 Applications @ 66% Purchase Rate = 165 Closings @ 20% [33 Parcels x 5.0 acres/parcel x \$900/acre] =	\$ 148,500
10% DOWN SALES (\$450/parcel) @ 80% [132 Parcels x \$450/parcel] =	\$ 59,400
B. CASH SALES (12/1/05 – 2/28/06) 100 Applications @ 66% Purchase Rate = 66 Closings @ 20% [13 Parcels x 5.0 acres/parcel x \$900/acre] =	\$ 58,500
10% DOWN SALES (\$450/parcel) @ 80% [53 Parcels x \$450/parcel] =	\$ 23,850
C. CASH SALES (3/1/06 – 6/30/06) 200 Applications @ 66% Purchase Rate = 132 Closings @ 20% [26 Parcels x 5.0 acres/parcel x \$900/acre] =	\$ 117,000
10% DOWN SALES (\$450/parcel) @ 80% [106 parcels x \$450/parcel] =	<u>\$ 47,700</u>
TOTAL FY06 CASH SALES REVENUE	\$ 454,950

II. INTEREST INCOME (5% return)

CASH DEPOSITS	
(10/1/05 – 12/31/05) [\$207,900; 6mo. @ 5% monthly] =	\$ 5,222
(12/1/05 – 2/28/06) [\$ 82,350; 4mo. @ 5% monthly] =	<u>\$ 1,369</u>
TOTAL FY06 INTEREST INCOME =	\$ 6,591

III. FINANCE REVENUES (1/01/06 – 6/30/06)

A. 10% DOWN SALES/90% FINANCED (1/1/06 – 6/30/06) [132 Parcels; \$4,050 @ 7%, 60 mo.] (\$80.21/mo. x 6 months) =	\$ 63,526
B. 10% DOWN SALES/90% FINANCED (3/1/06 – 6/30/06) [53 Parcels; \$4,050 @ 7%, 60mo.] (\$80.21/mo. x 4 months) =	<u>\$ 17,004</u>
TOTAL OF PAYMENTS =	\$ 80,530

TOTAL FY06 PROJECTED REVENUES = \$542,071

FY07 REVENUE PROJECTIONS
(July 1, 2006 – June 30, 2007)

IV. SALES REVENUE

D. CASH SALES (7/1/06 – 9/30/06) 150 Applications
@ 66% Purchase Rate = **100 Closings**
@ 20% [**20** Parcels x 5.0 acres/ parcel x \$900/acre] = \$ 90,000

10% DOWN SALES (\$450/parcel)
@ 80% [**80** Parcels x \$450/parcel] = \$ 36,000

E. CASH SALES (10/1/06 – 12/31/06) 150 Applications
@ 66% Purchase Rate = **100 Closings**
@ 20% [**20** Parcels x 5.0 acres/parcel x \$900/acre] = \$ 90,000

10% DOWN SALES (\$450/parcel)
@ 80% [**80** Parcels x \$450/parcel] = \$ 36,000

E. CASH SALES (1/1/07 – 4/30/07) 150 Applications
@ 66% Purchase Rate = **100 Closings**
@ 20% [**20** Parcels x 5.0 acres/parcel x \$900/acre] = \$ 90,000

10% DOWN SALES (\$450/parcel)
@ 80% [**80** parcels x \$450/parcel] = \$ 36,000

F. CASH SALES (5/1/07 – 6/30/07) 100 Applications
@ 66% Purchase Rate = **66 Closings**
@ 20% [**13** Parcels x 5.0 acres/parcel x \$900/parcel] = \$ 58,500

10% DOWN SALES (\$450/Parcel)
@ 80% [**53** Parcels x \$450/parcel] = \$ 23,850

TOTAL FY07 SALES REVENUE = \$460,350

**I. INTEREST INCOME (5% return)
CASH DEPOSITS**

A & B. (7/1/05 – 6/30/06)	\$290,250, 12 mo. @ 5% monthly]	= \$14,807
C. (3/1/06 - 6/30/06)	\$126,000, 12 mo. @ 5% monthly]	= \$ 8,402
D. (7/1/06 – 9/30/06)	\$126,000, 9 mo. @ 5% monthly]	= \$ 4,786
E. (10/1/06 – 12/31/06)	\$126,000, 6mo. @ 5% monthly]	= \$ 3,165
F. (1/1/07 – 4/30/07)	\$126,000, 2mo @ 5% monthly]	= \$ 1,035
G. (5/1/07 – 6/30/07)	\$ -0-	= \$ -0-

TOTAL INTEREST INCOME FY07 = \$32,195

II. FY06 FINANCE REVENUES (7/01/06 – 6/30/07)

a. 10% DOWN SALES/90% FINANCED (10/31/05 – 12/31/05)	[132 Parcels; \$4,050 @ 7%, 60 mo.]	
	(\$80.21/mo. x 12 months)	= \$ 127,052
b. 10% DOWN SALES/90% FINANCED (12/1/05 – 2/28/06)	[53 Parcels; \$4,050 @ 7%, 60mo.]	
	(\$80.21/mo. x 12 months)	= \$ 51,013
c. 10% DOWN SALES/90% FINANCED (3/1/06 – 6/30/06)	[105 Parcels; \$4,050 @ 7%, 60mo.]	
	(\$80.21/mo. x 12 months)	= \$102,027

IV. FY07 FINANCE REVENUES (7/01/06 – 6/30/07)

d. 10% DOWN SALES/90% FINANCED (7/1/06 – 9/30/06)	[80 Parcels; \$4,050 @ 7%, 60 mo.]	
	(\$80.21/mo. x 9 months)	= \$ 57,751
e. 10% DOWN SALES/90% FINANCED (10/1/06 – 12/31/06)	[80 Parcels; \$4,050 @ 7%, 60mo.]	
	(\$80.21/mo. x 6 months)	= \$ 38,506
f. 10% DOWN SALES/90% FINANCED (1/1/07 – 4/30/07)	[80 Parcels; \$4,050 @ 7%, 60mo.]	
	(\$80.21/mo. x 2 months)	= \$ 12,833

G. SALES (5/1/07 – 6/30/07) = No Closings proceeds \$ -0-

TOTAL OF PAYMENTS \$389,176

TOTAL FY07 PROJECTED REVENUE = \$881,721

FY06 REVENUE PROJECTION SUMMARY

A.	CASH SALES	DEPOSIT	=	\$ 148,500
		DEPOSIT	=	\$ 58,500
		DEPOSIT	=	\$ 117,000
B.	10% DOWN SALES	DEPOSIT	=	\$ 59,400
		DEPOSIT	=	\$ 23,850
		DEPOSIT	=	\$ 47,700
		TOTAL DEPOSITS to PRINCIPAL	=	\$ 454,950
C.	INTEREST INCOME OF INVESTMENT (5%) 12 mo.			= \$ 6,591
E.	FINANCE INCOME ON LOANS (7%)			
	[132 parcels x 6 mos, \$(4,050 loans)		=	\$ 63,526
	[53 x 4 mos, \$(4,050 loans)		=	\$ 17,004
		TOTAL FINANCE INCOME	=	\$ 80,530
	TOTAL PROJECTED REVENUE FOR FY06			= \$ 542,071

FY07 REVENUE PROJECTION SUMMARY

A.	CASH SALES	DEPOSITS	=	\$ 328,500
B.	10% DOWN SALES	DEPOSITS	=	\$ 131,850
		TOTAL DEPOSIT to PRINCIPAL		\$ 460,350
C.	INTEREST INCOME ON DEPOSITS			= \$ 32,195
D.	FINANCE INCOME ON LOANS			
	FY06		=	\$127,052
			=	\$ 51,013
			=	\$102,027
	FY07		=	\$ 57,751
			=	\$ 38,500
			=	\$ 12,833
		TOTAL FINANCE INCOME	=	\$389,171
	TOTAL FY07 PROJECTED REVENUE			= \$881,721