

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

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- Continuing remediation work on a priority basis for some 50 underground maintenance-of-way fuel storage tanks that had been removed. At each site the ground is being restored to its natural condition. These same efforts are being expended at former spill sites such as Broad Pass, Chase, and Aklutna. Dunbar is being closed out.
- Carrying out a program of environmental initiatives in an effort to earn a Green Star from the Chamber of Commerce. The Green Star is a prestigious award that is earned by successfully completing six mandatory steps and six elective steps chosen from a total of 12.
 - Winning the Green Star award will make ARRC more environmentally conscious and enhance its reputation as being environmentally concerned.
- In accordance with regulations, ARRC is presently conducting a detailed test of the physical condition of the 747,000-gallon fuel storage tank in Anchorage Yard. This includes a measurement of the thickness of the tank and lines as well as a pressure test.

Safety

Safety is a major responsibility of the Operations Division. Although the primary responsibility for safety and injury prevention rests with the individual operating departments, one safety staff officer reports to the Vice President of Operations. His responsibility is to keep the VP Operations fully informed in all safety matters, perform safety audits in the field, participate in safety meetings, assist the departments in developing and carrying out their safety programs, maintain appropriate records and documentation, and submit proper reports to the FRA and other authorities. Several years ago this responsibility was under the Personnel Department, which Mercer believes somewhat isolated this critical function from the operating departments where most of the risks for personal injuries occur.

This year Mercer was impressed by a continuation of efforts to improve the railroad's safety record and by the great improvement over the situation of just a few years ago. In the first audit in 1991 Mercer noted that a deteriorating personal injury situation had existed since the 1985 takeover from federal control. Mercer attributed the problem to a lack of top management commitment, poor morale and a low priority for safety in the line departments.

By 1992 significant change had taken place to effectively address the personal injury problem, and in that year's audit report Mercer commended management on its ongoing activities. Mercer also cautioned that results do not occur overnight, that it takes time to fully effect the necessary changes and to properly indoctrinate all employees.

The efforts of management are now beginning to yield meaningful results. Management successfully pursued an aggressive and many-faceted campaign to reduce personal injuries, and produced dramatic results from 1991 through 1993. As shown in Exhibit III-2 there was a progressive reduction in the number of injuries reported to the Federal Railway Administration. ARRC has also improved its standing relative to other railroads in its class in the United States. In 1991, ARRC, with 9.69 reportable injuries per 200,000 man-hours, was 17th among 27 railroads, but by the first half of 1994 this rate had declined to 4.61, placing ARRC 7th out of 20 railroads.

Exhibit III-2

ARRC Reportable Personal Injuries

Year	Ranking in Railroad Class	Number of Railroads in Class	Number of Reportable Injuries per 200,000 Man-Hours	Total Hours of Work (000)	Number of Reportable Injuries
1985	3	16	1.07	1,855	10
1986	7	13	4.54	1,808	41
1987	12	16	11.18	1,037	58
1988	17	22	9.63	1,059	51
1989	13	20	8.49	1,130	48
1990	16	26	8.83	1,155	51
1991	17	27	9.69	1,156	56
1992	12	24	7.73	1,191	46
1993	14	20	7.50	1,147	43
1994 (6 mo)	7	20	4.61		12
1993 (6 mo)	18	22	9.21		26

ARRC's progress is also evident in all three operating departments, as shown in Exhibit III-3. To provide a comparison of progress-to-date in 1994, this table compares the first eight months of all years from 1991 and shows the decline in reportable injuries and total incidents.

Exhibit III-3

First 8 Months of Year

Dept.	Reportable				Total Incidents			
	1991	1992	1993	1994	1991	1992	1993	1994
Eng'g	13	11	17	5	22	17	27	7
Transp	11	8	6	5	24	17	11	6
MP&E	4	11	12	7	9	24	24	14
Total Oper	28	30	35	17	55	58	62	27
Other	5	1	3	0	5	3	7	4
Grand Total	33	31	38	17	60	61	69	31

It is only through top management commitment, persistence, patience, and a variety of personal injury prevention programs, together with the ability to effectively reach all employees, that these improvements have been attained. It appears that ARRC presently has the proper mixture of dedication, prevention programs, and oversight to sustain this success. ARRC should

continue to realize continued improvements as time goes on so long as the efforts are undiminished.

Efforts that have contributed to the progressive improvements during the past year include:

- Continued training for the safety supervisor to better prepare him to carry out his responsibilities in the most effective manner, and to keep him abreast of those measures and programs that are proving most effective in preventing industrial accidents. Currently the Safety Supervisor is enrolled in a three-year training program with the University of Southern California.
- Appreciation awards have been fine-tuned or altered to make them more effective, and programs that have produced good results have been continued.
 - Cash certificates are available to individuals in recognition of specific achievements at the discretion of the department head.
 - Certain goals are established in concurrence with the employees. If the goals are successfully attained, cookouts or other similar events take place in celebration.
 - Different rewards for achievements, such as the five-year award of a "black jacket" for certain individuals, have been proven successful and are being continued.
- Formal training programs have been established to better prepare employees and supervisors to conduct more useful and informative investigations.
 - Supervisors and some agreement people such as stewards have been given a four-hour training course in how to investigate an accident to ensure that adequate information is obtained on a timely basis.
 - The form that is filled out when an accident is investigated has been improved and a formal checklist prepared to help the investigator develop all the facts and to see that all proper steps are taken and followed up on.
 - This program, which had provided training for about 70 employees at the time of this audit, will continue with enhancements.
- Safety committees, consisting of management and union safety representatives, that collectively identify problems, unsafe practices, or unsafe conditions have been in effect and working well for some time in the Mechanical and Engineering Departments but had not been initiated in the Transportation Department.
 - In 1994 a strong safety committee made up of management and UTU representatives (who represent the train operating crews and hostlers) was instituted within the Transportation Department. Periodic meetings are held with an advanced agenda, and minutes are distributed. The results of this committee should further enhance safety within the Transportation Department.

Transportation

The Transportation Department is responsible for \$18.5 million, or 39 percent of total Operating Division expenses. The audit team found that the Transportation Department is demonstrating

greater resourcefulness and flexibility in managing the railroad freight train services. The audit team noted the following:

- Management is administering effective budgetary controls.
- The internal communications within the department and external communications with other departments has been improved.
- Management has been more responsive in changing train service as customer requirements change and as opportunities to improve efficiency arise.
- Management has effected significant savings in streamlining yard operations and train management and administration.

The Transportation Department appears to have made significant progress toward fiscal responsibility by developing a realistic budget and controlling expenses through close monitoring. Expenses in 1993 were approximately the same as in 1992. In 1994 significant cost reductions were achieved, with year-to-date August 1994 expenses about 11 percent below the same period in 1993.

The department has also improved communication by having more frequent and scheduled staff meetings with formal agendas and by instituting morning conference calls to review the operations and activities of the past 24 hours and to discuss plans for future operations.

The railroad is showing a willingness to adapt freight train service in response to changes in traffic and customer needs and to the need to continuously improve railroad efficiency. While there were relatively few changes in 1993 compared to 1992, the railroad has recently instituted several important changes:

- The intermodal train between Anchorage and Fairbanks known as the FOX was discontinued in July. This train normally operated four days per week.
- To provide for limited intermodal space, capacity was added to the general freight train between Anchorage and Fairbanks to accommodate a maximum of 18 trailers.

As of the time of this audit there has been some disruption to the timely movement of interline traffic resulting from the change in train service. It is necessary to undertake additional switching at Anchorage to move high-priority shipments as room is available on the remaining trains. There is also some concern that the Healy crew change savings may be heavily diluted by the additional expense of having to send relief crews to trains that cannot make the Anchorage-Fairbanks run within the legal time of 12 hours.² Mercer is not in the position to evaluate the present status of these changes, but ARRC's willingness to experiment is very positive.

Finally, improved efficiency was achieved in August 1994 at Fairbanks and Anchorage by a reduction of intermodal activity and improved administration. Total transportation management,

²Subsequent to the audit team's visit, ARRC has decided to reestablish the Healy crew change because most FOX trains have not been able to make the trip in 12 hours.

administrative, and clerical staff at these locations were substantially reduced from a total of 41 to 26, or 37 percent. These changes are expected to result in annual savings of about \$1 million.

The following are a few concerns that the audit disclosed:

- Last year's audit disclosed that a reduction in switching at Fairbanks would be realized by having Mapco provide switch lists of its empty needs when the cars are unloaded in Anchorage. Apparently the railroad has been unsuccessful in getting the Mapco Anchorage staff to cooperate with its refinery staff to accomplish this.
- There appears to be evidence that significant customer switching is performed without charging appropriate tariff switch charges. There was also an indication that cars are being stored for customers without constructive placement and without the collection of appropriate charges.
- The audit team noted that shop tracks at Anchorage must be switched by yard crews, which consumes considerable time on a daily basis. Most railroads of ARRC's size have long given up this practice (if it existed) and now have shop staff position equipment within the confines of the shop tracks using track mobiles, while locomotives are moved by shop employees.
- The audit team is concerned that the morale of transportation staff has suffered from the many changes that have taken place.

Two additional matters concern the audit team. The first is the lack of emergency stop equipment on locomotives that automatically activates should the engineer become incapacitated; ARRC operates some of its passenger trains and freight trains without a second person in the cab. Mercer knows of no cases in the lower states on railroads with passenger and freight services in which trains are operated without such emergency stop equipment, and is concerned that a train could run in an uncontrolled manner for some distance before steps could be taken to stop its movement.

The second concern is over the current dispatching system and the procedures for incurring the safe separation of trains. Last year's audit report noted that a new computer-aided train dispatching system was being considered, but Mercer has since found that this is not being actively pursued. The need for such a system was made evident during the recent visit by the audit team.

- Immediately following the September 1994 derailment in the vicinity of Hurricane, a portion of the train involved in the derailment was temporarily held in Hurricane siding. In setting up a passenger train meet between the northbound and southbound Express trains, the dispatcher inappropriately arranged for the meeting to take place at the occupied Hurricane siding. When the two trains arrived at Hurricane, one had to back up to a prior siding so the meet could be made there instead. Other than considerable train delay and embarrassment, there was no risk of accident or injury. However, it does point out the potential for mistakes with the present dispatching system.
- Computer-aided train dispatching systems are implemented on many railroads to help the dispatcher control the safe movement of trains. For example, if a

dispatcher overlooks a conflict, the system will not permit the dispatcher to arrange for two trains to occupy the same track.

Engineering

The Engineering Department is responsible for \$15.8 million, or 33 percent of total Operating Division expenses. The following sections cover three areas of observations made by the audit team: (1) the railroad's relatively high level of engineering expenses compared to industry practice, (2) accomplishments of the Engineering Department since the last audit, and (3) issues of continuing concern to the audit team.

Expenses

The audit team continues to be concerned about the amount ARRC spends for the engineering work. On one hand there continues to be a large element of deferred maintenance, particularly with ties and rail; on the other hand in comparison to industry experience the railroad's expenses are much higher than what would be expected. It should be emphasized, however, that the railroad's engineering expenses are difficult to compare with other railroads because of some unique operating conditions that exist in Alaska and the distance of the railroad from railroad maintenance support services. Nevertheless, as noted in Mercer's first audit report, ARRC does have a ratio of engineering expenses to revenues and in 1993 was almost twice that of other major railroads in the lower states. Since the first report, Mercer has found this situation to be even worse when compared to railroads its size. This magnitude of discrepancy is difficult to explain solely from an examination of differences in operating conditions. The following items, based on discussions with management and our own observations, could cause the discrepancy:

- The lack of sufficient past capital expenditures for ties, rail, and other elements of track structure
- The inferior ballast upon which the railroad was constructed and used for many years after
- Distance from suppliers of railroad materials and services and contractors
- The lack of a physical connection with another railroad that would permit sharing facilities and equipment in an efficient manner
- The intensity of weather conditions with wide temperature variations and considerable snow
- Permafrost conditions on the north end
- The operation and maintenance of the Fairbanks power plant
- The way the department is organized and equipped to perform the necessary work

Mercer is not satisfied that these reasons adequately explain ARRC's high costs.

Activities

The audit team found that the Engineering Department is fulfilling its responsibility within its limited resources in four basic areas for which it is accountable. First, the railroad conducts a monitoring program similar to that used by most other railroads in the lower states.

- A rail defect car is operated over the railroad annually to identify a variety of physical defects in the rail. The 1994 rail defect test showed some increase in defects over 1993 and 1992.
- A rail geometry car is operated to disclose any significant aberrations in the condition of the track structure, such as gage and cross elevation. The results of these tests can be compared to those of prior tests to determine how the track is holding up to traffic conditions and to measure the effectiveness of maintenance programs undertaken between the tests. ARRC found that there were fewer deficiencies compared to the test in 1993.
- A fifth track inspection team consisting of two persons was added to the existing four teams, primarily to cover Anchorage Yard. These inspection teams perform routine track inspection and correct certain defects as required.

Next, the Engineering Department is conducting regular programs to provide for day-to-day maintenance of the track, structures, and facilities. The highlight of this year's program was the surfacing of 150 miles of track with 60,000 cubic yards of new and superior ballast. Approximately 18,000 ties and three track-miles of new rail were also installed. Positive measures of the maintenance performed this year include the on-time performance of the Express train and the running time of the Anchorage-Fairbanks freight train, which is the best it has been in the last four years. The department is also making some progress in attempting to better manage the bad vegetation/weed condition of the property by undertaking a special symposium to obtain public input and professional advice, to highlight the seriousness of the problem and allow review of potential solutions.

Thirdly, the railroad is making some progress in improving the life of the track structure despite the lack of sufficient capital investment funding to make adequate improvements. As the result of a detailed analysis by an industry expert in the field of rail grinding and confirmation by engineers from another railroad in Canada, a rail grinding program will be started this fall. This will entail grinding and re-profiling the rail head on most curves. This will provide some extended life to rail that would otherwise require replacement in the near future. The program will cover 100 track-miles of curves at a cost estimated to be \$1.3 million. Another effort to extend the life of rail is a rail-end welding program that began last year and has continued in 1994. The program involves one two-man gang using a track mounted welding vehicle. It is expected that this program will double in 1994.

Issues of Concern

The most important continuing problem facing the railroad and a subject of concern of past audit reports is the growing deficiency in tie renewals. The experience of the audit team is that the renewal deficit facing the railroad would not be so severe if the railroad had the cash resources to remedy the situation before an emergency arose. However, it does not appear that ARRC will have the funds to correct this growing problem in a timely manner. The need for rail

replacement may also present a similar problem, but the audit team is not in a position to assess this need. The tie and rail problem is evidenced this year by:

- The placement of speed restriction for the first time due to a tie condition
- Concern by the FRA over both the railroad's tie condition and rail condition for the first time

The deficient tie and rail condition increases the need for efficient day-to-day maintenance and reduces the opportunity to obtain the production gang benefits of program work.

Finally, the dock used by the cruise and pipe ships at Seward will need dredging and new fendering in the near future. It is unclear to Mercer how the commercial fees are established for use of the pier.

Reimbursable Work

ARRC has a number of projects for which the railroad provides services and receives compensation. This work nicely complements the work schedules of the railroad's maintenance personnel in that it provides work opportunities during slow periods that fall outside of the normal maintenance season. A benefit of this is that it helps the railroad maintain employment of a full-time, year-round, highly specialized work force. This, in turn, provides for workers who are familiar with all of the details and nuances of railroad construction work and for a work force well acquainted with the safety issues of operating trains within the confines of a construction site.

Mechanical

The Mechanical Department is responsible for \$13.2 million, 28 percent of total Operating Division expenses. Mercer found that the Mechanical Department is continuing to make good progress in properly maintaining the railroad's passenger and freight rolling stock. The following sections provide Mercer's observations on the department's activities during the past year and on the costs of maintaining the railroad's locomotive fleet.

Activities

The Mechanical Department has made progress in the following areas:

- The staff of the department has been reduced by about five individuals as a result of the recent buy-out program and as part of an effort to improve productivity.
- The expenses of the department have been kept below budget.
- The railroad's 50-year-old open top hoppers were retired and disposed of.
- Quantum speed and activity event records are being installed on the locomotive fleet. This is an important step in providing monitoring information on the operation of locomotives and trains.

- An apprentice program approved by the unions and the state Department of Labor has been implemented and is working out well.
- A program is under way to significantly improve the condition of the railroad's caboose fleet, which consists of seven cabooses.

Mercer is concerned about the following matters:

- Because of labor resistance, management has been unable to successfully implement a plan to contract out most of its rolling bearing work. Doing so would have provided some cost savings, warranty coverage, and the ability to make better use of technicians now doing this work.
- Management is still attempting to develop the necessary management control reports from the new information system.

Locomotives

The performance of ARRC's locomotive fleet has progressively improved in condition and reliability. There have been fewer failures, reliability has been good, and the proportion of locomotives out of service is in line with railroad industry standards.

As reported in Mercer's first audit (FY91-92) there was some deferred maintenance of the railroad's locomotives. This resulted, by the fall of 1991, in 22 percent of ARRC's usable locomotives waiting for repairs or inspection. The current audit found that this situation has improved to 16 percent, enabling management to return four locomotives that were under lease from EMD for a number of years.

It is noteworthy that this achievement has been realized only by a commitment by management to bring the fleet up to a normalized condition. ARRC's direct costs of locomotive maintenance reflect this effort, having increased by 14 percent from 1990 to 1993. As shown in Exhibit III-4, expenditures in 1992 reflect management's efforts to normalize the condition of the fleet by undertaking an aggressive overhaul program. The overhaul program is expected to continue to keep the fleet in its present condition.

Exhibit III-4

Locomotive Direct Maintenance and Inspection Costs
Including labor, materials, and purchased services
(millions)

Year	Amount
1990	\$3.0
1991	3.1
1992	3.8
1993	3.3

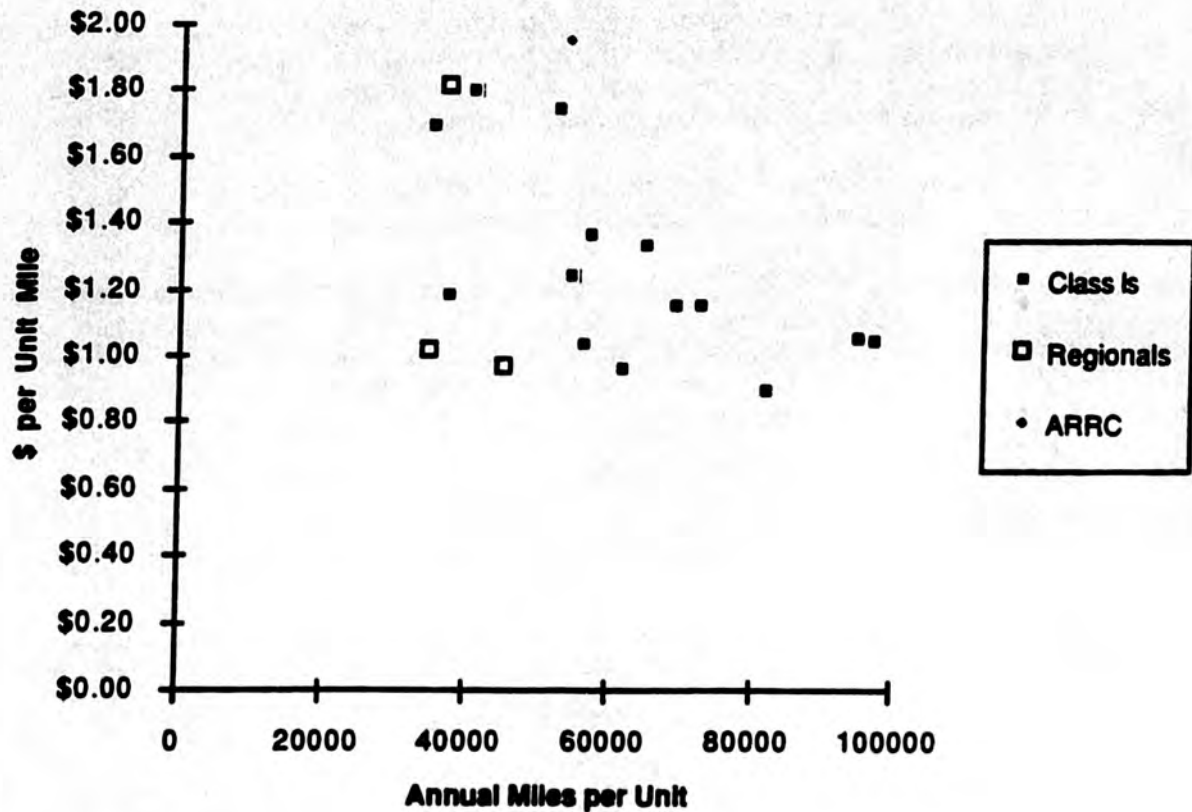
Mercer observed in the FY91-92 audit that the cost of ARRC's locomotive maintenance was somewhat higher than comparable costs of other railroads in the lower states (even though ARRC's maintenance expenditures were low because they were not doing sufficient overhauls). In 1993 ARRC's costs per locomotive-mile, a common means of comparing locomotive maintenance costs, was significantly higher than what would be expected in the railroad industry (Exhibit III-5).³ It is not entirely clear to Mercer why this cost is so much higher, but discussions with management and other experts have revealed some possible causes:

- Costs in 1993 are still somewhat higher because of a higher than normal number of overhauls performed to catch up on deferred maintenance
- Difficult operating and weather conditions
- Distance of the railroad from industry suppliers and contractors
- Age and condition of repair facilities

³ The calculation of ARRC's per-mile cost included the direct costs shown in the exhibit plus an allocated portion of shop and administrative expense.

Exhibit III-5

ARRC versus Class I and Regional Locomotive Maintenance (maintenance cost per locomotive-mile versus annual miles per locomotive)



Real Estate

Real estate income continues to play an important part in the finances of ARRC, as it has for most railroads in the United States. Railroads are at a distinct disadvantage compared to their motor carrier competitors as they must incur all of the expense of maintaining a right-of-way, track, and structures.⁴ To partially compensate for this burden, railroads have relied on income from their real estate and other sources. Mercer estimates that railroads receive about \$8,000 per mile from these sources. This compares closely to what ARRC has been receiving in recent years.

ARRC's real estate earnings in 1993 were \$3.7 million. This is approximately 25 percent lower than what ARRC formerly received in the mid-1980s, shortly after transfer of the railroad from

⁴Conversely, trucks can share road improvement and maintenance costs with automobiles. Even in this regard there have been many engineering studies that show current road use charges for trucks fail to compensate for the extra costs trucks cause in the construction specifications of highways (specifically in road alignment, more moderate grades, and in other construction requirements) and in the maintenance of roads.

the federal government. Income from real estate reached a high of \$4.9 million in 1986 due to the more vigorous economy.

The Real Estate organization, which consists of a staff of five, appears to be well organized and will likely enjoy the earnings upswing from the lull in income during recent years. Some of the more important matters that are being pursued are:

- Continuation of the hotel, restaurant, and recreational vehicle park at Fairbanks on railroad property. The hotel is scheduled to open in June or July 1995, the RV park next summer, and the restaurant in 1996. These should have a very positive impact on real estate income and passenger patronage.
- Lease of land at Talkeetna for construction of a Princess Tours hotel. This will provide income for the leased property and should increase passenger ridership.
- Development of the Whittier area. Cruise ship landings at Whittier and Seward have increased in recent years from 92 calls in 1993 to 102 in 1994 and 126 expected in 1995. Larger cruise ships are expected to again revert to Whittier for docking. Whittier will provide the best location for development and increased passenger income for the railroad.
- A new fiber optics contract, which will generate about \$450,000 annually over a 15-year period.
- Real Estate is working with procurement to lease Warehouse Number 1 to an outside concern.

Section IV: Issues and Recommendations

This section reviews the recommendations made last year and summarizes management's response. The second part of this section uses the insights gained from this year's audit, which are presented in Sections II and III, to develop a set of new recommendations.

In Section A, last year's recommendations and actions taken in response are summarized, and in Section B this year's recommendations are presented.

A. Action Taken on Last Year's Audit Report Recommendations

In the FY1993-1994 management audit Mercer reported a number of recommendations to the Board for consideration. Most of the recommendations did not require significant expenditures, as Mercer was well aware of the limited capital funds available for investment.

Management has been very conscientious in responding to Mercer's recommendations in past years. Obvious time and effort has been expended by ARRC management, its staff, and Board members in evaluating the recommendations and in composing their ultimate decisions.

Management thoroughly reviewed the 28 recommendations presented in last year's audit and submitted a detailed response to the Board on January 11, 1994. This response was discussed at the January 19, 1994, Board meeting. Management basically agreed with 22 of the items, disagreed with 5, and did not comment on another.

Of the 22 that were agreed upon, all but one has been the subject of positive action or required no further remedy. The one on which no action has been taken could not be pursued because of insufficient funding.

The status of the various recommendations, organized into the various categories as they appeared in last year's audit report, follows.

Management

Specific action has been taken on three of the five recommendations that were agreed upon:

- Management has been aggressive in continuing to find ways to streamline administrative support services and effect manpower reductions in most areas of the railroad, as evidenced by:
 - The restructuring process that was conducted early in 1994 to determine the baseline needs of the administrative and other needs of the railroad under specific scenarios
 - An early retirement and separation program that resulted in management and administration reductions throughout most of the system

- Attempts are being made to develop a much more realistic revenue budget with a spending plan driven by that forecast. Unfortunately, the results of the railroad for the first eight months of 1994 are not very favorable.
- Management disagreed that a more independent status for the planning function should be developed, other than within the Marketing and Sales Department, claiming that its location within the railroad management organization was not important.
- There was also disagreement with the development of a realistic contingency plan in the event the Seattle barge service proves to be unacceptable. Mercer now believes this to be of even greater importance.

Marketing and Sales

Of the six recommendations directed toward this department:

- Three were adopted and certain steps initiated for their implementation, all dealing with effecting improvements to the Seattle barge service.
- One concerned the need to hold the line on export coal rates, which was agreed upon but thought to be partially outside the ability of ARRC to control.
- Two recommendations were rejected:
 - Integrating the pricing function within the Marketing and Sales Department to improve customer response was disagreed with on the grounds that the present organization creates a healthy dynamic tension within the department responsibilities.
 - Establishing an accounting format to compare the "new" Seattle operation with those prior to the change was disagreed with, as was the suggestion that good revenue/expense data was necessary to better manage ongoing operations.

Management Information Systems

Management agrees with the four MIS recommendations, and efforts are under way to carry out three of them. The fourth, a need to strengthen internal MIS project management to successfully complete application projects, was agreed to in part, but management disagrees that the expertise must rest in MIS. The user department must provide its own project management.

Safety

Of the three recommendations for personal injury prevention, two were agreed with and steps taken to carry them out. However, there was disagreement with the suggestion that outside services be retained to assist in the safety effort. Management is of the opinion that the steady improvement realized through 1993 makes this unnecessary.

Passenger

There was general agreement on the two recommendations in the passenger area, but no action was taken to lengthen the scheduled running time of the express train. Performance did improve this past season without effecting any schedule change.

Real Estate

Management's response to the one recommendation concerning the impact Emergency Rule 17 might have in hindering the development of the railroad's real estate for passenger and freight needs, pointed out that no projects have been presented for which any loss or impact would be measured.

Operations Division

Management was in accord with the six recommendations and has taken positive steps on all but one.

- In the Engineering department, steps are being taken to reduce heavy equipment inventory and continue efforts to solve the vegetation problem throughout the system. However, the department is unable to start a program to reduce deferred maintenance in tie renewals due to inadequate funding.
- Transportation has taken corrective measures in response to their two recommendations, and Mechanical is again looking at the feasibility of using locomotive coolant/lube oil heating systems to reduce fuel consumption while engines are idling during winter months.

B. New Observations and Recommendations

This section presents a number of recommendations Mercer has developed as a result of the subjects covered in Sections II and III of this report. In fact, several of these recommendations refer specifically to findings covered in detail in Section III.

Seattle Service

An immediate effort should be undertaken at the highest management level to eliminate the significant losses being incurred by the present Seattle barge operation.

The substantial losses resulting from the present operation demand that the ARRC establish a course of action based upon a realistic forecast of the continued financial impact of this service in accordance with a complete evaluation of each of the following alternative scenarios.

A senior RR official should be selected to manage this task. It is important that person be impartial, have good analytical skills, have some degree of independence, and be able to generate the results on a timetable that will be developed for completion.

Management should take a variety of steps to lower costs and increase revenues of the present Seattle service.

- To ensure an adequate supply of freight cars for the Seattle consolidation business and reduce car hire costs, ARRC should continue its efforts of leasing or acquiring cars to meet those requirements so long as they are economically justified.
- To ensure existing and to expand source loaded traffic, ARRC should investigate supplying appropriate cars to the UP and BN source loaded equipment pools in order to overcome the reluctance of BN and UP to solely supply this equipment.
- ARRC should carefully analyze the present costs of contracting with North Star at Seattle to perform consolidation services and aggressively negotiate with Crowley to improve efficiency and reduce costs. Also, to employ improved management oversight on a day-to-day basis.
- ARRC should continue the development of an additional or substitute consolidation service at Seattle with priority given to the Sea-Pac facility located on the BN. This could result in a suitable but less expensive service and would also provide some competitive leverage in dealing with North Star.
- In order to provide management with a clear understanding of the progress or deterioration in the economics of providing the Seattle service, ARRC should organize the barge operations, Seattle terminal operations, and staff as an independent profit center. Revenues should reflect those allocations of revenues that were formerly earned by Crowley prior to takeover. Expenses should include all expenses that were new to the ARRC since takeover including the proportion of car hire costs formerly assumed by Crowley.
- ARRC's Marketing and Sales Department should be charged with developing a comprehensive marketing program to generate an increase in the higher revenue, source-loaded traffic which would include improved communication and cooperation with other railroads in the lower states as well as a broader scope of customer contacts. The success of this effort should be measured through the use of a specific, attainable set of goals and objectives with milestones along the way.
- ARRC should consider closing the Seattle office facility and relocating its staff to a point much closer to the terminal base of operations, possibly North Star. This would undoubtedly offer some savings in office rental together with the opportunity for improved efficiency of the staff.

ARRC should be more aggressive in investigating opportunities to lower costs, increase revenues, and improve service by integrating all or part of its barge operation with that of the CNR and other potential partners in the Pacific Northwest. ARRC should:

- Aggressively continue to pursue a reasonable integration of barge service with the CNR working toward a goal of establishing a cost-effective weekly sailing schedule to and from Seattle/Price Rupert and Whittier.
- Initiate discussions with Ketchikan Pulp and Paper (KPP) to determine their interest and benefits to the ARRC resulting from an integration of service through the use of ARRC excess barge capacity.

- Initiate discussions with British Columbia Railway and Canadian Pacific Rail concerning areas of potential cost reductions or additional revenue opportunities through a coordination of barge service.
- Investigate feasibility of coordinating with other parties involved in marine service on the Alaska/Canadian/Lower 48 service on utilizing the North Star facility for transloading and consolidation, thus lowering ARRC's share of North Star costs.

If the timetable for at least reaching breakeven is found not to be achievable, steps should be taken to immediately terminate the present Seattle barge service and develop a partnership with the CNR to divert as much of the better business as possible via Prince Rupert.

To enhance the competitiveness of the service, ARRC should establish a more predictable sailing schedule.

The absence of a regular sailing schedule, e.g., every Tuesday from Seattle, frustrates shippers who depend on routines in their shipping programs. Shippers and their serving railways require set schedules so that shipments are timely, car utilization predictable, and operations can be better coordinated.

Marketing and Sales

In establishing rates for export coal, ARRC should include in its cost the entire expense of maintaining the track and structures south of Portage.

Without export coal, ARRC could not justify continued operations beyond Portage as the remaining freight and passenger traffic is insufficient.

ARRC should establish a strategy for lowering its operating costs on export coal through a relocation of its export coal facility from Seward to a more easily accessible deep water port.

Examples would be Whittier or, if adequate funding were available for track construction and port development, Port McKenzie. In order to remain competitive in the world export coal business, it is essential that operating costs and excessive capital resources such as locomotives and track devoted to this line of business be significantly reduced.

ARRC should improve its Anchorage transloading capabilities and services by establishing a new operation in warehouse #1.

ARRC, if it is to offer a competitive interline business, requires a truck/container competitive facility that will promote the efficient, low-cost, and safe transfer of products from railcar to truck under all conditions. The ARRC's warehouse #1 would be perfect for this function as well as providing temporary storage and inventory services if required.

Marketing and Sales should restructure its M&S Department to reflect the two major lines of freight business described in Section III and establish suitable profit centers in each of the two areas.

Most railways in North America have adopted business group organizations for Marketing and Sales. This practice combines services and/or commodities into logical business units whose managers are held accountable for meeting the railroad's objectives. To facilitate maximum control over the success of the two lines of business, a profit center approach should be considered for each. ARRC has capable managers whose skills and energy could make such an organization successful.

In implementing profit centers for each of the business units, management should develop its information capabilities to appropriately monitor operations and to control its activities in meeting its specific goals and objectives.

Whether profit centers are established or not, Mercer found that M&S's current use of information, particularly for the Seattle service, is inadequate to effectively monitor progress. Providing the information necessary to evaluate the Seattle service in an ongoing objective manner should be top priority with management.

To remedy this situation, management should assess its information needs, then work with MIS to obtain the necessary reports in proper format on a timely basis.

Passenger Recommendations

Establish the railroad's passenger services as a profit center with a strong set of objectives and a well-defined strategy to monitor ongoing performance and exploit its potential.

Mercer found a lack of accountability in that management was not using cost control methods on a current basis, nor did it have adequate information on how the different passenger services were performing financially. It appears that management's current effort is focused primarily on day-to-day operations with limited attention to the revenues and expenses or future direction. Mercer found that the information necessary to establish adequate cost control measures and develop analyses to guide future strategy is available but currently is not being accessed.

- Many of the costs of this service are either directly incurred (i.e., passenger department and coach maintenance budgets) or can be closely estimated (e.g., locomotive maintenance) to provide a reasonable basis for measuring performance against revenues.

A strong manager should be appointed and placed in charge of this passenger profit center and provided with a clear set of performance expectations.

Management should actively pursue a variety of measures to make the railroad's non-Pull service more profitable, such as:

- Reduce staff at Portage

- Consider ways of reducing on-board staff by improving their efficiency, such as the use of the PA systems through the cars
- Contract out the reservations system and use excess reservation system capacity to provide service to other travel companies

Management should carefully study its approach to adding capacity to the Express train and under what conditions, if any, a second train should be added.

A dilemma facing management is that the Pull operators may add enough equipment to use the full capacity of the Express train.

Management should conduct an audit of its reservation system to determine whether the anticipated benefits were realized and confirm its financial justification.

This project was justified on the basis of increasing revenues, and Mercer was not confident that this would occur. Reasons for not attaining the goals of the system should be known as this might be useful information for improving the integrity of future capital project requests.

The passenger department should employ yield management techniques to maximize its revenues and improve equipment utilization.

The department's manager appears to manage yields through seasonal and third-party discounts. However, Mercer is concerned that there appears to be no overall strategy for how these discounts should be applied and how the new reservation system can be used in the yield management process.

Management should review the safety aspects of inviting passengers to occupy the rear vestibule of the Seward train.

A member of the audit team observed passengers in the rear car vestibule looking out of the open top of the dutch doors or the rear expandable gate. This proved to be a popular vantage point but poses a potential safety hazard for unattended children. If this policy is to continue, a higher gate should be installed to prevent climbing over it, and the use of the vestibule should be more closely monitored by railroad staff.

Management

Post-audit reviews of capital projects should be performed routinely to ensure that the project was carried out within budget, on schedule, and that the purpose of the project has been achieved.

An established post-audit process will encourage the development of more accurate proposals and justification of projects as the sponsor will be held accountable.

Management should vigorously pursue capital improvement funding through available federal sources.

Over the past two decades, the federal government has provided enormous grant funds (billions of dollars) to state-owned and -operated passenger and freight railroads as well as some privately operated freight railroads.

Transportation

Management should move forward expeditiously in the implementation of a computer-aided dispatching system

This is especially important on a railroad such as ARRC, which does not have signal protection and where passenger trains operate.

Management should consider installing an emergency stop apparatus, at least on its passenger locomotives.

As noted in Section III, such apparatus is almost always used by railroads in North America for safety.

Management should undertake a cost-benefit analysis of extending certain key sidings to permit the operations of longer freight trains. This should improve the efficiency of train operations and improve service.

Management should press Mapco to overcome the present impasse in obtaining advanced switch lists for spotting empties at the refinery.

The necessary cooperation from Mapco staff to permit the preclassification of empty tank cars at Anchorage should be sought at the highest levels of management necessary. Mercer notes that if this were instead a Mapco pipeline, the pipeline would not be able to operate without this type of advance planning information.

Instead of switching the Anchorage shops with a yard crew, management should consider equipping mechanical department employees with a Trackmobile, or other type of car mover.

In addition to reducing switching costs, this would provide the mechanical department with switch movements more closely aligned with its own needs.

Mechanical

Management should take a close look at the cost of locomotive maintenance to make sure that it fully understands the reasons why its cost per locomotive-mile is higher than on most railroads in the lower states (with similar utilization experience).

Mercer realizes that ARRC has to contend with some unique factors, which in aggregate appear to justify higher costs, but it is unclear whether these fully explain the higher costs.

Engineering

Management should take a close look at the cost of maintenance-of-way to make sure that it fully understands all of the reasons for the railroad's very high costs as discussed in Section III.

The railroad, with the assistance of industry experts, should undertake a detailed analysis to make sure that its extremely high engineering expenses are suitably explained by the railroad's unique operating conditions. Mercer is of the opinion that a review of the present method of performing day-to-day maintenance could result in a more efficient and cost-effective maintenance process. As in the case of the rail grinding program, good use may be made of outside expertise.

ARRC should attempt to mitigate its vegetation control problem through an innovative approach, with the financial support of the EPA or other similar agencies.

ARRC should investigate the opportunity of obtaining EPA or other federal funding for experimental vegetation control. The railroad's vegetation problem has reached near-crisis levels and must be addressed.

Appendix A

Robert B. Waldner

Mr. Waldner, a senior consultant to Mercer Management Consulting, is a specialist in transportation with a focus on railroads, freight and passenger. He has served in operating and marketing capacities within the railroad industry and has more than 20 years of experience as a transportation and general business consultant. He has addressed problems requiring a broad knowledge of the marketing, regulatory, operating, and financial environment in which the railroad industry functions. Mr. Waldner's consulting work includes the following projects:

- In 1992, helping Agent Banks assess the preparedness of the EuroTunnel (France-England tunnel) management to operate the tunnel railway
- Assisting several railways abroad in evaluating the efficiency and effectiveness of their commuter railway operations
- Performing an annual review of the operations of the Alaska Railroad, which contracts with two companies for their luxury tourist train operation
- Helping Amtrak design and use passenger train costing systems, work that involved custom-designing cost models for approximately 20 trains
- Assisting railroads, motor carriers, and state and federal agencies with transportation market analysis and forecasting
- Preparing forecasts of future freight car needs for equipment suppliers and determining the value of freight cars owned by lessors
- Helping coal companies review their coal transportation needs
- Assisting various users of transportation in developing transportation costing methodologies
- Furnishing general counsel on railroad market prospects, operating costs, asset requirements, and asset valuation to financial institutions, railroads, shippers, and parties interested in acquiring railroad properties
- Assisting a European government in reviewing the operations of its rail system and in designing new intermodal services for the Channel tunnel
- Helping railways determine the reasonableness of their rail freight rates
- Assisting the American Association of Railroads and a lessor of freight cars in determining the marketing impact of combination trucks on the railroad industry

Mr. Waldner was previously a senior associate in the operations management practice at Mercer. Before joining Mercer, he worked at Harbridge House, Inc.

Robert B. Waldner

Page 2

Earlier, Mr. Waldner was with Illinois Central Industries, where he served as director of service evaluation in the Information and Control System Department and, later, as director of service and equipment evaluation in the Market Research Department. His responsibilities included designing an information and control system and preparing reports for obtaining better control of operations. He also served the St. Louis-San Francisco Railway in both operating line and staff capacities. He helped implement one of the first successful service quality control systems in the railroad industry and assisted with the application of terminal and network models to railroad operations. At Melpar, Inc., he was involved in systems design and operations research.

Mr. Waldner received a B.S. in engineering from Princeton University and an M.S. in transportation engineering from Cornell University.

Alan G. Dustin

Mr. Dustin has almost 20 years of experience as a senior executive of small to-medium-sized railroads.

He recently served for more than four years as vice president and general manager of New Jersey Transit Rail Operations, where he was responsible for the operation of a growing commuter service with an annual operating budget of \$255 million and a capital budget of \$175 million. Under Mr. Dustin's leadership, the railroad increased ridership by 40 percent while reducing rail costs per passenger mile by 15 percent; achieved a 60 percent ratio of fare-box recovery to operating expenses, the best in the nation for a rail commuter operation; and successfully carried out, under traffic, a massive program for rehabilitating and improving track and facilities.

As president and chief operating officer of the Boston & Maine Corporation/Maine Central Railroad, Mr. Dustin participated in the planning and implementation of the consolidation of these two railroads following their purchase by Guilford Transportation Industries, Inc. He was responsible for the operation of freight and commuter service with an annual budget of \$200 million and developed strategies for improving profitability.

Earlier in his career, as president and chief executive officer of the Boston & Maine Corporation, Debtor, Mr. Dustin turned around a bankrupt \$180 million freight and commuter railroad, guiding it through a reorganization that led to its sale as a viable company. In this capacity, he negotiated innovative wage, work rule, and crew size agreements, saving \$8 million annually; established a strong marketing department that developed more than \$22 million in new sources of revenue to offset losses from a shrinking industrial base; and reduced annual labor costs \$5 million over a 10-year period by consolidating, mechanizing, and centralizing station agencies, train control towers, and manual crossing protection.

Mr. Dustin has also served as executive vice president of the Bangor and Aroostook Railroad, chairman of the board of the Pittsburgh and Shawmut Railroad, and division superintendent of the Erie Lackawanna Railroad.

Michael V. Smith

Mr. Smith, a Consultant to Mercer Management Consulting, specializes in railway marketing and sales. His experience includes: directing teams in creative management and development of marketing, sales, and acquisitions programs for small and regional railroad clients; supervising annual rail car, rail-highway transfer and intermodal revenue development up to \$15 million; managing small and mid-market carriers for interim periods during transitions and start-ups; performing due-diligence analysis for mid-market acquisitions; and managing a locomotive leasing division that is profitable.

Previously, Mr. Smith worked as acting vice president for marketing and sales at Wheeling & Lake Erie Railway, where he restructured WLE's failed marketing and sales effort on the basis of specific commodity and car type responsibilities for each member of the department. WLE was able to increase its carloadings by almost 4 percent and its revenues by over 10 percent, despite a poor economy and a reduced department staff. Utilizing existing personnel, Mr. Smith established a car management group on the WLE that was able to generate savings in per diem and lease expenses for the railway of over \$30,000 per month.

Prior to working at WLE, Mr. Smith was executive vice president at Toledo, Peoria & Western Railway Company. There he was responsible for arranging financing and acquisition, managing the marketing and sales department (which grew traffic revenue levels by 28 percent in a one year period), and negotiating joint use of the Remington, IN intermodal facility.

Mr. Smith was also a vice president at the Boston and Maine Railroad Corporation and founder of its marketing department. He oversaw the design and implementation of marketing programs which resulted in the receipt of three coveted industry awards for marketing excellence from *Modern Railroads*. Under his direction, B&M achieved significant revenue growth (from \$76 million to \$115 million) and traffic growth (from 12.6 million tons to 13.2 million tons) while Conrail, the B&M's largest volume connection, lost over one-third of its total business during the same time period. Mr. Smith also successfully managed the start-up of BMX, a B&M trucking subsidiary that served the intermodal purposes of the railroad. Mr. Smith was president of BMX.

Mr. Smith holds a B.A. in political science from Amherst College.

CED: HYDRO

CED: HYDRO

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

**HYDRO-ELECTRIC PROJECTS
SUBCOMMITTEE REPORT**

NOVEMBER 30, 1999

**Subcommittee Members: Lee Wareham, Chair;
Dave Carlson, Tom Friesen, Marco Pignalberi, Walt Sapp, Robert Wilkinson, Eric Yould**

**HYDRO-ELECTRIC PROJECTS
SUBCOMMITTEE REPORT**

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RECOMMENDATIONS

1. Alaska Intertie Recommendation:

Keep the status quo. Transfer of the Alaska Intertie to the utilities at the current time would not appear to result in significant benefits to either the State or the participating utilities.

Under the current structure, the utilities are already responsible for all of the costs associated with the Intertie. Due to the nature of the Intertie agreement between AEA and the utilities (with no current revenue stream to the State), the value of the Intertie is uncertain at this time. As the Intertie crosses a large number of parcels owned by differing landowners, transfer of the rights of ways would be a complex matter. In addition, as the Intertie benefits several utilities, it would likely be necessary to form a new joint utility entity to become the owner of the project. In the event technology changes or utility restructuring changes occur, it may be prudent to reconsider the appropriateness of transferring the Intertie

The 170-mile, 345-kilovolt Alaska Intertie (Intertie) interconnects the power distribution systems of Fairbanks with the distribution systems serving the Anchorage, Kenai Peninsula and Mat-Su areas. The Alaska Energy Authority (AEA) owns the Intertie. The Intertie ties the Chugach distribution system, at Teeland in the South, to Golden Valley Electric Association's transmission system, at Healy in the North. A 26-mile segment of the Intertie is owned by Matanuska Electric Association and is utilized by AEA as part of the Intertie under the terms of an Agreement that is subject to termination as early as 2004.

The Intertie was constructed entirely with state funds at a cost of \$124 million. The utilities participating in the Intertie include Municipal Light and Power (Anchorage), Chugach Electric Association, Golden Valley Electric Association, and Alaska Electric Generation and Transmission Cooperative (composed of Homer Electric Association and Matanuska Electric Association). Under the terms of the Alaska Intertie Agreement (Intertie Agreement) with the participating utilities, the utilities are required to pay all of the costs of the Intertie, including operation, maintenance, insurance and renewals and repairs. Budgeting and other operational decisions related to the Intertie are made by a committee composed of representatives of the participating utilities and AEA. No payments are made to the state with respect to the capital costs of the Intertie.

2. Four Dam Pool Divestiture Recommendation

Sell the Four Dam Pool projects for fair value to the electric utilities within the communities served.

The Four Dam Pool projects were constructed to benefit the communities served by the purchasing utilities under the PSA. Transfer of the projects to these communities, for fair value, should be pursued. The state has numerous liabilities with respect to these projects. These liabilities can interrupt the annual payments to the state and create substantial uncertainty. Sale of the projects to the utilities could eliminate these liabilities and provide a substantial cash payment to the state.

The State constructed and acquired the Four Dam Pool projects in the mid 1980's. The cost of the projects to the State was approximately \$483 million. These costs were funded through

direct appropriations as well as an interagency loan (current balance approximately \$185 million) from the Department of Commerce and Economic Development to the Alaska Energy Authority (AEA). The Four Dam Pool is owned by the Alaska Energy Authority (AEA) and consists of four hydroelectric projects serving five communities. Power from the Tyee Lake project is sold through Thomas Bay Electric Association to the communities of Wrangell and Petersburg. Power from the Swan Lake project is sold to Ketchikan Public Utilities. Power from the Solomon Gulch project is sold to the Copper Valley Electric Association serving the Glennallen and Valdez areas. Finally, power from the Terror Lake project is sold to Kodiak Electric Association. The power from all the projects is sold under the terms of a Long Term Power Sales Agreement (the "PSA") between the purchasing utilities and the AEA. The projects are operated by the individual utilities pursuant to operating agreements between the utilities and AEA.

Under the PSA (which terminates in 2030), to the extent the purchasing utilities require power, they are required to first purchase the power produced from the Four Dam Pool. Power from all four projects is sold at a uniform rate established under the PSA. For fiscal year 2000 the uniform rate was 6.8 cents per kilowatt-hour. The rate has two components. The first component (approximately 2.8 cents per kWh in FY 2000) covers the pooled operating cost of the four projects. The second component of the rate is the "debt service component." The debt service component (approximately 4.0 cents per kWh in FY 2000) is somewhat a misnomer as no debt was issued by the State to finance the projects (although an interagency loan was made to partially finance the projects). The debt service component is the payment to the State in partial repayment of the State's investment in the projects. The payments to the state under this provision of the PSA, not including self help payments mentioned below, have ranged in recent years from approximately \$9 million to \$11.5 million depending on the number of kWh purchased under the agreement.

Under the PSA, AEA retains numerous liabilities related to the projects. In particular, AEA is responsible for uninsured facility failures, substandard performance, and deficiencies in the reserve and replacement fund. Moreover, the utilities' obligation to purchase power is not a "take or pay" obligation. Rather, the utilities only pay for power actually purchased from the projects. While the utilities are required to purchase power first from the Four Dam Pool projects to the extent they require power, if the projects are not producing power for some reason, there is no obligation for the utilities to continue to pay.

The PSA also creates a "self-help right" on the part of the utilities. Under that provision of the PSA, if AEA does not fulfill its obligations regarding repairs to the projects, the utilities may withhold their debt service payment to the State and utilize the funds withheld to perform the necessary repairs. In recent years self-help has been invoked to fund repairs to the Tyee transmission line and other state obligated repairs for the projects.

As part of the 1993 legislation that re-organized AEA, the legislature pre-allocated the debt service payments that are received from the Four Dam Pool to specific funds. As modified in 1999, pursuant to AS 42.45.050, debt service payments made by the Four Dam Pool utilities are to be appropriated by the legislature as follows: 60% to Power Cost Equalization and Rural Electric Capitalization Fund; and 40% to the Southeast Energy Fund.

Barriers

Fair Value—the determination of the fair value and agreement between the state and utilities will be difficult, but in general should include the present worth of the projected payment stream adjusted for risk over the life of the project. The value of the projects is in large part dependent on a number of assumptions including projected inflation, interest earnings and discount rates. In addition, both the state and the utilities need to ensure that adequate reserves are maintained by the utilities to cover the future repairs and replacements for the projects. The determination of the fair value for the projects may also be complicated by the fact that third party utility companies may suggest a higher purchase price than the utilities. Such parties may have less incentive to create adequate reserves (their interest could be to maximize revenues). In addition, a third party purchaser would not be able to legally release the state from its existing liabilities without the consent of the utilities. Thus a third party purchase could leave the state with contingent liabilities for the project if the third party fails to perform adequately.

Power Cost Equalization--Under legislation passed in 1993 and amended in 1999, 60% of the state's revenues from the Four Dam Pool projects are used to provide a portion of the funding for the Power Cost Equalization (PCE) program. Sale of the Four Dam Pool projects would eliminate this funding source. Accordingly, a sale of the projects must take into account this decrease in funding and provide alternative funding for PCE. Perhaps the sale proceeds could be dedicated to a PCE endowment fund.

Interagency Loan--- A portion of the cost of the Four Dam Pool was funded with an interagency loan of \$183 million from the Department of Commerce and Economic Development to AEA. Current and projected utility payments from the projects are not sufficient to amortize this loan. With the PSA in place it is clear that the value of the projects to the state is substantially less than the interagency loan amount. Nonetheless, there may be a belief on the part of some that the projects should not be transferred for less than that amount.

3. Bradley Lake Hydroelectric Project Recommendation

Keep the status quo. The existing financing structure and outstanding bonds do not lend themselves to transfer of the Projects at this time.

It would be difficult or impossible to transfer the projects with the existing bonds in place. Redemption of the bonds would be expensive and might be prevented under federal tax rules. In addition, it is not readily apparent that significant benefits would accrue to the state or Power Purchasers as a result of transferring the projects.

Background

The Bradley Lake Hydroelectric Project (the Project) is located in south central Alaska at the southern end of the Kenai Peninsula. Construction of the project was completed in 1991.

The project has 126 megawatts of installed capacity that is normally scheduled at 90 megawatts to minimize losses. Two 20-mile, 115 kilovolt transmission lines connect the project to the Railbelt intertie system. The Alaska Energy Authority (AEA) owns the Project. Under the terms of a Power Sales Agreement (PSA) 100% of the capacity of the Project has been sold to the utilities in the Railbelt: Chugach Electric Association, Municipal Light and Power (Municipality of Anchorage), Matanuska Electric Association, Golden Valley Electric Association, Homer Electric Association and the City of Seward (the Power Purchasers). The projects were financed by the State with a combination of direct appropriations and the issuance of Alaska Energy Authority Bonds. The total cost of the project was approximately \$328 million of which \$163 million was funded by direct appropriations of the state and the balance by AEA's issuance of its general obligation bonds backed by the moral obligation of the state.

Under the terms of the PSA, the Power Purchasers are required to pay all of the costs of the project, including operating and maintenance, insurance, and renewal and replacement requirements. In addition, the Power Purchasers are required to pay the debt service costs for the bonds issued by AEA for the Project. Following the final retirement of all the bonds the power Purchasers continue to make payments to the state. Under the terms of the PSA these payments to the state are to be used for Railbelt Energy Projects. Over the last several months the original bonds issued for the project have been refunded to take advantage of favorable interest rates. These newly issued bonds may not be redeemed or refunded for a period of ten years without incurring substantial penalties. In addition, there may be federal tax implications of retiring the debt early. The current outstanding balance of the bonds is approximately \$154 million.

DEPT. COMMENTS



**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

MEMORANDUM

To: Marco Pignalberi
Commission on Privatization and Delivery of Government Services

From: Keith Laufer
Financial and Legal Affairs Manager
Alaska Industrial Development and Export Authority

Subject: Alaska Intertie

Date: December 1, 1999

This memorandum is provided in response to the request related to the Alaska Intertie made by Senator Ward at the Commission on Privatization meeting on November 30, 1999.

The Alaska Energy Authority (AEA) owns the Alaska Intertie (the Intertie"). An approximately 26-mile segment of transmission line is owned by Matanuska Electric Association and, by agreement, has been incorporated as part of the Intertie. Operation and use of the Intertie is governed by the Alaska Intertie Agreement (the "Intertie Agreement") between AEA (formerly known as the Alaska Power Authority) and the participating utilities.

Under the terms of the Intertie Agreement, the participating utilities are required to pay all Intertie operating, maintenance, repair, renewal and replacement and other costs. The utilities are not required, however, to make any payments to AEA (as a return of capital or otherwise) for use of the Intertie. Accordingly, AEA generates no revenues from its ownership of the Intertie. Any participating utility may terminate its participation in the Intertie upon 48 months notice. AEA may terminate the Intertie Agreement upon 48 months notice but only if it determines that termination is "required to improve Power systems serving the Alaska Railbelt Utilities."

As the operation and use of the Intertie is governed by an existing Agreement which provides no revenue to the owner of the line, we believe it is unlikely that a purchaser could be found that would be willing to pay for this non-revenue producing asset. While it is conceivable that the Intertie or the Intertie corridor could have value for uses other than the transmission of energy (for example telecommunications), currently no one has expressed interest in the Intertie for such uses. Moreover, a legal analysis would be necessary to determine if the rights of way underlying the Intertie allow for such ancillary uses and if so, what rights the participating utilities might have in the benefits derived from any such uses.

If the Commission has additional questions, please feel free to call.

APPENDICES



CHI Energy, Inc.

680 Washington Boulevard, 5th Floor
Stamford, CT 06901
(203) 425-8850
Fax (203) 425-8880

Christopher Hecker
Vice President
Business Development and Corporate Affairs

VIA FAX

December 7, 1999

**Hon. John Cowdery
Alaska Commission on Privatization**

Subject: Proposal to Purchase Four Dam Pool

Dear Rep. Cowdery:

Last spring, I had the privilege of testifying before the House Finance Committee regarding our proposed purchase of the Four Dam Pool for a cash price in excess of \$80 million.

As indicated by the attached November 16 letter from the president of CHI Energy, Inc., we remain keenly interested in purchasing the Four Dam Pool assets. We are willing to discuss this purchase with any and all affected parties in order to fashion a possible "public-private" ownership arrangement that would achieve a true "win-win" for local, public, and private interests.

Please don't hesitate to contact Mr. Stern or me if you have any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Chris Hecker', written over a horizontal line.

Christopher Hecker



CHI Energy, Inc.

680 Washington Boulevard, 5th Floor
Stamford, CT 06901
(203) 425-8850
Fax (203) 425-8880

Edward M. Stern
President and
Chief Operating Officer

November 16, 1999

Mr. D. Randy Simmons
Executive Director
Alaska Energy Authority
480 West Tudor Road
Anchorage, AK 99503

Subject: Proposal to Purchase Four Dam Pool Hydroelectric Assets

Dear Mr. Simmons:

Earlier this year, in testimony before the House Finance Committee, CHI Energy, Inc. ("CHI") expressed our interest in purchasing the hydroelectric assets of the Four Dam Pool. We have since been following the State's fiscal situation with considerable interest.

The purpose of this letter is to restate and confirm that CHI is prepared to make a cash payment in excess of \$80 million for the Four Dam Pool assets. This proposal includes the following key points:

1. Our valuation is preliminary, but we believe it is conservative. A final valuation would be based on several factors, including: (i) the condition of the assets; (ii) operating costs; (iii) financing terms; and (iv) power purchase rates. These and other material aspects of the transaction would be determined in negotiations with the Authority and other stakeholders, and confirmed during due diligence.
2. The agreed-upon purchase price would be paid in full at closing. The purchase would be financed using conventional private sector sources, with no additional financial liability to be borne by the State.
3. We believe closing could take place 60 to 90 days after execution of a binding, duly authorized Purchase and Sale Agreement between the Authority and CHI.
4. CHI will, if requested, share ownership of the assets with the communities currently served by the Four Dam Pool, with their ownership shares to be proportional to their usage of Pool capacity. The communities' ownership shares can be structured to require little or no cash payment, although such a structure would likely reduce the purchase price of the assets.
5. The existing Power Sales Agreement between the Authority and the communities need not be materially changed. Any such change would be only if deemed in the best interests of all parties.

Mr. D. Randy Simmons
November 16, 1999
Page 2

6. The existing day-to-day operation and maintenance arrangements for the assets need not be materially changed.
7. CHI's purchase of the assets would relieve the Authority of ownership and operational risk you currently bear.

As noted above, the final purchase price for the assets would depend on a wide range of factors that would be addressed in the course of discussions with you and other affected parties. Nevertheless, we are confident that the price will not only be substantial, but also that the transaction and cash payment can be accomplished quickly.

By way of background, CHI is the largest independent (non-utility affiliated) owner and operator of hydroelectric facilities in the U.S., with a portfolio of 79 plants ranging between 1 MW and 25 MW in size. Established in 1988, our principal owners are Morgan Stanley & Co., Inc. and UBS, AG. We have both the management expertise and the financial experience and resources to complete the purchase of the Four Dam Pool assets.

For references on CHI, please contact Michael J. Petrick, Managing Director at Morgan Stanley, at (212) 761-1558.

To discuss this proposal further, please contact me at (203) 425-8862, or Christopher Hocker, Vice President, at (203) 425-8864.

We look forward to your response.

Very truly yours,


Edward M. Stern

EMS:afc

cc: House Finance Committee Members

CORRECTIONS

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

**SUBCOMMITTEE REPORT
ON THE
ALASKA DEPT. OF CORRECTIONS**

November 4, 1999

Subcommittee Members

**Sharon Anderson, Chair; Rep. Fred Dyson; Russell Lewis
Barbara Miller; Mary Pate; Greg Pease; Keith Perrin; Gail Schubert
Mel Tipton; Greg Utterback; Sen. Jerry Ward; Garland Warren
Bruce Richards, Dept. of Corrections Staff**

Commission on Privatization and Delivery of Government Services
Subcommittee – Corrections

Committee Members: Sharon Anderson; Rep. Fred Dyson; Russell Lewis; Barbara Miller; Greg Utterbeck; Mary Pate; Greg Pease; Keith Perrin; Gail Schubert; Mel Tipton; Sen. Jerry Ward; Garland Warren; Dept. of Corrections Staff Bruce Richards.

- I. Agency & Department Name: Department of Corrections**
II. BRU and Component Names as listed in state budget – FY00 Operating Budget BRU Attachment #1

\$ = 000's

Administration & Operations Total	129,151.6
Community Residential Centers	15,681.8
Out of State Contracts	19,847.1
Point McKenzie	2,122.9
Alternative Institutional Housing	200.0
Food Services Apprenticeship Program	96.1
Total Agency Expenditure	167,099.5

- ### III. Total Budget, all funds. Identify fund sources Attachment #1

Federal funds	6,477.0
General funds	145,848.8
Other funds	14,773.7
Total	167,099.5

- IV. Total Revenue derived Attachment #1

Fed Receipts	6,477.0
G/F Match	129.6
Gen Fund	138,213.9
GF Prgm	3,506.0
I/A Receipts	8,163.5
GF/MH	3,999.3
PFD Fund	2,147.3
Corr. Ind.	3,500.6
CIP Rcpts	543.3
MHTAAR	419.0

The Department of Corrections also provided Inmate Services during FY99 for the Immigration and Naturalization Service (INS)

1,766 Mandays

357 Inmates

\$181,810,380 Billed to INS

Commission on Privatization
Subcommittee – Corrections
November 4, 1999

July 1, 1998 – December 31, 1998	\$100.07 Daily cost of care
January 1, 1999 – June 30, 1999	\$ 97.62 Daily cost of care

V. Identify Constitutional and Statutory Provisions Governing Agency Operation

VI. Agency Mission, Goals and Objectives - **Attachment # 2**

VII. Number of Employees **Attachment # 3**

Full time 1,366 – refer to Attachment #1

Correction Officer and Probation Officer Counts per institution is included in Attachment # 3

DOC Management Salaries and Travel – FY 99 included in Attachment # 3

VIII. Describe Technology Used to Perform Mission – n/a

IX. List Existing Agency Contracts including amount, contractor, purpose, term and procurement method. **Attachment # 4**

X. Identify Existing Privatizations Practices, if any. Evaluate them for effectiveness and public accountability. **Attachment # 5**

The Department of Corrections has privatized several programs and services, the largest of which is the Out of State contract for hard beds to house approximately 900 inmates. The FY 00 expenditure for this service is \$19,847,100.

Community Residential Center (CRC) beds are contracted out throughout the state for a total of \$15,681,800 in FY 00.

Full detail of other contracts for services such as Inmate Health Care, Inmate Programs (Education, Substance Abuse, Sex Offender Treatment) and other services in Provided in Attachment #5.

The DOC provided to the committee its plan for increased use of privatized services (Options that Increase Alternatives that Free Up Hard Beds). This detail provided by the Department is included in **Attachment #6**.

XI. Make Recommendations per Section 5 in SB33, including suggestions for new legislation.

RECOMMENDATIONS

Corrections Subcommittee on Privatization Recommendations

These recommendations are forwarded to the full committee with the understanding that a full review will be conducted. The subcommittee did not have the time, or the staff to fully review all cost/benefit analysis, legislative or constitutional barriers to implement the recommendations.

As part of the subcommittee's review, we asked the Department of Corrections to Provide areas they felt were potential for privatization. Two documents were produced. The first is the Department's plan included in Attachment # 6 and the second is the DOC proposal to privatize Mt. McKinley Meats. This is included in Attachment #7.

Recommendation 1: All of Correctional Industries should be transferred to the Department of Community and Economic Development and all contracts should be privatized.

Recommendation 2: The entire Sex Offender Treatment Program should be privatized

Recommendation 3: Education programs should be re-evaluated. Education programs should be transferred to the private sector.

Recommendation 4: Provision of Medical Care

- a) The Indian Health Service should accept all beneficiaries into their hospitals for inpatient care regardless of the beneficiary's status as an inmate.
- b) All of the outpatient health related services should be privatized under a statewide bid.

Recommendation 5: Non-violent prisoners should be moved to intermediate facilities and the provision of services should be privatized AND the prisoners put to work on jobs that will allow the prisoners to learn skills and to make reparations.

Recommendation 6: Centralize purchasing functions for system wide purchasing of food and other items.

Recommendation 7: The State of Alaska should privatize the fine and collection activities for the courts and the service of restraining orders and some warrants.

Note: This recommendation should be forwarded to the court systems committee.

Recommendation 8: The acquisition of vehicles and their maintenance should be privatized.

Recommendation 9: The Department should privatize its Information Technology.

Recommendation 10: Probationers and paroles should be charged a fee per week to partially cover the costs. The collections of the fees should be privatized.

Recommendation 11: The purchasing of equipment and repair of it should utilize private industry selection, replacement, repair, and maintenance standards. Obsolete equipment that cannot be economically operated should be replaced.

Recommendation 12: (Submitted to the subcommittee by the Department of Corrections) Mt. McKinley Meats Privatization Proposal. Attachment #7

XII. Explain rationale for each recommendation, the number of votes for and against it.

The committee unanimously adopted each of the recommendations submitted. Other recommendations were considered but rejected. All comments from committee members are included under key discussion points.

In addition, the Department of Corrections provided input regarding each of the recommendations. Their comments are included in Attachment #8.

Recommendation 1: All of Correctional Industries should be transferred to the Department of Community and Economic Development and all contracts should be privatized.

Key discussion points:

- The AHRIC is tied in with this department as part of the Administration and they have the business and union connections and more importantly have them at the table. Who better to run business for marginalized individuals than the private sector business community, private industry councils and trade unions?
- This type of approach works for Welfare to Work clients. For example, Fairfax County, Virginia privatized their Welfare to Work programs to a for-profit firm and now over 97% of their clients have been placed in jobs.
- Chances are we'll see better results than one questionably successful business venture in well over a decade.
- More private industry programs should be allowed in the prison system, and do not care that a private company derives a profit for the prisoners' work. There is otherwise no motivation for private industry to take the risks to do this.
- Work programs are beneficial to the inmates and obviously help prepare them for when they are released.
- More effort and money should be spent in this area to find private companies who are willing to develop a relationship with prisons in their communities to develop other prison industries that would provide additional work programs. This all can and should be privatized.

Recommendation 2: Entire Sex Offender Treatment Program should be privatized.

Key discussion points

- Currently 88% of the \$1 million program is contracted out.
- Confidentiality of treatment records is compromised when the information is placed into the offender's DOC record.
- Third party will better protect individuals and their confidentiality rights.
- Two current programs at Meadow Creek and Lemon Creek. The Lemon Creek program does not have graduates because it is considered a pretreatment program, and therefore the 20% success rate quoted appears to be 20% x 72 inmates at Meadow Creek, which is a pretty dismal result for \$1 million per year.
- Inmates have complained that DOC uses the program to take away their good time.
- Third party provider could more easily implement changes to the program that make it culturally relevant.

Recommendation 3: Education programs should be re-evaluated. Education programs should be transferred to the private sector.

Key discussion items:

- We are spending funds on education that is providing little benefit except keeping the inmates busy.
- Better programs could be offered, such as the victim education program.
- Some study of what job fields are most likely to hire released inmates and then fashion education more closely to those areas, as well as the areas related to rehabilitation.
- All this can be privatized.
- There should be no state positions should be associated with education. These services exist in the private sector.
- A program to bring the native culture into the prison system to coordinate cross-cultural issues can be combined in the education programs.

Comments against:

- Cross- cultural programs should not be at state expense. Native groups should participate and fund such a program.

Recommendation 4: Provision of Medical Care

a) The Indian Health Service should accept all beneficiaries into their hospitals for inpatient care regardless of the beneficiary's status as an inmate.

Key discussion items:

- All private hospitals accept inmates, with DOC guards present. ANMC and other facilities e.g. Bethel's YKHC should also accept inmates.

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- If the greater percentage of inmates is natives, they should receive their care at the native facility.
- Local ANMC administration has stated this is not their policy (see attached letter).
- This should be pursued further (federal level) for clarification.
- The full privatization committee should pursue this issue at the federal level since the AK DOC has not received Alaska cooperation.
- If the beneficiaries were not in prison, they would go to the Alaska Native Medical Center in Anchorage for their care.

b) All of the outpatient health related services should be privatized under a statewide bid.

- There are nation wide companies who specialize in the provision of this service.
- This would provide economies of scale rather than several contracts for outpatient nursing care.

Recommendation 5: Non-violent prisoners should be moved to intermediate facilities and the provision of services should be privatized.

Key discussion issues:

- Palmer and Pt. McKenzie should be privatized with a potential 25-30% savings.
- This would enable the current system to transfer non-violent prisoners to privately run intermediate facilities. This could be done more efficiently and at less cost than state facilities.
- Should be accomplished ASAP. Why use scarce funds for the meek, use the money for the violent offenders.

Recommendation 6: The purchasing functions for purchase of food and other items should be centralized.

Key discussion items:

- Centralize and use the examples of volume purchasing such as those utilized by Wal-Mart and Fred Meyer.
- One State employee should be in charge of purchasing for all of the prison system to ensure that the state is receiving uniform pricing, volume discounts, etc.

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- Quantity and uniform pricing should already be taking place. If not then it is a failure on the part of state purchasing to get the best “bang for the buck” and should be privatized as well.

Recommendation 7: The State of Alaska should privatize the fine and collection activities for the courts and the service of restraining orders and some warrants.

Note: This recommendation should be forwarded to the court systems committee.

Recommendation 8: The acquisition of vehicles and their maintenance should be privatized.

Recommendation 9: The Department should privatize its Information Technology.

Recommendation 10: Probationers and paroles should be charged a fee per week to partially cover the costs. The collections of the fees should be privatized. Proposed legislation to accomplish this is supported by the subcommittee.

Recommendation 11: The purchasing of equipment and repair of it should utilize private industry selection, replacement, repair, and maintenance standards. Obsolete equipment that cannot be economically operated should be replaced.

Recommendation 12: (Submitted to the subcommittee by the Department of Corrections) Mt. McKinley Meats Privatization Proposal. Attachment # 7.

DEPT. COMMENTS

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF CORRECTIONS

REPLY TO:

4500 DIPLOMACY DRIVE, SUITE 207
ANCHORAGE, ALASKA 99508
PHONE: (907) 269-7350

October 19, 1999

Sharon Anderson, Chair
Corrections Sub-Committee

Dear Ms. Anderson:

On Tuesday, October 12, 1999 the Privatization Subcommittee on Corrections provided the Department with a list of areas the Subcommittee has identified as potential subjects for further outsourcing. The Subcommittee asked the Department to provide input on those areas by the next Subcommittee meeting on Tuesday October 19, 1999.

We appreciate the opportunity to provide the Subcommittee with further input, and accompanying this letter you will find each subject addressed separately. The short time frame and lack of resources prohibits thoughtful analysis - and thus opinion - on the efficacy of further outsourcing of the subjects.

The Subcommittee further asked the Department to identify barriers to privatization. In response to that request, we have compiled a list (probably not all-inclusive) of issues, or influences that may or may not be "barriers", but certainly would require careful examination and analysis to determine the feasibility or efficacy of privatizing functions. They are as follows:

- Cost/benefit analysis;
- Federal, State and Local laws;
- Case law;
- Collective bargaining agreements;
- Impacts on other agencies or businesses - governmental or private;
- Impact on local communities and community groups;
- Department authority;
- Public protection.

The Department has worked diligently to provide the Subcommittee with this and all other requested information. We hope that the Subcommittee has found our efforts helpful.

Sincerely,



for Margaret M. Pugh

Responses by the Department of Corrections to the Recommendations of the Privatization Committee

Recommendation 1: All of Correctional Industries should be transferred to the Department of Community and Economic Development and all contracts should be privatized.

Response: There are 50 state correctional industries programs nationwide. Florida has privatized its industries program. All of the remaining forty-nine programs are placed either in the state's Department of Corrections or Department of Public Safety, depending on the organization of the state system.

It is unclear what is meant by the phrase, "All contracts should be privatized"

Responses to key discussion points:

1) The Correctional Industries Commission membership includes two union representatives and two business representatives who participate at every commission meeting.

2) We are not familiar with the Fairfax County program.

3) We are unclear about this comment. We consider all our current industries successful, including the Mt. McKinley meat plant, which although it does not make a profit, it provides a necessary service for the private sector red meat producers in Alaska.

4) Each private sector industry proposal submitted is fully reviewed by the Correctional Industries Commission. Members of the private sector have been encouraged to propose and implement cooperative ventures. Private industries cooperative ventures should make a profit. At the same time, inmates should be paid at least minimum wage, in accordance with current statutory requirements and prevailing correctional industries policy.

The committee might be interested to know of on-going litigation in the State of Washington involving their correctional industries program. Several private sector firms have claimed unfair competition by another private sector firm that is in a cooperative venture with the State of Washington. The Department will be monitoring this suit to determine if it requires a re-analysis of private sector cooperative ventures.

5) We concur entirely on this point; work programs have been documented as being beneficial to inmates upon release.

6) We again concur with this observation; private cooperative ventures should be promoted and developed. This probably would require, however, new additional industries space within correctional centers. A lack of adequate space is the biggest obstacle now to promoting the future development and expansion of private sector cooperative ventures.

Recommendation 2: The entire Sex Offender Treatment Program should be privatized.

Response: The committee notes that "currently 88% of the \$1 million program is contracted out." In actuality, 94% of the funds expended in SOTP during FY99 were contracted out to private vendors. The initial percentage was erroneously calculated based on the assumption that the amount allocated to personal services covered state staff who worked exclusively on SOTP services.

The personal services line includes one FTE criminal justice planner and ½ FTE administrative. Neither position is dedicated to any one program.

The planner's time is allocated as follows: SOTP (40%), inmate education (40%), domestic violence, youth, and all other duties (20%)

The Admin. Ass't provides all budgeting and financial services for SOTP, inmate education, domestic violence, substance abuse, community jails, institutions, chaplaincy, and youthful offenders.

It should be noted that a state position trained to provide clinical and program management would be required to oversee the SOTP regardless of who the contractor was.

The committee suggests that "confidentiality of treatment records is compromised when the information is placed into the offender's DOC record." There are extensive policies and procedures governing the management of all inmate records, including confidential medical and treatment records that are based on the state constitution, state statutes, and the Alaska Administrative Code. 22 AAC 05.095 spells out specific limits on access, including what access is to be denied and under what circumstances.

Furthermore, all treatment providers must be licensed in their respective fields and must adhere to the ethical principles of their licensure, which includes provisions regarding the release of records.

Finally on this issue, the enactment of HB 366 regarding court-ordered treatment programs, requires that specific materials be included in the institutional records. These materials include the treatment plan, the discharge summary, noncompliance discharge notices, and treatment team summaries. This requirement has been made a condition of all DOC contracts. At the same time, the Department has firm rules on what records are not to be placed in the institutional file.

With respect to the Department's sex offender treatment programs, it is correct that there are currently two programs operating in the state, one at Meadow Creek and one at Lemon Creek. The 94% of the FY99 SOTP budget (\$922,700) that was contracted out to private providers include both of these institutional programs, as well as seven community treatment programs and a statewide risk assessment of offenders in the system.

The Department's 1996 recidivism study clearly shows that those who successfully participate in a program, even if they do not complete it, have a lower re-offense rate than those who do not participate. Those offenders with a lower risk may be able to begin treatment in the institution and complete it in a community program, at a decreased cost. Furthermore, the process of assessing and treating these offenders provides important information to the Department about the offender's risk to the community even if the offender does not successfully complete a treatment program.

Contrary to the "complaints" of inmates, the Department does not "use the SOTP" to take away their good time. Instead, HB 366, which was enacted in the 1990 legislative session and incorporated into AS 12.55.015 (a)(10), AS 12.55.100 (a)(5) and (6), and AS 33.30.011(6), specifically authorizes the court and the Parole Board to revoke probation or parole when an individual fails to comply with a court order to receive and complete treatment. This applies to court-ordered sex offender, substance abuse, anger management, mental health and domestic violence treatment programs.

The sub-committee suggests that "third party providers could more easily implement changes to the program that make it culturally relevant." The Department and its contractors are committed to provision of services that are meaningful for the rehabilitation of offenders, including cultural relevancy.

Recommendation 3: Education programs should be re-evaluated. Education programs should be transferred to the private sector.

Response: The Department disagrees with the sub-committee's suggestion that it is "spending funds on education that is providing little benefit except keeping the inmates busy." Rather, inmates are engaged in meaningful educational programs and activities, to the limits of available funding. Certainly, it would be desirable to provide vocational programs for all male inmates on the scale of that which we provide at Hiland Mountain for the female offenders, but the Department does not have sufficient funds to be able to do so at this time.

In FY 1998, there were 731 inmates in ABE and GED classes that qualified as full-time students and 429 inmates that were part-time. They participated in 16,738 and 7,147 hours of instructional activity, respectively. 182 GED's were completed by inmates in the Alaska DOC.

In FY 1999, there were 961 inmates that qualified as full-time students and 1018 that were part-time. They participated in 24,942 and 7,713 hours of instructional activities, respectively.

In FY 1999, 5,465 inmates were enrolled in Life Skills classes and 3,771 completed those classes. Life skills classes include instruction in the areas of health and safety, cross-cultural activities, communications skills and pre-release/pre-employment preparation.

In FY 1999, 688 inmates were enrolled in a vocational or apprenticeship program and 547 of those inmates completed their respective programs.

The Department agrees that increased resources could result in even better educational programs.

With regard to victim education programs: Philosophically, victim impact education is an ongoing effort that should pervade the tone of all programs that inmates engage in. Many of the Department's programs, including inmate education, have traditionally emphasized the importance of victim impact and victim empathy as a central goal in the programs. Indeed, many providers of sex offender and domestic violence perpetrator treatment programs believe that their real clients are the victim and that they only provide treatment to perpetrators as a means of decreasing the number and severity of offenses against victims.

The Department has trained its staff in a Victim Impact class model devised by the California Youth Authority and Mothers Against Drunk Driving. This is in use at probation offices and some institutions throughout the system. Additionally, victim impact and empathy work is a core goal in the sex offender treatment programs and domestic violence programs. The Life Skills programs offered by Inmate Education have also included classes on victim impact and related topics on an ongoing basis.

The suggestion is made by the committee that "some study should be made of what job fields are most likely to hire released inmates and then fashion education more closely to those areas, as well as the areas related to rehabilitation." DOC staff regularly consult with the Dept. of Labor and local communities to determine what employment opportunities may be available to offenders upon their release.

With respect to privatizing these functions, the vocational programs listed below have already been privatized:

Hiland Mountain CC -- horticulture, construction trades, and computer programs provided by UAA Community & Technical College.

Palmer CC -- Hazardous materials handling and transport, lead abatement and asbestos abatement programs provided by the Alaska Health Project. Courses related to building maintenance apprenticeship are contracted out with a private vendor in the Mat-Su Valley.

Spring Creek CC -- several apprenticeships within the facility; related instruction is provided by AVTEC. The Emergency Trauma Technician, Professional Baking, and other vocational programming are contracted out to private vendors.

Lemon Creek CC - computer classes provided by Southeast Regional Resource Center in the past. Currently working on procurement process for contractor for the current fiscal year.

Wildwood CC - hazardous materials courses, oil field safety courses, and confined spaces entry courses are all contracted out to private vendors.

In the smaller facilities, such as Anvil Mountain CC, Fairbanks CC, and Meadow Creek CC, courses in wastewater treatment, emergency trauma technician training, and computer instruction have always been contracted out.

Additionally, much of the ABE, GED and life skills programming are contracted out. The suggestion has been made by the committee that "there should be no state positions associated with education. These services exist in the private sector." Currently, there is one state education coordinator in most of the facilities. The larger facilities, SCCC, LCCC, WWCC, and PCC have two paid staff. The education coordinator's duties are not limited to teaching, but instead involve program planning, management, and development and contract monitoring.

While the Department feels that surely there are many more meaningful and exciting cross cultural programs that could be integrated into institutional programming, we feel the sub-committee should be aware of the Department's current efforts and deep commitment to seek out future opportunities. The chaplaincy program, substance abuse programs, sex offender treatment programs, life skill programs and cultural arts programs each have components that address cultural issues and which rely upon Alaska Native agencies and organizations within the respective communities.

Recommendation 4: Provision of Medical Care

(a) The Indian Health Service should accept all beneficiaries into their hospitals for inpatient care regardless of the beneficiary's status as an inmate.

(b) All of the health-related services should be privatized under a statewide bid.

Response: (a) There are several issues worthy of consideration regarding the committee's suggestion that the Indian Health Service should accept all beneficiaries into their hospitals for in-patient care regardless of the beneficiary's status as an inmate.

The Indian Health Service reasoned that an Alaska Native who was placed into the custody of the Department of Corrections became a ward of the state. Once a person became a ward of the state, IHS was not responsible for providing their medical care. This was their policy for many years.

The recent transition from the Indian Health Service to the Alaska Native Tribal Health Consortium could open this policy to review. One could argue that since the Alaska Native Health Service maintains medical records for patients from their birth to their death, the service should provide all of the patient's medical care, even during periods of incarceration. The Consortium has taken a different view.

Should care for incarcerated individuals be provided at Native Health Care Facilities, it would be necessary for DOC security staff to address whether the location and layout of the facility would provide adequate safety for the public. Hospital and clinic staff would need to develop a certain comfort level being around individuals in handcuffs, body/waist and leg shackles, and armed officers who would, of course be required to guard prisoners.

(b) Until a cost-benefit analysis is done, the Department of Corrections cannot say whether the privatization of all medical services would be more cost-effective and efficient for the Department.

Recommendation 5: Non-violent prisoners should be moved to intermediate facilities and the provision of services should be privatized.

Response: The Department utilizes a complex classification system by which serious, violent felons are housed at the state's most secure facility (Spring Creek) and those presenting less risk of harm to the public are housed at progressively less secure/costly placements. Thus, non-violent offenders are moved to intermediate facilities. Indeed, most non-violent offenders are placed in CRCs, which are privately operated.

It is not apparent that Palmer and Pt. McKenzie could realize 25-30% savings by being privatized. The cost of care at these facilities is the lowest per bed costs in the state and is already lower than the cost of care at privately-operated CRC houses. Furthermore, there are obstacles to privatizing a facility that is currently operated by the state.

Collective bargaining agreements require that a feasibility study or cost efficiency study be conducted prior to reaching a decision to contract out work that would displace an employee. The language in each agreement is different, but they all generally include notification to the union and the opportunity for the union to submit alternate plans. No employees may be laid-off, nor may their work be contracted out, unless the feasibility study shows that the contracting out would cost the Employer less. The collective bargaining agreements provide for continuing review for compliance of the contracts and continuing cost effectiveness.

- The Palmer Correctional Facility consists of 110 positions represented by four different bargaining units.
- The four collective bargaining agreements require that a feasibility study or cost efficiency study be conducted prior to a decision to contract out the work. The Local Trades and Crafts collective bargaining agreement has specific language that the State of Alaska will require the contractor to pay the hourly wage rate established in the agreement for all such work, plus an additional two dollars and fifty-five cents for each compensable hour. The language in each agreement is different but includes notification to the union and the opportunity for the union to

submit alternate plans. No employees may be laid-off and their work contracted out unless the feasibility study shows that the contracting out would cost the Employer less.

- Employees displaced, as a result of contracting the work out must be laid-off in accordance with the provisions of their collective bargaining agreement. The organizational unit for some of the positions in the Division of Institutions includes Palmer, Kenai, Eagle River, Anchorage, and Seward. This would result in layoffs throughout these areas.

Finally, it should be noted that the Department is working to implement HB 53, which authorizes the Commissioner to enter into a contract with the City of Delta Junction to utilize a privately-operated prison for a minimum of 800 medium custody inmates. The Department's long-term plan calls for this facility to come on line no later than 2003.

Recommendation 6: The purchasing functions for the purchase of food and other items should be centralized.

Response: Procurement authority is delegated to the Department of Corrections by written delegations from the Commissioners of the Department of Administration and the Department of Transportation and Public Facilities. The delegations of authority are based upon continued compliance with the requirements of AS 36.30 and 2 AAC 12.

The department has standardized its grocery, meat, and produce needs based upon a 28-day cycle menu. Standardization of the items and consolidation of the needs has allowed the department to achieve very high volume purchases. Periodically, the Department solicits formal procurements from in-state vendors. Contracts are normally one year in length, with options to renew each contract for up to four one-year periods. Purchases are made against the contracts on an "as needed" basis by the individual correctional facilities. Thus, even though the correctional facilities place their orders individually, they are taking advantage of volume prices. The resulting contracts are the largest volume purchases of food items made by the State.

Some other items that are purchased in volume by the department are: correctional officer uniforms, office supplies, unarmed security guard services, freight, miscellaneous cleaning chemicals, bakery goods, dairy products, aircraft charters, drug testing supplies, microfiche services, fuels, propane, natural gas, computer hardware and software, pharmaceuticals, copiers, paper products, and miscellaneous professional services.

Recommendation 7: The State of Alaska should privatize the fine and collection activities for the courts.

Response: This is not a matter within the purview of the Department of Corrections. If there is a court system committee, the recommendation could be forwarded to it.

Recommendation 8: The acquisition of vehicles and their maintenance should be privatized.

Response: The Department of Corrections does not have the authority to acquire new or used vehicles. All requests for vehicles are routed to the Department of Transportation and Public Facilities, State Equipment Fleet (SEF).

Some of the departmental correctional facilities have been given a certification by SEF to maintain their own vehicles. In those instances, inmates (with staff supervision) perform the maintenance function and no fee is paid to SEF. This DOC program is used as an on-the-job-training opportunity for the inmates.

The State Equipment Fleet offers agencies a variety of programs for owning, leasing, and maintaining the state's vehicles. The Department of Corrections utilizes several of the programs.

Recommendation 9: The Department should privatize its Information Technology.

Response: The Department currently contracts for a large portion of its IT services. All wide area networking (WAN) is provided by the Department of Administration. Shifting currently out-sourced WAN administration from DOA/DIS to private providers in Anchorage would require coordinated movement of all state agencies or it could result in fragmented networks and the loss of the current enterprise scale economies and inter-agency connectivity available.

Approximately 90% of the application development and programming used by the Department is provided by Informix Software, Inc. Database Design is also provided by Informix Software, as is on-call database technical support.

On-call UNIX technical and hardware support is provided by SUN Microsystems.

On-call LAN technical support is provided by Novell.

Approximately 90% of the Department's custom application programming is already privatized at \$150/hour. In house staff work on remaining application programming at about \$50/hour (including benefits).

The Department has explored privatizing its LAN/Help Desk Support; inquires to Anchorage vendors for cost estimates indicate costs would be significantly higher if these services were privatized. This information was formally documented in a 1998 State study conducted by Compass America, Inc. The state is 31% more efficient in this area than industry norms.

A last factor to be considered in privatizing the little of Corrections' IT that is not already privatized is the state's security needs for sensitive information.

Recommendation 10: Probationers and parolees should be charged a fee per week to partially cover the costs. The collection of the fees should be privatized.

Response: There is currently a bill before the Alaska Legislature addressing this issue.

Recommendation 11: The purchasing of equipment and repair of it should utilize private industry selection, replacement, repair, and maintenance standards. Obsolete equipment that cannot be economically operated should be replaced.

Response: This recommendation was put forward by Representative Dyson during the final minutes of the last subcommittee meeting. Without further details and explanation of the recommendation the Department of Corrections is unable to provide a response.

Recommendation 11: Privatize the Mount McKinley Meat Plant.

Response:

See attachment #7.

ATTACHMENTS

Component Summary - FY00 Operating Budget

Agency: Department of Corrections

Page	Budget Component	FY98 Act	FY99 CC	FY99Auth	Gov Amd	House	Senate	ConfComm	FY99Auth to ConfComm	
Administration & Operations										
1	Office of the Commissioner	2,880.8	1,577.8	1,580.1	1,551.4	947.8	947.8	947.8	-832.3	-40.0%
2	Parole Board	571.8	482.7	484.0	554.0	484.0	484.0	484.0	0.0	0.0%
3	Correctional Academy	512.7	662.5	664.4	664.4	664.4	664.4	664.4	0.0	0.0%
4	Administrative Services	2,687.8	2,559.5	2,821.0	2,821.0	2,730.5	2,730.5	2,730.5	-90.5	-3.2%
5	Data and Word Processing	1,097.1	1,291.3	1,298.1	1,376.1	1,376.1	1,376.1	1,376.1	80.0	6.2%
6	Fac-Capital Improvement Unit	220.5	208.3	209.5	309.5	209.5	209.5	209.5	0.0	0.0%
7	Inmate Health Care	15,770.4	15,378.1	15,402.1	15,812.0	15,756.7	15,756.7	15,756.7	354.6	2.3%
8	Inmate Programs	2,696.7	2,728.6	2,839.6	3,358.6	2,839.6	2,839.6	2,839.6	0.0	0.0%
9	Correctional Industries Admin	1,284.0	1,158.6	1,163.9	1,163.9	1,163.9	1,163.9	1,163.9	0.0	0.0%
10	Corr Industries Product Cost	2,851.2	2,750.6	2,750.6	3,500.6	3,500.6	3,500.6	3,500.6	750.0	27.3%
11	Institution Director's Office	1,129.1	780.9	914.2	1,039.5	993.2	867.9	993.2	79.0	8.6%
12	Anvil Mtn Correctional Center	3,959.5	3,871.1	3,850.6	3,850.6	3,850.6	3,850.6	3,850.6	0.0	0.0%
13	Combined Hilland Mtn Corr Ctr	7,555.0	7,200.4	7,168.1	7,218.1	7,168.1	7,168.1	7,168.1	0.0	0.0%
14	Cook Inlet Correctional Center	9,437.5	9,163.0	9,119.1	9,419.1	9,119.1	9,119.1	9,119.1	-0.0	-0.0%
15	Fairbanks Correctional Center	6,921.2	6,975.8	6,943.2	7,188.8	6,943.2	6,943.2	6,943.2	0.0	0.0%
16	Ketchikan Correctional Center	2,604.5	2,587.3	2,575.2	2,575.2	2,575.2	2,575.2	2,575.2	0.0	0.0%
17	Lemon Creek Correctional Ctr	6,048.5	5,942.8	5,917.3	6,147.0	5,917.3	5,917.3	5,917.3	0.0	0.0%
18	Mat-Su Correctional Center	2,631.8	2,725.3	2,711.6	2,711.6	2,711.6	2,711.6	2,711.6	0.0	0.0%
19	Palmer Correctional Center	8,788.3	8,500.1	8,462.3	8,692.0	8,462.3	8,462.3	8,462.3	0.0	0.0%
20	Sixth Avenue Correctional Ctr	3,815.5	3,845.1	3,827.2	3,827.2	3,827.2	3,827.2	3,827.2	0.0	0.0%
21	Spring Creek Correctional Ctr	13,946.6	13,749.2	13,687.3	13,937.3	13,687.3	13,687.3	13,687.3	0.0	0.0%
22	Wildwood Correctional Center	8,245.9	8,213.6	8,177.1	8,177.1	8,177.1	8,177.1	8,177.1	-0.0	-0.0%
23	Yukon-Kuskokwim Corr Center	4,037.1	3,972.7	3,953.1	4,202.1	3,953.1	3,861.6	3,861.6	-91.5	-2.3%
24	Institutional Reduction		-721.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
25	Community Jails	4,797.2	4,800.0	4,800.3	4,800.3	4,766.6	4,766.6	4,766.6	-33.7	-0.7%
26	Community Corrections Director	625.8	728.1	733.8	701.9	701.9	701.9	701.9	-31.9	-4.3%
27	Northern Region Probation	2,258.0	2,513.1	2,522.4	2,449.4	2,449.4	2,449.4	2,449.4	-73.0	-2.9%
28	Southcentral Region Probation	4,589.4	4,413.4	4,433.6	4,760.0	4,605.0	4,189.9	4,532.0	98.4	2.2%
29	Southeast Region Probation	946.6	958.0	961.5	961.5	961.5	961.5	961.5	0.0	0.0%
30	Transp & Classification		1,018.0	1,020.6	1,224.3	1,279.3	1,243.5	1,279.3	258.7	25.3%
31	Facility Maintenance				7,780.5	8,580.5	7,780.5	7,780.5	7,780.5	%
32	Unallocated Reduction						-1,177.7	-286.5	-286.5	0.0%
	* BRU Total	122,870.3	120,034.8	120,969.8	132,773.0	130,402.6	127,757.2	129,151.8	8,161.8	6.7%
Community Residential Centers										
33	Existing CRC Facilities	11,857.0	13,539.5	13,539.5	13,864.5	13,864.5	15,243.8	13,864.5	325.0	2.4%
34	Nome CRC		786.5	786.5	991.5	1,016.5	1,016.5	1,016.5	250.0	32.6%
35	Bethel CRC		144.8	144.8	144.8	144.8	144.8	144.8	0.0	0.0%
36	CRC Offender Supervision		366.0	366.0	656.0	656.0	0.0	656.0	290.0	79.2%

Component Summary - FY90 Operating Budget

Agency: Department of Corrections

Page	Budget Component	FY90 Act	FY90 CC	FY90Auth	Gov Amd	House	Senate	ConfComm	FY90Auth to ConfComm	
	Community Residential Centers									
	* BRU Total	11,857.0	14,816.8	14,816.8	15,656.8	15,661.8	16,404.9	15,661.8	865.0	5.6%
	Out of State Contracts									
37	Out-of-State Contracts	8,585.2	14,512.3	14,512.3	21,477.1	19,977.1	18,149.0	19,847.1	5,334.8	36.8%
	* BRU Total	8,585.2	14,512.3	14,512.3	21,477.1	19,977.1	18,149.0	19,847.1	5,334.8	36.8%
	New Community Residential Centers									
38	New CRC Facilities	25.5							0.0	0.0%
	* BRU Total	25.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
	Point MacKenzie									
39	Point MacKenzie Rehab Program	1,907.0	1,988.2	1,992.1	2,122.9	2,122.9	1,952.3	2,122.9	130.8	6.6%
	* BRU Total	1,907.0	1,988.2	1,992.1	2,122.9	2,122.9	1,952.3	2,122.9	130.8	6.6%
	Cultural Relevance Study									
40	Cultural Relevance Study	50.0							0.0	0.0%
	* BRU Total	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
	VPSO Parole Supervision Pilot Program									
41	VPSO Supervision Pilot Prgm		115.0	115.0	115.0	0.0	115.0	0.0	-115.0	-100.0%
	* BRU Total	0.0	115.0	115.0	115.0	0.0	115.0	0.0	-115.0	-100.0%
	Alternative Institutional Housing									
42	Alternative Housing		300.0	300.0	300.0	200.0	0.0	200.0	-100.0	-33.3%
	* BRU Total	0.0	300.0	300.0	300.0	200.0	0.0	200.0	-100.0	-33.3%
	Food Services Apprenticeship Program									
43	Food Services Apprenticeship					96.1	96.1	96.1	96.1	%
	* BRU Total	0.0	0.0	0.0	0.0	96.1	96.1	96.1	96.1	%
	*** Total Agency Expenditure	145,295.0	181,767.1	182,726.0	172,444.8	168,480.5	164,474.5	167,099.5	14,373.5	9.4%
	Federal Funds	3,381.6	7,135.9	7,142.6	5,677.0	6,477.0	7,172.6	6,477.0	-665.6	-9.3%
	General Funds	136,320.4	139,209.3	139,989.3	152,990.3	147,229.8	142,528.2	145,848.8	5,859.5	4.2%
	Other Funds	5,593.0	5,421.9	5,594.1	13,777.5	14,773.7	14,773.7	14,773.7	9,179.6	164.1%

Agency Totals - FY00 Operating Budget

Agency: Department of Corrections

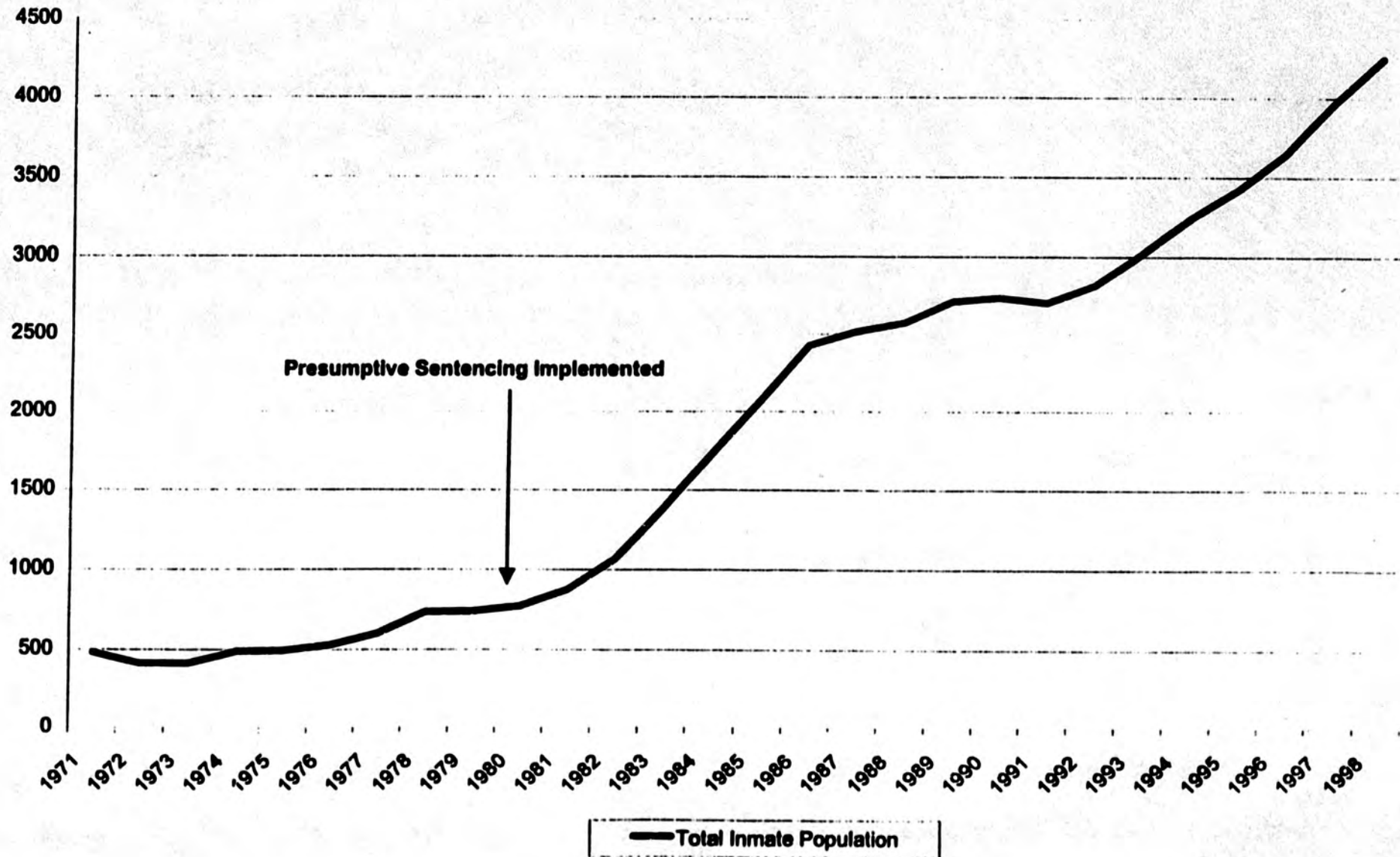
	<u>FY98 Act</u>	<u>FY99 CC</u>	<u>FY99Auth</u>	<u>Gov Amd</u>	<u>House</u>	<u>Senate</u>	<u>ConfComm</u>	<u>FY99Auth to ConfComm</u>	
Totals for Agency	145,295.0	151,767.1	152,726.0	172,444.8	168,480.6	164,474.5	167,099.5	14,373.5	9.4%
<u>Objects of Expenditure:</u>									
Personal Services	85,141.3	84,614.0	84,471.5	86,757.8	84,884.1	83,640.4	84,561.6	90.1	0.1%
Travel	1,886.7	1,287.1	1,287.1	1,726.0	1,739.5	1,664.0	1,664.0	376.9	29.3%
Contractual	43,987.1	52,987.6	52,980.7	68,519.2	67,151.7	65,070.1	66,221.7	13,241.0	25.0%
Commodities	11,547.1	11,087.5	11,087.5	12,465.1	12,153.5	12,149.8	12,153.5	1,066.0	9.6%
Equipment	606.3	51.9	51.9	51.9	51.9	51.9	51.9	0.0	0.0%
Lands/Buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	%
Grants, Claims	2,124.5	2,132.3	2,132.3	2,209.8	2,254.8	2,254.8	2,254.8	122.5	5.7%
Miscellaneous	0.0	-393.3	715.0	715.0	265.0	-356.5	192.0	-523.0	-73.1%
<u>Funding Sources:</u>									
1002 Fed Rcpts	3,381.6	7,135.9	7,142.6	5,677.0	6,477.0	7,172.6	6,477.0	-665.6	-9.3%
1003 G/F Match	2,707.2	187.1	187.1	187.1	129.6	129.6	129.6	-57.5	-30.7%
1004 Gen Fund	127,912.2	131,982.3	132,847.2	145,322.9	139,594.9	134,988.6	138,213.9	5,566.7	4.2%
1005 GF/Prgm	2,331.3	3,277.2	3,385.7	3,481.0	3,506.0	3,410.7	3,506.0	120.3	3.6%
1007 I/A Rcpts	929.1	493.7	494.6	8,275.1	8,163.5	8,163.5	8,163.5	7,668.9	1550.5%
1037 GF/MH	3,369.7	3,762.7	3,769.3	3,999.3	3,999.3	3,999.3	3,999.3	230.0	6.1%
1050 PFD Fund	1,047.3	1,047.3	1,047.3	1,047.3	2,147.3	2,147.3	2,147.3	1,100.0	105.0%
1053 Invt Loss			168.3	-0.0	0.0	-0.0	0.0	-168.3	-100.0%
1059 Corr. Ind.	2,750.1	2,750.6	2,750.6	3,500.6	3,500.6	3,500.6	3,500.6	750.0	27.3%
1061 CIP Rcpts	552.5	540.3	543.3	543.3	543.3	543.3	543.3	0.0	0.0%
1092 MHTAAR	314.0	590.0	590.0	411.2	419.0	419.0	419.0	-171.0	-29.0%
<u>Positions:</u>									
Perm Full Time	1,355.0	1,360.0	1,360.0	1,398.0	1,369.0	1,367.0	1,366.0	6.0	0.4%
Perm Part Time	2.0	1.0	1.0	0.0	0.0	0.0	0.0	-1.0	-100.0%
Non-Perm	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	%

DOC Annual Budgets FY 94 - 00

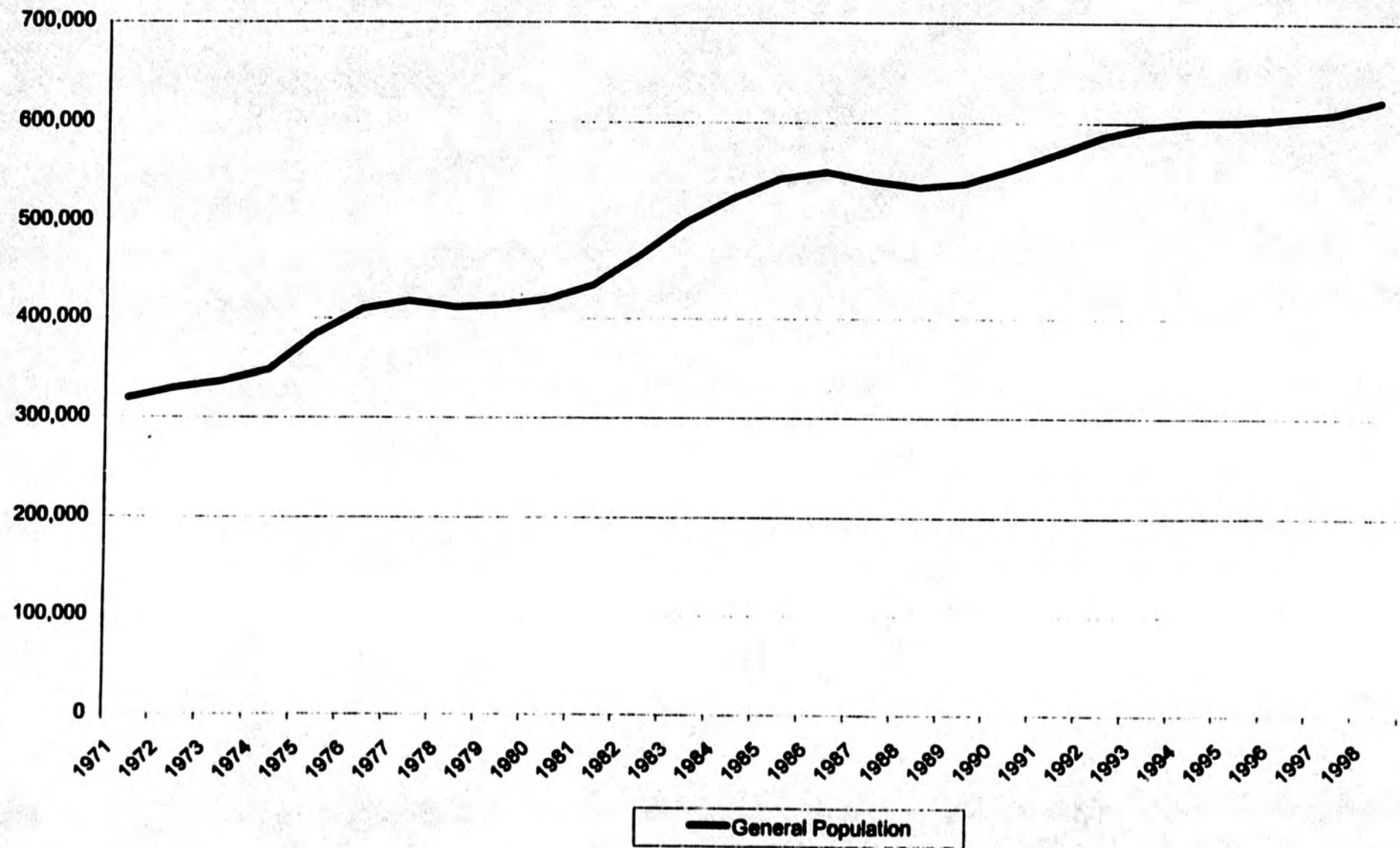
	FY94	FY95	FY96	FY97	FY98	FY99	FY00
Admin. & Ops	\$108,278.9	\$114,330.1	\$116,715.1	\$116,311.8	\$118,264.7	\$118,159.3	\$116,604.5
Alternative Housing	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$300.0	\$200.0
CRC's	\$6,650.6	\$8,471.7	\$8,972.0	\$10,933.7	\$12,441.2	\$14,191.8	\$15,681.8
OOS	\$4,558.1	\$3,599.8	\$6,006.1	\$6,297.9	\$8,895.9	\$17,562.3	\$19,847.1
Community Jails	\$0.0	\$0.0	\$4,811.7	\$4,812.1	\$4,801.4	\$4,800.3	\$4,766.6
Pt. MacKenzie	\$1,512.0	\$1,571.3	\$1,916.2	\$1,981.7	\$1,909.7	\$1,992.1	\$2,122.9
VPSO	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$115.0	\$0.0
Facility Maintenance (I/A non-	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7,780.5
Food Service Apprenticeship	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$96.1
Y2K	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,090.0	\$0.0
Cultural Relevance Study	\$0.0	\$0.0	\$0.0	\$0.0	\$50.0	\$0.0	\$0.0
Totals	\$120,999.6	\$127,972.9	\$138,421.1	\$140,337.2	\$146,362.9	\$158,210.8	\$167,099.5
		\$6,973.3	\$10,448.2	\$1,916.1	\$6,025.7	\$11,847.9	\$8,888.7

	FY94	FY95	FY96	FY97	FY98	FY99	FY00	Total Increase
Admin & Ops		\$6,051.2	\$2,385.0	(\$403.3)	\$1,952.9	(\$105.4)	(\$1,554.8)	\$8,325.6
Alternative Housing		\$0.0	\$0.0	\$0.0	\$0.0	\$300.0	(\$100.0)	\$200.0
CRC		\$1,821.1	\$500.3	\$1,961.7	\$1,507.5	\$1,750.6	\$1,490.0	\$9,031.2
Out of State		(\$958.3)	\$2,406.3	\$291.8	\$2,598.0	\$8,666.4	\$2,284.8	\$15,289.0
Community Jails		\$0.0	\$4,811.7	\$0.4	(\$10.7)	(\$1.1)	(\$33.7)	\$4,766.6
Pt. MacKenzie		\$59.3	\$344.9	\$65.5	(\$72.0)	\$82.4	\$130.8	\$610.9
VPSO		\$0.0	\$0.0	\$0.0	\$0.0	\$115.0	(\$115.0)	\$0.0
Facility Maintenance (I/A non-add)		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7,780.5	\$7,780.5
Food Service Apprenticeship		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$96.1	\$96.1
Y2K		\$0.0	\$0.0	\$0.0	\$0.0	\$1,090.0	(\$1,090.0)	\$0.0
Cultural Relevance Study		\$0.0	\$0.0	\$0.0	\$50.0	(\$50.0)	\$0.0	\$0.0
TOTALS		\$6,973.3	\$10,448.2	\$1,916.1	\$6,025.7	\$11,847.9	\$8,888.7	\$46,099.9

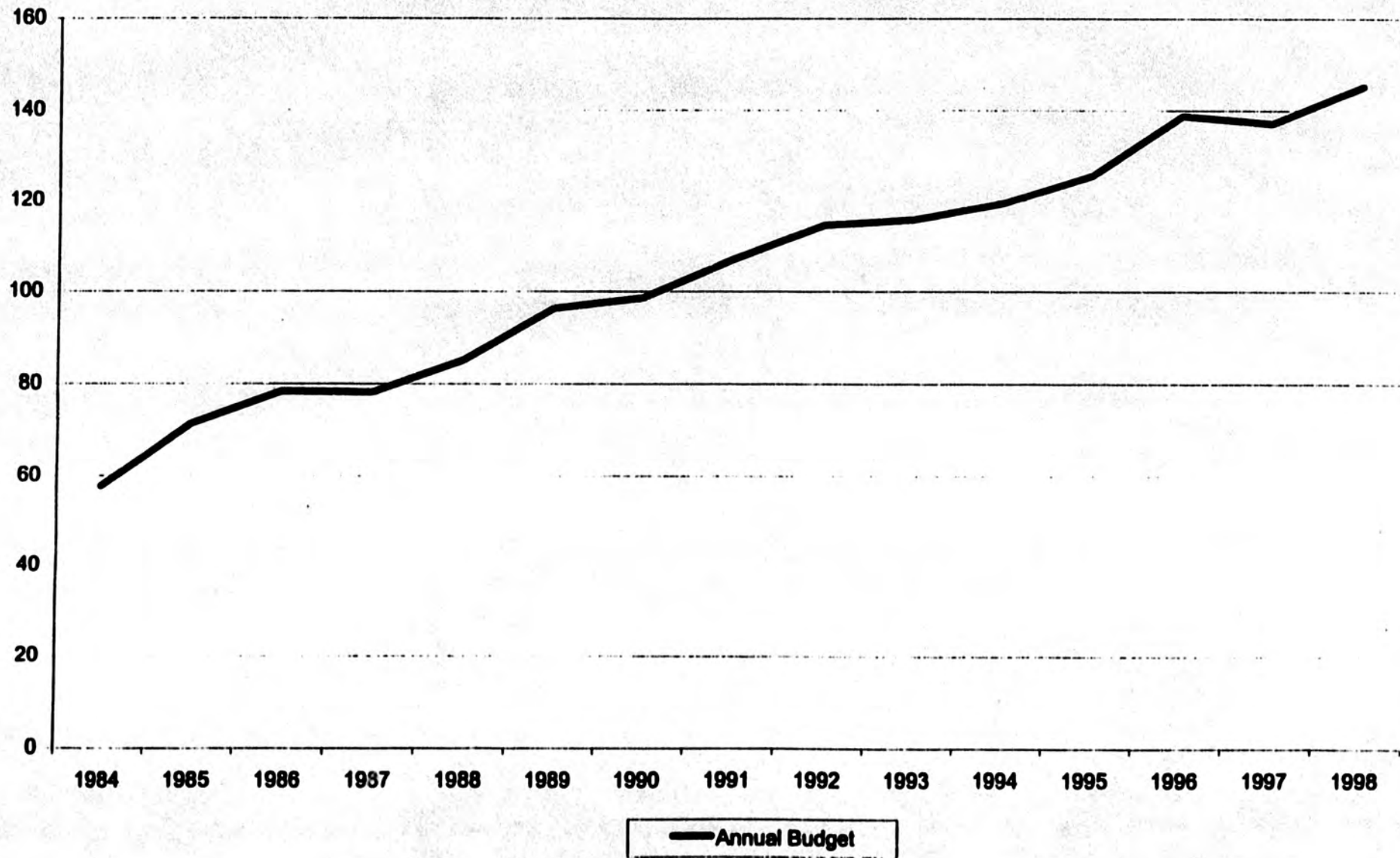
Total Inmate Population



State of Alaska Population from 1971 through 1998



Annual Budget 9184 - 1998 (Actuals)



Pam Vincent

From: Joe Reeves [Joe_Reeves@correct.state.ak.us]
Sent: Tuesday, October 05, 1999 11:16 AM
To: Pamela L Vincent; William K Parker
Cc: Dwayne Peeples; Shar Griffin
Subject: Revised INS Numbers for Mr. Parker

Importance: High

Revised Inmate Services provided during FY99 for the Immigration & Naturalization Service (INS):

1,766 Mandays
357 Inmates

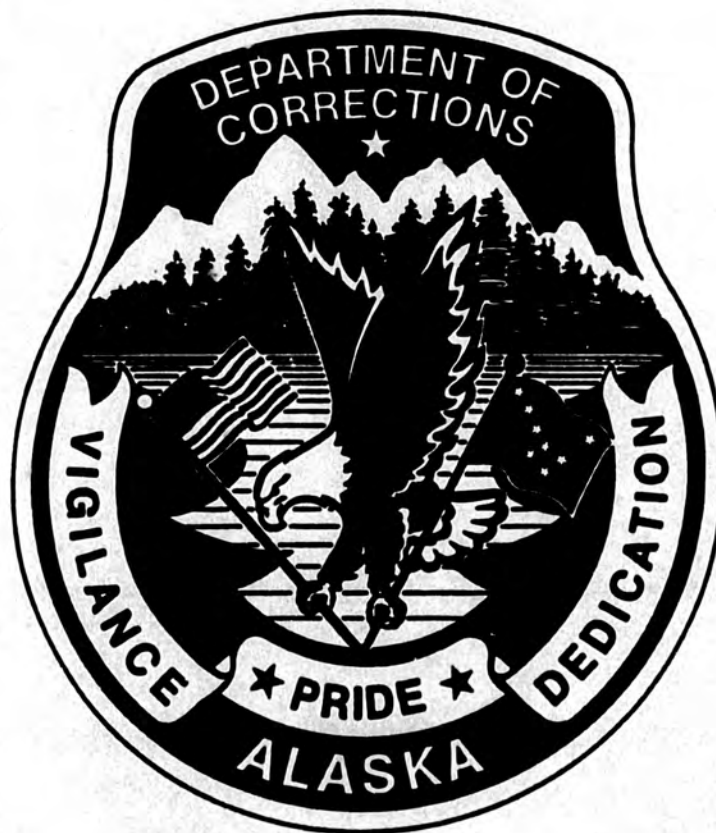
\$181,810.38 Billed INS

July 1, 1998-December 31, 1998 \$100.07 Daily Cost of Care

January 1, 1999-June 30, 1999 \$97.62 Daily Cost of Care

Department of Corrections

Agency Overview



DEPARTMENT OF CORRECTIONS

Mission

The mission of the Department of Corrections is to protect the public and encourage offender rehabilitation through humane, safe and cost-effective confinement and supervision. The department will respect the rights of victims and recognize the dignity inherent in all human beings as it pursues this mission.

Major Goals and Strategies

1 Manage offender population through safe and secure facilities to protect the public

- Maintain inmate populations within institutional capacities.
- Maintain high utilization of community residential center (CRC) beds.
- Expand safe alternatives to incarceration.
- Implement strategic long-range population management plan.

2 Provide cost effective and efficient offender programs and health services

- Develop programs to safely and effectively manage youthful offenders.
- Provide culturally relevant offender accountability programs.
- Operate female residential substance abuse treatment program.
- Continue development of victims' services.
- Continue increased monitoring of sexual predators.
- Expand female training and work programs.

3 Provide effective use of resources and efficient delivery of services

- Continue development of integrated Management Information System.
- Implement an automated procurement system.
- Develop and implement alternatives for health care cost management.

- Develop and implement a multivariable population projection system.

4 Build community partnerships

- Work with communities to address noncriminal public protection detentions.
- Work with the public and local governments to expand jails, prisons, and CRCs.
- Develop neighborhood-based community supervision services.

Key Performance Measures

- Maintain in-state prisoner population in correctional facilities at less than emergency capacity.
- Establish program to address violent juvenile offenders in the adult correctional system.
- Bring Integrated Management Information System on-line.

Major Changes and Key Issues

Prison Overcrowding

The agency's foremost challenge continues to be the increasing number of people coming into the adult criminal justice system, resulting in overcrowded institutions and increased probation caseloads in Community Corrections. During FY1998 and FY1999 the department contracted for additional out-of-state prison beds and community residential center beds. The department continues to implement programs such as CRC Offender Supervision and Electronic Monitoring as safe alternatives to incarceration.

The department's managers have developed and refined a population management plan that includes assessing the feasibility of implementing temporary housing units at 4 correctional facilities. The department continues to work with the city of Delta Junction and the municipality of

Anchorage toward implementing of HB53 to open a private prison facility at Fort Greely and to build a new Anchorage Jail to replace Sixth Avenue Correctional Center.

Juveniles in adult facilities

The department has experienced an increase in the number of youth serving time in adult facilities for serious violent crimes. Significant correctional management issues as well as public safety concerns are associated with this population. Many of these adolescent children will complete their maturation in an adult prison and will be released into Alaska's communities in their early to mid-20s. Without some form of intervention it is likely that these offenders will continue to engage in criminal behavior.

Division of Institutions

The Division of Institutions operates 15 jails and prisons that range in size from 50 to 500 prisoner beds. In addition, the division provides oversight supervision for 11 Community Residential Centers and the out-of-state placement of approximately 900 prisoners. The division provides programs for offenders in institutions and under community supervision, which includes sex offender treatment, substance abuse treatment (including a Women's Residential Substance Abuse Treatment Program at Hiland Mountain Correctional Center), work, educational/vocational needs, batterers' programs and religious programs. The division also provides medical and mental health services to offenders in prisons, community residential centers, the Point MacKenzie work

farm and out-of-state facilities. The division's primary goal is to ensure the safety and protection of the public through safe, secure facilities and to strive to assure that all prisoners have opportunities to develop the skills necessary to lead crime-free lives after release.

Division of Community Corrections

The division supervises of 4,300 adult felons on probation and parole in communities across the State of Alaska. Additionally, the division supervises 112 offenders, both misdemeanants and felons, at the Point MacKenzie work farm.

The division is pursuing cost-effective alternatives to incarceration through enhanced probation for offenders with technical probation/parole violations. The division is developing offender accountability programs such as victim impact classes and cognitive skill programs for both the community and the farm. Additionally, the division continues to improve the farm's productivity.

Alaska Board of Parole

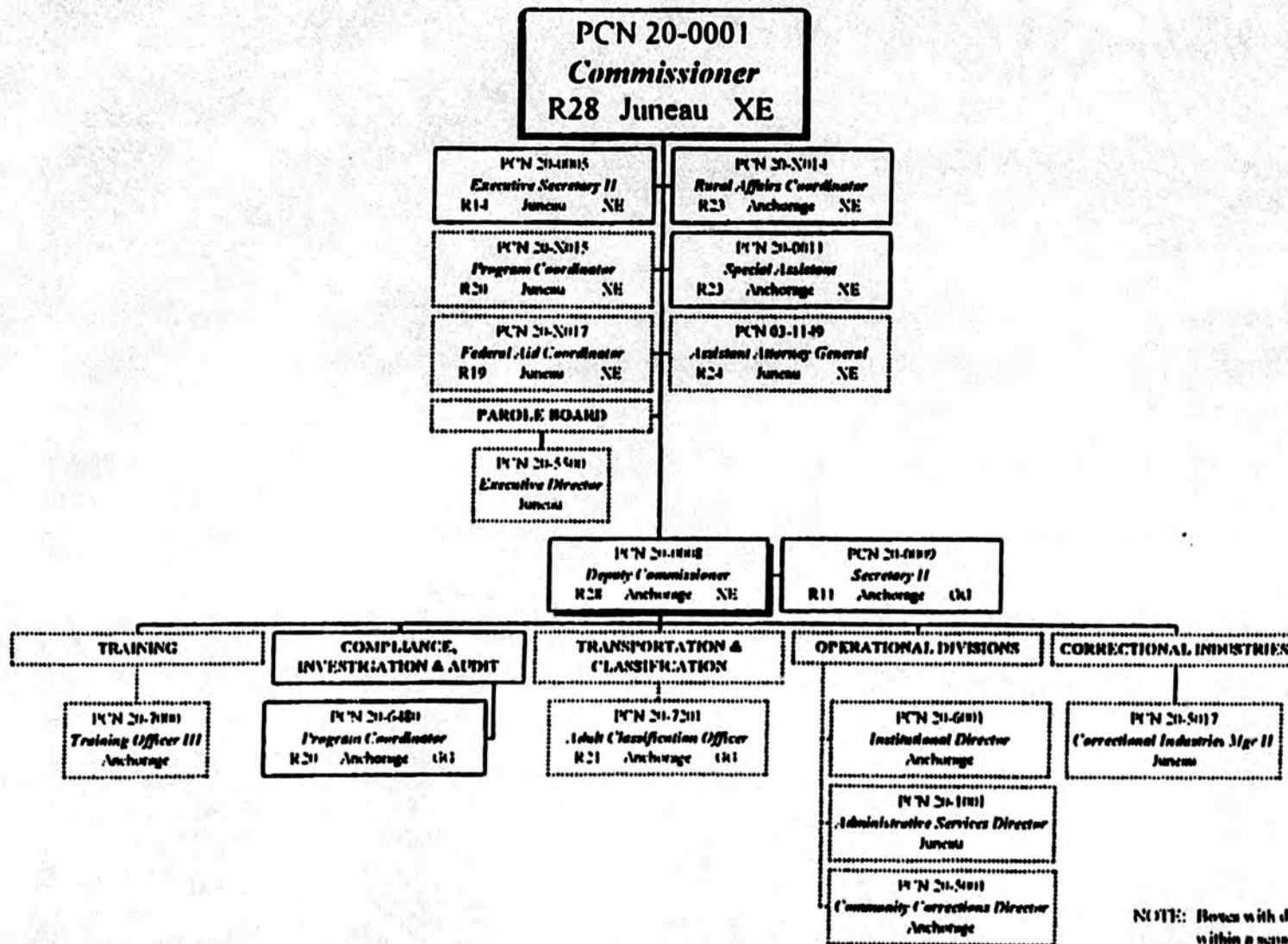
The Alaska Board of Parole functions autonomously within the department. The Board of Parole provides the full range of parole coordination and support functions for this element of the department's prisoner population.

Administration and Support Services

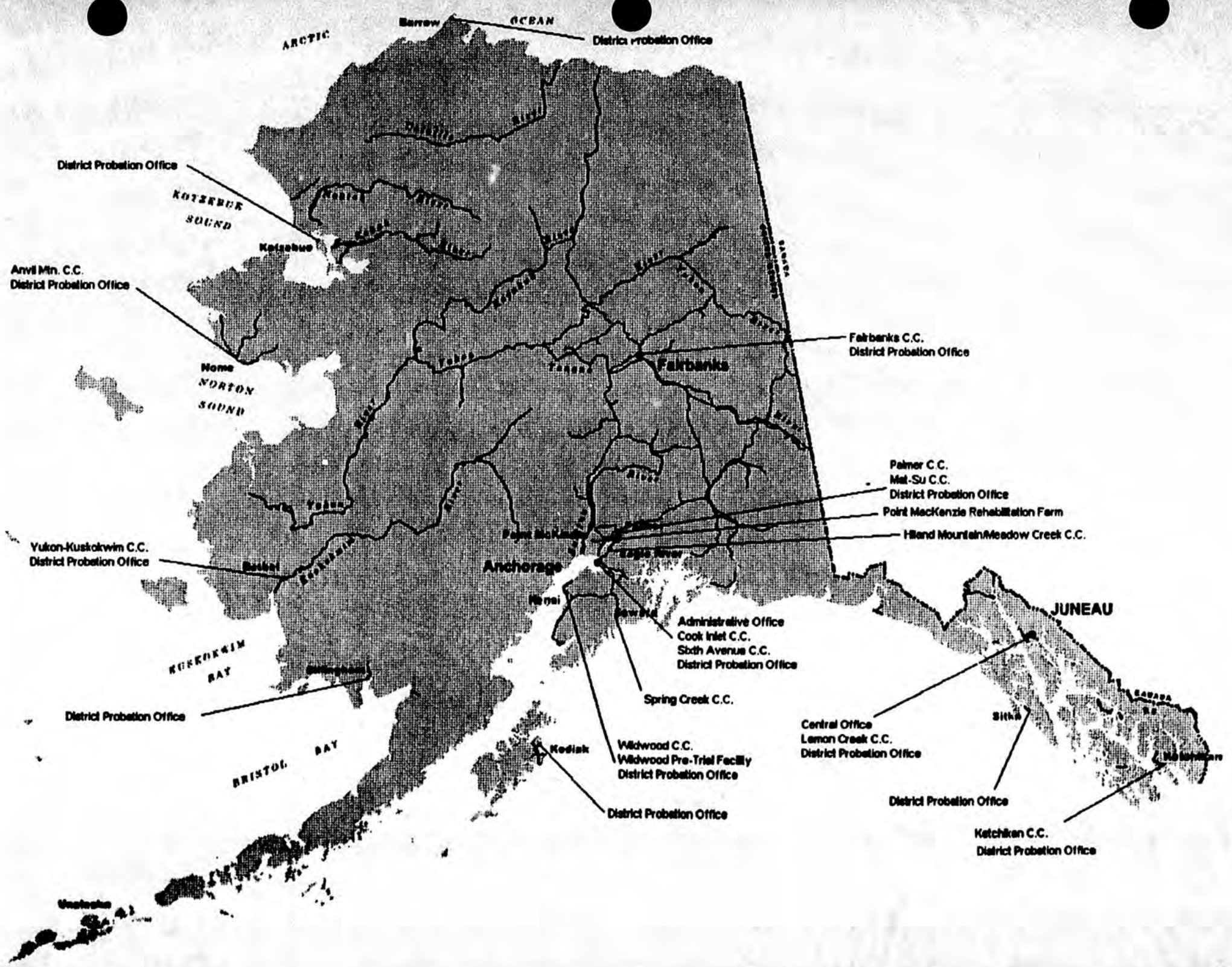
The division has completed procurement of its new MIS system and the system will be on-line by mid-FY2000. In addition, the division is developing a personnel subsystem to implement Workplace Alaska which effects the recruitment and hiring process of positions requiring Alaska Police Standards Council certification.

Budget Summary	FY1998 Actual	FY1999 Authorized	FY2000 Governor
General Funds	\$130,342.0	\$140,325.9	\$152,990.3
Federal Funds	\$1,719.7	\$7,142.6	\$5,547.0
Other Funds - Interagency receipts, etc.	\$5,071.1	\$5,257.5	\$13,027.5
TOTAL BUDGET	\$137,132.8	\$152,726.0	\$171,564.8
Positions - Full-time	1,355	1,362	1,405
Positions - Part-time	2	1	0
KEY PROGRAM AREAS (All Fund Sources)			
Administration and Operations	\$119,980.1	\$118,596.6	\$129,630.6
Contract Facilities	\$25,314.9	\$34,129.4	\$41,934.2

**Department of Corrections
Office of the Commissioner
FY 2000 Organizational Structure**



NOTE: Boxes with dotted lines are budgeted within a separate component



ARCTIC

OCEAN

District Probation Office

District Probation Office

KOTZEBUE
SOUND

Kotzebue

Arvil Mtn. C.C.
District Probation Office

NOME
NORTON
SOUND

Yukon-Kuskokwim C.C.
District Probation Office

KUSKOKWIM
BAY

District Probation Office

BRISTOL BAY

Anchorage

Kenai

Administrative Office
Cook Inlet C.C.
Sixth Avenue C.C.
District Probation Office

Spring Creek C.C.

Wildwood C.C.
Wildwood Pre-Trial Facility
District Probation Office

District Probation Office

Fairbanks C.C.
District Probation Office

Palmer C.C.
Met-Su C.C.
District Probation Office

Point MacKenzie Rehabilitation Farm

Hiland Mountain Meadow Creek C.C.

JUNEAU

Central Office
Lemon Creek C.C.
District Probation Office

SITKA

District Probation Office

Ketchikan C.C.
District Probation Office

DEPARTMENT OF CORRECTIONS HIGHLIGHTS

- 12 Correctional Institutions with 2,691 Beds
(Emergency Capacity)
- 1 Point MacKenzie Farm - 112 Beds
- Out Of State Prison Contracts (currently 902 beds and growing)
- 15 Municipal Jails (Contracted - 159 Beds)
(Bristol Bay Boro, Cordova, Craig, Dillingham, Haines, Homer, Kodiak, Kotzebue, North Slope Boro, Petersburg, Seward, Sitka, Unalaska, Valdez, Wrangell)
- 13 Regional Adult Probation Offices
- 10 Community Residential Centers (681 Beds
Contracted with 2 additional contracts for an additional 60 new beds pending final negotiations for a total of 741 beds)

DEPARTMENT OF CORRECTIONS
COMPARISONS OF INMATE COUNTS

DATE	AMCC	CPT	FCC	HMCC	KCC	LCCC	MSPT	MCCC	PCCMED	PCCMED	SIXTH	SCCC	WMCC	WMPT	YKCC	TOTAL
January 31, 1985	88	412	212	231	51	185	63	62	201	175	146	480	224	105	100	2,791
February 28, 1985	83	388	187	228	53	186	64	64	230	175	146	481	224	105	100	2,782
March 31, 1985	78	401	168	233	53	186	64	64	230	175	146	481	224	105	100	2,791
April 30, 1985	88	408	177	227	48	177	67	65	187	178	124	428	204	95	95	2,600
May 31, 1985	81	408	165	230	47	147	62	58	175	135	113	446	203	98	109	2,532
June 30, 1985	78	401	161	232	45	143	70	61	168	175	113	450	203	98	109	2,532
July 31, 1985	82	400	179	230	51	147	63	64	167	171	120	445	201	98	117	2,522
August 31, 1985	82	401	182	228	43	154	60	64	163	165	128	440	201	98	114	2,508
September 30, 1985	84	381	183	228	40	174	60	60	160	178	125	478	198	97	115	2,552
October 31, 1985	84	404	185	230	51	188	67	64	208	203	125	481	222	103	107	2,785
November 30, 1985	85	401	202	228	64	181	68	63	221	178	122	480	224	98	102	2,735
December 31, 1985	83	411	183	232	60	171	68	64	230	178	122	480	224	98	102	2,735
January 31, 1986	88	415	208	230	47	188	62	64	216	175	146	480	224	105	100	2,791
February 28, 1986	78	423	223	230	57	186	64	64	230	175	146	481	224	105	100	2,782
March 31, 1986	84	421	228	228	54	184	62	64	224	174	132	475	224	98	113	2,782
April 30, 1986	85	426	213	231	63	183	61	60	227	175	133	482	218	110	123	2,837
May 31, 1986	85	403	208	233	51	187	60	68	208	175	144	480	217	83	115	2,738
June 30, 1986	85	413	208	230	47	183	63	67	195	174	128	488	224	98	110	2,742
July 31, 1986	88	414	202	232	54	183	63	64	218	178	142	481	224	100	112	2,803
August 31, 1986	81	425	222	234	60	208	68	64	245	175	138	480	225	105	97	2,870
September 30, 1986	87	428	244	224	51	205	65	65	222	174	134	505	233	107	97	2,878
October 31, 1986	112	418	218	233	51	200	62	65	212	175	133	508	234	94	118	2,884
November 30, 1986	94	421	242	231	54	188	64	61	238	175	142	508	234	94	108	2,885
December 31, 1986	111	428	234	232	52	185	61	66	238	175	133	522	234	95	102	2,888
January 31, 1987	117	427	230	228	58	185	70	70	231	178	138	534	234	113	122	2,875
February 28, 1987	118	427	235	231	63	213	82	88	244	178	128	544	234	114	114	2,888
March 31, 1987	108	415	231	234	58	212	87	84	247	175	147	558	234	104	108	3,018
April 30, 1987	108	416	238	234	53	205	84	84	248	178	141	560	245	104	105	2,888
May 31, 1987	83	411	213	233	63	208	82	88	218	173	138	558	245	100	117	2,817
June 30, 1987	88	408	228	228	62	202	82	88	233	178	117	554	252	88	91	2,884
July 31, 1987	84	420	210	230	64	181	84	88	236	178	141	565	245	82	97	2,921
August 31, 1987	88	418	231	228	48	207	107	88	218	178	133	558	245	124	117	2,888
September 30, 1987	128	444	242	237	55	208	88	87	255	181	137	587	261	118	118	3,131
October 31, 1987	112	447	249	238	62	210	103	70	255	182	137	570	270	108	108	3,131
November 30, 1987	121	442	255	254	63	217	98	0	253	187	138	588	268	128	123	3,183
December 31, 1987	131	433	248	224	68	201	83	71	244	188	132	583	270	104	111	3,087
January 31, 1988	123	438	257	241	68	204	88	72	268	201	132	572	288	118	125	3,215
February 28, 1988	130	480	274	241	72	201	103	75	262	200	138	585	287	128	122	3,288
March 31, 1988	128	462	250	228	68	187	108	70	263	200	125	582	283	118	128	3,184
April 30, 1988	132	451	232	216	68	185	88	67	222	178	118	431	242	108	100	2,828
May 31, 1988	87	438	187	222	62	188	88	88	170	178	84	657	230	112	88	2,785
June 30, 1988	85	450	207	231	62	183	63	68	187	178	88	587	228	104	83	2,785
July 31, 1988	85	453	188	227	53	188	63	68	188	178	116	547	228	87	84	2,780
August 31, 1988	81	454	202	231	50	180	61	61	180	180	116	547	228	87	84	2,780
September 30, 1988	88	458	212	218	61	182	68	68	188	174	90	614	217	101	83	2,677
October 31, 1988	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
November 30, 1988	88	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
December 31, 1988	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
January 31, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
February 28, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
March 31, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
April 30, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
May 31, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
June 30, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
July 31, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
August 31, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
September 30, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
October 31, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
November 30, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588
December 31, 1989	80	431	188	173	51	182	60	64	178	174	104	484	216	88	84	2,588

**Alaska Department of Corrections
Community Residential Centers
(FY96 Through FY99)**

	A	B	C	D	E	F	G
			FY96	FY97	FY98	FY99	FY2000
1	COMMUNITY RESIDENTIAL CENTER		Beds	Beds	Beds	Beds	Beds
2	Gastineau Human Services (Juneau)	Regular Beds	42	45	51	51	51
		Per Diem Beds	8	10	9	9	9
3	Northstar Center/Cornell (Fairbanks)	Regular Beds	68	80	84	84	84
		Per Diem Beds	12	15	15	15	15
4	Tundra Center/Cornell (Bethel)	Regular Beds	42	50	75	75	75
		Per Diem Beds	4	6	10	10	10
5	Cordova Center/Cornell (Anchorage)	Regular Beds	140	140	155	155	155
		Per Diem Beds	0	33	21	21	21
6	Midtown Center/Cornell (Anchorage)	Regular Beds	0	0	27	27	27
		Per Diem Beds	0	0	5	5	5
7	Parkview Center/Cornell (Anchorage)	Regular Beds	80	80	98	98	98
		Per Diem Beds	0	14	14	14	14
8	Glennwood/TJ Western (Anchorage)	Regular Beds	78	78	78	78	78
		Per Diem Beds	14	14	14	14	14
9	Akeela House/Cornell (Anchorage)	Regular Beds	0	0	14	14	14
		Per Diem Beds	0	17	3	3	3
10	Manilaq Association (Kotzebue)	Regular Beds	0	0	4	4	0
		Per Diem Beds	0	0	0	0	0
11	North Slope Borough (Barrow)	Regular Beds	0	4	4	4	4
		Per Diem Beds	0	2	2	2	2
12	Nome/Tuunrag Center	Regular Beds	0	0	0	0	34
		Per Diem Beds	0	0	0	0	6
13	Subtotal	Regular Beds	448	475	588	589	619
14	Subtotal	Per Diem Beds	38	111	93	93	99
15	TOTAL		486	586	681	682	718

FY2000 INSTITUTION POSITION COUNT

	CO	PO	OTHER	TOTAL
AMCC	29	2	8	39
HMCC	70	5	19	94
CIPT	90	4	25	119
FCC	68	5	17	90
KCC	28	1	7	36
LCCC	61	4	15	80
MSPT	27	1	7	35
PCC	74	5	26	105
SACC	38	4	14	56
SCCC	155	6	37	198
WWCC	72	5	26	103
YKCC	28	2	10	40
TOTAL	740	44	211	995