

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2726 SCOMM 122: COMMISSION ON PRIVATIZATION. ., 1999

Asset: Department of Fish & Game

Mission: To maintain and enhance the health and population of the various species of fish and animals, including habitat protection, and then to allocate the harvest of fish and game among sport, subsistence and commercial users, and escapement, using the principle of sustained yield.

Business Activities:

- Strategic management and allocation of the various resources.

Management Structure:

Chief Executive: Commissioner of the Department of Fish & Game.

Management Oversight: Board of Fish & Game.

Financial Oversight: Legislative.

Financial Overview:

Total Revenues: Unavailable.

Total Operating Budget: Unavailable.

Fund Balance: Unavailable.

Contributions to State of Alaska Operating Budget: Unavailable.

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Undetermined.

Secondary Return: Undetermined.

Public Benefit: Sustained resource.

Historical Footnotes Affecting Returns: Undetermined.

Asset: Alaska Department of Natural Resources, Division of Forestry.

Mission: To protect the State's forested land and forest resources and to manage them for multiple use and sustained yield.

Business Activities: Manage timber sales and issue personal use fuelwood, houselog and sawlog permits. Fight wildfires, plant seedlings, support public education and research. Administration of Rural Community Fire Protection Grants.

Management Structure:

Chief Executive: State Forester who is under the Commissioner of DNR.

Management Oversight: Alaska Board of Forestry appointed by the Governor.

Financial Oversight: Legislature.

Financial Overview:

1997 Total Revenues: \$1,200,000.

1997 Total Operating Budget: \$9,826,800.

1997 Fund Balance: None.

1997 Contributions to State of Alaska Operating Budget: None.

Performance Measures:

- Number of timber sales, volume of timber sold.
- Numbers of firefighters trained and number of fires fought and controlled.
- Numbers of acres inventoried and assessed for insect and disease conditions.
- Number of permits for public use.
- Research results from collaborators at U of Alaska or federal agencies.

Present Return on Asset/Activities:

Primary Return: \$1,268.656 return from 1996 timber harvest.

Secondary Return: Response to wild fires, wildlife habitat improvement, and forestry research.

Public Benefit: Permit issuance for personal use timber, timber sales provide employment, public education on forestry issues.

Historical Footnotes Affecting Returns: Undetermined.

Asset: Department of Natural Resources, Division of Mining

Mission: DNR's mission statement is, "To develop, conserve and enhance natural resources for present and future Alaskans". Mining Division adds, "To facilitate the development and stewardship of Alaska's mineral resources...by processing major mineral and coal actions necessitated for tracking title and compliance requirements".

Business Activities:

- Regulation of the mining industry
- Resource development
- Program administration
- Public safety
- Property rights

Management Structure: The Division of Mining & Water Management is a division of the Department of Natural Resources that answers to the Governor.

Chief Executive: Director of the Division of Mining & Water Management.

Management Oversight: Alaska Mineral Commission, Department of Natural Resources, Governor.

Financial Oversight: Annual State budget process.

Financial Overview: FY 98

Total Revenues: \$3,450,000

Total Operating Budget: \$3,888,900

Fund Balance: N/A

Contributions to State of Alaska Operating Budget: Undetermined.

Performance Measures:

- Input from interested groups: Alaska Miner's Association, Div. Of Geological & Geophysical Surveys, Div. Of Trade and Development, Division of Fish & Game, Alaska Minerals Commission, Environmental groups.
- DNR-Division of Mines provides performance criterion.

Present Return on Asset/Activities:

Primary Return: Mineral royalties, rental fees, lease fees, permit fees, and permit assistance fees.

Secondary Return: Job creation, infrastructure development, and resource development.

Public Benefit: Same as Secondary Return.

Historical Footnotes Affecting Returns:

- Assets consist of state lands for mineral production
- Revenues are derived from taxes on mining, claim rental fees, net license tax, mine application assistance, net royalty from state owned lands, corporate income tax
- Additional revenues come from federal abandoned mine program grants
- Expenditures in FY 98 are \$3,889,000 and will be cut to \$1,996,000 in FY 99.

Asset: Department of Natural Resources, Oil & Gas Development

Mission: To maximize economic and physical recovery to the state from its oil and gas resources. Five items are important to decision making:

- Economic and physical recovery
- Maximizing competition
- Maximizing use of Alaska's human resources
- Encouraging assessment of the state's resources
- Minimizing adverse impact

Business Activities: Issuing and controlling oil & gas leases.

Management Structure:

Chief Executive: Director of management unit

Management Oversight:

Financial Oversight: Legislative budget and audit as part of the annual budget process.

Financial Overview:

Total Revenues: Undetermined.

Total 1997 Operating Budget: \$4.2 million.

Fund Balance: Undetermined.

Contributions to State of Alaska Operating Budget: Undetermined.

Performance Measures: Undetermined.

Present Return on Asset/Activities:

Primary Return: Undetermined.

Secondary Return: Undetermined.

Public Benefit: Undetermined.

Historical Footnotes Affecting Returns: Undetermined.

Asset: University of Alaska Lands. Statewide Office of Land Management (SOLM).

Mission: The purpose of land ownership is to support the operations of the University.

Business Activities: SOLM currently generates the majority of University real property income from timber harvesting, residential/recreational subdivision and other land sales, and from commercial leasing. More than 50% of the land does not produce income, but does incur costs such as monitoring trespass/theft of resources, processing requests for easements and protecting the land from environmental contamination.

Management Structure:

Chief Executive: Martin Epstein, Director

Management Oversight: Accountable to the University Board of Regents.

Financial Oversight: SOLM reports to the University's VP of Finance.

Financial Overview:

Total Revenues: FY 97: \$5.8 M, FY 98: \$9.0 M, (Forecast) FY 99: \$7.5 M, FY 00: \$8.0 M.

Total Operating Budget: \$2.6 M.

Fund Balance: 6/30/97 \$80 M.

Contributions to State of Alaska Operating Budget: None.

Performance Measures: The University's Statewide Office of Land Management publishes an annual report which includes a Financial Report, Annual Progress Report toward their Strategic Plan and a review of both investment property and educational property projects.

Present Return on Asset/Activities:

Primary Return: Provides for the University students.

Secondary Return: Jobs are created as a result of certain land office transactions/timber harvests, etc.

Public Benefit: The presence of a University for Alaska.

Historical Footnotes Affecting Returns: Gross revenues from real property have increased from \$200,000 in FY 85 to \$10 M in FY 94 as a result of change of focus in the management and development office. The University is running out of prime land holdings for generating income.

Appendix C

Agency Interview Questions

1. Are the public purposes well defined and relevant?
2. Is the fiscal structure sound and realistic given the purpose?
3. Does the management structure adequately balance the beneficiary purposes of the agency/asset against the interest of the equity owner and other public purposes?
4. Are there current performance measures? Is this reporting adequate?
5. Does the agency know and track its beneficiaries? Does it monitor its effectiveness in meeting its public purpose with these beneficiaries?
6. To what extent does this entity compete with the private sector for goods or services?
7. What are the explicit or implicit expectations of beneficiaries, the legislature, the general public and others with this agency/asset?
8. What changes to the structure of the agency/asset management would the managers themselves make?
9. Does this agency/use of this asset have an appropriate public purpose?
10. What other paradigms/structures might be appropriate for the management of this asset?
11. Most assets are managed for dual objectives—either ownership/regulatory (land) or public service/return on investment. How is the balance between these objectives handled within the management of the agency/asset?

Appendix D
Biographies of Co-chairs

N A N C Y B E A R U S E R A

Nancy Bear Usera is currently Senior Vice President for Corporate Relations at Alaska USA Federal Credit Union. Prior to accepting that position in 1995, Usera served in key positions in the Administration of Governor Walter J. Hickel. Over the four-year term she served as Commissioner of Labor, Commissioner of Administration and as the Governor's Chief of Staff. She also served on a number of state boards including the Alaska Permanent Fund Corporation and Alaska Housing Finance Corporation.

Prior to state service, Usera spent 20 years representing a variety of state and national trade associations and was active in civic affairs. She currently serves on the boards of Commonwealth North, Anchorage Economic Development Corporation and the Alaska State Chamber of Commerce.

Before moving to Alaska in 1981, Usera was vice president of a Washington, D.C. association management and lobbying firm. She currently resides in Anchorage and has three sons.

O L I V E R S C O T T G O L D S M I T H

Professor Scott Goldsmith was been a faculty member of the Institute of Social and Economic Research, a public policy research arm of the University of Alaska, Anchorage, for 23 years. He holds a joint appointment in the College of Business and Public Policy at UAA. His research interests include regional economics, Alaska fiscal policy and energy demand. He has constructed several Alaska economic models that are regularly used at the Institute for a variety of political analyses and projections. He is the principal author of the ongoing *Fiscal Policy Paper* series, which examines the fiscal implications of the dominance of petroleum in Alaska's tax base. Professor Goldsmith contributes the results of this research regularly to academic journals as well as to a more general audience through Institute publications and frequent speaking engagements. His teaching interests include business forecasting and mathematics for economists.

Professor Goldsmith is active in professional service to the community, having served as Chairman of the Anchorage Municipal Budget Advisory Commission, as a member of the Alaska Bypass Mail Post Office Task Force and the Child Support Enforcement Task Force, as well as on various other councils and boards over the years. He is also a member of the United Way of Anchorage Allocation Panel and on the boards of a number of Anchorage athletic events.

Professor Goldsmith is a native of Chicago, a graduate of Princeton, and holds a Ph.D. in Economics from the University of Wisconsin. He is married and has two daughters.

Appendix E

Study Group Members

PRODUCTION AND MANUFACTURING:

(Fish & Game, DNR timber, Alaska Correctional Industries, oil & gas, mining, agriculture)

Chair: Cheryl Frasca – C. Frasca Co.

Sole proprietor of government relations consulting firm with expertise in the legislative process and state fiscal policy issues. Past positions include Deputy Chief of Staff to the Governor; Director, Division of Budget Review; and Chief of Staff to the Senate President. Civic board/leadership positions include Anchorage Chamber of Commerce; Budget Advisory Commission; Small Business Development Center Advisory Board; American Society for Public Administration; and Alaska Council on Economic Education. Ms. Frasca holds a Master of Public Administration from University of Alaska Southeast, and a BA. in political science from California State University Hayward.

Matthew Cronin – LGL Alaska Research Associates, Inc.

Mark Dawson – Swalling Construction, Inc.

David Hudspeth – First National Bank

James Kenworthy – Alaska Science and Technology Foundation

Steven Rieger – S. Rieger & Co.

Kirk Wickersham – Attorney at Law

RESEARCH AND DEVELOPMENT AND SUPPORT SERVICES:

(ASMI, ATMC, ASTF, Alaska Aerospace Development Corp.)

Co-chair: Mary Ann Pease – Aurora Power Resources, Inc.

Vice President of Aurora Power Resources, Inc., and is the former Finance Director for Municipal Light and Power. She has a master's degree in finance from the University of Bridgeport, Connecticut. She is on the board of directors for Alaska Children's Services and is on the Anchorage Chamber of Commerce Municipal Committee.

Co-chair: Tim Wiepking – Cardiff Wireless Communications

Operations Manager for Cardiff Wireless Communications. He has a BS degree in Business Administration from the University of Colorado in Boulder and is currently working toward his MBA degree from the University of Alaska, Anchorage. His past employment includes operating his own business and Budget and Policy Analyst for the Municipality of Anchorage.

John Hoyt – Brigadier General (retired)

Dave Kester – Ribelin Lowell & Co.

Gene O'Hara – Providence Alaska Medical Center

Jerry Strang – Remax Properties

LOANS AND INVESTMENTS:

(AIDEA, AHFC, APFC, Alaska Fish & Agriculture Bank, Municipal Bond Bank, Alaska Student Loan Corp.)

Chair: Phoebe Wood – ARCO Alaska, Inc.

Vice President of Finance, Planning and Control for ARCO Alaska, Inc. Responsibilities include ARCO Alaska's information systems, materials, purchasing, contracting, planning, evaluation, accounting and financial analysis. Ms. Wood has been Vice President for Business Development at Vastar Resources, Inc., Vice President of Finance, Planning and Control at ARCO British Ltd., Planning and Evaluation Manager for ARCO International Oil and Gas Company, and Manager of Corporate Finance at ARCO Corporate. She currently serves on the Board of Trustees of Alaska Pacific University, and on the Executive Committee of the Boys and Girls Clubs of Greater Anchorage. Ms. Wood is a graduate of Smith College and holds a MBA degree from UCLA.

Richard Barnes – Enstar Natural Gas Co.

Carla Beam – BP Exploration (Alaska), Inc.

Joe Griffith – Chugach Electric Association

Max Hodel – Commonwealth North Founding Member

Jo Li Sellin – National Bank of Alaska

Mead Treadwell – Institute of the North

AVAILABLE FOR DEVELOPEMENT AND REAL ESTATE:

(Division of Land, Mental Health Trust, U of A lands, DOT public facilities, Pioneer Homes, Alaska Psychiatric Hospital)

Chair: Patricia DeMarco, Ph.D. – AEDC

President of Anchorage Economic Development Corporation. A graduate of University of Pittsburgh with degrees in the field of genetics. She spent seven years conducting biochemical research at Yale University and Boston University Medical Center prior to entering the field of energy and environmental policy analysis. She served as Executive Director of the Power Facilities Siting Council and as Senior Rates Specialist to the Department of Public Utility Control for Connecticut. Dr. DeMarco operated a consulting firm for four years, and in 1989 joined the Connecticut Municipal Electric Energy Cooperative as Senior Policy Advisor, where she was instrumental in founding the technology transfer company, TECHCONN, Inc. Dr. DeMarco is a member of the Anchorage Downtown Rotary and the Log Cabin Quilters.

Don Dietz – Port of Anchorage

Mano Frey – Alaska State AFL-CIO

Gov. Walter J. Hickel – Hickel Investment Co.

Lana Johnson – Northwest Strategies

TRANSPORTATION:

(AKRR, Marine Highway, International Airports, State airports, harbors and ports)

Chair: John Copeland – Elmendorf Air Force Base

Chief Information Officer for the 611th Air Support Squadron and Federal Mediator and counselor for the 3rd Wing at Elmendorf. Previous positions have included remote radar sites at Shemya Island for the 5099th Civil Engineer Squadron, the Alaska Railroad, IBM Corporation, and the United States Air Force at Elmendorf Hospital.

Wiley Brooks – Wiley Brooks Co.

Milton Byrd – Charter College

Darrell Chambers – ARCO Alaska (former Hartig Fellow)

Joseph Henri – Southcentral Timber Development, U of A Regent

Loren Lounsbury – International Management Group



Privatization
Database

Types and Techniques of Privatization

A variety of alternative service delivery techniques can be employed to maximize efficiency and increase service quality. Some methods will be more appropriate than others depending on the service. In searching for ways of cutting costs and increasing delivery, consider using a combination of these techniques:

- **Contracting Out (also called "outsourcing").** The government competitively contracts with a private organization, for-profit or non-profit, to provide a service or part of a service.
- **Management Contracts.** The operation of a facility is contracted out to a private company. Facilities where the management is frequently contracted out include airports, wastewater plants, arenas and convention centers.
- **Public-Private Competition (also called "managed competition," or "market testing").** When public services are opened up to competition, in-house public organizations are allowed to participate in the bidding process.
- **Franchise.** A private firm is given the exclusive right to provide a service within a certain geographical area.
[See Franchising and Privatization by Antony W. Dnes]
- **Internal Markets.** Departments are allowed to purchase support services such as printing, maintenance, computer repair and training from in-house providers or outside suppliers. In-house providers of support services are required to operate as independent business units competing against outside contractors for departments' business. Under such a system, market forces are brought to bear within an organization. Internal customers can reject the offerings of internal service providers if they don't like their quality or if they cost too much.
- **Vouchers.** Government pays for the service; however, individuals are given redeemable certificates to purchase the service on the open market. These subsidize the consumer of the service, but services are provided by the private

sector. In addition to providing greater freedom of choice, vouchers bring consumer pressure to bear, creating incentives for consumers to shop around for services and for service providers to supply high-quality, low-cost services.

- **Commercialization (also referred to as "service shedding").** Government stops providing a service and lets the private sector assume the function.
- **Self-Help (also referred to as "transfer to non-profit organization").** Community groups and neighborhood organizations take over a service or government asset such as a local park. The new providers of the service also are directly benefiting from the service. Governments increasingly are discovering that by turning some non-core services—such as zoos, museums, fairs, remote parks and some recreational programs—over to non-profit organizations, they are able to ensure that these institutions don't drain the budget.
- **Volunteers.** Volunteers are used to provide all or part of a government service. Volunteer activities are conducted through a government volunteer program or through a non-profit organization.
- **Corporatization.** Government organizations are reorganized along business lines. Typically they are required to pay taxes, raise capital on the market (with no government backing—explicit or implicit), and operate according to commercial principles. Government corporations focus on maximizing profits and achieving a favorable return on investment. They are freed from government procurement, personnel and budget systems.
- **Asset Sale or Long-Term Lease.** Government sells or enters into long-term leases for assets such as airports, gas utilities or real estate to private firms, thus turning physical capital into financial capital. In a *sale-leaseback* arrangement, government sells the asset to a private sector entity and then leases it back. Another asset sale technique is the *employee buyout*. Existing public managers and employees take the public unit private, typically purchasing the company through an Employee Stock Ownership Plan (ESOP).
 [See Guide for Divesting Government-Owned Enterprises
The Esop Association
Virginia Competition Council --choose ESOP]
- **Private Infrastructure Development and Operation.** The private sector builds, finances and operates public infrastructure such as roads and

airports, recovering costs through user charges. Several techniques commonly are used for privately building and operating infrastructure..

- With *Build-Operate-Transfer* (BOT) arrangements, the private sector designs, finances, builds, and operates the facility over the life of the contract. At the end of this period, ownership reverts to the government.
- A variation of this is the *Build-Transfer-Operate* (BTO) model, under which title transfers to the government at the time construction is completed.
- Finally, with *Build-Own-Operate* (BOO) arrangements, the private sector retains permanent ownership and operates the facility on contract.
- Also See Terms Related to Privatization Activities and Processes



Privatization
Database

A Quick Guide to Competitive Neutrality and Managed Competitions

[This is condensed from Competitive Neutrality: Ensuring a Level Playing Field in Managed Competitions, RPP/How-to Guide #18, 1998.]

Increasingly, when governments decide to contract out services, in-house units are also given the opportunity to bid for providing the service. This model of public-private competition is often referred to as "managed competition." It has brought competition to many jurisdictions where public services had long been the exclusive domain of public monopolies, but increasingly, private providers are crying foul, arguing that the playing field is often tilted against them in public-private competitions.

For managed competition to be an effective tool to cut costs and increase efficiencies, an ample supply of private firms must be eager to bid against the public sector for the opportunity to deliver public services. This requires that the potential bidders be confident that the playing field will be level.

What Is Competitive Neutrality?

Competitive neutrality means designing a set of policies and legal arrangements ensuring that all individuals and organizations - public, for-profit, and nonprofit - are treated in an equal manner in the bidding process. To the extent possible, all protections and special privileges that public units usually enjoy over private firms simply by virtue of public-sector ownership should be removed, as should barriers that hamper the public-sector unit's ability to increase productivity and therefore effectively compete with the private sector.

To create a level playing field in a managed competition, the government must do many things that are not necessary if the service is contracted out only to private entities, including: determine the fully loaded costs of in-house service, build a firewall between the government as purchaser and the government as service provider, and make transparent any differences between the public and private bids.

Governments often do a poor job of ensuring competitive neutrality. Anti-competitive practices include: failing to fully cost out in-house services, requiring excessive

performance bonds from private firms, rejecting lower bids from private firms, and permitting in-house teams to adjust their bids or proposals after seeing the private bids.

Needed: A Uniform Template for Managed Competition

When designing a managed-competition program, public officials should strive to ensure as much equality as possible for each component of the procurement process, ranging from determining current in-house costs to defining the consequences of performance failure. While it may not be possible to have absolute equality in each area, governments should strive to get as close as possible.

Currently, there are no real guidelines that lay out how governments should conduct fair public-private competitions. The result is that the rules of the game vary from city to city, county to county, and state to state (sometimes the rules even change during the course of individual procurements). The following guidelines can assist governments in achieving a level playing field in managed competitions.

Costing the Public-Sector Bid

- Bring in an objective third party to determine the department's true costs.
- Extend competition as completely as possible into the department.
- Allocate to the target department or service a portion of the overhead costs, based on its use of overhead support.
- Include depreciation costs, interest expenses on borrowed funds, and the cost of hiring outside consultants in any calculation of total costs.

Sealed Bids

- Subject in-house bidders to the same requirements concerning sealed bids as private bidders.

Subsidies

- Any subsidy should be available to both the in-house unit and external providers.

Qualifications

- Public units should not be automatically pre-qualified

in the competition process.

- Consider the varying qualifications, technical, and managerial expertise of both public and private bidders when awarding the contracts.

Risk Valuation and Allocation

- Examine the issue of risk before embarking on a managed-competition project.
- Value and include in the public bid any risk allocated to the private sector in a transaction.

Performance Guarantees

- Establish provisions for loss sharing (as well as gain sharing) for the public units.
- Apply sanctions if the public team fails to achieve the service levels agreed upon at the promised price.
- Do not permit the in-house unit to bid in the next round if it exceeds its bid by some threshold amount.
- When possible, avoid requiring a performance bond from private bidders.

Preparing the In-House Units for Competition

- Give maximum flexibility to in-house units to re-engineer their operations.
- Don't set an arbitrary time period for re-engineering in-house operations and commencing a competition, but as a general rule, the period should be as short as possible and no more than two years.

Bidding on External Contracts

- Either prohibit or restrict in-house units from bidding for outside contracts in areas where a commercial market exists.
- If you choose to allow external bidding, do not provide the in-house units with any funding for capital or additional personnel that would be used for beefing up their operations for fulfilling outside contracts.

Using Consultants

- Use separate consultants to manage the competition process and assist the in-house team in preparing its bid.

Unnecessary Requirements

- Avoid saddling the contractor with government wage and benefit mandates.

Public-Private Joint Ventures

- Research the legality of public-private joint ventures.
- Allow both partners to share in the risks and rewards, but make sure the taxpayers are protected from any loss.

Creating the Right Institutions for Competitive Neutrality

- Organizationally split the government as purchaser from the government as provider.
- Give managers the flexibility to decide whether managed competition is appropriate on a case-by-case basis.
- Consider transforming winning public-sector bidders into corporatized or commercialized organizational forms.

If managed competition is to become a major tool for driving change and increasing efficiency in the public sector, then governments must do a better job of creating a level playing field between public and private bidders.

By following the set of commonsense guidelines laid out above, governments at all levels can maximize the benefits of competition and minimize charges of unfair favoritism or discrimination from private and public bidders alike.



Privatization
Database

Political and Organizational Strategies for Streamlining

Introduction

Many attempts to inject competition and market forces into government operations fail. As we have examined hundreds of programs at every level of government across the country and around the world, we have identified six key political and organizational strategies for successfully implementing competitive strategies. These are:

- Need for a political champion
- Adopt a comprehensive approach
- Don't study it to death
- Create a high-level central unit to manage competition
- Uncouple the "purchaser" and the "provider"
- Design an employee adjustment strategy.

Strategy #1: Need for a Political Champion

A revolution doesn't just happen. Quantum changes such as those described in this guidebook require leaders — forceful leaders who possess a coherent vision of a new and better governance. Citizens must provide the impetus for dramatic change by expressing their discontent, but it requires leadership to direct that energy into constructive channels.

Achieving privatization and competitive government reforms requires leaders who will expend political capital on the issue and who have the skills to secure approval and support from service other wings of government whose cooperation is key to success.

Out of hundreds of governments we have studied over the past two decades, we have found relatively few examples where the kinds of changes we have outlined have occurred without a strong and determined political champion who is willing and able to withstand withering opposition to reform. Writes historian James McGregor Burns: "Leaders, whatever their professions of harmony, do not shun conflict; they confront it, exploit it, ultimately embody it But leaders shape as well as express and mediate conflict."

The political champion is bound to make some enemies in the process. Barry Rosen, the former director of the

Milwaukee Public Museum, who took the museum private in 1992, told us:

"You make a lot of enemies when you do this, and you don't get them back just because you're successful. You're not going to be the most beloved human being in the world. But I wouldn't let it stop me. I was obstinate."

Lastly, successful leadership in streamlining government requires vision. A coherent vision consists not only a concept of a desired outcome, but a workable framework for achieving that outcome. Opponents of change — within government, the legislature, and among special interests — almost always will prevail over a political champion who lacks vision. You can't beat something with nothing.

The successful leader, says Tom Peters, should be a "cheerleader, enthusiast, nurturer of champions, hero finder, wanderer, coach, builder and dramatist." Leaders persuade. They change people's beliefs about what is possible — and about what is desirable. They communicate a sense of urgency and purpose.

If politics is the art of the possible, the political champions must redefine what is possible. They must bring bold ideas to fruition. With visionary leadership, the "politically impossible" can become reality.

Strategy #2: Adopt a Comprehensive Approach

OK, let's say you've decided to embark on a competition/privatization program. How do you get started? Well, how about announcing a pilot project in one of the departments and then see how you do? Sounds good, right?

Wrong. Such an approach likely will doom your competition program to failure before you even get started. Why? The opponents of privatization will all gang up on the one unlucky manager who happens to have the only privatization program in town. They will marshal all their firepower to kill or sabotage this project because they know if they can kill this they probably can kill the whole program.

Here's a better way. Announce that you are launching a comprehensive competition program and that competition is to become a way of life in your government. You will start off with several projects in each of the major departments. Eventually, nearly all service the government delivers will be subject to competition.

This approach is far more likely to succeed. It does several things. First, it spreads out your enemies. They not only will have to kill numerous projects, but you force them to try to defeat the whole broad concept of competition.

Second, this approach democratizes the process. No one unit feels singled out and picked on. Everyone knows that they too eventually will have to compete.

Third, by putting projects out in every department, you have a better chance at achieving a ripple effect across government. This occurs when even in-house units not yet subject to privatization begin coming up with cost savings proposals in an effort to stave off contracting.

One last word. This all doesn't mean you shouldn't start up with the easier, low-hanging fruit. By all means you should, but you should do it within the context of a comprehensive approach.

[See [City of Ft. Worth Embraces Privatization](#)
[City of Fresno Embraces Privatization](#)]

Strategy #3: Don't Study It to Death

Also known as "death by committee." This process gives the illusion of progress, then degenerates into an exercise in generating paper.

In summer 1992, Michigan created a commission to study privatization opportunities. By winter 1993, the state had introduced a process called PERM, by which every function in available every department would be reviewed, and a recommendation made to privatize, eliminate, retain or modify. For more than two years, this ambitious effort chugged along with little real impact.

The real progress that has occurred in Michigan has been the result of strong-willed individual administrators who have pushed for it.

The moral: Just do it! Spend some time putting together a sound Request for Proposals (RFP) that states precisely what outcomes you want (but leave inputs to the discretion of the contractor) and then see what you get back from the market.

Strategy #4: Create a High-Level Executive Position and Specialized Unit to Manage Outsourcing Relationships

The successful operation of a given government increasingly depends on being able to manage a network of service providers and market-based arrangements (vouchers, internal markets and public-private partnerships). Doing so effectively requires creating a new high-level position whose responsibilities include establishing, maintaining and cultivating outsourcing relationships. This individual would have experience in, or be trained in, the following:

- Identifying privatization opportunities and potential

contractors

- Overseeing the Request for Proposals (RFP) process
- Evaluating vendor proposals
- Managing outsourcing relationships
- Monitoring contractor performance.

These new government executives will have to handle a variety of complex issues and relationships like employee transitions; asset transfers; developing outcomes, performance goals, and penalties; terminations; dispute resolution; and risk management.

In addition, a centralized unit where a critical mass of knowledge about streamlining issues is set, should be established to manage the privatization process. Such a unit also would act as an institutional advocate for reform — publicizing and riding herd over departments that drag their feet.

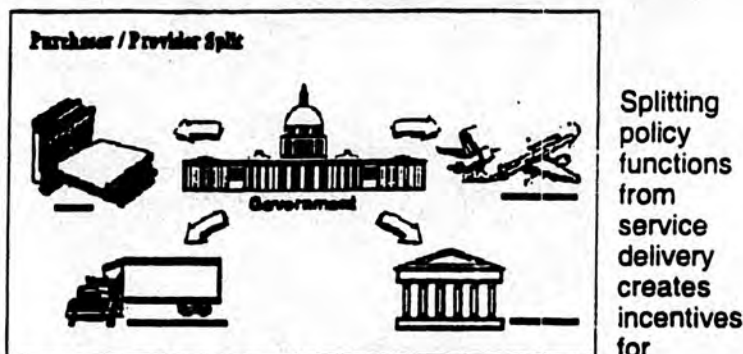
Strategy #5: Uncouple the Purchaser and the Provider

(Also Called The "Purchaser-Provider Split")

When the purchaser and provider are split, policy and regulatory functions are separated from service delivery and compliance functions and transformed into separate and distinct organizations (see Figure 1). Australia, Great Britain, and New Zealand all have embraced this reform (Great Britain has uncoupled three-fourths of its civil service, while in New Zealand the percentage is likely more than 90 percent).

The goal is to free policy advisors to advance policy options that are in the public's best interest but may be contrary to the self interests of the department. For example, a central problem with government organizations is "agency capture." This refers to the tendency of service departments to capture the policy advice process from policy makers and top managers, using this power to recommend themselves as service providers and to bias policy advice towards increasing the size of their budgets. One example: a housing authority recommending staff and budget increases in order to build and manage more government housing.

Figure 1



governments to become more discriminating consumers by also looking beyond government monopoly providers to a wide range of public and private providers.

In Victoria, Australia, the government has separated policy and delivery functions in the corrections department. The Correctional Services agency is now exclusively a service delivery agency. A separate entity called the Contract Administrator has been established to administer arms-length contracts with the private sector. The Contract Administrator is charged with "purchasing" correctional services and monitoring and evaluating the performance of private and public operators on a neutral basis. In this way, the government is creating a "market" for correctional services.

In Kansas, the agency that previously delivered child welfare services such as adoption and foster care, no longer delivers these services to Kansas children — it purchases them. The agency is almost exclusively a purchaser of services and contract monitor.

Uncoupling also is designed to reduce the conflicting objectives that arise when the same agency is involved in service delivery, regulation, and compliance — for example, the Federal Aviation Authority, which regulates airline safety while at the same time is charged by Congress with promoting low-price airline travel.

In New Zealand, agencies regulating transportation industries — airlines, railroads, trucking, and road safety — have been split off from the Transport Ministry into separate independent entities and put under private-sector boards of directors. Regulatory outputs are now "purchased" from each agency by the Transport Minister.

In Indianapolis, one department regulates businesses and residential dwellings and another is charged with eliminating unnecessary regulations. Similarly, an Enterprise Development group has as its sole mission to inject competition into government wherever possible and monitor public and private providers on an arms-length basis.

Strategy #6: Design Employee Adjustment Strategy

Privatization is a political process. Despite evidence of sizable cost savings, public officials often face strong

opposition to privatization and competitive contracting. The greatest political opposition comes from public employees and their unions. Experience in the United States and overseas has demonstrated that making privatization attractive for impacted workers is vital to achieving the political support needed to implement competition strategies.

The best way to reduce opposition is to communicate to workers a commitment to fair treatment. Keeping employees informed can reduce antagonism and avoid the morale problems often associated with organizational change.

The cooperation of public workers is essential to a successful privatization program, and public officials should communicate a commitment to fair treatment for current employees. One of the principal reasons public employees are hostile to privatization is the perception that they will lose their jobs as a result of it. Fortunately, privatization need not be a hardship for public workers.

Table 1 Privatization Policies Adopted by 28 Local Governments	
Labor Policy for Affected Workers	Percentage
No layoff policy/guaranteed other government jobs	29%
Right of first refusal w/contractor	35%
Informal policy/work with individual workers	6%
Retraining	6%
No employment policy	24%

The most comprehensive evaluation of the effect of privatization on government workers was conducted in 1989 by the National Commission on Employment Policy (NCEP), a research arm of the U.S. Labor Department.

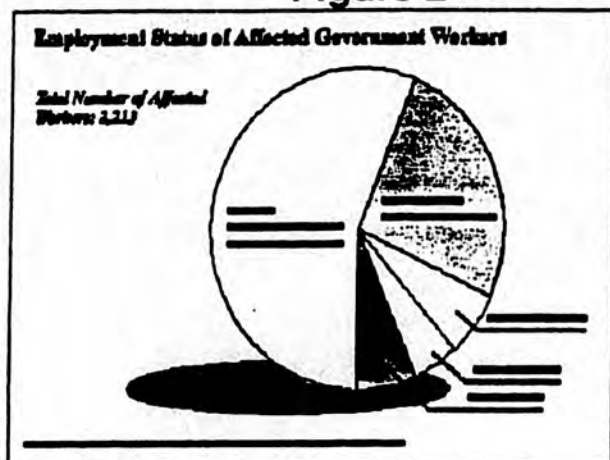
The study, titled "The Long-Term Employment Implications of Privatization," examined 34 privatized city and county services in a variety of jurisdictions around the country. The report found that of the 2,213 government workers affected over a five-year period by the privatizations, only 7 percent were laid off. More than half the workers (58 percent) went to work for the private contractor; 24 percent of the workers were transferred to other government jobs, and 7 percent of workers retired (see Table 2). The study concluded that "in the majority of cases, cities and counties have done a commendable job of protecting the jobs of public employees."

These findings are similar to those of other studies examining job displacement from privatization. A 1985 General Accounting Office (GAO) study found that of the

9,650 defense employees affected by contracting out, 94 percent were placed in other wazzu government jobs or retired voluntarily from their positions. Of the 6 percent of displaced employees, half obtained jobs with the private contractor.

Recent large-scale privatization initiatives have demonstrated similar results. The city of Indianapolis has privatized 70 services over the course of the past five years, yet no public union workers have been laid off.

Figure 2



It also must be recognized that privatization is not a zero-sum equation — although the number

of public jobs may decrease, jobs also are created in the private sector from privatization. Since launching its comprehensive competition program, for example, Indianapolis has experienced its most rapid private-sector job growth in decades.

There are a number of techniques to officials to insulate workers almost entirely from the potential of job loss. Techniques that can attenuate the impact on current workers include:

- Working within the rate of natural attrition
- Encouraging or requiring first consideration by contractors
- Offering early retirement incentives
- Allowing public departments to bid for contracts.

Working Within the Attrition Rate

Perhaps the easiest method to reduce privatization of functions within the normal rate of attrition. Workers on a given function targeted for privatization are simply shifted to other government work, with staff reductions occurring only as employees retire.

Government officials typically make a strong effort to provide for current public workers even when embarking on extensive privatization programs. Between 1982 and 1986, for example, Los Angeles County privatized

functions that affected one of 1,300 workers, yet only 36 permanent employees were laid off due to the contracting out program (see Table 2).

Table 2 Summary of Job Displacement Resulting from Los Angeles County Contracting 1982-1986		
Classification	Number	% of Affected Workers
Employees placed with county	1,061	80%
Employees who left county service voluntarily	96	7%
Employees placed with contractor	128	10%
Employees laid off	36	3%
Total affected employees	1,321	

First Consideration by Private Contractors

A common strategy to reduce current employee impact involves encouraging or requiring a contractor to offer first consideration for employment openings to all

qualified public workers. Private contractors are usually quite happy to have access to an experienced labor pool. In adopting this policy, however, government officials should be careful not to constrain contractors with burdensome mandates.

Public officials should avoid restrictions that mandate wage or benefit levels for contractors. Requiring private providers to match public sector wages and benefits in perpetuity can reduce the potential cost savings from privatization. Contractors should be allowed maximum flexibility to perform the given function in the most cost-effective fashion possible.

Early Retirement Incentives

Given that privatization often entails a reduction in the overall labor force, another strategy for avoiding layoffs is enticing public workers to voluntarily leave government employment by offering them early retirement incentives. Such programs can be cost-effective if they enable governments to adopt otherwise politically unattainable cost-saving privatization measures. In cases when the vacated slots are left unfilled, early retirement programs can generally save money by reducing the government payroll.

Letting Public Departments Bid on Contracts

Because it reduces opposition to privatization, allowing public-employee units to compete for contracts makes good political sense. It also makes good economic sense. Cost savings from privatization arise from the efficient operating practices that a competitive market promotes. The difference is not one of public vs. private, but of monopoly vs. competition.

Structuring the Transition

For public employees that go to work for private contractors and for public departments that bid for contracts, the government can and should take steps to ease their transition into a competitive market. The change from a protected monopoly to a competitive environment can be accomplished more smoothly if public officials take steps to assist public workers.

Training Assistance

One strategy to enhance the chances of successful bidding by public departments is to train the managers and workers in productivity, cost-saving strategies, and customer service. Workers and managers may require new skills to excel in a competitive environment. Training can provide them with the tools needed to make the transition as painlessly as possible, and increase the awareness of the need for continuous improvement and productive efficiency.

Human Resource Strategies

As governments move to competitive contracting and providing public managers with more workforce flexibility, human resource departments will need to evolve. Rather than simply reacting to the changes in government and processing paperwork, human resource departments will need to become employee advocates — assisting employees with career paths and identifying new career opportunities within and outside of government.

Human resource departments will have to take a more active role in the city's long-term planning process and should be included from the beginning when devising privatization processes.

Human resource agencies should take the lead in analyzing the government's capability to absorb surplus workers from outsourced areas elsewhere within government. Among the variables that should be analyzed to assess absorption capacity are turnover statistics, feasibility of hiring freezes, rate of growth of workforce, pay scales relative to private-sector employment alternatives, availability of early-retirement incentive programs, professional capability of HR function, and quality of

facilitating systems (e.g., job posting, outplacement agencies, etc.).

Gain Sharing

In addition to providing managerial incentives for privatization, governments may want to consider sharing part of the savings from implementing privatization with department employees. Indianapolis structured gainsharing incentives for its public employees into most of its public-private competitions.

Table 2



Conclusion

Privatization is a proven cost-effective technique for delivering public services. Nevertheless, due to political resistance from public employees and their unions, many governments fail to pursue privatization opportunities. The result: taxpayers are forced to pay more for services than would be necessary in a more competitive market.

This need not occur. By following the six strategies outlined in this chapter, California cities and counties can overcome bureaucratic inertia and the resistance of interest groups and successfully implement competitive government strategies.

Additional Resources

Privatization: Lessons Learned by State and Local Governments, United States General Accounting Office, Washington, D.C., March 1997.

Revitalizing our Cities: Perspectives from America's New Breed of Mayors, RPPI Policy Study #186, 1995.

Public Mouse

The headquarters of the Connecticut Department of Information Technology in Hartford is a drab, squat building that sits on a corner downhill from the ornate gold-domed capitol and a gleaming legislative office building. Visitors walk past a dumpster in the back to enter, sign in with a guard and use an ancient elevator to get to the upper floors. The path to the office of Gregg "Rock" Regan, Connecticut's chief information officer, is via a corridor of stained, worn carpeting and scuffed walls. The structure literally leans to one side.

The state's information technology is in similar condition. It is a morass of disjointed systems with computers in one department unable to communicate with those in another. Information is fragmented and unnecessarily duplicated. There are at least a dozen e-mail systems, and many don't link up well with each other. Information technology has historically been poorly managed in Connecticut, and the state hasn't done a good job of procuring new systems. Nor is the security of the systems the best available. No one knows exactly how many computers the state owns.

Connecticut's IT infrastructure is in such poor condition, says Governor John G. Rowland, that the departmental tug-of-war over technology resources so common in other states aren't happening in his state. There's so little to fight over that there are no turf battles, the governor says.

"They're at the nonconformity, parochial stage. They don't care what other departments are doing."

Rowland has vowed to clean up the mess, and he thinks he knows exactly how to do it. For four years, he has been pushing relentlessly to turn nearly all of the execu-

agency turf wars and procurement difficulties that often make it such a headache for governments to upgrade and connect departments with up-to-date technology.

But the outsourcing plan, which is being spearheaded by Regan, is a move fraught with political risk for the governor, who has

Connecticut's governor wants to take state computers private. It would be a billion-dollar leap into the unknown.

tive branch's IT systems over to the private sector. "We shouldn't be in the business," he says. But such a wholesale outsourcing is a great leap into the unknown, a dramatic step that no other state has undertaken. CIOs from other states and even some local governments—most notably the nation's fourth-largest county, San Diego—are watching with keen interest.

If things work out as the governor hopes, the move could elevate Rowland as a trailblazer who successfully solved the state's technology troubles and turned Connecticut into a showcase of world-class information technology. He would be the first governor for other states mired in

made it a major initiative for his Republican administration. There are several ways for it to go down in flames: Either house of the Democratically controlled legislature has the power to veto the deal. Or it could go through and still fail to solve the state's information technology problems. Or costs could escalate, surging beyond the estimated \$1 billion cost of the seven-year deal.

This spring, as Rowland's administration continued to negotiate contract terms with the vendor that won the outsourcing contract, Electronic Data Systems, things seemed to be starting to unravel on the legislative front. The House speaker was publicly expressing dissatisfaction with the information about the plan that she was getting from Regan's office.

With no final contract on the table yet, the arguments for and against outsourcing primarily have fallen on either side of a partisan and ideological divide. Supporters, mainly Republicans, believe the private sector can do the job better, faster and cheaper than state workers can. Skeptics, mainly Democrats, are doubtful of the proposition and more inclined to line up behind state workers, whose union is bitterly opposed to the plan.

If Rowland gets his wish, somewhere between 500 and 700 state employees would become private-sector employees, but which ones would fall under the scope of the union—and where they would end up working and what they would be doing—is not clear. It's undetermined whether they would stay at their desks in state



Private Mouse

offices or move to EDS' proposed "technology transformation center," or some of each. Major technology decisions would remain with the state, according to the CIO's office. The private company would provide the computer services to make government more efficient. It isn't clear who would own the hardware and software used to run the state government.

At this point, the process has dragged out years longer than expected. The plan was set in motion in 1996 after a consultant's report found the state's computer systems to be seriously outdated and poorly run. The request for proposals was issued in February 1997, and the administration was hoping to outsource the state's systems by mid-1997. Instead, the privatization effort became part of the budget process in 1997 when the governor projected \$50 million in savings from outsourcing. Legislators insisted on an unusual provision, opposed by the governor, saying that either chamber of the legislature could veto the contract by a three-fifths majority.

By February 1998, three companies—EDS, Computer Sciences Corp. and IBM—were in final contention for the contract, along with the Connecticut State Employees Union, which promised an in-house consolidation that would save the state \$30 million to \$40 million. EDS, based in Plano, Texas, won the contract after a review of the proposals by a member evaluation committee with members from four executive-branch agencies under a "best value" process that was based on 17 criteria, price being just one. Regan says EDS offered the state some innovative proposals that included job creation, outreach to the education community, economic development benefits and high-technology training that would benefit residents as well as state employees.

Rowland's office now hopes a contract can be implemented by the first of September. But Regan insists he will not shortcut the contract work that needs to be done just to meet an arbitrary target date. "It's a complex process," he says. "There are a lot of issues we're trying to resolve. We're obligated to protect state interests."

Once the contract negotiations are completed, the contract will go to the auditor of public accounts, who will have 75 days to review it. It then will take effect automatically 45 days after the auditors send their report on the contract to the General Assembly, unless either house of the legislature rejects it by a 60 percent margin. In the House, that would mean 91 votes in a chamber that has 96 Democrats and 55 Republicans. The Senate has only a two-seat margin.

This year's session

continue to play out as they have to this point. Opponents say they worry about turning the technology so many state agencies depend on over to one prime contractor and about losing IT employees and the institutional memory they hold. They also say they don't understand how a company can promise better pay and benefits for Connecticut's IT workers and buy and install new and improved technology, while saving the state \$50 million a year and making a profit. They also wonder if signing a seven-year contract so entwines the state with one vendor that it will be difficult to extricate itself from the contract if need be. They fear that if the state becomes so dependent on one vendor, that vendor could demand changes in



legislature. The auditor's report is scheduled for release during the regular session and may not even see the contract before adjourning. For there to be a veto vote, a special session would have to be called, something traditionally done by the governor, who, in this case, would have little interest in calling a session that has the potential of killing his initiative. However, the Senate president pro tem and the House speaker together have the power to call the legislature into session for a veto vote.

That seems likely to occur if the politics

is unknown. The state's technology infrastructure is still being written. In April, the Department of Information Technology was still updating an inventory of state agencies' computer systems. That original inventory, started after the Department of Information Technology was created in 1997, took more than 18 months to complete.

At the beginning of April, House Speaker Moira Lyons sent dozens of questions to Regan about the deal. She asked for details about where the \$50 million in savings would be found, how privacy of state information would be protected, who would own the equipment and how the state could "dis-

entangle" itself from the vendor should problems arise. She also wanted information about contract management and EDS' past performance, and on how the state could know seven years out that it would still be getting the best technology deal. "This is a giant leap for Connecticut," she says. "We are all aware our current information technology systems have huge drawbacks. But it is correct to question if we should go to a total huge privatization of every entity under one vendor."

The CIO's answers weren't specific enough to satisfy her. For instance, on the matter of savings, Regan wrote that "provisions now being negotiated will determine the savings pattern" and that details would be provided soon. On a question about how quickly the state would be able to provide basic services to residents if the state had to get out of the contract, the written response was "immediately." Many are dubious about that. Even Regan admits that if the services had to be brought back in-house, it would not be easy. Nor would former state employees who would have moved over to EDS be obligated to return to state service.

EDS offers assurances that if disentanglement were necessary at any time, the company would give the state access to people, assets, equipment and software, to use or buy. But it's clear that bringing the executive branch's computer operations back in-house would be costly for the state. "The state has a right to tell us they want to get out," says Bill Dvoranchik, managing director of the EDS Partnership for Connecticut, the team of 10 companies EDS put together to run the Connecticut project. "How that works out has to make sense. If not, if I make all those investments in two years and the state says goodbye, it doesn't make sense."

Since there is no contract to review, Lyons admits it's too early to open or close the door on the proposal. But the sheer magnitude of the endeavor is cause for apprehension in the speaker's mind. "I'm uncomfortable with the size of what we're undertaking, given there's no past experience with it."

That discomfort has led some lawmakers to introduce legislation that would layer new requirements onto the outsourcing plan. "It's kind of like boxing with smoke until you see the contract," admits Representative Alex Knopp, a Democrat who chairs the Joint Government Administration and Elections Committee. One provision would require the contractor to



Connecticut CIO Rock Regan says the outsourcing program would be the most tightly managed contract in the state's history.

submit a performance bond for up to 100 percent of the total due under the contract. Another would create an Office of the Privacy Counsel and authorize it to bring actions for disclosure violations. A third would require oversight by a state information technology review board, which would monitor the contract and report to the legislature periodically. The bills have been passed out of Knopp's committee.

The Connecticut State Employees Union says it can't think of a private contract with the state that has come in on time and under budget, and argues that such a large project is a huge risk. The union points to a contract between the Department of Social Services and Maximus Inc. for privatizing the child care subsidy program. When the initial contract proved to be inadequate, leading to delays in getting subsidies to day care providers, the contract had to be modified to give the company a 50 percent increase in per-client fees.

The union concedes that the state's information technology is antiquated, but it argues that instead of turning the whole thing over to the private sector, a vendor should be brought in to reengineer processes for state workers. Rick Melita, the union's political education coordinator, says the state has done an "abysmal" job of overseeing smaller-scale contracts. "How will it develop the expertise to oversee the big ones?"

The answer, says Regan, is for the state to develop performance measures, penalize the vendor if it doesn't do well and reward the vendor if it does. In the past, he says, projects were not managed well and outcomes were not well defined, and this would be the most tightly managed contract in the state's history. A core group of about 50 to 70 people would remain state employees, get additional training and function as overseers of the contractor.

The union and legislative opponents have an ally in elected Comptroller Nancy Wyman, who is looking into a prior troubled contract between the social services department and EDS. Under Connecticut law, a breach of contract by EDS in past dealings with the state could disqualify the company from the pending contract.

Legislators have complained that there has not been a satisfactory explanation from Rowland's office for why EDS was chosen for the executive-branch outsourcing contract. A provision in one of the measures passed out of the House committee asks the auditor to review the selection process and ranking mechanism that resulted in the choice of EDS. "If there's a significant flaw in the ranking process, it might influence how the contract is viewed," says Knopp.

Outsourcing opponents point out there have been contract failures involving EDS in several other states; that EDS is in the middle of a lawsuit with Xerox, one of its



Speaker Moira Lyons: 'I'm uncomfortable with the size of what we're undertaking, given there's no past experience with it.'

major partners on the Connecticut contract; and that EDS is laying off 1,200 employees worldwide, raising concern about what would happen to state workers absorbed by the company.

One of the contract failures occurred in Virginia, where EDS agreed in 1997 to terminate a \$45 million contract and pay the state \$2.3 million to settle the issue of not setting up a system to track Medicaid payments more than a year after it was promised. In that case, Dvoranchik says it was too difficult for the two sides to reach agreement on a contract for a new system with client-server technology during a time when the federal government was in the middle of overhauling welfare.

In Florida, there were massive problems with a \$240 million system for processing welfare applications installed in 1992. EDS officials say the Florida contract ran into unforeseen problems when state welfare caseloads increased due to a hurricane and a downturn in the economy and that the company needed more money to add hardware and software to accommodate the changes. When Florida refused to pay the balance of the contract, EDS sued for \$58 million. The Florida welfare agency contended that the computer system was defective when EDS turned it over to the state and filed a counter-claim for \$90 million for work that would have to be done to bring the system up to par. A state circuit court judge agreed with EDS, and after a six-year court battle, Florida agreed to pay \$43 million to the company to settle the case.

While it's true that EDS has been laying off employees, Dvoranchik says the cuts have been in EDS' sales staff and that the

company has been hiring programmers and analysts in the government area, so layoffs would not affect the Connecticut contract. In any case, the contract will guarantee two years of employment to former state employees. As for the Xerox lawsuit, Regan says Xerox has provided a letter saying the lawsuit doesn't affect the business relationship between the two companies in Connecticut. In all, Regan adds, Connecticut has done hundreds of reference checks on the company, checking with state agencies and other governments and companies that have contracted with EDS. Regan and EDS say the company doesn't sue often and, when it does, it continues to provide all services until there's a resolution.

Even if the project clears all of the political hurdles, it faces other possible roadblocks. Not the least of those is the fact that the federal government must sign off on the plan, since so much of the state's computer work deals with entitlement programs such as Medicaid and food stamps. If the federal government doesn't approve, the state could lose federal payments for those programs. Because of that possibility, one of the provisions passed out of Knopp's committee says the state shouldn't send the contract to the auditor until it has obtained all federal approvals.

Connecticut's may be the largest state or local government IT outsourcing in this country to date, and the furthest along, but Connecticut certainly is not the only government to consider privatizing information technology systems on such a large scale. San Diego County is asking three technology companies to bid on a 10-year,

\$500 million to \$700 million contract for outsourcing its computer and telephone systems. The RFP went out in February, and the three companies in the running are the same ones that bid on the Connecticut contract: CSC, EDS and IBM. The county hopes to award a contract by early fall.

A management consultant's report estimates the county spends \$98.5 million on information technology and telecommunications services annually. Of that, \$66.5 million of the services would fall under the outsourcing contract. Not surprisingly, San Diego has experienced many of the same difficulties as Connecticut, from delays in meeting target dates for the process to unions complaining about losing jobs and arguing that the move would be costly and ineffective.

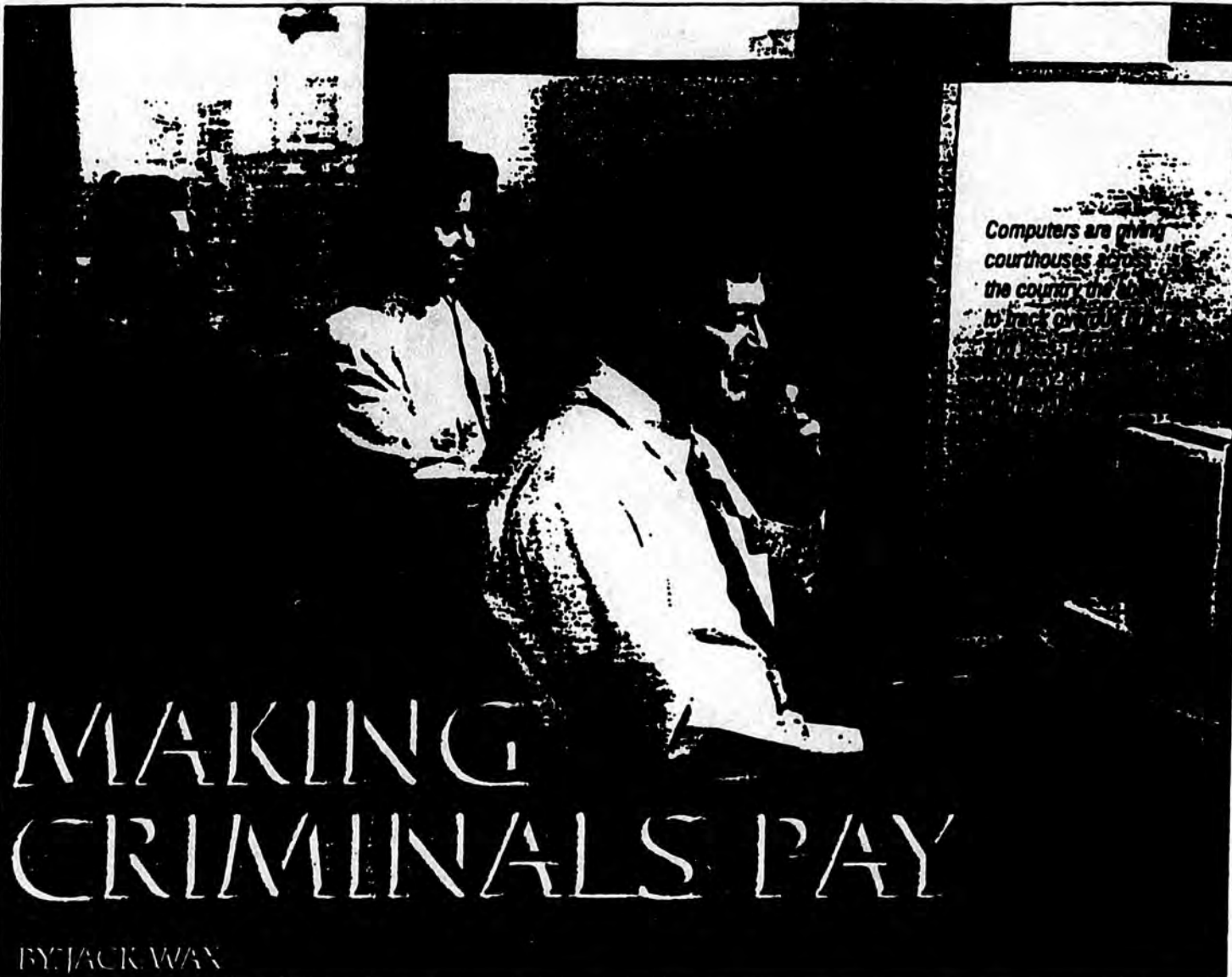
But the San Diego outsourcing project continues to move forward. In Indiana several years ago, a similar proposal blew up quickly. Former Indiana CIO Dan Houlihan says the problem was that decisions were made by a closed group that left out the legislature, the unions and state technology workers. "When the decision was announced, it was a major shock to everyone's system," he says.

Houlihan believes the state would have encountered major problems if it had gone ahead with the large outsourcing approach. "When you blanketly approach outsourcing of everything from telephones to mainframes to networks to applications development, it becomes so massive to control," he says. "Deliverables are hard to nail down. The vendor relationship becomes complicated, and it tends to unravel over time." Indiana also found that information technology employees, fearful of what would happen to their jobs, were fleeing in droves.

Michigan and Iowa also thought about outsourcing state systems but decided consolidation was a more cost-effective strategy. Pennsylvania is in the process of outsourcing its data centers, but it's not a project as massive as what Connecticut is doing.

It's the fact that Connecticut would be the first to dive into technology outsourcing on this scale that has many of the players on both sides worried. Rowland, however, thinks being first would actually be an advantage for the state. After all, the contractor will be hoping to reap profits from replicating a successful arrangement with other jurisdictions. "When you're the first one on the block," Rowland insists, "the company's going to give you the best deal and do the best performance. Failure is not an option."

COURTS



Computers are giving
courthouses across
the country the tools
to track criminals.

MAKING CRIMINALS PAY

BY JACK WAX

*State courts shouldn't
let offenders escape
paying millions of
dollars owed in fines.
By collecting the debts,
courts save taxpayers
money and increase
respect for the law.*

Millions — possibly billions — of dollars are missing from our nation's 16,000 state and local courthouses. The money hasn't been stolen: It just hasn't been collected.

Most courts aren't organized to seriously pursue the fees and fines owed them or the people who owe it. "Some courts are beginning to pay more attention to collections, but it's still a relatively small minority of courts," said Barry Mahoney, president of the

Jack Wax is media relations director for the Missouri Bar in Jefferson City. He may be reached at (314) 635-4128.

Justice Management Institute, a non-profit research and training center in Denver, Colo.

Many courts can't even calculate their collection rates because they don't know how much money individual defendants owe them and how old the debts are. "Very few courts have good data on that," Mahoney said.

Uncollected fines are more than a revenue loss — much more. Each unpaid fine is a court order that has been ignored. "If a fine isn't collected, it's as if someone wasn't punished at all," said John Matthias of the National Center for State Courts. Matthias recently visited 10 courts in 22 states,

helping them find ways to improve their collection process. "They realized they needed some help, and that's why they called," he said. "Many courts would like to do more, but they lack the staff and computer systems to do it."

In a growing number of states and court districts, legislators and court officials are funneling resources into

collection programs throughout the state. Since the Arizona Legislature authorized funds for the program in 1989, court collections have improved 118 percent. Although court filings have increased only 2 percent in the same time period, collections have increased by about \$200 million. "Revenue is not the reason we're doing this," said Felton. "Fines are an impor-

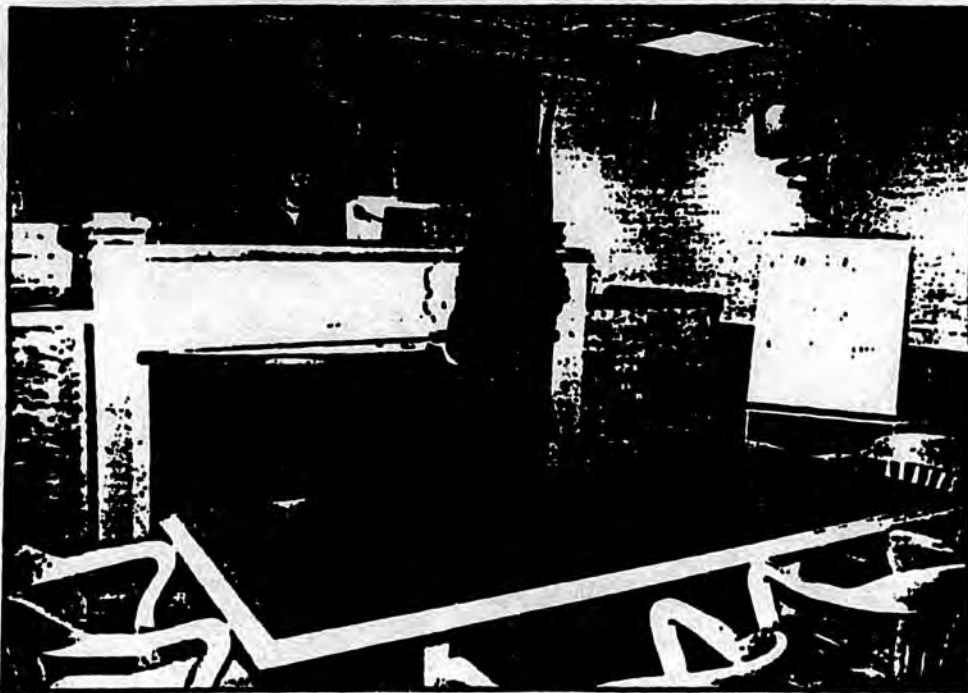
tant and the administration of justice can't help but be popular. Like programs in other states, New Jersey's has the support of the courts, the Legislature and the executive branch. Under New Jersey's program, Martin and two hearings officers visit courts and conduct hearings with probationers who are behind in their payment of fines. "We try to work with them to establish a realistic payment schedule," Martin said.

From January through December 1995, the program brought in an extra \$2.5 million, enough money for Martin to hire three more hearings officers and a research analyst. On average, New Jersey probationers come out of court owing about \$1,200 to \$1,500. If a person is truly destitute, a payment schedule of \$1 a week may be set up. "But in a lot of cases, people haven't paid because nobody is asking them to or nobody has set it up in such a way that there will be consequences for not paying," Martin said.

Ways to collect

In New Jersey, probationers who don't pay the courts face a wide range of possible consequences: garnished wages, judgments against property, attached income tax refunds and suspended drivers' licenses. As a last resort, probationers who owe but won't pay can be sentenced to serve a few days in the county jail. The sentence is then converted to an equivalent number of days in an enforced community-service program, which includes chores such as washing police cars, raking leaves or picking up trash along the highway. If they don't show up for the community service, the probationers can be jailed for contempt of court.

Colorado courts rely on collections investigators in each of the state's 22 judicial districts. "It's an upfront, preventative approach," said Paul Lituchewski, management analyst for the Colorado Judicial Department. Before defendants leave the courthouse, a



The message is clear in Judge Deborah Cruze's courtroom at the Glendale City Court in Arizona: The court expects fines and fees to be paid.

programs that help courts manage and enforce collections. They are finding that money spent on collections isn't a drain on state coffers; it's an investment that can pay for itself. In Arizona, a statewide program provides grants to courts for improving their collection practices. "It's a moneymaker," said Agnes Lesh Felton, director of court services for the Arizona Supreme Court. "We have found that within six to nine months, if certain basic principles are followed court revenues will increase more than the costs for staffing a program."

More than revenue

Each year, Felton awards about \$400,000 to state courts to start new

programs that help courts manage and enforce collections. They are finding that money spent on collections isn't a drain on state coffers; it's an investment that can pay for itself. In Arizona, a statewide program provides grants to courts for improving their collection practices. "It's a moneymaker," said Agnes Lesh Felton, director of court services for the Arizona Supreme Court. "We have found that within six to nine months, if certain basic principles are followed court revenues will increase more than the costs for staffing a program."

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collections investigator sits down with them and discusses their options to pay their fines. In addition to boosting collections of criminal fines, the Colorado program has increased collections of traffic fines. "In a large way, it's the smaller fines and fees that add up," said Litschewski. "It doesn't take anything extraordinary or extensive—it's just that little push that's needed." When the little push doesn't work, Colorado's collections investigators can resort to a full range of standard collection techniques or turn the debt over to a private collection agency. In Virginia, private collection agencies handle millions of dollars worth of delinquent fines for the courts.

In 1995, 114 Virginia courts used private collection agencies to collect \$5 million owed in fines and fees. Two years ago, Virginia courts were mandated to begin serious collection efforts for any debt that was more than 41 days old. "We've seen a significant increase in total dollars collected," said Robert Baldwin, Virginia's state court administrator. Virginia courts must choose one of three methods for collecting fines and fees: They can set up in-house collection systems, use private collection agencies or rely on the state tax department collection system.

Computers key to success

Private collection agencies can improve the bottom line for courts, but they don't make the justice system more efficient. To manage more efficiently, courts and justice system agencies are contracting services from private-sector companies. Money from improved collections can be put back into the system to pay for better, more efficient services. In Los Angeles, Lockheed Martin IMS is starting an 18-month pilot project to test new ways of monitoring criminal offenders on probation. The company, which provides data processing and business management services, is doing the pilot on a contingency fee basis, funded by expected improvements in collec-

tions from the probationers. "Improved collections is a vehicle to help courts and agencies re-engineer and focus more on caseload management issues," said Norm Early, senior vice president of the criminal-justice services division for Lockheed Martin IMS.

Without the computer power to track collections, courts can do little

Connecticut developed the first such center in 1986, and processes about 2,000 traffic tickets each day through its Centralized Infraction Bureau in Hartford. The center has proven itself to be so efficient at handling fines that it now processes fines for other minor criminal infractions. Other states that have moved to a central traffic-fine processing system include New Hamp-



Minutes after the hearing is over, the collection process begins in Glendale, Ariz. Before leaving the courthouse, a defendant is screened by a collections court for her ability to pay fines and court costs.

to improve their collection rates. "The courts must be able to put fines, fees and restitutions into a collection system that has the capability of printing out letters, tracking collections electronically, and providing information necessary to garnish wages and take legal actions against individuals who owe the debts," said Ken Bien, director of justice and public safety practice for Andersen Consulting, a private-sector company with extensive experience in automating government agencies.

Computers are the backbone of central fine-processing centers. As computer systems become more widespread, more states are shifting traffic-fine collection from local courthouses to a central fine-processing center.

shire, New Mexico and Massachusetts.

Court personnel are relieved when they finally get collections under control. The public also likes the results. Judge George Lindley of Duncan, Okla., has been promoting effective collection methods among Oklahoma courts for almost a decade. He has gauged the reaction of the public and of judges to pilot projects within the state. "Citizens are extremely happy," he said. "They can actually see the punishment being complied with, and they understand that you are also increasing revenues. When judges know that fines will be enforced they see them as an alternative to incarceration," he said. □

SCOMM

122:12



LEGISLATIVE TELECONFERENCE NETWORK

SIGN-IN SHEET

90987

SPONSOR: (JT) Commission on Privatization

SUBJECT: Full Committee

START/END TIME: 9am DATE: 11-4

PLEASE PRINT

	Name/Representing	Address	Zip	Phone No.	Testify	Observe	Bill No.
1.	Valerie Batzone						
2.	JERRY BROOKMAN	715 MUIR AVE., KENAI	99611	283-9329			
3.	Dwight Perkins			468-2700			
4.	Bob Giltalian	2605 Denali St #203, Anchorage	99503	277-2021			
5.	Vincent Manton	P.O. Box 141796 AK	99514	776-5481	✓		
6.	Kath Brubaker	P.O. 141 Girdwood AK	99587	229-5663	-		
7.	GREG MAGEE	4100 SPENGLER RD. ANCHORAGE	99517	266-1115			
8.	GARLAND WARREN	2510 ADELPHI BLVD. Anch. AK. 9	99503	276-7211			
9.							
10.							
11.							
12.							
13.							
14.							
15.							

Nov 4, 99 Commission Mtg.

1. MINUTES - DELAYED

2. DISCUSSION ON PROCESS

* Public need to finish race after all reports are due -

3. Labor Dept.

- MAKE COVER SHD w/ MEMBERS

Tech. Insp. ---

Bill Allen - Bobby Smith

Recruiting short

∴ allow Private Inspector to

ALSO do inspection

owner, ins co. & state = 3 inspections

* call
Bill
to make new
recommendation

★
(FINAL)

Each dept should have an O.H. multiplier
calculated in the bid process so that
comparisons can be made w/ private sector
activities of some type

* one Get avg. pay per dept.

How many people @ each pay range

* ? Get Labor O.H. multiplier.

D.E.C. - Norton

Final ~~and~~ Dept. response due by 11/9/99

Prelims are in plot.

#9 re: Audit oversight by Priv. Com.

(FAME)

Make separation of "privatization" and "management advice"

? *

How many PIOs are there in all depts.

*

Valerko - Did you look @ total budget?

and that goes out to Private Sec.

→ (ask Dept)

Cost comparison of sanitary surveys is impossible because we don't have all costs in state rates.

"3 people in PIO"

(FAME)

Request audit for each dept.

Thorne - What specifically do you want to find in the audit -

Norton - 5833

Allen - Pls. provide recs -

Correction

Sharon Anderson

"no mechanism to evaluate participation ~~in~~ ^{in an} existing performance"

Q- Get org. daily cost per instat
of measurement days & # of Dist's

* See # 9. Refer to another committee
Ask Dixon for example for Rec 11

Frank - Why not all now via on elect. serv.

Re #3 - Volosh. \$ per minute for education

What program should be offered to Private Sec
Much is already controlled at

Total Educ Bgt = \$-

Private = \$-

In Home = \$-

Used Re-offense rate in Key measure

Valach - what paper should be
printed?

S.A - GED



and Delivery of Government Services

AGENDA
Full Commission Meeting
November 4, 1999
9:00 AM

- 1) CALL TO ORDER (Time / Date)
- 2) ROLL CALL OF REMOTE SITES
 - a) Juneau _____
 - b) Fairbanks _____
 - c) Mat-Su _____
 - d) Kenai _____
 - e) Other _____
- 3) ROLL CALL OF COMMISSION MEMBERS (staff)
- 4) APPROVAL OF PREVIOUS MINUTES
- 5) OLD BUSINESS
 - a) Revenue Subcommittee Recommendations
- 6) NEW BUSINESS
REPORT BY SUBCOMMITTEES
 - a) Labor – Valerie Bafone (Packet is not available as of 11-2-99. It will be distributed at meeting)
 - b) DEC- Virgil Norton
 - c) Corrections – Sharon Anderson
- 7) COMMISSIONER COMMENTS
 - Senator Ward
 - Representative Cowdery
 - Senator Adams
 - Representative Brice
 - Commissioner Allen
 - Commissioner Fink
 - Commissioner Harper
 - Commissioner Notti
 - Commissioner Thomas
 - Commissioner Valesko
 - Commissioner Wuerch
- 8) NEXT MEETING SCHEDULE
- 9) November 10, November 18, November 24, November 30, December 13
- 10) PUBLIC COMMENTS



and Delivery of Government Services

Co-Chairs:
Representative John Cowdery
Senator Jerry Ward

Senator Al Adams
Bill Allen
Representative Tom Brice
Tom Fink
Michael Harper
Emil Notti
Kathryn Thomas
Don Valesko
George Wuerch

SUMMARY OF RECOMMENDATIONS

Revenue 1:

Recommendation: Thorough review and analysis by an independent efficiency expert with regard to CSED. The review should include compliance with State and federal requirements. Additionally, a cost/benefit analysis should be performed.

Revenue 2:

Recommendation: Focus on privatizing collections on a contingency fee basis.

Revenue 3:

Recommendation: Increase level of cooperation between CSED and private agencies.

-Review sections:

- Investigations
- Locate
- Paternity
- Case Maintenance Team under Establishment section for privatization.
- Cash Control
- Client Services

Revenue 4:

Recommendation: Adapt business process design for New Hire Reporting Section and Accounting Section.

Revenue 5:

Recommendation: Competitively bid services that are currently provided by other government agencies (include current provider as a bidder)

Revenue 6:

Recommendation: Following suggestions could improve the efficiency within the organization:

- Reduce caseload, inform parents of the option to withdraw from CSED services and get paid directly.

-Establish non-custodial parent team to monitor cases and when obligor becomes delinquent for more than two months contact him/her and see what services can be provided.

-Establish customer oriented user/friendly attitude with employees, non-custodial parent team would remove anger/animosity toward agency.

-Review functions for consolidation.

Revenue 7:

Recommendation: Modify state law to shift enforcement duties for the state's tobacco/ gaming laws to the Alcoholic Beverage Control Board. Intent is to transfer budget and manpower to the Alcoholic Beverage Control board.

Alternative Recommendation: Recommend, in the alternative, that the legislature modify Title 4, allowing the ABC Board to enforce tobacco/ gaming laws under contract to the responsible state agencies.

Revenue 8:

The Income and Excise Audit Division/ Oil and Gas Audit Division already have planned to merge into single unit; the Subcommittee agrees and encourages this consolidation.

Recommendation: Subcommittee noted that the Division already engages in limited outsourcing of services and encourages the Division to continue seeking opportunities for outsourcing where it is economically efficient to do so.

Revenue 9:

Recommendation: Regarding the Alaska Housing Finance Corporation, the subcommittee voted unanimously to recommend a thorough review and analysis by an independent efficiency expert.

Full Commission Schedule & Department Reviews

DATE	Dept Review	Dept Review	Dept Review	Dept Review	Dept Review
October 28	Revenue				
November 4	Corrections	Labor	DEC		
November 10	Legislature	Admin	Courts		
November 18	CED	DOT	Rev:AHFC	Law	
November 24	Education	HESS	Public Safety	Fish & Game	University
November 30	Governor	DMVA			
December ?					
December 13					

- ✓ Administration
- ✓ CED
- ✓ Corrections
- ✓ Courts
- ✓ Education
- ✓ Environmental Conservation
- ✓ Fish & Game
- ✓ Governor
- ✓ Hess
- ✓ Law
- ✓ Labor
- ✓ Legislature
- ✓ Military & Veteran Affairs
- Natural Resources
- ✓ Public Safety
- ✓ Revenue
- ✓ Transportation
- ✓ University

**Response to Recommendations of the
Commission on Privatization and Delivery of Government Services
Department of Revenue Subcommittee**

The Department of Revenue either concurs with or is neutral toward the subcommittee's recommendations. With regard to some specific suggestions, most notably in child support enforcement, we offer detailed comments that either reflect changed circumstances since the report was issued or clarify the department's position.

We are gratified that the subcommittee recognizes the department's ongoing efforts to make our operations more efficient, whether contracting out where appropriate, consolidating functions or redesigning business processes. We believe that we have made and will continue to make significant progress in better serving Alaskans

- ***Treasury Division, Permanent Fund Dividend Division, Alaska Municipal Bond Bank Authority, Alaska Permanent Fund Corporation, Alaska Mental Health Trust Authority and the Alaska State Pension Investment Board***

The subcommittee made no recommendations for changes to these units.

- ***Income and Excise and Oil and Gas Audit divisions***

The two divisions are consolidating operations, with a scheduled merger date of April 1, 2000. The Oil and Gas Audit Division already contracts out a portion of its work, and we will continue to look for areas where additional outsourcing could result in improved operational efficiencies.

- ***Alaska Housing Finance Corporation***

The subcommittee has not completed its review of AHFC and we will reserve our comments until that report is submitted.

- ***Child Support Enforcement***

Recommendation 1. Identify cases in arrears for privatization (includes collections and accounting).

We plan to have a Request for Proposals ready within a month, asking private contractors to assist on some collections of child support debt owed to the state. We will ask for proposals on cases where we have failed to collect anything recently and where all of the debt is owed to the state as reimbursement for public assistant benefits paid to the custodial parent. Anything a private contractor can collect would be more than we have been able to get from the parent. A successful

privatization of this function on older cases could benefit the state and the contractor, which would be paid a commission on all collections.

The Request for Proposals will not include collections on debts owed to custodial parents because we may not – by law – accept reduced collections on private cases without permission of the custodial parent. We believe the contractor would perform best if limited to cases of state debt, which can be settled at less than full value by the child support agency. The other consideration is that custodial parents may turn to private collection agencies at any time to work on their case, and may negotiate their own terms with the company of their choice without jeopardizing other efforts on their behalf by the child support agency.

The Child Support Enforcement Division distributed a Request for Proposals for collections of arrears on public assistance cases earlier this year, but no one responded to the notice. We have since consulted with private collection agencies to determine why they did not respond and are incorporating their recommendations into a revised RFP. We want to make whatever accommodations we can to interest contractors in offering proposals.

Recommendation 2: Review the following sections for privatization: Investigations, Locate, Paternity, Case Maintenance Team, Cash Control and Client Services.

After the subcommittee completed its report, we learned that Internal Revenue Service rules do not allow us to give private contractors access to most federal income tax information contained in child support files. This information is disbursed throughout most of our case files because it is essential to determining a non-custodial parent's child support obligation and, in some cases, even locating that parent. Because of its wide use in our case files, it would be extremely time consuming if not impossible to remove IRS data from every file sent to private contractors. This is a nationwide problem that will have to be addressed by the federal Office of Child Support Enforcement and the IRS, since many contractors provide child support services throughout the country. We will continue to monitor it closely until the issue is resolved on the federal level.

Meanwhile, we are encouraged by the subcommittee's statement that more investigation is needed before a decision can be made to privatize certain child support functions. We believe there are many issues that need to be examined before an informed decision can be made. In addition to the IRS confidentiality issue, other questions include: How much would private services cost? Would privatization decrease or increase the cost of services? Would the service be more effective if privatized? The child support agency has many investigation tools not available to private agencies, and would these functions be diminished by transferring them to a private contractor? Are child support activities so entwined with each other that they cannot easily be separated without a reduction in services or, at the very least, a disruption in services? How would the public react to private contractors handling personal data?

Recommendations 3 and 4: Review the New-Hire Reporting Section and Accounting Section for business-process redesign.

We developed a plan to redesign the workflow of the Accounting Section in conjunction with last year's Customer Service Enhancement Project. Though we have implemented minor changes in

the Accounting Section, we are reluctant to put the entire redesign into force while we are working to clear our caseload backlog. We do not want to disrupt the momentum in handling the backlog, and certainly any major reorganization would cause downtime and an initial loss in productivity. Meanwhile, we are proceeding at a steady pace in clearing the backlog in the Accounting Section as we continue to apply all of our available resources to clearing up the problem.

New-Hire Reporting came to the child support agency last year, after the Legislature adopted the federal requirement for locating parents through their employer. The initial workload of data from employers was substantial but we have adjusted to the new assignment and will continue to monitor performance and make changes as necessary. We would be happy to discuss with the subcommittee any ideas members may have to improve the operations of this section.

Recommendation 5: Competitively bid services currently provided by other government agencies (include current provider as a bidder).

Most of the services we receive from other departments can be provided only by that agency. For example, we pay the departments of Commerce, Health and Social Services, Education and Labor to interface with their databases. We also pay the Department of Administration for use of the state mainframe and other centralized support services such as the state email system.

Alaska Statute 25.27.050 requires the child support division to contract with the Department of Law for legal assistance. In addition to the statutory provision, the business reason for continued contracting with the Department of Law is that they have experienced attorneys who know and understand child support. We, and the Department of Law, have invested heavily in training the legal staff in the intricacies and specific provisions of state and federal child support law. Periodic changes of law firms would require additional training and thus more cost.

Suggestions regarding improving efficiency within the organization. We will continue to work on developing a more customer friendly agency. We will also continue to review all functions for consolidation and increased efficiency.

Suggestion regarding increasing our level of cooperation with private agencies. We assigned a staff person to coordinate with the private Alaska contractor that collects child support after this issue was discussed at a subcommittee meeting. We have increased our communication with the contractor and will continue to work on this issue to assist the contractor and those parents who use the contractor's services.

▪ ***Alcoholic Beverage Control Board***

The department does not exercise operational control over this semi-autonomous state agency. The following is the response of the board's executive director:

The recommendation to merge tobacco and gaming enforcement with alcohol enforcement conducted by the Alcoholic Beverage Control Board deserves closer scrutiny and consideration. The concept was presented to the ABC Board at its October 6-7, 1999 meeting and several

concerns were raised. The board understands the parallels and efficiencies that exist regarding a single agency to enforce alcohol, tobacco and gaming statutes, but it has the following concerns:

- Any merger involving tobacco enforcement must be done with close involvement of the Department Health and Social Services to ensure that public health initiatives and tobacco use abatement programs are not compromised.
- The merging of tobacco and gaming into alcoholic beverage enforcement would require extensive amendment and restructuring of Title 4, probably including reconfiguration of the ABC Board.
- The politics and money involved in gaming and tobacco combined with the political and public interest concerns attributable to regulation of beverage alcohol would create a difficult enforcement challenge for the staff and any policy making board that may be involved in overseeing these separate activities. If the goal of the merger is to save money, it is uncertain that the regulatory and enforcement effort would be funded adequately on a sustained basis. Gaming and alcohol enforcement are already severely underfunded compared to the support these programs receive in other states.
- If federal funding for tobacco enforcement is reduced, will the state be able to replace these reductions with state funds?
- The ABC Board would lose its focus on regulating alcohol, a substance widely abused in Alaska, if it must also shoulder tobacco and gaming regulation and enforcement.

The ABC Board is willing to continue discussions directly and through its director on addressing these concerns. The primary motivation of considering a merger is to gain more resources to adequately enforce alcohol laws. Until it is clear that this goal will be accomplished through some type of enforcement merger, the ABC Board is skeptical about taking on more underfunded programs and responsibilities. The work of the Department of Revenue Subcommittee of the Privatization Committee to raise the question of combining similar functions is beneficial. It raises important issues regarding the state's desire to adequately support enforcement of its laws related to alcohol, tobacco and gaming.

The Department of Revenue has an additional comment on this recommendation.

Though we do not have a position on the ABC Board's duties, we oppose any effort to move charitable gaming enforcement to the board. We understand one rationale for the recommendation might be that pull-tabs are sold on licensed premises and, therefore, ABC inspectors could police gaming violations. This assumes, however, that most problems occur at the point of sale. The reality is that gaming enforcement is mostly a matter of reviewing financial records, ownership and accounting matters between permit holders, operators, vendors and distributors. We do not believe the ABC Board is equipped to undertake this function, which involves heavy accounting expertise – a much different skill than enforcement of alcohol laws. Moreover, the tasks are so dissimilar it is unlikely that combining alcohol and gaming enforcement would result in savings or other efficiencies. We believe that oversight of charitable gaming would be better served if it remains in the department's Tax Division, which is staffed with accountants and auditors.

Memorandum

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

From: John Main, Revenue Subcommittee Member

Date: 11/02/99

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

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

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

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

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

FAX Transmittal



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

TO: JOHN MAIN
Fax No: 907 787 3135
Telephone: 907 269 6832

From: Bob Utman
Office of Safeguards and Tax Checks
CP:EX:GLD:ST

Fax No: (202) 622-4274
Telephone: 202622 3367

Comments: John, As discussed

Number of pages 3 (Including cover)

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

November 2, 1999

To: John Main - Alaska

From: Bob Uhar -IRS
Office of Safeguards

Bob

Subject: Child Support Enforcement

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

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

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

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

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

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

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

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

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

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

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

LEGISLATIVE RESEARCH REPORT

NOVEMBER 4, 1999



REPORT NUMBER 00.015

IRS CONFIDENTIALITY REQUIREMENTS AFFECTING PRIVATIZATION OF CHILD SUPPORT ENFORCEMENT

PREPARED FOR REPRESENTATIVE JOHN COWDERY

BY PATRICIA YOUNG, LEGISLATIVE ANALYST

You wished to know if any U.S. Internal Revenue Service (IRS) rule or regulation on confidentiality precludes the privatization of state child support enforcement efforts. You asked for copies of any such federal provisions.

According to Robert Uhar, Office of Safeguards and Tax Credits with the Internal Revenue Service, nothing in the Internal Revenue Code precludes the possibility of privatization of child support enforcement services.¹ However, federal tax laws limit the IRS information about individuals that state agencies may release: agencies may release only the address, the social security number, and the amount of any tax overpayment that would be applied to past-due support.² The tax laws prohibit federal, state, and local child support agencies from disclosing other IRS information, even to private contractors performing child support enforcement services.

Thus, according to Mr. Uhar, states may privatize any enforcement function that can occur without other information supplied by the IRS. Functions such as paternity establishment, locating absent parents, and collections might readily be privatized; determination of assets, on the other hand, would likely prove more difficult.³ In this regard, however, he notes that the actual source of the information is critical. If the information comes from a source other than the IRS, then it need not be protected. For example, IRS documents contain information on assets such as income from stocks and bonds, other investments, other dividends, interest-bearing accounts,

¹ Robert Uhar, Office of Safeguards and Tax Credits with the Internal Revenue Service, can be reached at (202) 622-3367.

² Confidentiality requirements relating to child support agencies are codified in the Internal Revenue Code at 26 U.S.C. § 6103 (j)(6) and (10), and § 6402 (c). Copies of these sections are attached.

³ Mr. Uhar suggests that Ms. M. Berumen, disclosure officer for the IRS Pacific Northwest region, would be a helpful resource in developing privatization plans for child support enforcement services. Ms. Berumen may be reached at (206) 220-5576.

and lottery winnings. The IRS releases such documents only to the federal, state, and local child support agencies, and those agencies may not disclose such information. Child support agencies may, however, disclose any asset information they have independently verified.

Donna Bonar, Director of Program Operations with the federal Office of Child Support Enforcement (OCSE), notes that OCSE and the IRS disagree on the meaning of "local child support agency." The IRS considers "local child support agencies" to refer only to governmental agencies, and not to contractors. According to the OCSE, contractors who are subject to the same regulations and restrictions as state agencies may be considered "local child support agencies" and may, therefore, have access to IRS information. Ms. Bonar notes that the issue is currently in dispute, and the Department of Health and Human Services' general counsel has recently sent a brief to the IRS general counsel arguing, in effect, that the IRS is not in a position to define the child support laws.

Despite that significant disagreement between the agencies, Ms. Bonar concurs with Mr. Uhar in regard to what information is protected from disclosure. They likewise concur in regard to enforcement functions that states might readily privatize.⁵

I hope you find this information useful. Please let us know if you have questions or need further information.

⁴ We requested a copy of the brief and will forward it to you when it is available.

⁵ Donna Bonar, Director of Program Operations with the federal Office of Child Support Enforcement, may be reached at (202) 401-9271. Although we refer to certain functions being "readily privatized," we acknowledge that in actuality, a state child support enforcement agency might have considerable difficulty segregating confidential IRS information into files that are inaccessible to contractors.

Title 26 U.S.C. § 6103 (1)(6) Disclosure of return information to Federal, State, and local child support enforcement agencies

(A) Return information from Internal Revenue Service
The Secretary may, upon written request, disclose to the appropriate Federal, State, or local child support enforcement agency -

(i) available return information from the master files of the Internal Revenue Service relating to the social security account number (or numbers, if the individual involved has more than one such number), address, filing status, amounts and nature of income, and the number of dependents reported on any return filed by, or with respect to, any individual with respect to whom child support obligations are sought to be established or enforced pursuant to the provisions of part D of title IV of the Social Security Act and with respect to any individual to whom such support obligations are owing, and

(ii) available return information reflected on any return filed by, or with respect to, any individual described in clause (i) relating to the amount of such individual's gross income (as defined in section 61) or consisting of the names and addresses of payors of such income and the names of any dependents reported on such return, but only if such return information is not reasonably available from any other source.

(B) Disclosure to certain agents

The following information disclosed to any child support enforcement agency under subparagraph (A) with respect to any individual with respect to whom child support obligations are sought to be established or enforced may be disclosed by such agency to any agent of such agency which is under contract with such agency to carry out the purposes described in subparagraph (C):

- (i) The address and social security account number (or numbers) of such individual.
- (ii) The amount of any reduction under section 6402(c) (relating to offset of past-due support against overpayments) in any overpayment otherwise payable to such individual.

(C) Restriction on disclosure

Information may be disclosed under this paragraph only for purposes of, and to the extent necessary in, establishing and collecting child support obligations from, and locating, individuals owing such obligations.

Title 26 U.S.C. § 6103 (1)(10) Disclosure of certain information to agencies requesting a reduction under section 6402(c) or 6402(d)

(A) Return information from Internal Revenue Service
The Secretary may, upon receiving a written request, disclose to officers and employees of any agency seeking a reduction under subsection (c) or (d) of section 6402 and to officers and employees of the Department of the Treasury in connection with such reduction -

- (i) taxpayer identity information with respect to the taxpayer against whom such a reduction was made or not made

and with respect to any other person filing a joint return with such taxpayer,

(ii) the fact that a reduction has been made or has not been made under such subsection with respect to such taxpayer,

(iii) the amount of such reduction,

(iv) whether such taxpayer filed a joint return, and

(v) the fact that a payment was made (and the amount of the payment) to the spouse of the taxpayer on the basis of a joint return.

(B) Restriction on use of disclosed information

Any officers and employees of an agency receiving return information under subparagraph (A) shall use such information only for the purposes of, and to the extent necessary in, establishing appropriate agency records, locating any person with respect to whom a reduction under subsection (c) or (d) of section 6402 is sought for purposes of collecting the debt with respect to which the reduction is sought, or in the defense of any litigation or administrative procedure ensuing from a reduction made under subsection (c) or (d) of section 6402.

Title 26 U.S.C. § 6402 (c). Offset of past-due support against overpayments

The amount of any overpayment to be refunded to the person making the overpayment shall be reduced by the amount of any past-due support (as defined in section 464(c) of the Social Security Act) owed by that person of which the Secretary has been notified by a State in accordance with section 464 of the Social Security Act. The Secretary shall remit the amount by which the overpayment is so reduced to the State collecting such support and notify the person making the overpayment that so much of the overpayment as was necessary to satisfy his obligation for past-due support has been paid to the State. A reduction under this subsection shall be applied first to satisfy any past-due support which has been assigned to the State under section 402(a)(26) [1] or 471(a)(17) of the Social Security Act, and shall be applied to satisfy any other past-due support after any other reductions allowed by law (but before a credit against future liability for an internal revenue tax) have been made. This subsection shall be applied to an overpayment prior to its being credited to a person's future liability for an internal revenue tax.

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COMMONWEALTH NORTH

**Twenty Years of
Commitment to Alaska**

**Commonwealth North
Study Summaries**

Edited by Beverly Dennis
Hartig Research Fellow

May 1999

NORTH

Reports and Publications

DATE

November, 1979

STUD

Solutions to the National Energy Crisis: Why Not Alaska?

OVERALL SUMMARY

An answer to dwindling domestic energy production and foreign oil dependency. Development of Alaska's ample natural resources would provide a solution to the energy gap of the 1980's

ASSUMPTIONS

1. There is a danger that there will be a shortage of oil which will instigate an energy crisis. 2. Alternative sources of energy will not reverse the ever-weakening national energy picture in the next 5 to 15 years. 3. Alaska's natural resources can provide many sources of energy for the nation. 4. Congress is about to lock up energy potential lands before they have been explored and inventoried. 5. The Arctic's energy resources can be tapped without harming the land or the wildlife.

RECOMMENDATIONS

1. Congress must resist the political pressure to lock up Alaska until there have been thorough inventories of the energy resources of the state. 2. The Secretary of the Interior should expedite the leasing of onshore and offshore federal lands in Alaska that have high oil and gas potential. 3. The State of Alaska should create a transportation infrastructure so that its resources can get to market at a reasonable cost. 4. The federal government must streamline the permit system that now has Alaska in a regulatory straightjacket. 5. The government should get out of the energy exploration business and encourage private enterprise to find and produce energy. 6. The national media must investigate the skillful campaign of those who would lock up Alaska.

CHAIRS

Robert L. Hartig

DATE

March, 1980

STUD

North Slope Natural Gas: Transportation Alternatives and the Promise of World Scale Petrochemical Industry

OVERALL SUMMARY

Intended as an interim statement on the issue, this report examines the difficulties in getting Alaska's natural gas to market.

ASSUMPTIONS

1. No state policy currently exists which guides decisions on the state's role in the gas pipeline project and the development of the petrochemical industry. 2. There is no commitment to any in-state use of North Slope gas. 3. The producers will have to participate financially in order for the gas pipeline project to succeed. 4. The federal government is strongly advocating that the state make a significant financial commitment to the project. 5. Alaska is an abundant source of high quality feedstocks, is in close proximity to the Pacific Rim markets, and has a relatively stable wellhead price. 6. Alaska must again control of the producers' share of the liquids in order to maintain a position which will allow maximum flexibility to develop its petrochemical potential.

RECOMMENDATIONS

1. The State should develop a strategy to promote the petrochemical development opportunities regardless of the outcome of the pipeline project proposed by Northwest Alaska Pipeline Co. 2. A comprehensive state policy regarding petrochemical and natural resource processing within the state must be developed. 3. Specific legislation is needed to initiate a feasibility study for construction and operation of a gas liquids line, sale of North slope gas liquids to petrochemical producers and specific direction regarding the role of the state in launching petrochemical industry. 4. The Mayor's Task Force should provide a watchdog role over the negotiations to acquire the gas liquids.

CHAIRS

Millett Keller

DATE

December, 1980

STUD

Alaska's Golden Opportunity: Resource Revenues and State Spending

OVERALL SUMMARY

An analysis of the best ways to invest Alaska's resource revenues for the long-term benefit of the state.

ASSUMPTIONS

1. Alaska has a "colonial economy" which is characterized by its dependence on the federal government and the export of raw materials. 2. Across the board tax burden reduction is necessary to strengthen Alaska's private sector and reduce the size of government. 3. The State needs to provide an infrastructure that will move Alaska away from its economic dependence on the rest of the nation.

RECOMMENDATIONS

1. The State needs to draft a 5-6 year Capital Improvement Plan and publish a series of projections illustrating anticipated growth in both state revenues and expenditures. 2. Tax credits should be established for the purpose of encouraging business reinvestment in Alaska. 3. The growth of state and local government operating budgets should be tied to the annual fluctuation of the non-government work force. 4. An Alaska Investment Fund should be established to finance large, self-liquidating projects. 5. State loan programs should be strictly limited and contain a provision for independent audit systems. 6. The Permanent Fund should be invested in appreciable assets so that its income will keep pace with inflation.

CHAIRS

William Sheffield

DATE

May, 1981

STUD

The Promise and Pitfalls of Alaska's State Loan Program

OVERALL SUMMARY

An examination of the State's loan agencies. State loan programs need to be regulated and, where necessary, consolidated to insure that the State does not overwhelm private lending agencies.

ASSUMPTIONS

1. State loan agencies have proliferated to the point of threatening to overwhelm the private sector. 2. Current state loan programs have created inequities which need to be corrected. 3. The State has a "crisis mentality" that does not allow a long-term approach to state loan programs

RECOMMENDATIONS

1. Drop the 12 redundant loan agencies from the books. 2. The Alaska Renewable Resource Corporation and the Commercial Fishing and Agricultural Bank should be abolished or severely curtailed. 3. Combine the remaining loan programs into 3 loan authorities. 4. Confine state government lending to secondary market activities. 5. Launch an independent audit and examination of all state loan programs.

CHAIRS

David Chatfield

DATE

June, 1981

STUD

Investing in Alaska's Future: The Capital Investment Fund

OVERALL SUMMARY

A second fund, like the Permanent Fund, should be created to provide stability to Alaska's economy. This fund would provide investment in an infrastructure designed to broaden Alaska's economic base.

ASSUMPTIONS

1. Alaska needs to build an economic backbone. 2. It is imperative that there be a reinvestment of current revenues within the state to prevent a "boom and bust" economy. 3. There is a clear need to develop cost-effective, modern utilities and upgrade transportation facilities. 4. The public sector has the opportunity and the ability to invest in transportation and power projects that will allow the economy to diversify. 5. Alaska is unique and requires a unique solution.

RECOMMENDATIONS

1. Create an "Alaska Capital Investment Fund" whose aim is to channel a portion of current revenues into the financing of Alaska's economic infrastructure. 2. The Fund will insure that Alaskans have inflation-proof energy and vital transportation links. 3. The Fund will represent an investment in the future as does the Permanent Fund, but the Capital Investment Fund's dollars will be mandated to be invested in the state. 4. The "dividends" of the Fund will be new jobs, new services and economic security.

CHAIRS

Loren Lounsbury

DATE

November, 1981

STUD

Moving North Slope Natural Gas to Market: A Positive Alternative

OVERALL SUMMARY

A study of the proposed natural gas pipeline. Both the cross-Canada and all-American plans are discussed. This study re-examines the issues raised in the 11/81 natural gas study

ASSUMPTIONS

1. The North Slope contains a vast, untapped supply of natural gas. 2. National policy makers must determine if the Alaska natural gas transportation system is in the best interest of the nation. 3. In addition to federal subsidies and loan guarantees, Alaska will have to participate in the financing of the gas line. 4. It is in the nation's best interest for Alaska to add value to its raw resources through in-state processing. 5. The all-American gas line proposal is being ignored. It is a viable alternative that should be considered.

RECOMMENDATIONS

1. The state should take the leadership in fostering the building of a high-pressure gas line from Prudhoe Bay to tidewater. 2. Alaska should provide equity investment or loan guarantees to the pipeline project if it is built through Alaska to an ice-free port

CHAIRS

William Egan, Walter Hickel

DATE

January, 1982

STUD

The Transfer of the Alaska Railroad

OVERALL SUMMARY

Initial study of the feasibility of purchasing the railroad from the federal government and railroad line expansion.

ASSUMPTIONS

1. An efficient, improved and expanded Alaska Railroad is vitally important to the future of Alaska. 2. The federal government wants to dispose of the railroad. 3. There are issues concerning access across both private and federal lands which may compromise expansion.

RECOMMENDATIONS

1. All 38,000 acres now controlled by the railroad should transfer to the state and disputes should be handled through normal judicial means and not put in the transfer legislation. 2. No amendment to bill S.1500 should be allowed to disrupt the water-borne railroad car link that exists between Alaska and the lower 48. 3. The legislature should set up a Railroad Authority independent of the Department of Transportation to receive the railroad from the federal government. 4. The Federal Railroad Administration must use the period prior to the transfer to approve the investment of on-going profits in deferred maintenance and capital projects.

CHAIRS

William Tobin

DATE

October, 1982

STUD

Shall There Be a Constitutional Convention?

OVERALL SUMMARY

A thorough discussion of the pros and cons of convening a constitutional convention.

ASSUMPTIONS

1. Alaska's constitution requires that the public will have an opportunity every 10 years to decide on the necessity of a constitutional convention. 2. There are three areas that need further consideration: use of the initiative for constitutional amendment, use of a Constitutional Revision Commission and use of a legislative steering committee.

RECOMMENDATIONS

1. The use of initiative for constitutional amendment needs to be improved. 2. The Constitutional Revision Commission should be created with a bi-partisan body with an appointee from each government branch and 4 elected public members. 3. The Alaska Legislature should establish its own standing committee to implement the amendment process.

CHAIRS

Helen Fischer, Judge Ralph Moody

DATE

January, 1984

STUD

The New Alaska Railroad

OVERALL SUMMARY

The issue of the State's purchase of the Alaska Railroad is the question this study answers. The study recommends that the State purchase the railroad and operate it like private business.

ASSUMPTIONS

1. The railroad can be self-sufficient if it is allowed to be fully competitive, is organized as an independent corporation and the cost of transferring the railroad is funded by the state. 2. The faster the railroad shows itself capable of self-sufficiency, the sooner it will be attractive to a private buyer. 3. Adequate safeguards exist within the ICC and federal antitrust laws to protect competing private carriers from predatory railroad pricing.

RECOMMENDATIONS

1. The state should buy the Alaska Railroad. 2. The legislature should refuse special interests that propose to limit the railroad's scope of operations. 3. The legislature should appropriate \$37.7 million to the Alaska Railroad Corporation for the purpose of meeting transfer related liabilities and \$22.3 million to the federal government for the purchase of the Alaska Railroad.

CHAIRS

Richard F. Barnes

DATE

February, 1985

STUD

Compass North - Five Challenges for Alaska

OVERALL SUMMARY

Discussion of Alaska as an "owner state" in which the state owns a substantial amount of land and resources. As the owner, Alaska has an obligation to provide its residents with a sustainable economy. To do this, the state must use its land and capital to preserve and enhance the private enterprise system.

ASSUMPTIONS

1. Alaska is an "owner state", unique from other states. 2. The Alaska government has an obligation as an owner to help sustain the economy. 3. The state government should use its power in partnership with the private sector to create new opportunity and wealth. 4. If the state government does not stop dissipating its capital base on current operations, the result may be a failed economy.

RECOMMENDATIONS

1. Alaska's ownership revenues should be divided equally between the Permanent Fund and a new capital investment fund. 2. The legislature should enact legislation which establishes long-term goals for the Permanent Fund. 3. Current spending must be reduced to levels that can be sustained in the future. 4. The state government must refrain from using its wealth to usurp local decisions or displace local responsibility. 5. Alaska's statehood lands and resources should be managed as capital assets. 6. The governor should forge the resource development strategy necessary to enact legislative policy. 7. The state should determine its role as an investor in the development of Alaska's resources.

CHAIRS

Max Hodel, Harold Heinze, Sue Linford, Richard Barnes, Millett Keller

DATE

February, 1988

STUD

Using the Permanent Fund as a Positive Counter-cyclical Force in the Alaskan Economy

OVERALL SUMMARY

Meant to be considered in conjunction with the Alaska Development Board proposal, this study states that the earnings of the Fund should be used in two ways. First, in good times, the earnings should be placed back in the Fund. Second, in the event of a fiscal need, the earnings should be appropriated directly into municipal and state government expenses.

ASSUMPTIONS

1. The Permanent Fund was created to remove a portion of Prudhoe Bay revenues from the appropriations table. 2. There is no consensus on how to use the Fund's earnings, except for the dividend program

RECOMMENDATIONS

1. Permanent Fund earnings should be used as a positive counter-cyclical force in the Alaskan economy. 2. Fund earnings should be appropriated directly to municipalities on a per-capita basis as needed. 3. The Legislature should create an Alaska Development Board which will research and recommend to the Legislature major revenue generating in-state investments to expand and diversify the state's economy. 4. The Legislature should establish an Alaska Development Fund by using a portion of the PF's Earnings Reserve Account. 5. The Permanent Fund Dividend should be capped. 6. Use of the Fund's earnings to "inflation proof" the Fund should be in proportion to the health of the state's economy. 7. The Fund's earnings should be used for state government operations only in dire emergencies. 8. Strategies for using Fund earnings should be written in statute.

CHAIRS

Dave Chatfield, Julius Brecht

DATE

April, 1988

STUD

The Alaska Railroad and its Future

OVERALL SUMMARY

Proposed development of the Alaska Railroad to provide a transportation system that will aid the economic stability of Alaska.

ASSUMPTIONS

1. The Alaska Railroad Corporation Act of 1984 charged the state with the responsibility of developing the railroad but gave it no clear guidelines. 2. A rail system provides the best year-round surface transportation network. 3. Expansion of the rail lines would result in substantial economies to serviced areas, but there are obstacles to rail corridors which create great impediments to expansion. 4. The railroad should not be sold but maintained in a state of readiness for sale to a private entity to ensure that it will be continued to be operated profitably. 5. The management of the railroad deserves high marks for operating within their revenues, working with the union, and safety upgrades.

RECOMMENDATIONS

1. The legislature should amend the existing legislation to provide the clear guidelines needed to manage this entity. 2. The legislature should create an Alaska Development Board to work in conjunction with the railroad's board of directors to propose extensions and more effective land use. 3. The railroad should not even be considered for sale prior to January 6, 1990. 4. The board of directors should be free of politicization and consist of individuals with proven state-wide business acumen. 5. The Corporation Act should be amended to allow for long-term leases in excess of 35 years and management should continue to improve the marketing arm of the Corporation.

CHAIRS

Loren Lounsbury, Frank Danner

DATE

April, 1988

STUD

Redesigning the Front Door to Anchorage thorough the Relocation of th
Anchorage Railroad Yard

OVERALL SUMMARY

Proposal to move the central railway yard from Anchorage to Eagle River. This relocation will allow for a redesign of the port area and will add to the economic viability of the Eagle River area.

ASSUMPTIONS

1. The Alaska Railroad's central yard, depot and administrative offices are outdated, poorly designed and inefficient for best utilization. 2. The railroad is in an inappropriate location for the future development of the central city area. 3. The highest and best use of this land is not as a central railyard. 4. Freeing this area for planned development will revitalize this area of Anchorage now and in the future. 5. The railroad owns land in Eagle River which is more suitable an appropriate for the railyard.

RECOMMENDATIONS

1. The Alaska Railroad Corporation is urged to initiate immediate efforts to plan for the relocation of the central railyard to Eagle River. 2. The Mayor and the Municipal Government are urged to participate with the railroad in the feasibility study for this move. 3. The Municipality and the State should examine options for financing this timely project.

CHAIRS

Loren Lounsbury

DATE

June, 1988

STUD

Fire Island: A Maritime Center for the North Pacific

OVERALL SUMMARY

With expansion of the Port of Anchorage limited by its geography and year-round traffic restricted by mid-winter ice, Fire Island is an ideal location for a maritime center in the North Pacific. This center will replace the dependency on Seattle-area support services

ASSUMPTIONS

1. There is a need for a maritime center in the North Pacific. 2. The Port of Anchorage is inadequate to address these needs due to size limitations and ice accumulation in the winter months. 3. Fire Island is the best alternative location.

RECOMMENDATIONS

1. The current economy makes the infrastructure in Anchorage significantly underutilized. 2. Fire Island is a prime location with economical construction and the ability to handle an major influx of population. 3. A North Pacific Maritime Center should be built on Fire Island.

CHAIRS

Loren Lounsbury, Frank Danner

DATE

October, 1988

STUD

The Alaska Development Board

OVERALL SUMMARY

Statement of the need for in-state investment in revenue-generating projects to diversify the economy

ASSUMPTIONS

1. The state needs capital investments which generate revenue, repay their cost, pay their own O&M and facilitate resource development. 2. Prudhoe Bay will soon begin its decline and the state needs in-state investment in revenue-generating projects to diversify the economy.

RECOMMENDATIONS

1. A bill is to be put before the legislature creating the Alaska Development Board in the Office of the Governor. ADB will research feasibility and whether projects are revenue-generating and merit state investment.

CHAIRS

Rick Barrier, Joe Hayes