

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2733 SCOMM 122: COMMISSION ON PRIVATIZATION. ., 1999

already privatized. The memorandum also suggested that the Governor designate a single point of contact as a liaison to the commission which is Mr. Abbott.

CO-CHAIR WARD noted that there is information available from the legislative branch as well. He acknowledged that this is a large task.

COMMISSIONER THOMAS commented that some subcommittees have lots of volunteers while others do not.

MR. PIGNALBERI informed everyone that there are seven departments for which committee membership has not been filled. Those committees are the Alaska Department of Fish & Game, the Department of Corrections, the Department of Labor, the Department of Law, the Department of Military & Veterans' Affairs, the Office of Management & Budget, and the Department of Public Safety. He predicted that those committees would be filled over the next few weeks. Departments such as the Department of Transportation and the Department of Health & Social Services have a dozen or more members listed. That is allowed so that the subcommittee can divide itself further. For example, there has been a suggestion that the Department of Transportation have separate subcommittees for the Alaska Marine Highway System, airports, and one for the remainder of DOT/PF issues. The same scenario would be utilized with the Department of Health & Social Services.

CO-CHAIR WARD stated that this process is now in the hands of the commissioners. As much participation as possible is necessary.

MR. PIGNALBERI commented that he had a list of interested folks as well as their phone numbers. After one person requested that their phone number not be publicized, it has been decided to provide the contact list of home and work phone numbers, faxes and e-mails of the committee members only to those in the committee.

CO-CHAIR WARD requested that Mr. Clary contact everyone in order to determine who would not want which particulars to be publicized.

COMMISSIONER THOMAS suggested that a mailing address be added to the list because volunteers would probably prefer receiving letters of opinion versus phone calls. Commissioner Thomas commented that consideration should be given to the concern regarding "whether business in the private sector is taking an offensive position against government employees and the bureaucracy of government." She expressed the need to remember that private sector employees view this as an opportunity for jobs. Some of these jobs may not be eliminated, but may merely change ownership. There may be some

shifts in the business sector due to privatization. As a contractor, Commissioner Thomas acknowledged that at times the concept of a project may be different from the scope of the work and the ability to build the project. Upon completion of this task, she emphasized the need to reflect on how it can be successfully implemented. Although the commission may determine what can be privatized, if the scope of the privatization is not written correctly it will not happen. A third party to review or help write contract specifications or consult the agencies may be a recommendation of the commissioner.

COMMISSIONER VALESKO expressed the need for the commission to be cautious in the recommendations that are made. He commented that basically privatization is profitization in that government services are turned over to someone in order to make a profit on those services. Such will not work unless the situation is profit-making for private organizations. He stressed the need for protections to be written in so that Alaskans are not overcharged for items. Commissioner Valesko commented, "My main concern ... that the working people of Alaska are protected, the people that take these jobs ... that they're able to make a living to support their family and educate their kids and we have a standard of living in this state that we can look up to. And I'm very sad and disappointed to say in the last six, seven, eight years the standard of living for Alaskans, and I'm part of the system that is trying to do something about it and failing, has gone down hill in comparison to ... most of the rest of the states in the United States." He suggested the need to review legislation because there are laws that apply to public employees such as the requirement for public employees to receive health insurance and retirement benefits. If there is to be a change from public sector employees to private sector employees, the aforementioned benefits should be protected no matter who performs the job. Commissioner Valesko stressed that he did not want a work force of temporary employees. He noted that there are those in privatization who profit tremendously. Why should one person reap all the profits? Commissioner Valesko used the snow removal system in Anchorage as an example of the state working in tandem with the private sector. In conclusion, Commissioner Valesko stated that he supported reviewing those places where privatization would make sense. Furthermore, there should be review of those areas where privatization has already occurred in order to determine if it is working.

COMMISSIONER WUERCH commented that the Alaska Municipal League is very appreciative of being included in this commission. The league has offered to be a resource for the commission. He acknowledged the trend of local governments having to provide some of the

services previously provided by the state. Through this commission, there is the opportunity to open up new partnerships between state and local government to deliver services. However, there are obstacles. Therefore, Commissioner Wuerch expressed the need to uncover common solutions. One such solution would be to allow local governments to bid on state work.

COMMISSIONER WUERCH thanked all the volunteers and the staff recruiting these volunteers. He offered his services in helping to fill in the gaps. He asked if there would be a point during which the commission would meet with each subcommittee.

MR. PIGNALBERI noted that there is a sign up sheet for advisory councils. It is anticipated that each commissioner will be on at least one of the subcommittees. Therefore, there should be some continuity between the work of the subcommittees and the commission. With regard to Commissioner Wuerch's question, Mr. Pignalberi believed that to be up to the discretion of the commission. He turned to the outline of subcommittee reports which is fairly standard, but can be changed by the commission.

COMMISSIONER ALLEN inquired as to the role the commissioners would play sitting on the subcommittees.

MR. PIGNALBERI clarified that the commissioners would be a working member of the committee.

CO-CHAIR WARD noted that a proposed schedule was being provided to the members and that teleconferencing is available. He explained the need to begin work in the subcommittees as efforts continue to fill up those subcommittees not yet full. He announced that the next proposed meeting of the full commission is on August 16, 1999. He explained that there should be subcommittee work that happens between this meeting and the proposed August 16, 1999 commission meeting. The individual chairs of the subcommittees will decide upon a meeting time and utilize the room and teleconference network. Then the subcommittee representatives would present the commission with a progress report at the August meeting.

CO-CHAIR COWDERY clarified that there are a few rooms available to the subcommittees, but those rooms must be scheduled ahead of time. He urged the commissioners to attend as many subcommittee meetings as possible.

COMMISSIONER WUERCH inquired as to how the subcommittee chairs will be chosen.

CO-CHAIR WARD informed everyone that names are being accepted for

more volunteers. He explained that the first person that requested to be the chair of a subcommittee was made so.

CO-CHAIR COWDERY interjected that these positions may change.

CO-CHAIR WARD explained that the chair of the subcommittee will decide when meetings occur and conduct those meetings. The only vote that determines what will be recommended to the legislature will come from the commission.

TAPE 99-2, SIDE A

UNIDENTIFIED SPEAKER expressed the need to include topics of interest for the subcommittee on the home page in order to spur subcommittee discussion on those.

CO-CHAIR WARD agreed that would be appropriate and noted that it would be up to the subcommittees.

COMMISSIONER THOMAS suggested that the chairs of the advisory councils be used for organizational purposes. This would allow them to choose their own chair which would be advantageous to all.

CO-CHAIR WARD stated that nothing precludes the commission from anything. The subcommittees can break down further, but the current structure allows for the process to begin. He indicated that the subcommittees have much flexibility.

COMMISSIONER THOMAS asked if the commission would have the capability to have listen-only teleconference hook-ups.

CO-CHAIR COWDERY answered yes. He mentioned that the need for those interested in the Alaska Marine Highway to be from Southeast Alaska.

COMMISSIONER FINK inquired as to when the commission would meet again.

CO-CHAIR WARD announced that the intention was for the commission to meet once a month.

SENATOR ADAMS clarified that the commission will be meeting as will the subcommittees. Each commissioner will sign up for an agency for which he/she will attend those subcommittee meetings. He hoped that time would be spent on the subcommittee report outline in order to develop an outline format for each agency.

The committee took a brief at-ease to 9:50 a.m.

CO-CHAIR WARD called the committee back to order and announced that Fairbanks was also on teleconference.

MR. PIGNALBERI explained the subcommittee report outline is based on his experience with past reports. The outline is an attempt to place the subject before the subcommittees in order to think about what the end product would be from the subcommittees.

SENATOR ADAMS referred to number five on the outline which speaks to identifying constitutional and statutory provisions governing agency operations. He agreed that each subcommittee should understand their agency, however statutory changes also need to be reviewed because that needs to be included in the recommendation from the subcommittee.

SENATOR ADAMS referred to number nine on the outline which speaks to listing existing agency contracts and the procurement methods. He recommended the need to have a time line on the contracts and the benefits. He turned to the next number nine which speaks to identifying existing privatization practices, if any. Senator Adams agreed with Commissioner Valesko that review of whether current privatization is working or not should be evaluated by the subcommittees.

COMMISSIONER WUERCH commented that a question comes to mind regarding the balance of effort; how much effort will come from subcommittee members and from the Administration.

MR. PIGNALBERI explained that each departmental commissioner will be given this outline so as to provide the subcommittee with the information prior to its first meeting.

SENATOR ADAMS anticipated that the co-chairs' staff will obtain the resource contact for each agency. He noted that each agency has been audited and therefore, there will be a contact with Legislative Budget & Audit. He pointed out that each agency has a legislative liaison that can be utilized as a resource for the statutory guidelines, missions, goals, objectives, and contracts.

CO-CHAIR WARD said that he believed there would be a great deal of cooperation between the commission and the Administration.

COMMISSIONER ALLEN indicated that it would be appropriate for the subcommittees to ask departmental commissioners to provide the subcommittee with a briefing on the department. Furthermore, the departmental commissioner could provide any recommendations with regards to privatization. He also agreed with Commissioner Valesko's and Commissioner Sandvik's comments.

CO-CHAIR WARD agreed that could be part of the subcommittee presentation.

CO-CHAIR COWDERY interjected that the Governor fully intends for the commissioners to fully participate with the subcommittees.

COMMISSIONER SANDVIK pointed out that many agency activities are governed by their funding sources. Therefore, she suggested that the subcommittees consider the limitations placed on the agencies by the funding sources. That should be included in the subcommittee report as well as recommendations in that area.

COMMISSIONER ALLEN commented that those agencies receiving enterprise funds within a department would stand out during subcommittee review. He hoped those would be highlighted.

COMMISSIONER THOMAS suggested that the subcommittee should define which grant money could be administered by the private sector.

CO-CHAIR COWDERY emphasized that there are certain mandates in the union contracts which will be honored, although there could be changes in future negotiations.

BRIAN HARRIS informed the committee that he is a Communications Engineer with MicroAge Corporation (ph), although he is not present representing that corporation. However, he is present to provide the committee with information regarding a report he is doing for Commissioner Poe, Department of Administration. The report is reviewing the infrastructure of the Anchorage based telecommunications system and how to utilize technology to redirect some telecommunication costs. One of the items to be reviewed is with regard to who would be the best to manage and run such a system. He informed the committee that a 1994 Wolfe & Associates (ph) study found that the state is basically its own telephone company. If that is correct, the state would need to be prepared to move into the new century with the technology to do so. As a private citizen, Mr. Harris expressed concern with the incredible pace of technology. The state needs to view technology as a potential asset for savings or privatization.

ANDREE McLEOD pointed out that this commission is the Commission of Privatization and Delivery of Government Services. She hoped that the delivery of government services is not over looked. She expressed the need to have a nonretaliatory, anonymous mechanism for citizens and employees to provide some information to this commission. Ms. McLeod was concerned that this is a "top down type of commission." She suggested that viewing this from the bottom up may be advantageous. Ms. McLeod stressed that the outline does not

COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES
Anchorage, Alaska
August 16, 1999
9:20 a.m.

COMMISSION MEMBERS PRESENT

Representative Cowdery, Co-Chair
Senator Ward, Co-Chair
Representative Brice - via teleconference
Bill Allen, Former Mayor of Fairbanks - via teleconference
Tom Fink, Former Mayor of Anchorage
Kathryn Thomas, Former Chair of Alaska State Chamber of Commerce
George Wuerch, Alaska Municipal League
Don Valesko, Business Manger of Public Employees Local 71

COMMISSION MEMBERS ABSENT

Senator Adams
William Prosser, Chairman of the Board - Cook Inlet Region, Inc.
Helvi Sandvik, President - NANA Development Corporation

COMMISSION CALENDAR

Privatization of State Government Services

PREVIOUS ACTION

See Commission on Privatization minutes dated 7/20/99.

ACTION NARRATIVE

TAPE 99-3, SIDE A

CO-CHAIR WARD called the Commission on Privatization and Delivery of Government Services meeting to order at 9:20 a.m. Members present at the call to order were Co-chairs Ward and Cowdery, Representative Brice (via teleconference), and Commissioners Allen (via teleconference), Fink, Wuerch, Thomas, and Valesko. Commissioners Prosser and Sandvik and Senator Adams were not present. Co-Chair Ward thanked everyone present for attending and informed participants that Commissioner Sandvik was absent due to a death in her family. Co-Chair Ward announced the intent of today's meeting is to bring together the subcommittee chairpersons and the corresponding representatives from the Administration to facilitate a dialog about the best way to proceed with the commission's work.

The subcommittee chairs of the Joint House and Senate Commission on Privatization made the following introductory remarks.

DAVID MORRISON, Chairperson of the Subcommittee on the Department of Corrections (DOC), stated he worked in the Canadian Ministry of Justice for 25 years on corrections matters. He is a seven year resident of Alaska and currently works for Cornell Corrections, a private company.

CRAIG JOHNSON, Chairperson of the Subcommittee on the Department of Community and Economic Development (DCED), informed participants he is the general manager and publisher of the Alaska Journal of Commerce, as well as other publications. He was previously employed as a legislative assistant.

VIRGIL NORTON, a former contractor and an experienced environmental cleanup project manager, stated he is chairing the Subcommittee on the Department of Environmental Conservation (DEC).

WAYNE ROSS, an attorney, stated he is chairing the Subcommittee on the Office of the Governor.

MEAD TREADWELL, Chairperson of the Subcommittee on the Department of Fish and Game (ADFG), stated he was a deputy commissioner of the Department of Environmental Conservation, and is currently the Vice-Chair of the Prince William Sound Oil Spill Recovery Institute which conducts ecological research related to fisheries management.

JOSEPH HENRI, Chairperson of the Subcommittee on the Department of Administration (DOA), stated he is a member of the Alaska Bar Association and has practiced law in Alaska for about 35 years. He was the Commissioner of the Department of Administration during former Governor Bill Egan's third term.

KEN PEAVYHOUSE, Chairperson of the Subcommittee on the Alaska Court System, stated he has retired from the insurance business and has been an Alaska resident for 40 years.

LEO MARK ANTHONY informed participants he is a retired University of Alaska School of Mines [indisc.] prospector and is the Chair of the Subcommittee on the Department of Natural Resources (DNR). Several subcommittees will review DNR because of the size of its budget. DNR has already given an overview of its missions to the subcommittees however, the subcommittees have requested more information. He maintained that if the subcommittees are unable to get that information, the legislature should request it and every few years review and revise DNR's budget so that, "We know some way where we stand on costs."

MARYANN PEASE, Chairperson of the Department of Revenue (DOR), stated she was formerly employed by the Municipality of Anchorage as the director of the Office of Management and Budget and, while in that position, she looked into privatization of many of the functions associated with the municipality. She is currently the Vice President of Aurora Power, a natural gas marketing entity.

CO-CHAIR WARD asked subcommittee chairpersons to join commission members at the table. He asked representatives from the Administration to provide commission members with department mission statements during their presentations.

COMMISSIONER BILL ALLEN interjected and asked for clarification of Mr. Mark Anthony's statement that DNR has been split into subcommittees.

MR. MARK ANTHONY explained that DNR has been split along budget lines into ten or eleven parts. Each subcommittee member will review one part of the budget.

COMMISSIONER ALLEN asked if anyone else spoke as a Chairperson of the Subcommittee on DNR.

CO-CHAIR WARD replied that Dale Urich is a Chairperson of the Forestry Subcommittee. Co-Chair Ward announced it is the prerogative of each subcommittee's chair to break the subcommittee down further.

CO-CHAIR WARD took testimony from members of the Administration.

PAT POURCHOT, Office of the Governor, informed commission members that he is filling in for Mike Abbott, who has been working with Co-Chair Ward's staff. He noted it was his understanding that the purpose of today's meeting was to hear from subcommittee chairs, not for the departments to make presentations. He stated some of the department representatives have given information to the individual subcommittees, but some have not, depending on the meeting schedules of the subcommittees. He noted that representatives of DOC, the Department of Public Safety (DPS), the Department of Law (DOL), DNR and DEC were present to answer questions. He stated a bill before the legislature contains formalized mission statements that might be of interest to the commission. He noted each department representative will share a mission statement with the commission.

CO-CHAIR WARD agreed the purpose of the meeting is not to listen to formal presentations by Administration representatives and noted the purpose of the meeting is to make sure the commission is on the

right track. He recalled that the mission statements from each department were introduced in a separate bill in the legislature because those mission statements were removed from the operating budget. He indicated staff will provide a copy of that legislation to the subcommittee chairs.

CO-CHAIR COWDERY mentioned that he only has two staff people employed during the interim taking care of all of his work, including that of the commission. He said the large number of subcommittees prevents his staff from doing anything but the most necessary work for each. He asked each department representative to provide subcommittee chairs with mission statements.

CO-CHAIR WARD asked the department liaisons to introduce themselves to commission members.

The following representatives of the Administration introduced themselves:

DEL SMITH, Deputy Commissioner of the Department of Public Safety.
MARTY RUTHERFORD, Deputy Commissioner, Department of Natural Resources.

BRUCE RICHARDS, Special Assistant, Department of Corrections.

DOUG WOOLIVER, Administrative Attorney, Alaska Court System.

JOAN KASSON, Special Assistant, Department of Law.

DAVID WIGGLESWORTH, Department of Environmental Conservation.

GREG WOLF, Director of Trade and Development, Department of Community and Economic Development.

MARY MCDOWELL, Commercial Fisheries Entry Commission.

KURT PARKAN, Deputy Commissioner, Department of Transportation and Public Facilities.

ALISON ELGEE, Deputy Commissioner, Department of Administration.

DWIGHT PERKINS, Deputy Commissioner, Department of Labor.

MIKE CONWAY, Director of the Division of Statewide Public Services, Department of Environmental Conservation.

KAREN REHFELD, Department of Education and Early Development.

JANET CLARK and ELMER LINDSTROM, Department of Health and Social Services.

GERON BRUCE, Special Assistant, Department of Fish and Game.

[PORTION OF TAPE INAUDIBLE DUE TO TELECONFERENCE EQUIPMENT MALFUNCTION.]

CO-CHAIR WARD acknowledged that the legislature received overall mission statements from each department but none for agencies such as the Alaska Public Offices Commission. He asked what agency level the mission statements should be requested for.

AN UNIDENTIFIED COMMISSIONER replied the commission should have mission statements for all major components of each department so that the subcommittees can do a cost benefit analysis.

REPRESENTATIVE BRICE pointed out that the House version of SB 169 contained mission statements for divisions.

CO-CHAIR WARD noted that copies of SB 169 would be distributed to participants shortly.

MIKE TAURIANAN joined the meeting and informed commission members he is the interim Chair of the Department of Health and Social Services (DHSS) subcommittee. He noted he was promised information which he has not yet received.

MARYANN PEASE asked Co-Chair Ward if a liaison from the Department of Revenue was on line.

CO-CHAIR WARD said no representative from the Department of Revenue was on line but that Pat Pourchot would be coordinating contacts.

CO-CHAIR WARD asked subcommittee chairs to inform participants of their activities so far.

VIRGIL NORTON stated that the Subcommittee on DEC has met twice and has a third meeting scheduled on August 18. Dave Wigglesworth represented DEC at the first meeting, which was primarily an organizational meeting. At the second meeting, the subcommittee was briefed by Larry Dietrick and Jim Hayden on contaminated sites and storage tanks. The subcommittee received a lot of information on those topics and will be briefed on the Village Safe Water Program on Wednesday.

LEO MARK ANTHONY indicated that the Subcommittee on DNR has met once and subdivided itself along budget lines. They have heard from DNR regarding its mission, and the subcommittee has requested more information. The subcommittee will meet again this evening.

COMMISSIONER KATHERINE THOMAS said she sat in on the DNR subcommittee meeting. She asked if DNR has transmitted the requested information to the subcommittee.

MR. MARK ANTHONY replied it has, and that copies will be made available to subcommittee members at the evening meeting.

JOE HENRI informed participants that the Subcommittee on DOA has met once. DOA now has 1,300 employees and is one of the largest departments; its mission is endless. Subcommittee members have 2½

months in which to recommend to the legislature ways to save money. He plans to zero in on a few services that DOA provides, rather than to canvas everything DOA does.

CO-CHAIR WARD said he is in total agreement with that approach and, in his opinion, the direction the subcommittees take should be up to the chairpersons.

COMMISSIONER THOMAS stated that because privatization has been a priority with the Alaska State Chamber of Commerce for so many years, she feels an awesome responsibility to this commission. When in Anchorage, she sat in on several subcommittee meetings. Some of the subcommittees have focussed on the directives in the Senate bill (SB 33), others have not. She felt the subcommittees should review and formulate their work around Section 5 of SB 33.

TAPE 99-3, SIDE B

MARYANN PEASE informed participants that within the last year Commonwealth North did a return on assets study. Each division of the state was studied in detail and interviews with department staff were conducted. Part of that study pertained to the appropriateness of services being performed by specific departments. She suggested that copies of that report be made available to the subcommittee chairs.

CO-CHAIR WARD noted that study has been distributed to the commissioners and he will make sure it is distributed to all members of the subcommittees.

COMMISSIONER VALESKO expressed serious concern, as a member of the commission, that subcommittee chairs have been given the authority to pick and choose which areas to look into. His concern reaches back to the method of selecting the chairs which required no consensus among commission members. He noted that he asked, at the last meeting, how the chairs were selected for the various subcommittees and was told that the first person who volunteered to be a chairperson was selected to do so. After that meeting, he returned to his office and asked a staff person to volunteer to be on a subcommittee on the Department of Military and Veterans Affairs (DMVA). She called and offered to act as the chairperson but was told that DMVA was not under review for privatization. He repeated his concern that the Commissioners have not decided, as a group, on a selection method. He expressed further concern that the Chair of the Subcommittee on the Department of Corrections is affiliated with Cornell Corrections which may constitute a very serious conflict of interest because Cornell has already entered into a privatization agreement with the Delta prison. He said he

feels his integrity is on the line because the lack of a selection process for subcommittee chairs by commission members jades the whole process.

CO-CHAIR WARD explained that he and Co-Chair Cowdery met and decided to begin a massive volunteer effort to get the public involved. They instructed staff to appoint the first people who volunteered to be chairs of subcommittees as such, and, if no one volunteered, to call subcommittee members and ask for a volunteer. He asked Commissioner Valesko for further information about the woman who volunteered to act as the chair of the DMVA Subcommittee.

MARCO PIGNALBERI, Legislative Assistant to Co-Chair Cowdery, Alaska State Legislature, explained that he made the decision to not review every department because of the commission's limited time and resources. He selected which departments would be reviewed. After speaking about the issue with the Co-Chairs, they decided every department should be reviewed. He appointed Valerie Baffone because he got a message that she would be interested in one of the three committees, including the Department of Labor committee.

CO-CHAIR WARD maintained that every participant has a conflict of interest because all participants are touched by state government. He said, as a real estate agent, he cares about the Alaska Housing Finance Corporation. He noted the possibility of keeping certain professionals off of certain subcommittees was discussed; however, it was decided all participants needed to be considered as Alaskans first. He added that is why positions were left open and as many volunteers as possible have been recruited.

COMMISSIONER THOMAS commented that confirmation of subcommittee chairs was an agenda item at the last meeting; however, official action was not taken and she believes that they were accepted by an unspoken consensus. She noted that at that time she suggested that the subcommittee members choose their own chairpersons for two reasons: the members would tend to find the strongest among themselves, and the subcommittees are operating without staff or financial help and might need a chair who has staff available to help do the work.

COMMISSIONER FINK remarked that because time is of the essence, the commission needs to move forward, and if the commission is not satisfied with the work of a subcommittee, it does not need to support its report. He offered to make a motion to support the subcommittee chairpersons who have been appointed. Regarding Mr. Henri's request to limit the areas that his subcommittee reviews, Commissioner Fink said he thinks all subcommittees need to take that approach. He noted many subcommittee members have ideas about

ways to privatize which should be discussed first because the subcommittees will not have time to review every budget item. He indicated that the final report should zero in on about six areas and then list others for future review.

COMMISSIONER ALLEN seconded Commissioner Fink's motion and said he agrees with Commissioner Fink's comment, and that there is no way that a conflict of interest can be avoided if Alaskans are asked to come forward and volunteer in their areas of expertise. Second, he believes problems within the subcommittees will surface and the Commissioners can take appropriate action at that time. He asked participants to not get bogged down on this issue because so much work needs to be done.

COMMISSIONER WUERCH spoke in favor of the motion because Section 2 of SB 33 provides that the commission appoint people to assist and advise it.

CO-CHAIR WARD stated that the motion is to approve the subcommittee chairperson and membership appointments that exist as of today. He noted two other participants wanted to speak to the motion.

AN UNIDENTIFIED COMMISSIONER asserted that he understood the motion to allow the Chair of the commission the authority to appoint the subcommittee chairpersons.

COMMISSIONER FINK clarified that he moved that the commission approve the actions the Co-Chairs have taken.

AN UNIDENTIFIED COMMISSIONER asked how future appointments should be handled.

COMMISSIONER FINK said he would make another motion at a later date, after other people have been appointed.

COMMISSIONER VALESKO spoke against the motion because what precipitated it was the discussion about giving the subcommittee chairpersons the authority to pick and choose what parts of each department budget the subcommittee will look into. He expressed concern that the commission is deciding to do a partial, rather than a thorough, job of looking at state government.

CO-CHAIR WARD replied that he does not believe that the Chairperson of the Subcommittee on the Department of Administration was saying that his subcommittee would not do a thorough job.

MR. NORTON stated his support of Commissioner Fink's motion.

AN UNIDENTIFIED COMMISSIONER called for a point of order and noted that only the Commissioners should speak to the motion.

CO-CHAIR WARD called for the question and clarified the motion as: the commission's acceptance of the Chairpersons and members of all subcommittees and committees in existence at this time and that appointment of future vacancies be dealt with in the same manner.

REPRESENTATIVE BRICE asked if the motion is to establish the current Chairpersons of Subcommittees as those who have been appointed to date.

CO-CHAIR WARD said that is correct.

REPRESENTATIVE BRICE asked if he can be involved in any committee he is interested in as a Commissioner.

CO-CHAIR WARD said that is correct and that all Commissioners are encouraged to sit in on all meetings.

CO-CHAIR WARD asked if there was any objection to the motion.

COMMISSIONER VALESKO objected, for the record.

CO-CHAIR WARD asked Commissioner Valesko if he wanted the motion rescinded so that a roll call vote could be taken.

COMMISSIONER VALESKO said he did not.

THEREFORE, the motion passed.

CO-CHAIR WARD remarked that Commissioner Valesko's concern is well noted and valid.

MR. NORTON asked Commissioner Valesko whether he objects to the subcommittee chairpersons or the members.

CO-CHAIR WARD explained that Commissioner Valesko's concern is with the selection process and that Chairman Henri plans to focus on a few areas of the Department of Administration's budget because that budget is so massive.

COMMISSIONER VALESKO expressed concern that all division budgets be reviewed so that subcommittee members get a total picture.

CO-CHAIR WARD said although that concern is valid, the commission's task is very large.

MR. NORTON remarked the work of the commission will not end in October because the legislature will continue to look at ways to privatize beyond the commission's report.

CO-CHAIR WARD agreed, but said the commission's final report will carry a lot of weight.

AN UNIDENTIFIED SPEAKER thought a simple amendment to the report, saying that further work is needed and that commission members will follow up to see if their recommendations were followed, would solve the problem.

COMMISSIONER ALLEN asked Mr. Norton if his subcommittee would be looking at the maintenance expense and the function of the systems when it reviews the Village Safe Water Program.

MR. NORTON said they would and that he has already spoken with Greg Capito of DEC. He also plans to speak with Marla Berg of Senator Adams' office and anyone else involved with Village Safe Water contracts, and with Public Health Service officials. The subcommittee is trying to determine where the program stands today, after spending millions of dollars, and what the maintenance costs will be once all systems have been established.

COMMISSIONER ALLEN asked Mr. Norton to add his name to the subcommittee list as he is very interested in that topic. He asked that the subcommittee explore all sources of revenue available to maintain those systems.

MR. NORTON said he plans to do so, and that he plans to explore staff training to prevent systems from failing.

CO-CHAIR WARD asked Mr. Pignalberi why minutes are not available from the last meeting.

MR. PIGNALBERI explained that the tapes of the meeting were sent to Juneau for transcription and that they would be completed by the next meeting. CO-CHAIR WARD said he has been assured that minutes will be completed in a timely manner in the future.

COMMISSIONER THOMAS expressed concern that some subcommittees have not scheduled meetings yet.

MR. PIGNALBERI informed commission members that its website contains a schedule of all meetings and that some subcommittees have not yet met because the chairpersons have been unable to schedule time to meet with him for a preliminary briefing and because subcommittee members have had schedule conflicts. He noted

that Mr. Taurianan came on board just last week and has been unable to arrange a meeting yet.

COMMISSIONER THOMAS asked whether all subcommittees have scheduled a first meeting.

MR. PIGNALBERI replied about four or five subcommittees have not yet scheduled a first meeting.

CO-CHAIR WARD noted that he has talked to most of the chairpersons who were confused about what to do, therefore, today's meeting was scheduled to inform them of how to proceed. He anticipated that those subcommittees who have not met would be doing so within the next week and that schedules will be posted on the internet immediately when available.

MR. PIGNALBERI informed commission members that the commission's website address is: "www.privatizealaska.org".

CO-CHAIR WARD offered the Co-Chairs' office staff as another source of information for those without access to the website.

CO-CHAIR WARD announced that the next agenda item is the consideration of state employee air travel mileage.

MR. PIGNALBERI explained that several commission members have noted an interest in reviewing the possibility of creating one mileage account to collect mileage points for state employee travel; an issue that transcends any one department. He suggested that such issues be forwarded to the full commission for direction. He recommended that the airline mileage issue be taken up by the Subcommittee on the Office of the Governor.

COMMISSIONER THOMAS suggested that the Subcommittee on the Office of the Governor comment on that issue but that it then be taken up by the full commission.

AN UNIDENTIFIED COMMISSIONER said this issue has come before the legislature and is outside of the bounds of the commission.

CO-CHAIR WARD said former Representative Terry Martin's bill on that subject included a provision to charter flights out of Anchorage which would have saved a lot of money. He recommended that the issue be taken up by the Subcommittee on the Office of the Governor who can advise the full commission.

DEPUTY COMMISSIONER ALISON ELGEE, Department of Administration, informed commission members that DOA has studied the airline

mileage issue at length. She suggested that the Subcommittee on DOA review it.

COMMISSIONER THOMAS remarked that she was unsure whether the issue of airline mileage is within the purview of SB 33 and that it will be a time consuming issue to review.

CO-CHAIR WARD contended that the Chair of the Subcommittee on DOA can decide whether to take it up.

COMMISSIONER ALLEN agreed with Co-Chair Ward.

COMMISSIONER FINK asked that any participant or member of the public who believes a particular government service should be privatized to talk to him about it.

CO-CHAIR WARD asked that any suggestions be submitted to staff as well for distribution to all Commissioners.

AN UNIDENTIFIED COMMISSIONER moved to add the Alaska Industrial Development and Export Authority (AIDEA) as one of the areas the subcommittees look into.

CO-CHAIR WARD seconded the motion but said it is already with the Department of Community and Economic Development's budget.

THE UNIDENTIFIED COMMISSIONER said he would also like to see the commission review the Alaska Science and Technology Fund, the Alaska Housing Finance Corporation, and the Alaska Permanent Fund Dividend Corporation.

CO-CHAIR WARD pointed out those three agencies are housed within departments. He added that it is important that Commissioners be informed of subcommittee schedules so that those who want to can attend. Co-Chair Ward said that he and Co-Chair Cowdery decided to review all departments for that reason.

COMMISSIONER VALESKO commented that he attended the Subcommittee on DOT/PF meeting and was concerned that the Chairperson decided against reviewing the largest dollar parts of that budget: design and construction, planning, and rights-of way. He moved that the commission direct the DOT/PF Subcommittee to look into all facets of DOTPF's budget.

REPRESENTATIVE BRICE seconded that motion. There being no objection, the motion carried.

COMMISSIONER THOMAS requested that commission members receive the

agenda prior to the meetings. She informed Co-Chair Ward that the State Chamber of Commerce will set up a fax network for all commission and subcommittee members by the end of the week.

REPRESENTATIVE BRICE remarked the commission needs to look into how the teleconferencing system is set up because Fairbanks participants have been disconnected several times.

CO-CHAIR WARD agreed to do so and notified participants that he was informed by the teleconference operators that today's problem have been caused by sun spots.

COMMISSIONER WUERCH said he supports the approach to allow each subcommittee to choose which areas of the budget it will address but cautioned that the fact that a subcommittee opts not to address a topic should not mean that the topic should drop forever from the radar screen as a possibility for privatization. He believes it should be made clear to the legislature that the fact that an area was not included in the report does not mean it is not worth review.

COMMISSIONER ALLEN brought up two items. Regarding Commissioner Fink's suggestion that ideas for privatization be directed to commission members, he thought the commission should publicize a "need to know." Second, he asked where the University of Alaska fits into privatization review.

CO-CHAIR WARD replied the University of Alaska is a complete component.

MR. PIGNALBERI added the University is doing an in-house study as a result of the passage of SB 33. The University will provide its study results to the commission after which subcommittee hearings will be held.

CO-CHAIR WARD asked if every state government entity is under review by a subcommittee except for the University of Alaska.

MR. PIGNALBERI said a University subcommittee is planned however its membership has not been appointed and no meetings have been scheduled as of yet. That subcommittee will meet after the University completes its report.

CO-CHAIR WARD asked Commissioner Allen if he would like to serve on that subcommittee.

COMMISSIONER ALLEN said not as the chairperson but that he is certainly interested in it.

CO-CHAIR WARD asked Mr. Pignalberi to write a memo to all Commissioners informing them of the procedure established for review of the University of Alaska.

MR. TAURIANAN asked Mr. Pignalberi to call him to discuss the Subcommittee on the Department of Health and Social Services.

AN UNIDENTIFIED SPEAKER asked if the subcommittees are subject to the open meeting laws and whether subcommittees can conduct business without a quorum.

MR. PIGNALBERI replied that, according to the Division of Legal Services, the subcommittees are comprised of volunteer citizens and therefore are not subject to the Open Meetings Act. Regarding a quorum, he stated that is a matter the commission could determine.

CO-CHAIR WARD asked subcommittee chairs to come back to the commission with recommendations if they want the commission to make such decisions.

MR. NORTON asked how elaborate the reports should be. He said he assumes they should contain brief recommendations with a short summary of how to facilitate the transfer of a service to the private sector.

TAPE 99-4, SIDE A

CO-CHAIR WARD stated that the documents will have to be created at the subcommittee level; however, the commission could make changes to it. Co-Chair Ward said one advantage is that citizens do not have to jump through the same hoops as bureaucrats and politicians. He added the commission will have to filter the information out and then legislators will have to meet with the Department of Law to figure out how to implement the recommendations.

ADJOURNMENT

There being no further business before the committee, the Commission on Privatization and Delivery of Government Services meeting was adjourned at an unspecified time.

SCOMM

122:22



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
William Prosser
Kathryn Thomas
Don Valesko
George Wuerch

AGENDA

September 20, 1999
9:00 a.m.

- 1. Call to order (date and time)**
- 2. Roll call of remote sites**
 - Juneau _____
 - Fairbanks _____
 - Mat-Su _____
 - Kenai _____
 - Other _____
- 3. Introduction of new commissioner Mike Harper**
- 4. Roll call of Commission Members**
- 5. Approval of previous minutes**
- 6. Staff report and introduction of Special Guests (Marco Pignalberi)**
 - Col. Michael Sandberg, Director of Logistics, US Army, Alaska**
 - Mr. Mark Bryant, Chief of Management Services, USARAK**
 - Major Brian Hilferty, Public Affairs Officer, USARAK**
- 7. Guest Presentation and Q&A**
- 8. Commissioner Comments and Discussion**
- 9. Revised Meeting Schedule: Oct 20, Wed; and every Thursday thereafter thru November, i.e., Oct 28, Nov 4, Nov 11, Nov 18, Nov 24, Nov 30.**

COMMISSION ON PRIVATIZATION DELIVERY OF GOVERNMENT SERVICES
Anchorage, Alaska
September 20, 1999
9:10 a.m.

COMMISSION MEMBERS PRESENT

Representative Cowdery, Co-Chair
Senator Ward, Co-Chair
Bill Allen, Former Mayor of Fairbanks
Tom Fink, Former Mayor of Anchorage
Mike Harper, President, Kuskokwim Corporation,
Kathryn Thomas, Former Chair of Alaska State Chamber of Commerce
George Wuerch, Alaska Municipal League
Don Valesko, Business Manger of Public Employees Local 71

COMMISSION MEMBERS ABSENT

Representative Brice
Senator Adams
William Prosser, Chairman of the Board - Cook Inlet Region, Inc.

OTHER HOUSE MEMBERS PRESENT

Representative Richard Foster

COMMITTEE CALENDAR

Introduction of new commissioner, Mike Harper

Presentation: Competitive Sourcing & Privatization in the Federal Government

PREVIOUS ACTION

See Commission on Privatization minutes dated 7/20/99 and 8/16/99.

WITNESS REGISTER

COLONEL MICHAEL SANDBERG, Director of Logistics, US Army, Alaska
MARK BRYANT, Chief of Management Services, USARAK
MAJOR BRIAN HILFERTY, Public Affairs Officer, USARAK
GREGORY ENDSLEY, Deputy Director for the Directorate of Logistics
JOHN TOENES, Deputy Director for the Directorate of Public Works

POSITION STATEMENT: Each of the above provided information on competitive sourcing & Privatization in the Federal Government.

ACTION NARRATIVE

TAPE 99-5, SIDE A

CO-CHAIR COWDERY called the Joint Commission on Privatization and Delivery of Government Services meeting to order at 9:10 a.m. Members present at the call to order were Representatives Cowdery, and Senators Ward, and Commissioners Allen, Fink, Wuerch, Thomas, and Valesko. Senator Adams, Representative Brice, and Commissioners Prosser and Sandvik were not present.

CO-CHAIR COWDERY introduced a new commissioner, Mike Harper.

MIKE HARPER, President, Kuskokwim Corporation, informed the committee that the Kuskokwim Corporation is one of the village corporations under the Alaska Native Land Claims Settlement Act. He noted that he has some background in business and government. He expressed his pleasure in being able to serve in the state in this capacity.

There was a motion for approval of the minutes from the last two meetings. There being no objection, it was so ordered.

MARCO PIGNALBERI, Legislative Assistant for Representative Cowdery, Alaska State Legislature, noted that the commission's packet should include a staff report that would be reviewed at the conclusion of the meeting. Mr. Pignalberi introduced the following special guests: Colonel Michael Sandberg, Director of Logistics, US Army, Alaska (USARAK); Mark Bryant, Chief of Management Services, USARAK; Major Brian Hilferty, Public Affairs Officer, USARAK. He reviewed the backgrounds of Colonel Sandberg and Mr. Bryant.

COLONEL MICHAEL SANDBERG, Director of Logistics, USARAK, introduced the committee to Gregory Endsley, Deputy Director for the Directorate of Logistics and John Toenes, Deputy Director for the Directorate of Public Works. He noted that both gentleman are intimately involved in commercial activities studies that are ongoing on the post.

COLONEL SANDBERG specified that he and the others were requested to discuss what the U.S. Army and the federal government is doing with regard to commercial outsourcing and privatization at Fort Richardson. He clarified that he wasn't present to make any recommendations, although he would be open to general questions.

MARK BRYANT, Chief of Management Services, US Army Alaska, presented a slide presentation which began with an overview of the history of competitive sourcing and privatization. In 1955, the Bureau Budget Bulletin indicated the basic fundamental policy of the federal government to rely on the commercial sector whenever possible. That was subsequently embodied in the Office of Management and Budget's OMB Circular, A-76, which continues to this day. Of course, the Department of Defense's and the Army's strategy or core responsibility is war fighting. Therefore, readiness is critical in order to provide the best performance of that mission in the field. To that end, the core processes have been identified. Anything beyond that should be reviewed for potential outsourcing or privatization. Mr. Bryant noted that this program has been referred to as competitive sourcing or commercial activities. He stressed that the program is not outsourcing. He explained that the program is the determination of the location of the best value to conduct a particular service or product: is it in-house with the government or outside with a private contractor?

MR. BRYANT informed the committee that there have been 468 competitions completed which were A 76 studies. He specified that almost all of their studies today are multi-function studies in which an entire organization and its functions are reviewed. The push for this began in the early 1980s. In 1987, there was the Nichols Amendment which gave the commander of an installation the prerogative to discontinue commercial activities and competitive sourcing studies.

CO-CHAIR WARD inquired as to the meaning of the reference to 25,305 positions on the slide.

MR. BRYANT clarified that there were 25,305 positions under review. He also pointed out that the 28 percent savings were linked to dollars which is a projected amount. There are reports by the Army Audit Agency (AAA) and the U.S. General Accounting Office (GAO) which indicate that the actual savings are unknown. In 1995, Colonel Cohen came out with the Quadrennial Defense Review (QDR) which basically discussed how to obtain more dollars for modernization. The report reviewed competitive sourcing studies which were initiated throughout the Department of Defense. At the same time, the anticipated savings have been shifted from sustainment to modernization. He noted that the Nichols Amendment moratorium was lifted in 1995, and therefore allowed the reinvigoration of the competitive sourcing program.

MR. BRYANT turned to a GAO audit performed in February 1999 which is somewhat incomplete. Out of 53 studies, there was an average savings of 42 percent, \$528 million. In the 1970s and the 1980s,

the government was winning about half the time and private contractors were winning about half the time. Currently, the private contractors are winning about 60 percent of the time. He noted that of the 53 studies, 18 of those had to rewrite their performance work statements (PWS) after the contract was awarded. He informed the commission that 32 competitions were won by the private sector. Of those 32, four were terminated based on poor performance. He specified that even after a contract is awarded, things must be modified and there may be appeals, protest, and poor performance.

MR. PIGNALBERI inquired as to the meaning behind the term competitions.

MR. BRYANT clarified that competitions are studies. He explained, "We developed documentation to tell us what ... particular functions we're going to study ... and how many personnel and material belong to those functions. ... It's what we term a single function or a multi-function." For example, a single function would be something like snow plowing while a multi-function would be snow plowing, grass cutting, facility maintenance, supply, services, and administration. There are few whole base studies.

CO-CHAIR WARD recalled Mr. Bryant's comments regarding the 50-50 split between the federal government and the private sector in the 1970s and 1980s. That breakdown has since leaned more heavily to the private sector which Co-Chair Ward interpreted as government being less efficient. He asked if there have been any determinations as to why that turn in efficiency.

MR. BRYANT commented that Mr. Pignalberi has a copy of the GAO report which reviewed those studies. The GAO report said that there is not enough statistical information to determine why the turn to the private sector other than its increase in efficiency. He explained that, basically, the private contractor has to beat the in-house government work force bid by ten percent or up to \$10 million of the personnel costs. In other words, if the government bids \$1 million and the contractor bids \$899,000 for the labor portion, all things being equal, the private contractor would win. The ten percent is built-in to cover the costs of transitioning the work force to the private industry. The GAO report also cites a 12 percent overhead factor which is also inconclusive. When the government determines its bid, 12 percent is added for the overhead. He believed that whether the overhead is the same as the private industry or less could be determined upon the review of some upcoming studies.

MR. BRYANT, in response to Mr. Pignalberi, clarified that MEO is

the acronym for most efficient organization. The contractor's bid is the in-house bid, the government work force bid.

COLONEL SANDBERG interjected that there isn't a central database which houses how other installation bids were developed so that another base could utilize that information. He believed that this army, governmental coordination is improving which was not the case earlier. Some of these large contractors have means and have determined how to share data in order to produce a better bid.

COMMISSIONER VALESKO asked if the military monitors the contractors with regard to requiring the same requirements the government work force would be required to follow. For example, would contractors be required to follow the same minority hire and veterans' preference rights and provide health insurance? He inquired as to whether there has been review as to whether contractors are meeting the standard of living. He commented that the standard of living for those in Alaska has been decreasing over the last dozen years.

MR. BRYANT explained that when there is competition, the private contractor must comply with the Fair Labor Standards Act which specifies for the positions in the government the contractor would have to pay a certain wage. Secondly, there is the "right-of-first-refusal." He explained that if the private contractor wins and has to write this in his bid document, the contractor must provide the current government employee the "right-of-first-refusal" over the job he needs to fulfill, so long as the employee is qualified and the position is necessary. With regard to the veterans' preference and other areas mentioned, Mr. Bryant wasn't familiar with those nor was he sure if there would be a tax advantage for a private contractor who allows those. There are many rules and regulations a private contractor must follow.

MR. BRYANT turned to competitive sourcing of inherently governmental activities. There are certain areas that a taxpayer would not want the government to contract out, the most fundamental of those is combat forces. He explained that, in general, the studies have two time limits which must be followed. The OMB Circular A-76 says a single function study must be completed in 18-36 months or there must be a report as to why more time is necessary. Furthermore, Congress doesn't allow funding to complete a study. For a single function study the time is 24 months and for a multi-function study the time is 48 months. In response to Co-Chair Ward, he stated the aforementioned time lines are the two major ones, but there are others.

MR. BRYANT commented that there is somewhat of a misunderstanding of competitive sourcing and privatization. He explained that

competitive sourcing is when the government retains ownership and control of the operation. That control would be maintained through oversight of contractor performance or the government running the operation. If the government does it, in-house personnel or another government service will be utilized. He turned to privatization in which the government decides to sell the asset and take a service from that point forward. For example, utilities at Fort Richards as well as the Department of Defense are being reviewed for such.

MR. BRYANT turned to the determination of the core government in nature functions (GIM); what is inherently governmental? The Office of the Secretary of Defense provides the criteria and definitions regarding the determination of what is inherently governmental and what can be competitive. He highlighted the following examples of what federal functions can be studied: food services, security, transportation, and management support services. Those areas that can't be studied are those inherently governmental which he defined as follows: "...if it has to make a decision that the commits the government to a particular course of action, that is inherently governmental." He provided the following examples of inherently governmental activities: intelligence, public affairs, and inspection contracting. Mr. Bryant said they are always reviewing whether they can do it better or if someone else can. From the Office of the Secretary of Defense's perspective, savings can be spent more on modernization versus sustainment.

MR. BRYANT acknowledged that A-76 competitions are difficult and controversial. However, the notion that A-76 competitions always lead to appeals isn't necessarily true. For example, of the 53 studies previously mentioned, only 10 were appealed with only one winning the appeal. Since 1989, 174 cost comparisons were completed, of which 40 lead to appeals and two appeals had the original decision overturned. Whether such a record would be maintained in the new revised program will require a few more years and the completion of a few more studies.

COMMISSIONER ALLEN inquired as to the time delay caused by an appeal.

MR. BRYANT explained that an appeal must be filed within 30 days. He believed the appeal must be answered within 60 days.

COLONEL SANDBERG interjected that those time lines are in accordance with federal acquisition regulations and procurement laws, not the A-76.

MR. BRYANT then turned to the federal employee and union roles. He informed the commission that federal employees, through their union, are involved in all parts of the study. These employees actually participate in the team developing the PWS. He said that without the employees who actually perform the functions, this process can't be accomplished. The employees help document the work load, review the performance work statement, and identify areas for improvement. However, the employees can't be involved in the final decision which is ultimately a management decision regarding what the Department of Defense wants to buy. He noted that there is a source election board which formalizes the process of evaluation with regard to the contract proposals. Again, the employees would not participate in this area.

CO-CHAIR WARD recognized that the employees providing input in the study is important and inquired as to how that was facilitated. He asked if there was any opposition.

MR. BRYANT said, in general, there wasn't any opposition. He commented that there is a good relationship with the union. Furthermore, the commanding general is very instructive that the employees participate in all meetings.

MR. BRYANT continued with the slide presentation and reviewed the federal A-76 cost competition process. There is much preparation before the study with regard to the identification of what is under review. By law, what is under review must be announced to Congress. The largest portion of the preparation is the development of the PWS which determines all the functions that are to be purchased. The PWS goes to the management review team and out for solicitation. The management review team takes what the government wants to purchase from the commercial sectors and attempts to develop a management study to streamline it. He noted that the multi-function studies are performed in order to review the entire organization, not just the portion to be competitive. There is an attempt to streamline the entire organization. The PWS is also given to the procurement director of contracting for solicitation of contract offers. Furthermore, the AAA performs an independent validation and review of the PWS and MEO documents. Those proposals are received and a formalized process is established to evaluate the contract proposals. The information regarding the cost, how it will be performed and processed result in a cost comparison form. The initial decision is made and the process automatically moves on to appeals. A specified amount of time is allowed for appeals and those appeals and protests are processed. If the result is successful, then Congress is notified within 30-60 days of the initial decision. Then it takes about six months - a conservative figure - for implementation.

CO-CHAIR COWDERY inquired as to the difference between selecting the lowest bidder and the best value proposal.

MR. BRYANT explained that private industry has the option during bidding to inform the government that it can do better than what is desired with a little more cost. That is the consideration of the best value. The least cost is a fixed price in which there is no offer to do what is desired any better.

MR. ENDSLEY clarified:

On the least cost, technically acceptable, it is a price competition - the lowest cost wins. Best value, a higher bid may win because of some things that they're offering that may exceed the requirements of the contract, but the government determines that that is in the best interest of the government to go with that. ...There is a process that they go through to get to that determination, but it all has to be approved by the government, ultimately.

MR. BRYANT reiterated that the contractor has to beat the in-house proposal on the personnel, manpower costs by at least ten percent which was built-in to cover all the transitional costs. Mr. Bryant moved to the milestone requirements or time lines. He explained that single and multi-function studies must be completed within 24 months. The Office of the Assistant Chief of Staff for Installation Management has a 13-24 month goal. The Cost and Academic Analysis Agency says that certain sized studies should take between 13-21 months. He reminded the commission of the congressional and reporting requirements. He pointed out that AAA has performed a review of completed studies and has indicated about the time line that is being utilized now. For large multi-function studies, it takes about 33 months for completion.

CO-CHAIR WARD inquired as to the meaning of the reference to spaces on the slide entitled, "Federal A-76 Study Milestone Requirements."

MR. BRYANT explained that the term refers to manpower spaces as opposed to positions. There may be 100 spaces that the Army authorizes, but only 90 are filled by positions.

COMMISSIONER ALLEN inquired as to whether there is a spending cap on the fiscal note for the studies.

MR. BRYANT answered that there is no spending cap.

JOHN TOENES, Deputy Director for the Directorate of Public Works, explained that the only cap related to the federal appropriation

law is that first line of the slide entitled, "Federal A-76 Study Milestone Requirements." The first line of that slide refers to Congress' time requirements for single function and multi-function studies. He specified that appropriated funds may not be spent on a single function study the duration of which exceeds 24 months. Similarly, on a multi-function study federal appropriated funds can't be used on such a study with a duration of more than 48 months. Mr. Toenes clarified that is the cap on the time limit, not on the dollar amount.

COMMISSIONER ALLEN asked if the cost of the study is deducted from the appropriations.

MR. PIGNALBERI understood Commissioner Allen to be aiming towards the question of how these studies are funded. Are the studies funded in the overall appropriations from Congress or is the cost of the study taken out of the overhead?

MR. BRYANT responded that both scenarios are utilized. He noted that consultants are primarily used to perform these studies. However, the Army has realized that it must participate 100 percent as well. Therefore, in-house teams which complete the study have been developed. Now there is a partnership with the consultant and the private contractor performing the studies. He noted that the private consultant contractor is funded centrally by the headquarters portion of the Army.

MR. PIGNALBERI asked if the congressional appropriation is enumerated as a line item in the budget.

MR. BRYANT replied no. These are Department of Defense management prerogatives to spend its resources from some pot of money, what is referred to as operations and maintenance of the Army funds.

COLONEL SANDBERG interjected that it is important to understand that. He explained the funds appropriated to support these studies through the hiring of contractors have been found to be insufficient, in the Army's case, to complete the study in the time frame allotted. Therefore, each directorate at Fort Richardson that is under study has dedicated many in-house employees to help write the PWS. In the case of Fort Wainwright, there are upwards of 20 individuals who occupy between 30-90 percent of their time working to write the PWS.

MR. TOENES informed the commission that Army Public Works, which involves Fort Richardson and Fort Wainwright, currently has 20 full-time management and nonmanagement people developing the PWS. Those folks have been moved to a separate building with their own

database systems due to the secure nature of the PWS.

TAPE 99-5, SIDE B

[Tape begins midspeech.]

MR. TOENES said, "...the completion of funds to complete the Public Works Study is going to run about \$8 million over about a 38 month period."

UNIDENTIFIED SPEAKER (COLONEL SANDBERG) commented that that doesn't take away from the requirements to complete the normal job.

COMMISSIONER VALESKO understood that there is a 24 month period in which to complete the study. That requirement is from the USARPAC. If there is the decision to do a study on a function, and the decision is to contract out the function. He understood then there would be study of that for the 24 month period. What happens at the end of the 24 month period? For instance, take snow removal which would be studied. He assumed that the snow removal is currently done in-house and now a contractor is awarded a bid to perform the snow removal. At the end of the 24 months, is the contractor done and the function goes back in-house or does the contracting continue on and no study is done beyond that 24 months.

COLONEL SANDBERG said he believed there is confusion regarding the different contractors. There is a contractor to help perform the study itself. If the successful bidder is a commercial contractor, that's when the contract for snow removal would be awarded to that contractor who would then begin performing that particular function.

COMMISSIONER ALLEN asked if at some point there is a performance review of the contractor.

MR. BRYANT stated that these are the goals by the bosses. At the end of the time, there will be the determination as to whether the function will be performed in-house or by private contract. If a private contract is awarded, the contract is normally awarded for five years - one year plus four review years. Each year that contract will come up for review and may be succeeded by four additional years. He pointed out that government oversight is built into this process. If the function does go to a contract, then the government determines what it actually would cost to continuously review the contract on a daily basis. The cost of the contracting officer's representative (COR) is built into the estimates. Mr. Bryant indicated agreement that the 24 month requirement is merely study before there is a determination as to

whether the function will continue in-house or become a private contract. He noted that the contracting officers are located in the Directorate of Contracting. However, if the Public Works goes to contract, the additional people will be hired to represent the contracting officer in Public Works in order to daily monitor the performance of the contract. Yearly, the contract would come up for review by the entire Directorate of Contracting Staff in order to review if the performance is as projected.

MR. BRYANT continued with the slide presentation and reviewed the key success factors. He expressed the need to ensure communication from the planning stage to the completion of the process. There are no controls on communication, save certain areas that are sensitive to procurement actions. Staff and employees are involved from the beginning and everyone must work as a team. He noted that the union plays a key role on the management study team and are actually a team member. He reviewed the various methods utilized to keep the employees involved in the process and keep communication open. He restated that current civilians have the right-of-first-refusal.

MR. BRYANT pointed out that it has been learned that business can't be performed as usual. One must continue to benchmark what the best practices are. He said that USARAK is attempting such in the management study. With regard to performing the study, the best people to perform it must be obtained. He commented on the need for training in the A-76 experience as well as continued communication. Mr. Bryant informed the commission that the four largest USARAK organizations are under study: Directorate of Logistics(DOL), Directorate of Public Works(DPW), Directorate of Community Activities(DCA), and Directorate of Plans, Training, Security, & Mobilization(DPTSM). Those organizations, both the military and civilian aspects, comprise 78 percent of the nonwar fighting installation work force. He clarified that although those organizations are under study, it doesn't mean all those positions are being competed. As stated earlier, multi-function studies are performed in order to review the commercial activity as well as the inherently governmental activity.

MR. BRYANT turned to the slide which illustrated the USARAK's time lines. He noted that the two largest organizations, DOL and DPW, take the longest amount of time. The studies on the DCA and DPTSM are being reviewed in order to determine if merely a management study should be performed. If the management study occurs, then there wouldn't be a solicitation although there would be attempts to streamline the organizations at all levels.

JOE HENRI, Chair, Privatization Subcommittee on the Department of

Administration, requested that Mr. Bryant provide a rough estimate of how much the most expensive the four studies may cost over the next 24 months.

MR. BRYANT answered that the DPW study would result in a total in-house cost of about \$8 million. He clarified that cost would include the many associated administration things.

CO-CHAIR WARD inquired as to the total budget of the function being studied.

MR. TOENES informed the commission that the DPW appropriated budget for this year is about \$150 million.

MR. BRYANT specified that the \$8 million for the study is for multiple years; it is the total over the course of the study. The maximum time allowed is 48 months.

CO-CHAIR WARD surmised then that it would be \$2 million per year and in total \$600 million over a four year period. Therefore, it is a \$600 million increment as compared to \$8 million for the study.

MR. BRYANT returned to the time line slide. He returned to DCA and DPTSM. He informed the commission that other army organizations that tried to compete child development services received no offers. In that case, the government performs that function cheaper than others. From a postmortem on that function, he believed that since the government has such standards and doesn't have liability insurance costs, no one would compete against those functions. He indicated that a similar situation arose with the Director of DCA which is such a mixture of military and civilian employees as well as volunteers. The mixture was such that it couldn't be determined how to break it up and put it back together while maintaining efficiency. Therefore, a management study resulted in order to streamline the functions. The same result occurred with DPTSM; it wouldn't be a good return on the investment to perform a full study on that organization.

MR. BRYANT provided an example of the difficulties involved in such a process. He posed a situation in which a contractor was told to mow and trim the lawn, as necessary, in order to maintain a good appearance. The contractor was also instructed to water the lawn as necessary. Mr. Bryant stated that more detail is necessary. He presented a slide which gave exact specifications as to the height, pH, sprig density, and use of water with a rain correction table.

MR. ENDSLEY commented that the four studies mentioned, with regards

to competition, are all or nothing. A contractor can't pick and choose portions of a multi-function activity. The entire activity must be bid on and the contractor either wins or loses that contract.

COLONEL SANDBERG clarified that in the lawn maintenance example, a contractor may be able to perform the function to the specifications better than the government. However, the contractor may not be able to perform the plumbing, heating, road clearing, et cetera as efficiently, and therefore the contractor doesn't necessarily win the contract.

COMMISSIONER ALLEN asked if there is any encouragement of a joint venture.

MR. ENDSLEY said that they don't encourage contractors to bid on any part, and therefore it is left to the contractors. In fact, other installations have utilized joint ventures as proposed by the contractor. From the government side, a joint venture could be proposed as well and a subcontractor could be part of the government's, in-house, bid.

CO-CHAIR WARD inquired as to how "cherry picking" is avoided. How was the total package to bid on determined.

MR. ENDSLEY clarified that the PWS or contract includes all the functions within the current directorates. Within DOL, there are the Division of Supply and Services which consist of a multitude of functions in the various classes of supply. There are also a variety of service type functions within that division as well. He noted that the DPW is probably three times larger than DOL with regard to the number of functions.

MR. TOENES commented:

There might be a yet unspoken, overarching question: why would normal people performing any of these commercial activities or functions go through a protracted cost comparison in order to determine whether they wish to go contract? As part of federal appropriation law, which this portion of it reenacted with each Congress. In this current year, Public Law 105262 Section 8104 prescribes that if more than ten federal civil service people are to be involved in a decision to contract out commercial functions, appropriated funds may not be used to do that unless there is a form of cross comparison. And that's what does it.

He posed the following example. In Canada, absent a treaty, legislation or a labor contract there is no requirement to go through a cost comparison adventure in order to determine whether to privatize. Such would be the case for mayoralities and state governments that aren't bound by the federal appropriation regulation, unless there is a treaty, legislation, or a labor contract requiring privatization initiatives to go through a cost comparison. Mr. Toenes specified that the decision within the defense department to choose to privatize is latent in the executive branch. When that occurred in the 1950s, Congress legislated under what terms competition would take place. In reaction to the Congress, the president had the Office of Management and Budget build a set of rules that have resulted in Pamphlet A-76 in its current form. The A-76 pamphlet was most recently modified in 1966. Those rules have been approved by the appropriations subcommittees over the years. From those rules, the process here was born.

MR. BRYANT returned to the slide presentation and said that the source selection authority (SSA) is the Commanding General. The Commanding General will have an entity evaluate the proposals. He indicated that the Source Selection Advisory Council and the Source Selection Evaluation Board evaluate the proposals which takes about six to eight weeks. He noted that this is a core team. For each of the organizations under study, the technical evaluation team is rotated; various experts are pulled from various organizations within the Army in order to review the proposals for the DOL, DPW, DCA, and DPTSM. Mr. Bryant noted that pending approval, those will be management studies rather than cost competition studies.

MR. PIGNALBERI commented that it is difficult to equate the state structure in the executive branch with the structure illustrated on the slide entitled, "SSEB Structure." He understood the ultimate authority in the Army to be the Commanding General. In the state structure, would that be the governor or a commissioner of one of the departments.

MR. BRYANT indicated that he didn't have enough background in Alaska's state structure and thus would hesitate to make a recommendation.

MR. TOENES interjected that in the Army's structure the Commanding General would be similar to a commissioner with regard to the number of people involved and horizontal dissimilar functions.

MR. BRYANT moved on to the next slide which included a definition of privatization. He informed the committee of some of the on-going utility and housing studies.

CO-CHAIR WARD turned to the subject of utilities and the deregulation of utilities. He noted that he has heard discussion that once a contractor takes over a utility and the other organization is dismantled, the new contractor can begin to increase the costs.

MR. BRYANT said that he didn't believe so, because the cost has to be amortized over many years. He believed the cost had to be amortized for minimum of ten years. He agreed with Co-Chair Ward that if the power agreement went through, it would be a long-term agreement. Mr. Bryant stressed that the agreement would have to be economical.

MR. BRYANT, in conclusion, stated that this process would make a big impact on people and culture. Therefore, caution should be taken and the process should be well planned. He specified that ASARAK's ultimate goal is mission performance that is, hopefully, accompanied by some cost savings.

COLONEL SANDBERG informed the commission that he would now present a portion of the briefing which was presented to the work force at Fort Richardson and Fort Wainwright just as the study began. This is a director's perspective on what could be expected over the next two to three years. The presentation began with a slide indicating that USARAK is now at war with potential commercial bidders and doesn't want to see a headline indicating hundreds of jobs lost. The work force was told it would have to help identify what they do in order to ensure that the PWS was reality.

MR. PIGNALBERI said that the problem is that all the information is on USARAK's side, while the contractors would have to develop a bid on the basis of the information put out in a request for contract. All the analytical data available is within the expertise of the work force. Therefore, he asked how the private sector could compete with that.

COLONEL SANDBERG clarified that the private sector would receive everything developed. He stressed that he wanted to make sure that what is developed is what is actually performed in the directorate. Everything written would be placed in the PWS which is provided to each potential bidder. The key is that the PWS is all inclusive.

CO-CHAIR WARD asked if Colonel Sandberg had found that employee's tasks had not been identified to this point.

COLONEL SANDBERG replied that he didn't believe the tasks had been fully documented.

MR. ENDSLEY interjected that tasks are being performed that one doesn't realize he/she is doing. There are also tasks that aren't being performed which should be. This process really fleshes out the functions and those areas which aren't currently being performed which should be and should be included in the contract.

COLONEL SANDBERG pointed out that in order to do this process, the employees had to be trained to some degree. Each employee was told that he/she must be brutally truthful in their tasks in order to ensure that PWS covered their function appropriately. Furthermore, the employees were told to be brutally efficient. Colonel Sandberg said, "We [USARAK] have to be prepared to cut off an arm to save the body." He believed that everyone understood that not everyone would remain on board at the conclusion of the study. Therefore, employees were asked to "think out of the box." In response to Co-Chair Ward, Colonel Sandberg clarified that every employee was told this from the employee who received four hours of training to the employee who received 30 hours of training. He noted that through each process a union representative sat through the training.

MR. PIGNALBERI observed that the employees would then receive two bites at the apple. First, the employee would get to compete for his/her position and if the competition is won, the employee would be fine. If the employee loses the competition, that employee would have the first-right-of-refusal before the position goes to the contractor.

COLONEL SANDBERG specified that would be correct to a certain level, certain management employees are not included in the right-of-first-refusal.

MR. ENDSLEY explained that those employees involved in the development of the in-house cost proposal, cost estimate, technical proposal are precluded from being able to work for the contractor. Therefore, the employees involved in the management study are restricted to those management employees whose jobs are not in the commercial activities part of the directorate that will perform the management study to completion. Everyone is involved to a point, after which people must be disconnected so as not to jeopardize their right-of-first-refusal. The team completing the study becomes very small and very secretive. The team develops the most efficient organization and the in-house cost estimate. Those few folks are the only ones who have jeopardized the right-of-first-refusal. He noted that those folk's jobs were probably government in nature to begin with and wouldn't be part of the contract - they may be effected, but aren't in a competition.

COLONEL SANDBERG continued by saying that the end result was to

allow the employees in his directorate to compete efficiently and win this competition. From the management standpoint, there is a push toward getting the employees behind this as well as performing the study properly. All of which would provide the best chance for competition.

CO-CHAIR COWDERY asked if a union member ends up working for a contractor who has prevailed in a competition, would that union member carry his benefit and retirement package.

COLONEL SANDBERG stated that all the government employees who have the right-of-first-refusal to work for the contractor lose their government status and become contractor employees.

CO-CHAIR COWDERY understood then that the employees know what the contractor has to offer.

COLONEL SANDBERG agreed, but pointed out that the contractor has to offer a competitive wage, according to the Davis Bacon wage which is determined by local wages.

AN UNIDENTIFIED SPEAKER reiterated that the right-of-first-refusal doesn't apply to those on the management study team.

COMMISSIONER VALESKO surmised that unlike the Canadian system, this system can fully justify outsourcing. He asked if the presenters felt confident that the results could be supported by documentation.

MR. ENDSLEY informed the commission that the end of this process is a cost comparison which lays out the costs for both the contractor and the government work force bid. The government work force has to perform the same steps as the contractor such as a writing a technical proposal and determination of the costs to perform the contract. After cost comparison, both parties can review each other's bid.

CO-CHAIR WARD asked if the same process would apply for a five year contract with several reviews, when the governmental entity winning the contract.

MR. ENDSLEY said that when the governmental entity is awarded the function, the review process would be slightly different because the function would still be a government function. The government is not obliged to fulfill some of the requirements required of a contractor from the private sector. Mr. Endsley noted that there is a review process performed by an internal firm which reviews the governmental organization. The firm reviews the governmental

organization in order to ensure that it has organized as specified and utilized the work force specified. The costs are also reviewed. Such a review occurs annually for the five year period.

COMMISSIONER WUERCH commented that thus far much of the discussion has focused on the decision-making process. He indicated his interest in implementation successes or failures in Alaska. He recalled that in the mid 1980s, two major contracts were awarded under A-76. One contract was for the maintenance of the Kodiak Coast Guard Base and the other being a contract awarded to Brown and Root(ph) for Army public works functions. He asked if those contractors remained and if not, what changes have occurred. Furthermore, he inquired as to the cost performance of those jobs that were outsourced.

MR. TOENES addressed the Brown and Root(ph) contract for which he was involved in the writing of the specifications of that contract as well as the evaluation of contractor proposals. That contract wasn't a competitive sourcing action. He explained that as the Defense Department drew down, decisions regarding how to reduce the civilian work force were necessary. The civilian work force had become quite large at Fort Richardson and Fort Wainwright. The determination was to package project-like work into a bundle. Large reductions in the work force were run because there wasn't the funding available to pay those employees. Therefore, a contract form solicitation, a task-order-type contract, was put out. Brown and Root(ph) was the successful offerer. The contract included a base year plus five option years. Mr. Toenes informed the commission that since that time, the contract has been re-advertised and is now in the second full contract, near the end of that term. Therefore, Brown and Root(ph) has performed those functions for almost a decade. Mr. Endsley commented that the result with Brown and Root(ph) has been excellent in all areas.

CO-CHAIR COWDERY asked if Brown and Root(ph) hired any of the employees who were performing the job before Brown and Root(ph) was awarded the contract.

MR. TOENES replied no. This contract wasn't covered under the commercial activities program nor did it precipitate the previously mentioned legislation. He explained that the work force had to be reduced under any circumstances and an alternative had to be found for those functions. Therefore, the Brown and Root(ph) contract wasn't a commercial activities review and didn't have the right-of-first-refusal or any other features of the commercial activities review.

COMMISSIONER WUERCH asked if there are any examples of use of the

A-76 by the Army in Alaska.

MR. TOENES informed the commission of one of the most disastrous situations. In 1975, a commercial activities study was put out on the central heat and power plant at Fort Wainwright which was won by a large utility provider.

TAPE 99-6, SIDE A

MR. TOENES discussed how the contractor's staff left the plant. He informed the commission that twice now, there have been attempts at individual function studies on refuse collection. There have not been responsive bidders on refuse collection. Therefore, refuse collection is being bundled in the whole public works study. He noted that no other DPW functions have gone to contract, primarily because of nonresponsive offerings.

AN UNIDENTIFIED COMMISSIONER commented that perhaps, the Coast Guard could inform the committee of its experience with the A-76 project. He noted that he was running a company that was going to bid on the Kodiak Coast Guard project. He discussed how that project was an emotional and difficult adjustment for Kodiak. Kodiak's experience could be instructive in reviewing functions in remote areas, where there aren't many alternatives to the employee structure.

MARYANN PEASE, Chair, Privatization Subcommittee on the Department of Revenue, asked if there is any preferred list of subcontractors that expedites the process. For example, is there a set of criteria or contractors that have applied and have been approved and could automatically step in and take over a privatized function.

MR. TOENES pointed out that the aforementioned statutes would preclude automatic takeover, except under three very limited circumstances. Those three circumstances are as follows: businesses owned by persons of which 51 percent are severely disabled persons, businesses owned by persons of which 51 percent are blind, businesses owned by persons of which 51 percent Native American corporations. Those are the only exceptions to a cost comparison under the federal statute which is reenacted each year. He reiterated that this year it is PL 105262 Section 8104.

MS. PEASE asked if once there is a cost comparison, is there then a preferred subcontractor list.

MR. TOENES explained that the prime contractor who is the successful offerer puts together a package for evaluation which can

consist of subcontractors. One of the source selection teams will study the subcontractors. However, the government doesn't have, in its technical area or its contracting office, a list of preferred subcontractors.

MR. ENDSLEY noted that if one were looking for a list of companies that do this, one could inquire of the purchasing officer as to who bid on the last job. Such information is public and a list of companies could be obtained in that manner.

MR. PIGNALBERI understood Mr. Toenes to have said that once a contract has been identified for competitive procurement, an Alaska Native corporation could make a proposal and take it out of the competitive procurement process.

MR. TOENES clarified that there are some conditions attached in such a case. The Commander would have to perform a study that would indicate that the Alaska Native corporation would likely produce the most cost effective solution.

CO-CHAIR WARD said that he had understood that the American Native corporation had to be part of the original bid process.

MR. TOENES stated that he didn't know the answer to that.

AN UNIDENTIFIED SPEAKER interjected that those exceptions would have to be early in the process. Those exceptions were placed into the Authorizing Act this past year. He explained that if the process hasn't started yet, then those three exceptions would have the first right. He said that those exceptions wouldn't affect the studies at USARAK.

FRANK DILLON, Chair, Privatization Subcommittee on the Department of Transportation and Public Facilities, indicated that the discussion had provided some clarification into the process which may be useful in Alaska's efforts to privatize. Mr. Dillon commented that his approach has been to only privatize if it makes sense to do so. He posed a situation in which the task was to change light bulbs. He asked, "Is the mission, in other words changing the light bulb, what you look at when the contractor bids on it or what people [employees] are telling you it takes to change that light bulb. ...is being busy what you're looking for or getting the mission accomplished?"

MR. ENDSLEY explained that a contract would be written that specifies the light bulbs have to be changed or rather that light has to be provided within a specific time frame. Then a management study would review that, go to the work force, and determine the

most efficient manner to provide light. That review could find that changing the light bulb may take 15 minutes due to some things imposed by management. Therefore, the team would determine what could be changed in order to allow the light bulb to be changed in three minutes rather than 15 minutes. That would become the organization's bid.

COMMISSIONER WUERCH commented that the PWS is terribly important, from the contractor's standpoint, because that is what is being bid upon. If the employees didn't define all the work, the contractor's bidding on the statement could have the competitive advantage. He stated, "The importance of defining the work that is to be done is the element that protects the existing employees from the contractor whose looking for a leverage or looking for an opportunity."

AN UNIDENTIFIED SPEAKER(COLONEL SANDBERG) posed a situation in which the employee says that light must be provided, but doesn't note that every time the light bulb is changed it must be recorded in order to capture the cost of the bulbs. In such a situation, the contractor will not record when the light bulb is changed and won't capture the cost.

AN UNIDENTIFIED SPEAKER(MR. BRYANT) informed the commission that Colonel Brandt, the head of commercial activities studies for the Army, performed a postmortem regarding why the private industry wants some of those competitions. He discovered that about 80 percent of the time there were poorly written PWS. Therefore, it is critical to provide the detail of a function.

MR. TOENES noted that USARAK has guidelines, a booklet produced by the Army, based on very sound industrial engineering techniques. There are detailed work load analyses which allow the individual motions and activities of each function. Those are cataloged in a formalized fashion and distilled into a PWS.

COMMISSIONER VALESKO echoed the importance of identifying that work in order to determine the costs.

CO-CHAIR COWDERY noted that he has been in the contracting business and reviewed the specs closely. If a road job is being performed, and contaminated soil is found then those costs are negotiated. He didn't know any other way to deal with such a situation.

MR. HENRI referred to the profiles that refer to the manpower required for a job; is that a time-in-motion study?

MR. TOENES explained that a time-in-motion study would be one type

of those activity analyses. Additionally, every single activity performed by an employee must be collected which is accomplished through group meetings. Specialist then review it to determine if there are any steps missing. He said that it ultimately becomes time-in-motion type studies when costing each activity.

JAN FREDRICKS(ph), Small Business Development Center, University of Alaska, understood that the Brown and Root(ph) contract wasn't an-76 contract. She said that it sounded as if there were specifications for use of local business, small and disadvantaged businesses. However, she understood the A-76 guidelines to have no criteria at all with regards to local preferences or subcontractors. She asked if, included in the study, there is any study on the affect to the local economy.

AN UNIDENTIFIED SPEAKER stated that socioeconomic factors are not a decision factor in these studies.

MR. FREDRICKS(ph) commented that the state may have different concerns when using such a model for the state. After the 24 months to complete the study, how long does it take to reach the release of the solicitation.

MR. ENDSLEY clarified that the release of the solicitation is included in the 24 months. The 24 months takes the process to the point of cost comparison. The award is made on the day of cost comparison when the bids are opened. He noted that there is a transition period of up to six months.

AN UNIDENTIFIED SPEAKER interjected that after the initial cost comparison, the appeal process begins. Once the appeal process is completed, the transition period begins.

ANDRE McCLOUD(ph) asked if the detail of the work load analysis is necessary or can the various objectives and mission statements of the departments dictate that.

MR. TOENES stated that the contractors will base their bid on the details of the services. He pointed out that in addition to the PWS, there will be a performance requirement summary which details what is a successful completion of that element of the PWS. He referred to the aforementioned detail of the lawn mowing function as presented in the slide presentation. Mr. Toenes didn't know of an alternative to the detail.

COMMISSIONER WUERCH commented that performance standards are valuable. In the example where the function was to provide illumination, that contractor could by choice replace all the light

bulbs on a schedule on the same night. Performance standards have a very definite place in certain functions.

MR. PIGNALBERI observed that the PWS seems to be the lion's share of the work. He recalled that one of the slides said that PWS was revised in 18 of 53 competitions, within 15 months after the award of the contract. What happens when the changes in the PWS change the economics of it?

AN UNIDENTIFIED SPEAKER said that in such instances perhaps everything involved in the function wasn't captured or maybe there was some unknown such as contaminated soil.

MR. ENDSLEY noted that those PWS changes were major and significant changes. He indicated that the changes were, perhaps, rewrites of the PWSs.

MR. PIGNALBERI asked if a competitive procurement would be reversed if changes to the PWS were significant.

MR. ENDSLEY said that he believed that it would have to be appealed in order to reverse the competitive procurement.

CO-CHAIR WARD thanked the guests for bringing clarity to the process.

CO-CHAIR COWDERY complimented the guests and staff on their preparedness.

MR. PIGNALBERI announced that a revised schedule is being proposed. After the next scheduled meeting, October 20, 1999, the commission would meet weekly through November because the subcommittee reports will begin to appear.

CO-CHAIR WARD announced that his staff would contact the Canadian government with regard to their privatization efforts. That information will be distributed to all commissioners.

MR. PIGNALBERI pointed out that the commission's packet should include an interim status report which may stimulate discussion.

COMMISSIONER WUERCH referred to page 2 of the "Interim Status Report" and highlighted the statement: "...it is somewhat amazing that most departments cannot relate their expenditures of money, manhours and resources to specific work tasks that fulfill their mission." Today's presentation stressed the importance of a PWS. Perhaps, the PWS process should be adopted as mandatory, before any new employees are added to the state payroll.

COMMISSIONER VALESKO noted that he is a former employee of the Department of Highways and Transportation. He related his experience in having to detail the routes and equipment utilized in his job. The detail can go over board and leave a frustrated employee and an increased office staff.

ADJOURNMENT

There being no further business before the commission, the Commission on Privatization and Delivery of Government Services meeting was adjourned at an unspecified time.



**Competitive Sourcing & Privatization
in the Federal Government**

**Alaska Commission on
Privatization**

& Delivery of Government Services

COL Michael L. Sandberg
Director of Logistics, US Army Alaska

Mr. Mark S. Bryant
Competitive Sourcing Program Manager

20 September 1999

EFFICIENCY FOR USARAK —

1



PURPOSE

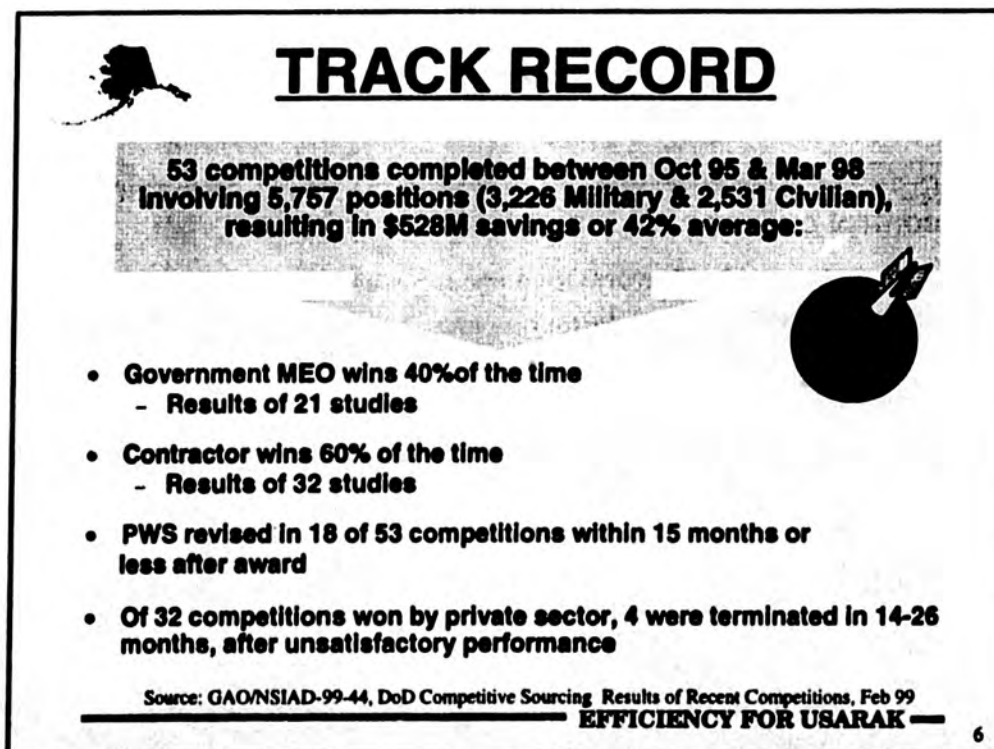
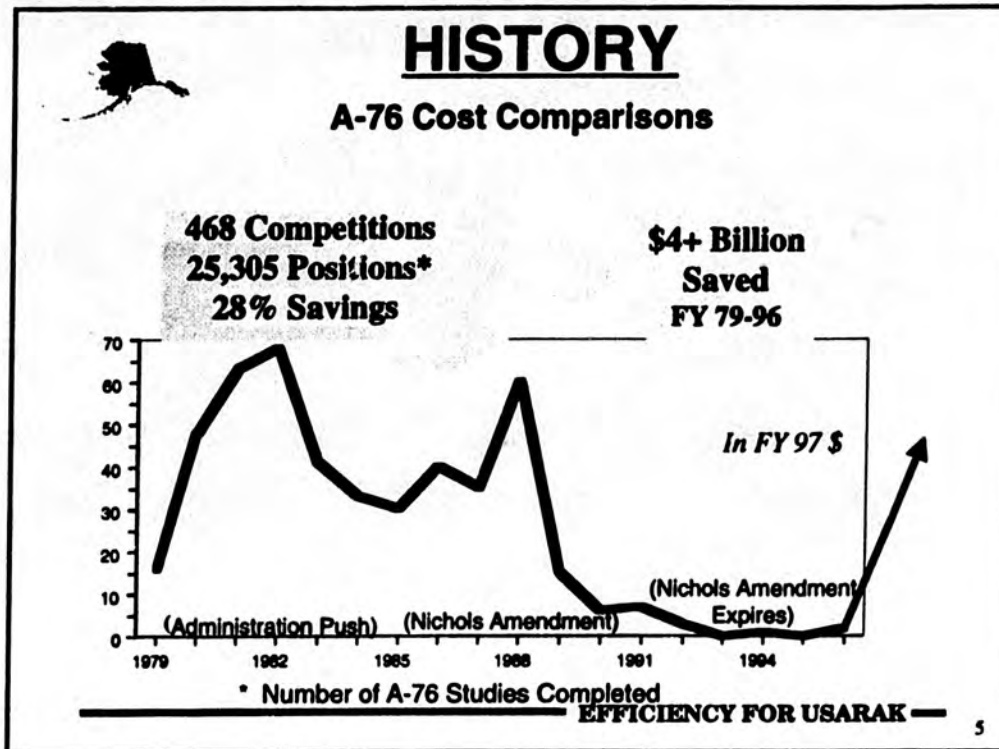


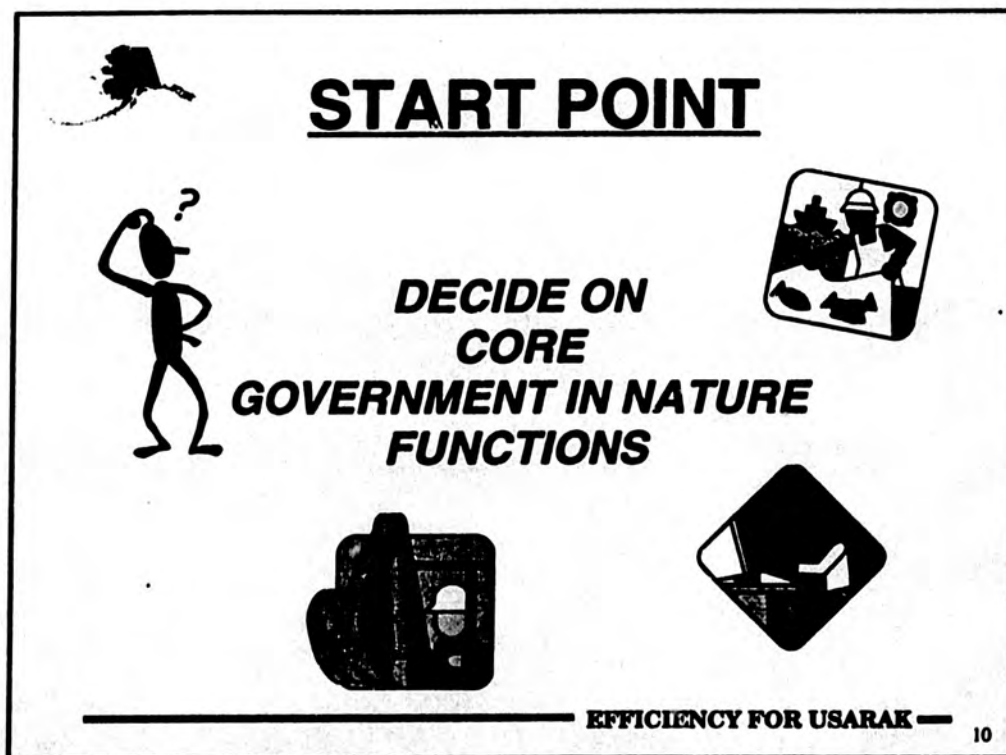
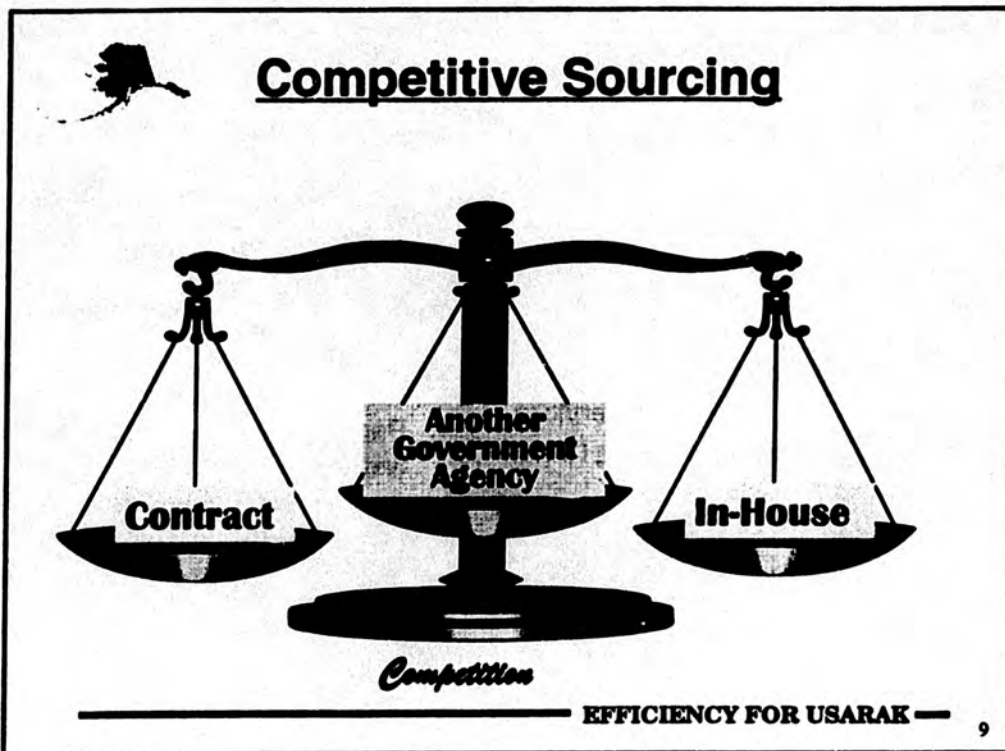
- **Provide a foundation on the philosophy, history, policy, and terms of Federal Competitive Sourcing & Privatization (CS&P)**
- **Discuss Federal legal & regulatory guidance, responsibilities, and process**
- **Provide current information on Federal goals, pace, risks and results**
- **Provide information on current CS&P studies in US Army Alaska (USARAK)**

EFFICIENCY FOR USARAK —

2

MED. Most Efficient Org.







Why Is Cost Competition Important To The Federal Government?

"We, the taxpayer, benefit when government improves the way it operates and spends money more wisely."

- Reduces operating costs
- Creates a more efficient means of providing services
- Creates a government that is more businesslike and better managed
- OSD Perspective
 - Savings will be spent on readiness and modernization
 - Will help DoD build competitive, innovative, responsive, efficient and reliable organization.



EFFICIENCY FOR USARAK —

13



PERCEPTIONS

A-76 Competitions Are:

☐ Difficult



☐ Controversial



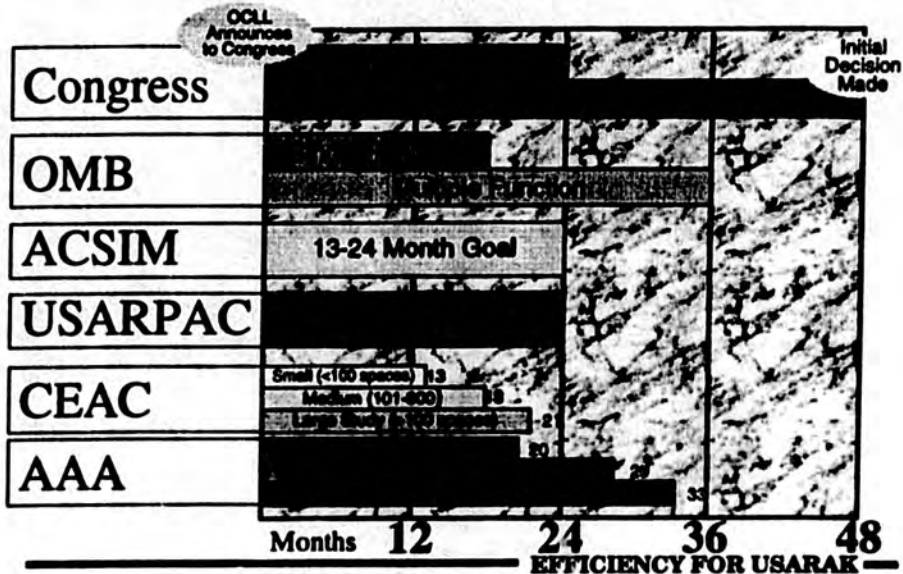
☐ Always Lead To Appeals



EFFICIENCY FOR USARAK —

14

Federal A-76 Study Milestone Requirements



17

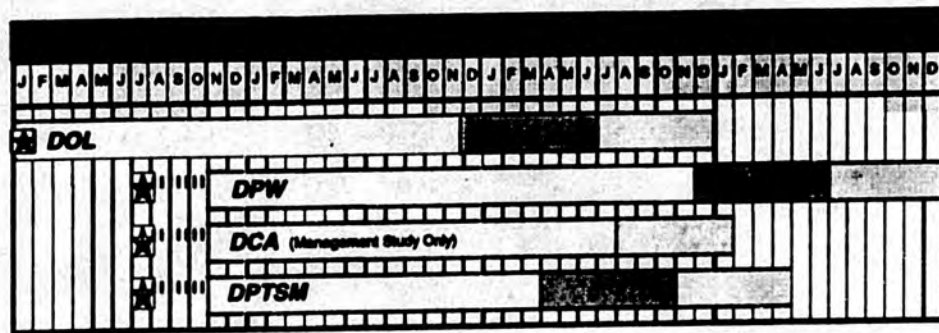
Key Success Factors

- Ensure ongoing **communication** of plan and status to:
 - Internal - Managers, staff, **employees** & union
 - External - Contract community, public
- Must work as a **team**
- Must promote **positive approach** from the outset !
- Ensure **accuracy and completeness** of all products/documents
- Current civilians have **right-of-first-refusal**

EFFICIENCY FOR USARAK

18

Study Timelines



Legend

- Announcement to Congress
- Develop PWS / Mgmt Study
- Complete Solicitation/Source Selection
- Transition to MEO/Contract Operations



EFFICIENCY FOR USARAK

21

Mow A Residential Lawn

Before

- Mow and trim the lawn as necessary to maintain a very good appearance.
- Fertilize the lawn so it will continue to have a dark-green luster.
- Water the lawn as needed.



EFFICIENCY FOR USARAK

22



Privatization



- **Definition** - Transfer of ownership, operation, maintenance of Army utility plants/systems to municipal, private, local utility
 - Installation becomes a utility customer, not a utility provider
 - Army ownership of utilities is not critical to mission accomplishment
- **Army Goal** - Privatize all utility systems by 1 Jan 2000
 - If economical, consistent with SECDEF Nov 97 Defense Reform Initiative
 - Of total 265 utility systems, only 21 are now privatized
 - Privatization actions initiated for 170 systems

• On-Going Studies

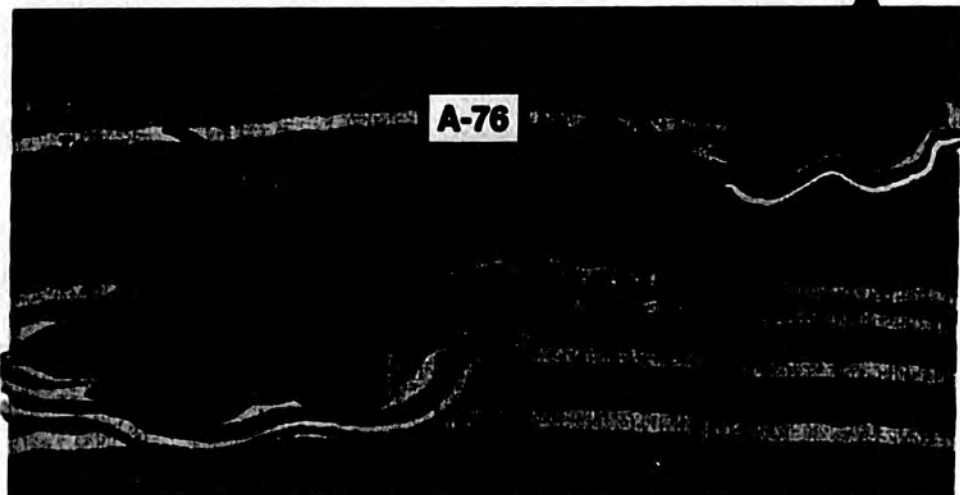
- | | | |
|--|---|--|
| <ul style="list-style-type: none">• Steam / Electric Co-Generation Plant• Heat Service & Steam / Condensate Facilities• Electrical Service and Distribution Facilities | } | Non-binding concept Proposal
"Is it Feasible" |
| <ul style="list-style-type: none">• Natural Gas Service and Distribution Facilities• Potable Water Service and Distribution Facilities• Wastewater Collection System | } | RFP
"Who can do it best & cheapest" |

EFFICIENCY FOR USARAK —

25



Implementation Summary



EFFICIENCY FOR USARAK —

26



THIS IS WAR!



EFFICIENCY FOR USARAK —

29

HEADLINES

300 JOBS LOST



25,000 Army Positions Studied Since 1979

15,900 Positions Converted to Contract

SCORE: In-house 241 - Contractors 227

EFFICIENCY FOR USARAK —

30



Communicate your ideas



THINK, THINK, THINK!



thinK ouT of thE boX

EFFICIENCY FOR USARAK — 33

IN SUMMARY



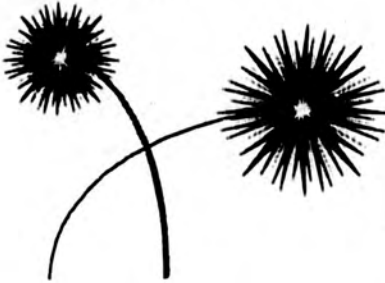
Takes a team effort



COMPETE AND WIN!



Everybody wins



EFFICIENCY FOR USARAK — 34

DRM MSD (Bryant, Mark)

From: DRM MSD (Bryant, Mark)
Sent: Wednesday, September 22, 1999 11:02 AM
To: 'Marco Pignalberi'
Cc: DPW Deputy (Toenes, John); DOL DDOL (Endsley, Gregory C.); Hiltferty Bryan C MAJ USARAK(n); Sandberg Michael L COL DOL(n); PAO Com Rel Off (Stuhler, Jim); DRM PBD Chief (Shoffner, Carolyn); USARAK DRM DEP DIR(n); Sears Virginia W DRM MSD; DRM MSD (Kraushar, K)
Subject: RE: test message
Importance: Low

BIO COL Sandberg.doc BIO Mark Bryant.doc

Hi Marco.

Here's Bio's again on COL Sandberg and myself.

Also, here the listing of personnel and their titles that you requested for tomorrow's meeting with the Joint Armed Services Committee and the House Special Committee on Military and Veterans Affairs.

Colonel Michael L. Sandberg
Deputy Chief of Staff for Logistics, US Army Alaska

Major Bryan C. Hiltferty
Public Affairs Officer, US Army Alaska

Mr. John Toenes
Deputy Director, Directorate of Public Works

Mr. Gregory C. Endsley
Deputy Director, Directorate of Logistics

Mr. Mark S. Bryant
Chief, Management Services Division, Deputy Chief of Staff for Resource Management
* Competitive Sourcing and Privatization Program Manager

Mark S. Bryant
Chief, Mgmt Services Division, DRM, USARAK
600 Richardson Drive, #6200, Fort Richardson, AK 99505
DSN 317-384-1140 / Com1 (907) 384-1140 / FAX: 6122
EMAIL: bryantm@richardson-emh2.army.mil

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

From: Marco Pignalberi [mailto:Marco.Pignalberi@legis.state.ak.us]
Sent: Monday, September 13, 1999 3:36 PM
To: bryantm@richardson-emh2.army.mil
Subject: test message

Hopefully you will receive this, and be able to use this as a return address for me.

Court System Subcommittee Membership						
Peavyhouse	Ken	333-4881	N/A	333-4881	N/A	pvhouse@alaska.net
Adams	Al	465-3707	465-4821		Alaska State Legislature - Senate	Senator_Al_Adams@legis.state.ak.us
Gibson	Susan	262-1840	262-6163	262-4853	Paralegal	
Harris	Joyce	456-8702	456-8702 call	456-8702	Court Visitor Services	harris@mosquito.net
Jarvi	"J"	458-8850	458-8860	457-1500	Professional Guardian Services Corp	jarvi@ptialaska.net
Leon	Edward	229-1042	243-6061	243-5337	The Leon Company	edleon@alaska.net
Rogers, M.D.	Don	349-9104	522-5405	349-9104		N/A
Rollins	Charles	488-9030	488-9030 call	488-9030	Fairbanks North Slope Borough	chuck@mosquitonet.com
Tamagni	Al	522-3108	562-1366			atamagni@alaska.net
VanHatten	Colleen	488-4524	488-2822	488-4023	Alaska Contracting & Consulting	acc@mosquitonet.com
Wooliver	Doug	264-8265	264-8291	346-1129	Alaska Court System - Contact	dwooliver@courts.state.ak.us

BIOGRAPHY

Colonel Michael L. Sandberg

Colonel Michael L. Sandberg is the Deputy Chief of Staff for Logistics, USARAK and the Director of Logistics for the United States Army Garrison, Alaska.

Prior to arriving in USARAK Colonel Sandberg was the Special Assistant to the Director, Defense Commissary Agency since June 1996, after serving as the Agency's Inspector General from June 1994 to May 1996. COL Sandberg's career, which spans more than 27 years, is highlighted with a variety of command and staff assignments in the Army logistics field.

His more recent assignments include: Chief of the Concept Integration Division at the U.S. Army Combined Arms Support Command, Fort Lee, VA.; Commander, Combat Support Battalion, Fort Devens, MA; three years as a Branch Chief for the Assistant Chief of Staff for Logistics, Eighth U.S. Army/U.S. Forces, Yongsan, Korea; Executive Officer of the 4th Battalion, U.S. Army Quartermaster School Brigade, Fort Lee; and assignments within the Quartermaster School as Skill Qualifications and Testing Branch Chief; Enlisted Training Division Chief and Unit Training Division Chief. He also served a one-year internship with Marriott Corporation, Bethesda, MD.

His Army career started in March 1971 and in July 1971 he assumed duties as platoon leader and company executive officer, Headquarters, Headquarters Company, Natick Labs, Natick, MA. He later served as aide-de-camp at the Troop Support Agency, Fort Lee. Subsequent assignments were with the 2nd Infantry Division, Korea; Letterkenny Depot, Chambersburg, PA., and 25th Infantry Division, Schofield Barracks, Hawaii.

COL Sandberg holds a bachelor of science degree and a master of science degree from Kansas State University, Manhattan, KS. He is a 1986 graduate of the Armed Forces Staff College, Norfolk, VA, and he graduated from the Army War College, Carlisle, PA in 1994.

Among his awards and decorations are the Defense Superior Service Medal, Legion of Merit, Meritorious Service Medal with three oak leaf clusters, Army Commendation Medal with three oak leaf clusters and the Army Achievement Medal.

He and his wife, Arlene, have two children, Marci and David.

BIOGRAPHY

Mark S. Bryant

Mr. Bryant is currently the Chief of the Management Services Division, Deputy Chief of Staff for Resource Management, United States Army Alaska.

Prior to arriving in Alaska, Mr. Bryant was a Management Analyst in the Office of the Deputy Chief of Staff for Resource Management, Training and Doctrine Command (TRADOC), Fort Monroe, Virginia. During this assignment, he served as the Lead Analyst on the Comanche Reconnaissance and Attack Helicopter Site Selection Study, and as Career Program Coordinator/Counselor for Comptrollership personnel within the Command. He has 15 years civilian service with the Department of the Army, and 6 years military service with the Air Force.

Mr. Bryant's assignments as a Management Analyst have also included the United States Army Force Integration Support Agency, Fort Belvoir, VA; United States Army Materiel, Munitions and Chemical Command, Rock Island Arsenal, IL; and Pine Bluff Arsenal, AR. He also attended a 14-month university training assignment in the Army Comptrollership Program at Syracuse, NY.

He holds a bachelor of science degree in Construction Engineering Technology from Northern Montana College, Havre, MT 1982, and a master of science degree in Business Administration and Organizational Management from Syracuse University, Syracuse, NY 1995. In 1992, he graduated from the Professional Military Comptrollership School, Maxwell AFB, AL; 1994 graduate from the Army Management Staff College, Fort Belvoir, VA; and in 1995 graduated from the Army Comptrollership Program, Syracuse, NY.

Mr. Bryant and his wife, Leslie reside in Eagle River, Alaska and are the proud parents of three daughters, Lauren, ten, and twin six-year old girls, Katie and Wendy (nicknamed *Thunder* and *Lightning*).

MARCO'S
COPY

**Competitive Sourcing & Privatization
in the Federal Government**

**Alaska Commission on
Privatization**

& Delivery of Government Services

COL Michael L. Sandberg
Director of Logistics, US Army Alaska

Mr. Mark S. Bryant
Competitive Sourcing Program Manager

20 September 1999

— EFFICIENCY FOR USARAK —



PURPOSE



- **Provide a foundation on the philosophy, history, policy, and terms of Federal Competitive Sourcing & Privatization (CS&P)**
- **Discuss Federal legal & regulatory guidance, responsibilities, and process**
- **Provide current information on Federal goals, pace, risks and results**
- **Provide information on current CS&P studies in US Army Alaska (USARAK)**

A-76 Philosophy



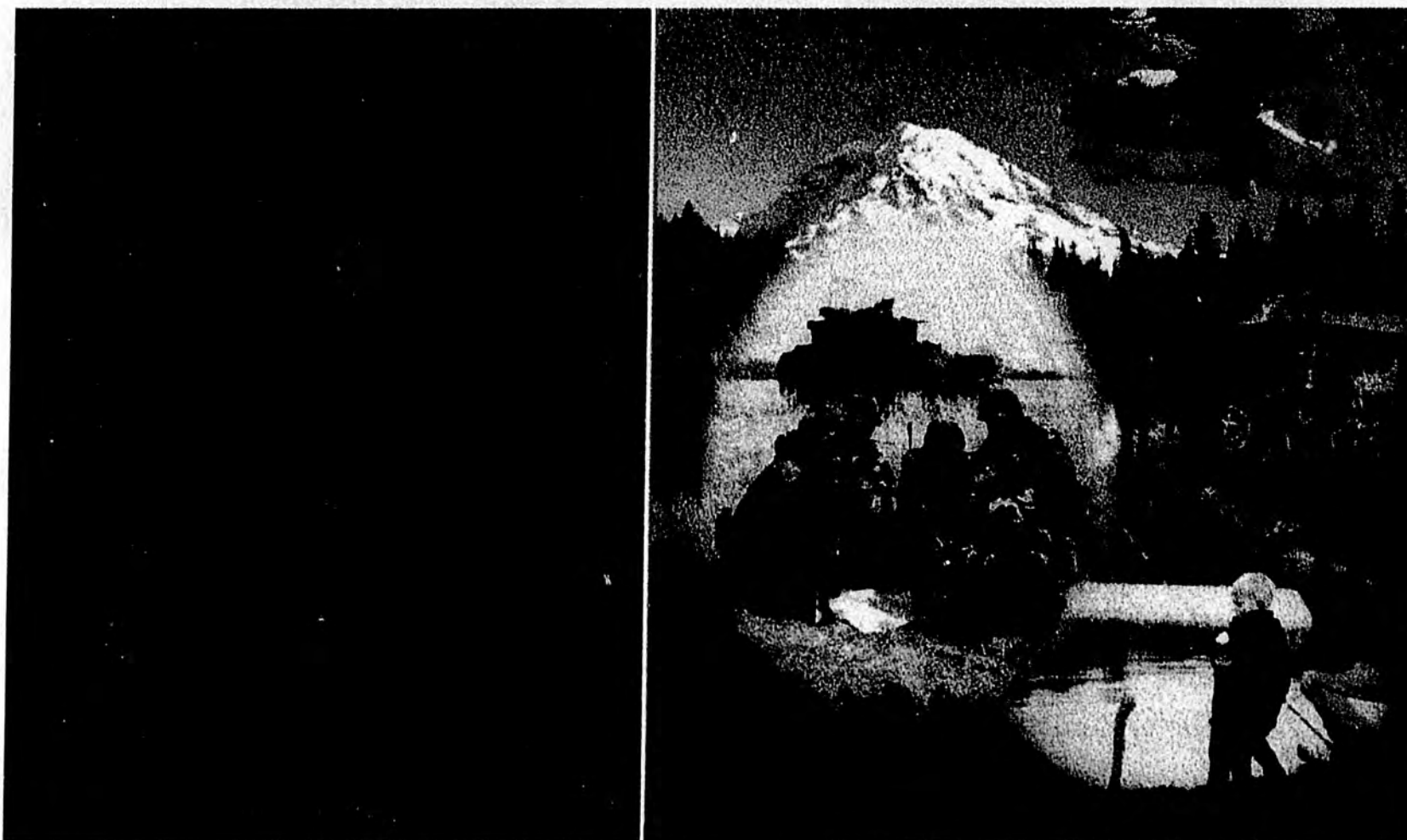
“In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. It has been and continues to be the general policy of the Government to rely on commercial sources to supply products and services the Government needs.” [OMB Circular A-76]

EFFICIENCY FOR USARAK



STRATEGY

***Achieve greater efficiency in competitive sourcing--
get the best deal for the government and the taxpayer***



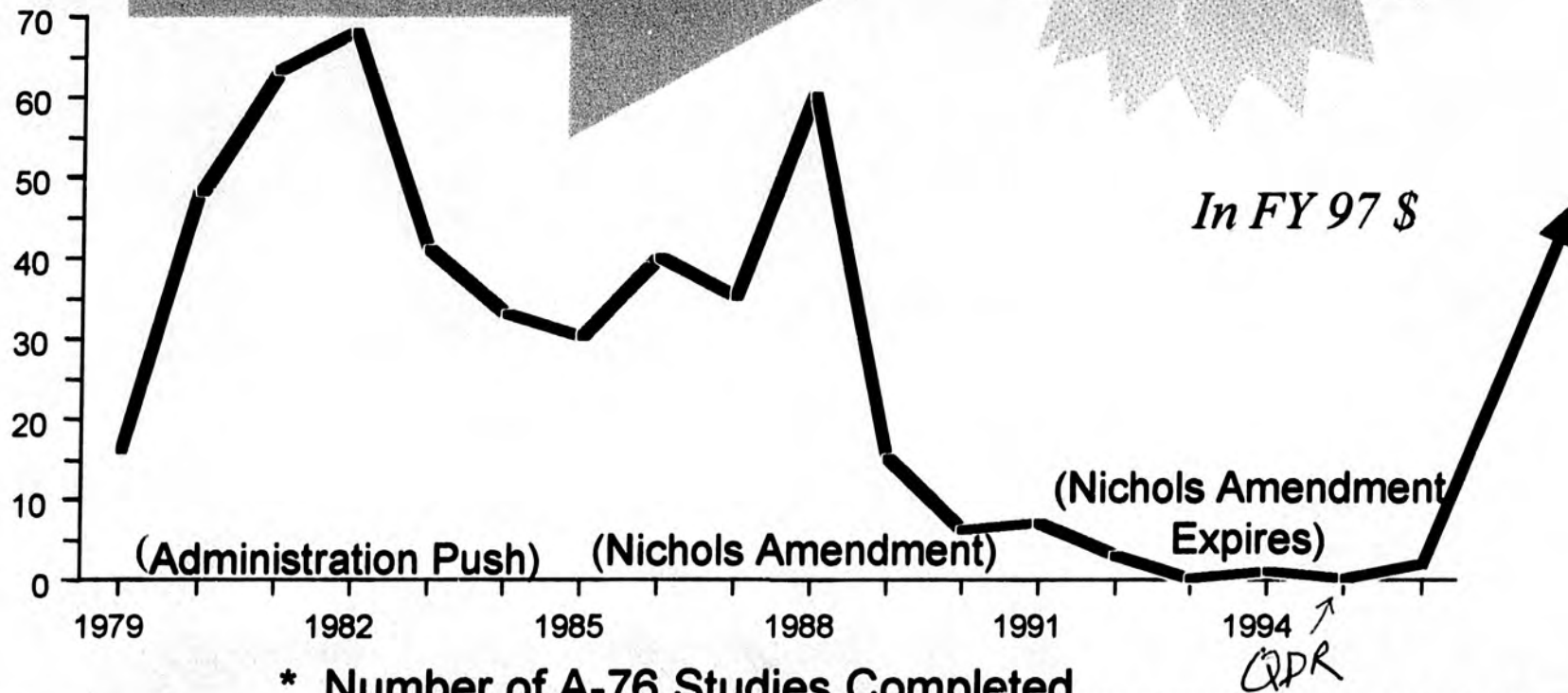
EFFICIENCY FOR USARAK —

HISTORY

A-76 Cost Comparisons

468 Competitions
25,305 Positions*
28% Savings

\$4+ Billion
Saved
FY 79-96



EFFICIENCY FOR USARAK

get example

TRACK RECORD

53 competitions completed between Oct 95 & Mar 98
involving 5,757 positions (3,226 Military & 2,531 Civilian),
resulting in \$528M savings or 42% average:

- *govt unit* **Government MEO wins 40% of the time**
 - Results of 21 studies
 - **Contractor wins 60% of the time**
 - Results of 32 studies
 - **PWS revised in 18 of 53 competitions within 15 months or less after award**
 - **Of 32 competitions won by private sector, 4 were terminated in 14-26 months, after unsatisfactory performance**
- Comply w
FSLA
Right of First
Refusal to displace
govt. employees.*
- evidence
that PWS
is difficult*

Source: GAO/NSIAD-99-44, DoD Competitive Sourcing Results of Recent Competitions, Feb 99

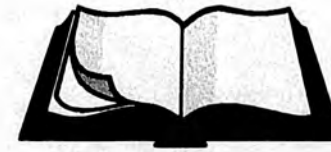
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OMB Circular A-76

CS&P = Competitive Source of Procurement.

- **Based on policy dating to 1955**
- **Key points:**
 - **Can't CS&P Inherently Governmental activities**
 - **Can't CS&P commercial activities which are:**
 - **Military Essential (forward based, deployable)**
 - **Traditionally or uniquely military (Recruiters)**
 - **Restricted by law (Guards, Firefighters)**
 - **Regulatory time limits (18/36 months)**
 - **Statutory time limits (24/48 months)**





Competitive Sourcing vs. Privatization

Competitive Sourcing - Government retains ownership & control over operations of the activity by:

- Contractor Performance *with surveillance by gov't personnel; or*
- Government Performance *with*
 - **In House Personnel, or**
 - **Another Federal Agency**

Primary method of outsourcing activities is through A-76 cost comparison procedures.

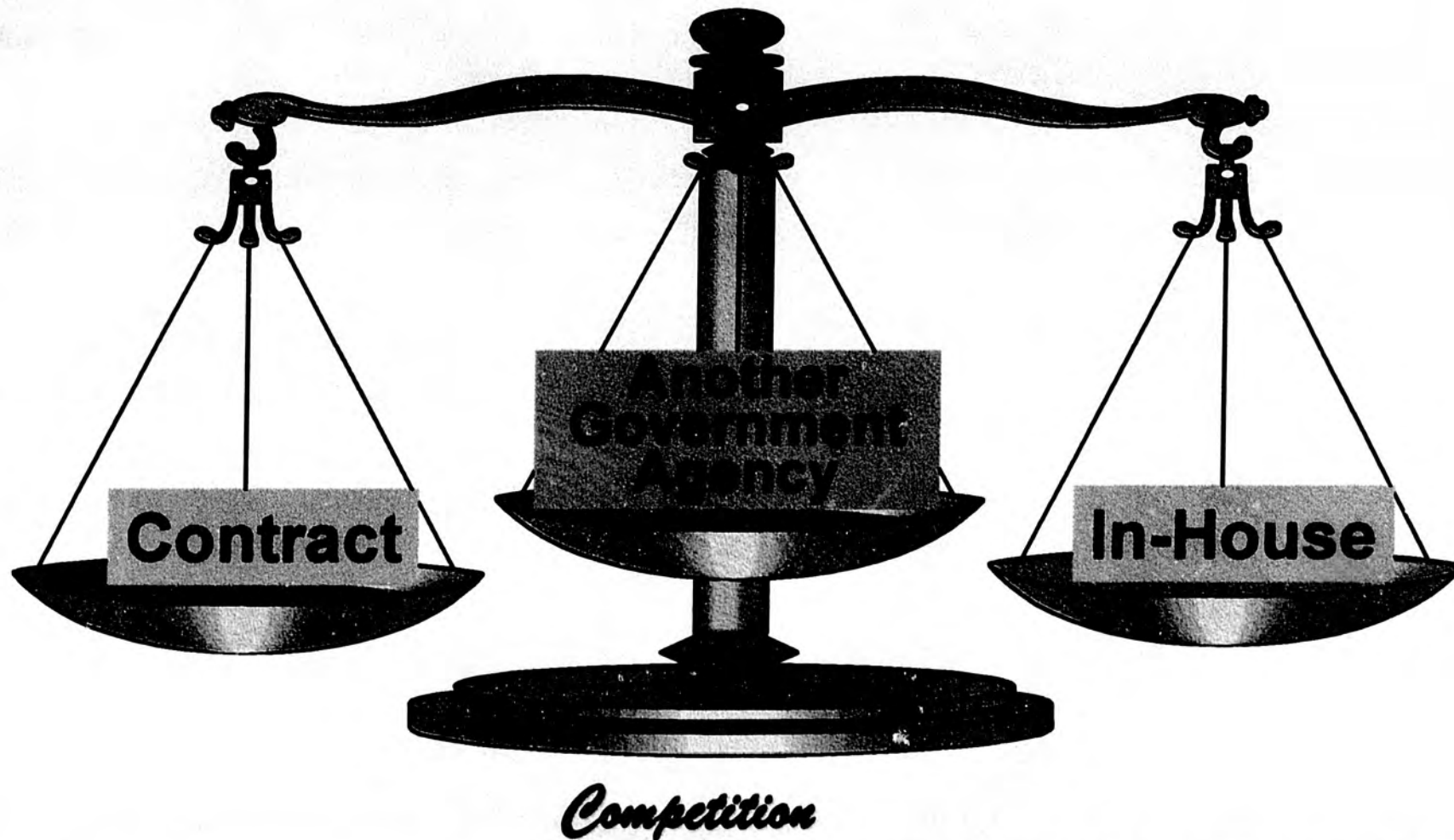


Privatization - "Government gets out of the business":

- Relinquishes control of the operation by divesting itself of a commercial activity; and
- Becomes a customer that purchases goods and services from a commercial source.



Competitive Sourcing



EFFICIENCY FOR USARAK —



What Federal Functions Can Be Studied



- **Audiovisual Products and Services**
- **Automatic Data Processing**
- **Food Services**
- **Health Services**
- **Industrial Shops and Services**
- **Maintenance, Overhaul, Repair and Testing**
- **Management Support Services**
- **Manufacturing, Fabrication, Processing, Testing and Packaging**
- **Office and Administrative Services**
- **Other Services (Laundry, mapping, training, lab testing)**
- **Printing and Reproduction**
- **Real Property**
- **Security**
- **Special Studies and Analysis**
- **Systems Engineering, Installation, Operation, Maintenance, and Testing**
- **Transportation**



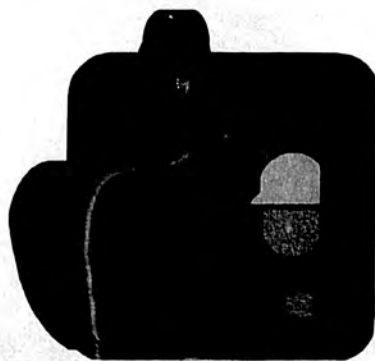
START POINT



**DECIDE ON
CORE
GOVERNMENT IN NATURE
FUNCTIONS**



G.I.N.





What Federal Functions Cannot Be Studied

- **Inherently Governmental Activity** - “..one that is so innately related to the exercise of the public interest as to mandate performance by Federal employees.” *(OMB Circular A-76)*

- Command/Cmd Support
- Chaplain
- Combat Forces
- Contracting
- Inspection

- Intelligence
- Judge Advocate
- Manpower/Organization
- Fed Personnel Mgt.
- Public Affairs





Why is Cost Competition Important To The Federal Government?

"We, the taxpayer, benefit when government improves the way it operates and spends money more wisely."



- **Reduces operating costs**
- **Creates a more efficient means of providing services**
- **Creates a government that is more businesslike and better managed**
- **OSD Perspective**
 - **Savings will be spent on readiness and modernization**
 - **Will help DoD build competitive, innovative, responsive, efficient and reliable organization.**



PERCEPTIONS

A-76 Competitions Are:

☐ **Difficult**



☐ **Controversial**



☐ **Always Lead To Appeals**



*Jan 53 started
10 appeals
1 won*



Federal Employee & Union Roles

CAN

- Provide input to the study team
- Document workload
- Draft & review PWS
- Identify areas for improvement

*employees
are*



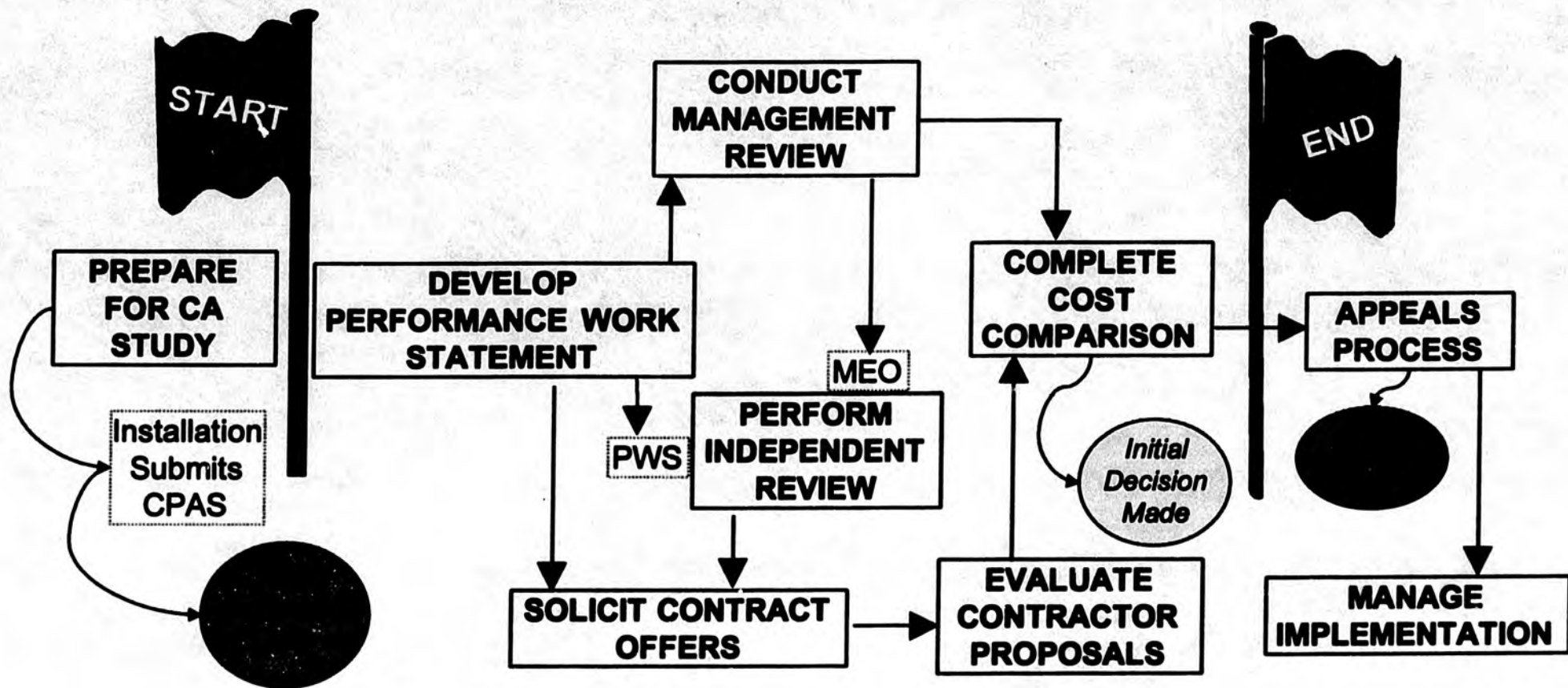
CANNOT

- Be involved in the final decision of what is in the PWS
- Determine the final staffing and costing of the new organization
- Work on the source selection board



Federal A-76

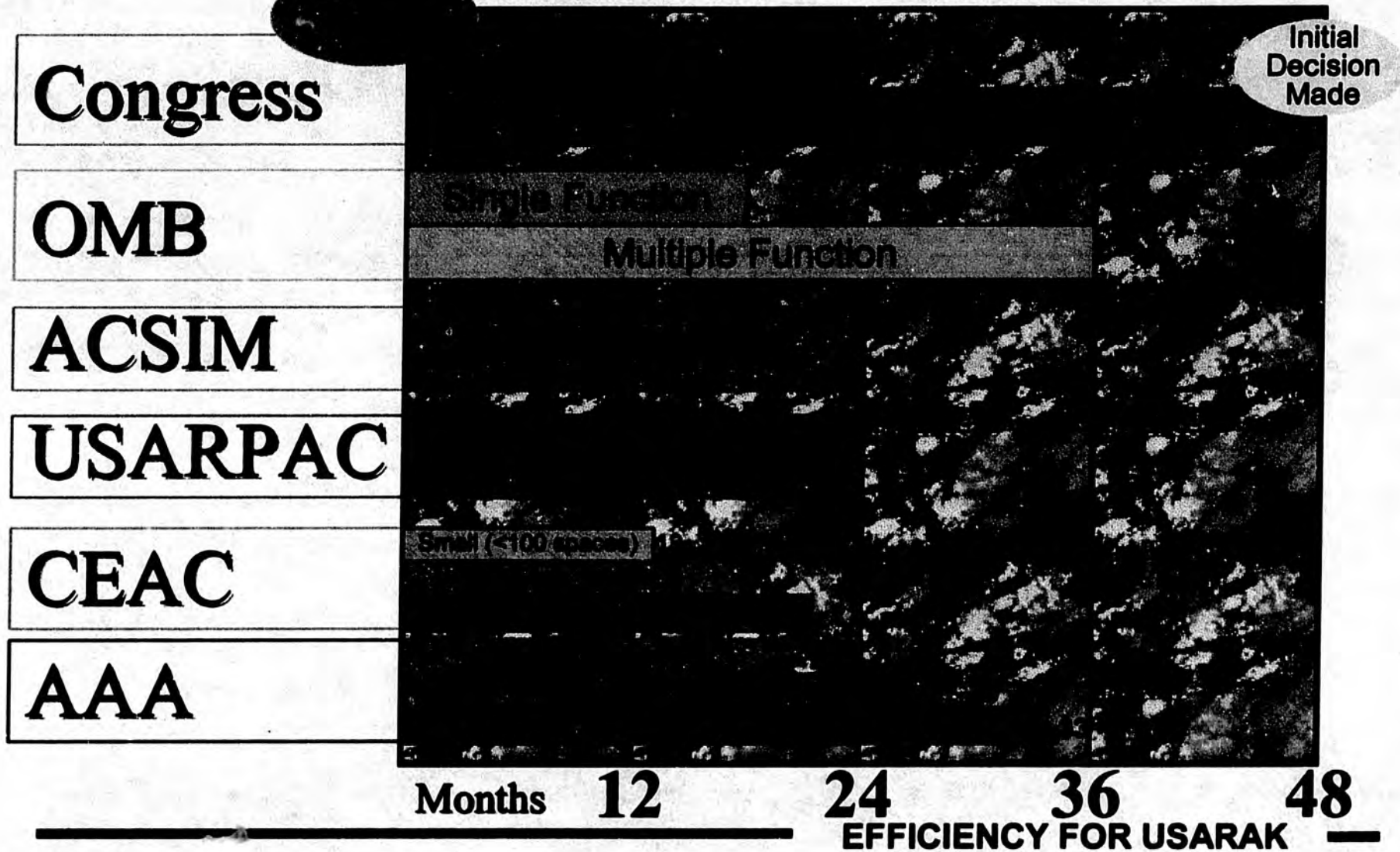
Cost Competition Process



- Select the lowest bid or best value proposal from the solicitation, and add 10% of in-house personnel costs for transition.
- If the result is lower than the "in-house bid," convert to contract.
- If the result is higher, implement the MEO.

EFFICIENCY FOR USARAK

Federal A-76 Study Milestone Requirements





Key Success Factors

- **Ensure ongoing communication of plan and status to:**
 - **Internal - Managers, staff, employees & union**
 - **External - Contract community, public**



- **Must work as a team**



- **Must promote positive approach from the outset !**
- **Ensure accuracy and completeness of all products/documents**
- **Current civilians have right-of-first-refusal**

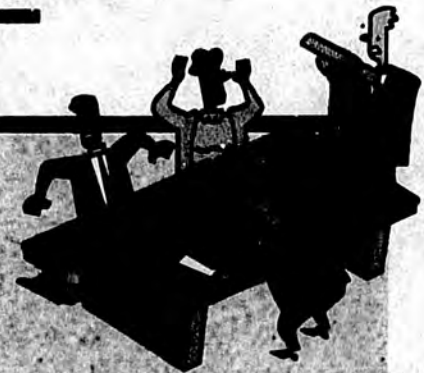




Lessons Learned

- **Can't do business as usual**

- CS&P is full time effort
- Demands best people and personnel stability



- **Getting ready for CS&P**

- Limited A-76 experience; great need for training
- Not yet on field commanders' radar
- Need to continue to communicate purpose and vector



USARAK Organizations Under Study

DIRECTORATE OF LOGISTICS (DOL)

- Study Kickoff - Jan 98



DIRECTORATE OF PUBLIC WORKS (DPW)

- Study Kickoff - Nov 98

DIRECTORATE OF COMMUNITY ACTIVITIES (DCA)

- Study Kickoff - Nov 98

DIRECTORATE OF PLANS, TRAINING, SECURITY, & MOBILIZATION (DPTSM)

- Study Kickoff - Nov 98

