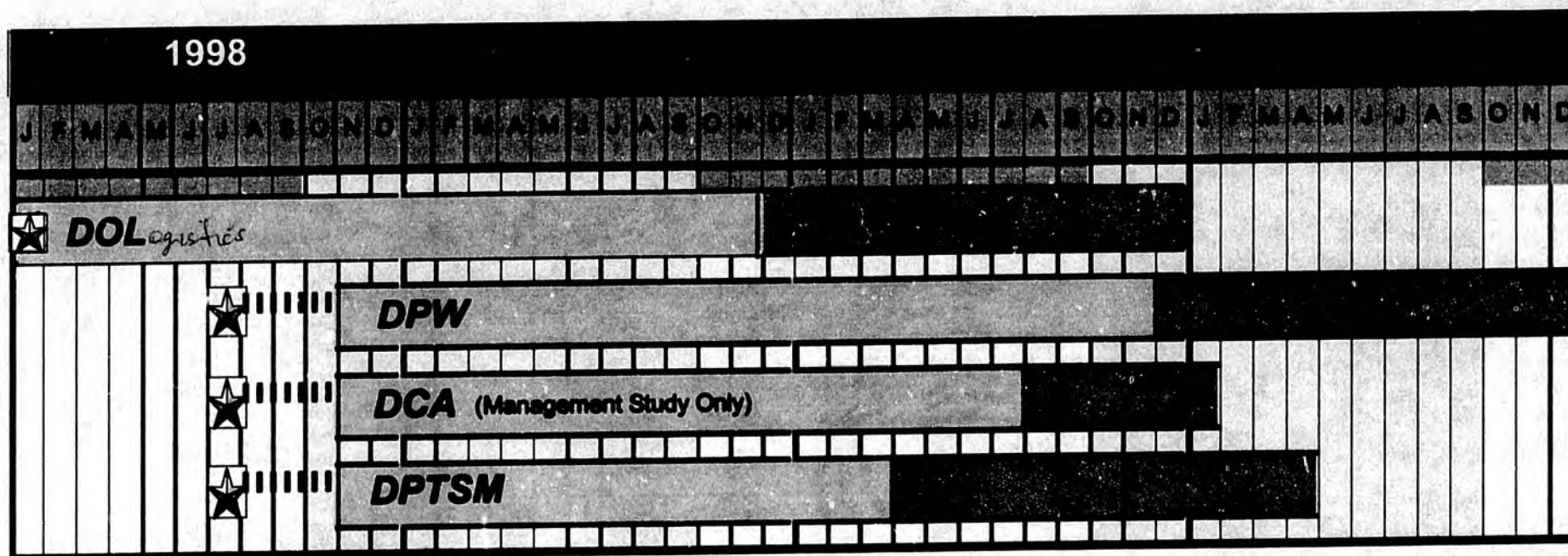


ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672  
2734 SCOMM 122: COMMISSION ON PRIVATIZATION... , 1999



# Study Timelines



Multi-function competitions  
fake all or nothing

## Legend

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

EFFICIENCY FOR USARAK



# **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.





# **Mow A Residential Lawn**

## ***After***

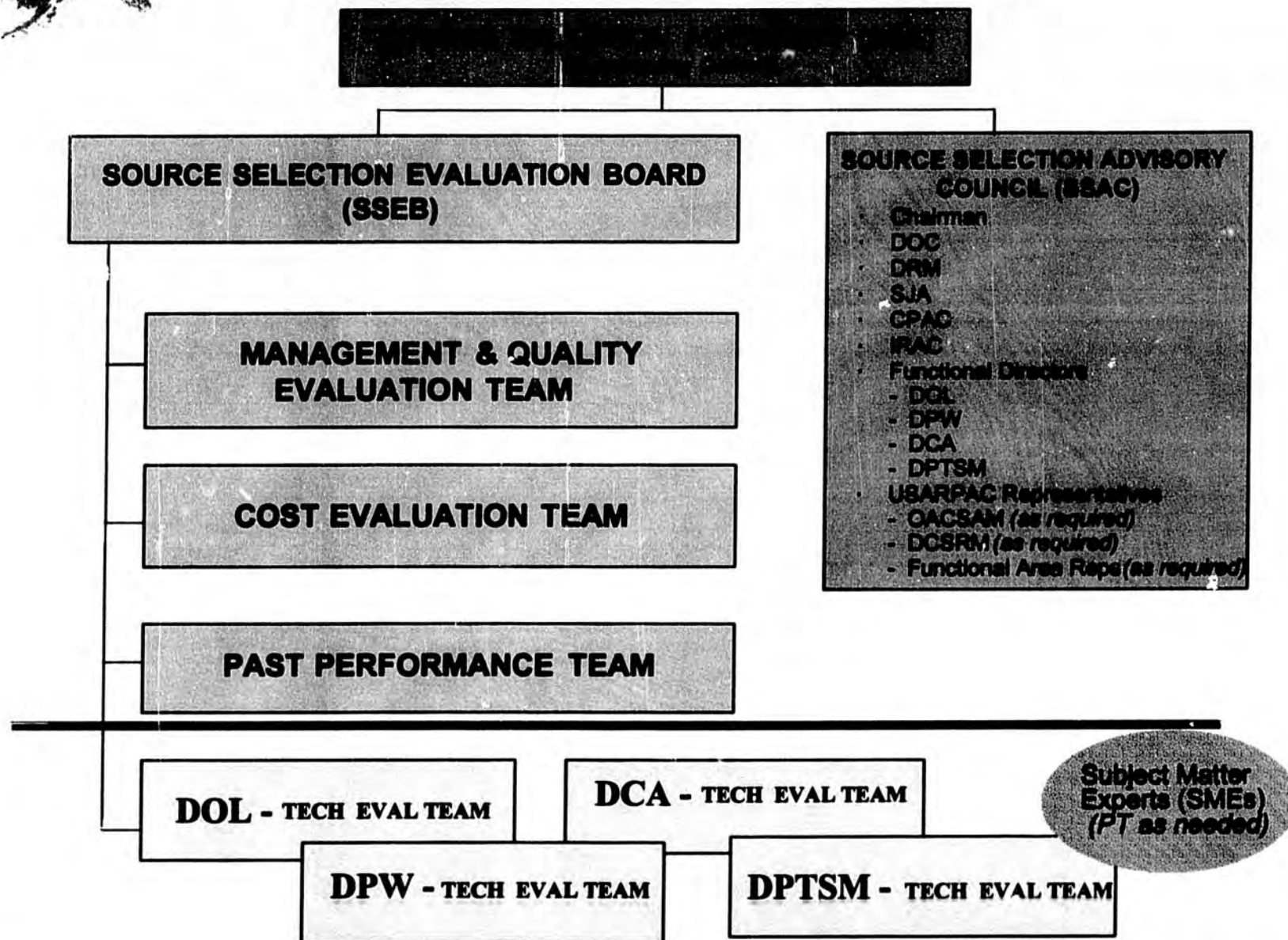
- **24,300 Sq. Ft. Bermuda grass planted on 4" humus, summer 1996.**
- **Maintain height at 3" to 6" from 1 May to 30 Sep. pH adjust to Dept. of Agriculture (DA) standard B-2,a. (SEE Tech Exh. 21).**
- **Maintain sprig density at 180 per Sq. Ft. Minimum.**
- **Water using DA rain correction table at Tech Exh. 22.**



EFFICIENCY FOR USARAK



# SSEB STRUCTURE



EFFICIENCY FOR USARAK

# 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

- Steam / Electric Co-Generation Plant
- Heat Service & Steam / Condensate Facilities
- Electrical Service and Distribution Facilities

Non-binding concept  
Proposal  
"Is It Feasible"

- Natural Gas Service and Distribution Facilities
- Potable Water Service and Distribution Facilities
- Wastewater Collection System

RFP  
"Who can do it best &  
cheapest"



# Implementation Summary





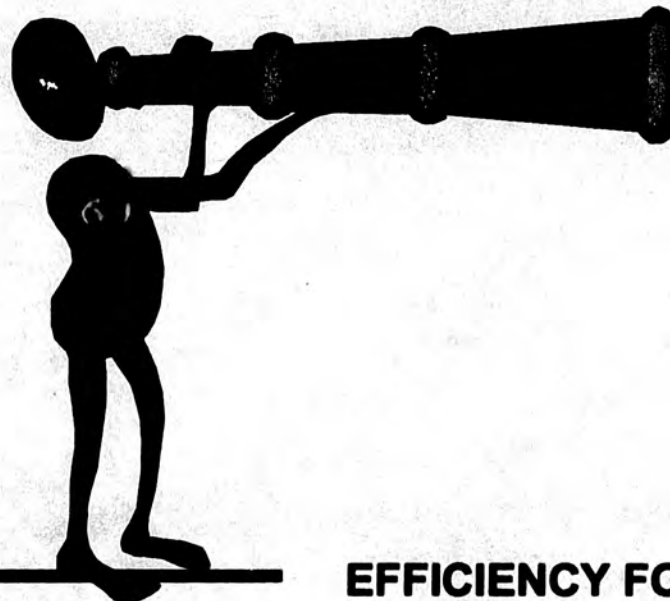
# **Conclusion**

- **Big Impact On People And Culture**
- **Painful Process.....Partnering At All Levels**
- **Program Is Measured.....Cautious**
- **Outside Pressures Continue**
- **Can't Afford To Not Do This Right**



**The Right GOAL:**  
**Successful Mission Performance**  
**And Cost Savings**

# Perspective



EFFICIENCY FOR USARAK



**THIS IS WAR!**



*w/ competitive bidders  
who want our jobs*



# HEADLINES

## 300 JOBS LOST

*Don't want this!*



**25,000 Army Positions Studied Since 1979**

**15,900 Positions Converted to Contract**

**SCORE: In-house 241 - Contractors 227**



# ARM FOR BATTLE

*LOTS OF  
TRAINING*

## 4 T's

*PWS given to  
contractors as well  
Bids must be within scope  
of advertisement  
downward*



**TASKS**



**TENACITY**



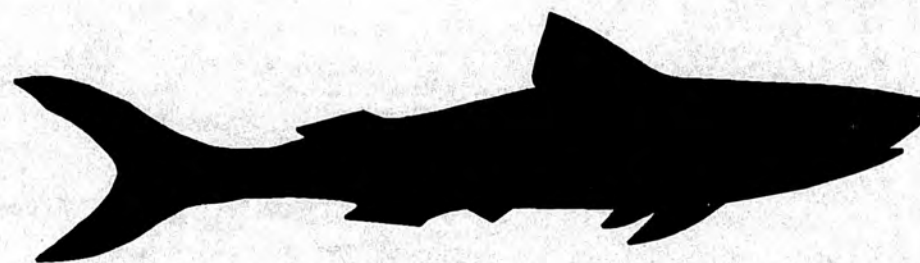
**TRAINING**



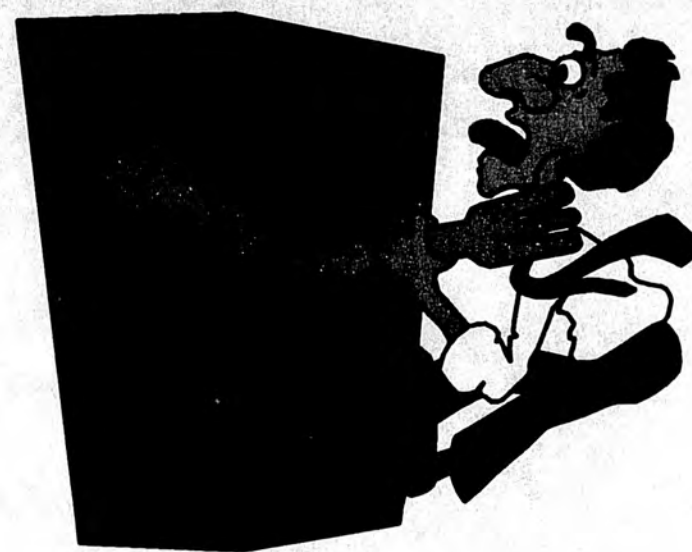
**TRUTH**

---

**EFFICIENCY FOR USARAK**



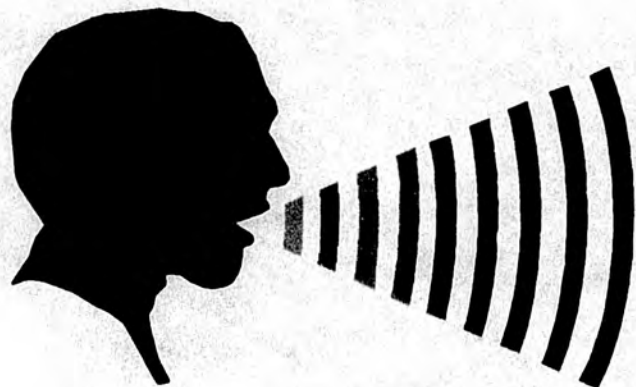
**BE BRUTALLY EFFICIENT!**



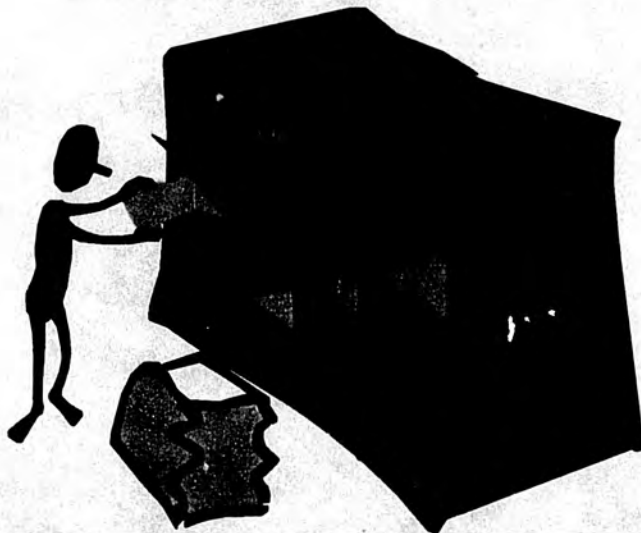
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**EFFICIENCY FOR USARAK**

Communicate your ideas



**THINK, THINK, THINK!**



think ouT oF thE boX

---

EFFICIENCY FOR USARAK

# IN SUMMARY

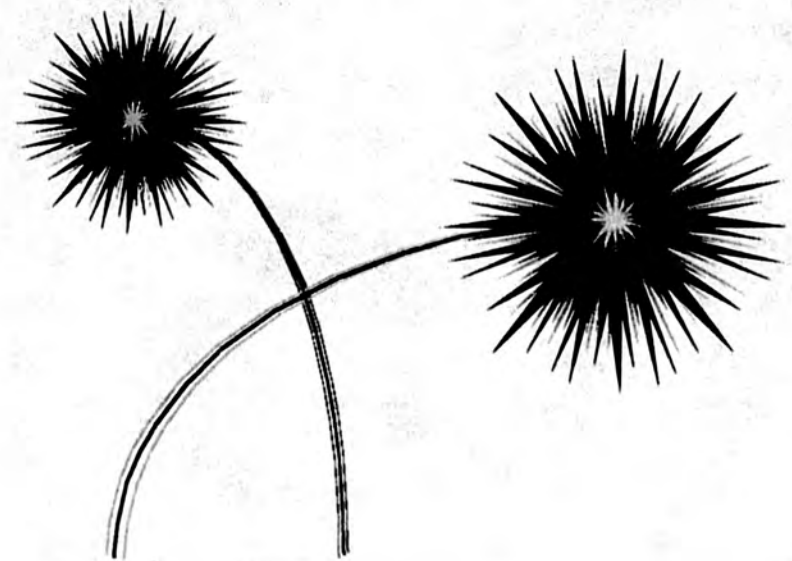


**Takes a team effort**



## **COMPETE AND WIN!**

**Everybody wins**



---

**EFFICIENCY FOR USARAK**

The end of the process is  
a cost companion  
between Contractor & MOE  
(most effic. entity)

# QUESTIONS?



United States Army Alaska  
"America's Arctic Warriors"



**MARK BRYANT**  
Chief, Management Services Division

Directorate of Resource Management (907) 384-1140  
Bldg 1, Rm 204A, Attn: APVR-RS MS 317-384-1140  
600 Richardson Drive, #6200 FAX 384-6122  
Fort Richardson, Alaska 99505 bryantm@richardsongah2.army.mil

**EFFICIENCY FOR USARAK**

**SCOMM**

**122:23**

**JOINT ARMED SERVICES COMMITTEE**

September 23, 1999

10:40 a.m.

**SENATE MEMBERS PRESENT**

Senator Tim Kelly, Co-Chair  
Senator Drue Pearce  
Senator Pete Kelly  
Senator Gary Wilken  
Senator Al Adams

**HOUSE MEMBERS PRESENT**

Representative Eldon Mulder, Co-Chair  
Representative Lisa Murkowski  
Representative Gene Therriault  
Representative Reggie Joule  
Representative John Harris

**PUBLIC MEMBERS PRESENT**

Dean Owen (via teleconference)  
Jake Lestenkoff (via teleconference)

**OTHERS PRESENT**

Senator Jerry Ward  
Senator Loren Leman  
Representative Brian Porter  
Representative Joe Green  
Representative John Cowdery  
Representative Allen Kemplen  
Representative Sharon Cissna  
Representative Richard Foster  
Jim Chase, Department of Military and Veterans Affairs, via teleconference  
Carol Carroll, Department of Military and Veterans Affairs

**COMMITTEE AGENDA**

U.S. Coast Guard Overview by Rear Admiral Barratt  
Special Presentation: Army Privatization Programs  
Interim Activities Report  
Issues Update

## **WITNESS REGISTER**

Rear Admiral Thomas Barratt  
Commander 17th Coast Guard District  
P.O. Box 25517  
Juneau, AK 99802

Colonel Michael L. Sandberg  
Deputy Chief of Staff for Logistics  
U.S. Army Alaska  
Building 1  
600 Richardson Drive  
Ft. Richardson, AK 99505

Major Brian C. Hilferty  
Public Affairs Officer  
U.S. Army Alaska  
Building 1  
600 Richardson Drive  
Ft. Richardson, AK 99505

Mr. John Toenes  
Deputy Director, Directorate of Public Works  
U.S. Army Alaska  
Building 1  
600 Richardson Drive  
Ft. Richardson, AK 99505

Mr. Gregory C. Endsley  
Deputy Director, Directorate of Logistics  
U.S. Army Alaska  
Building 1  
600 Richardson Drive  
Ft. Richardson, AK 99505

Mr. Mark S. Bryant  
Chief, Management Services Division  
U.S. Army Alaska  
Building 1  
600 Richardson Drive  
Ft. Richardson, AK 99505

## **ACTION NARRATIVE**

**TAPE 99-2, SIDE A**  
Number 001

CO-CHAIR TIM KELLY called the Joint Armed Services Committee

JT ARMED SERVICES CMTE

- 2 -

09/23/99

meeting to order at 10:40 a.m. Committee members present were Senator Tim Kelly, Senator Drue Pearce, Senator Gary Wilken, Representative Eldon Mulder, and Dean Owen and Jake Lestenkoff via teleconference.

CO-CHAIR ELDON MULDER moved to approve the minutes of the July 19, 1999 meeting. There being no objection, the minutes were approved.

CO-CHAIR TIM KELLY introduced Rear Admiral Thomas Barratt of the U.S. Coast Guard and announced that Rear Admiral Barratt will host a luncheon for committee members on September 24.

REAR ADMIRAL BARRATT informed committee members that he would be happy to speak to and show committee members, as well as individual legislators, what the Coast Guard does, how its work relates to the state, and to provide tours of Coast Guard installations.

REAR ADMIRAL BARRATT gave the following briefing to legislators. The U.S. Coast Guard has 2000 men and women serving in Alaska. The responsibilities of legislators are significant and they intersect with U.S. Coast Guard responsibilities through various operating administrations of the state. Whether the U.S. Coast Guard is successful in its missions in areas like fisheries enforcement or environmental protection depends on the Coast Guard's efforts, the laws and regulations it must enforce, the resources and training it gets, and the relationships it has with the people and agencies it works with.

REAR ADMIRAL BARRATT discussed his philosophy toward the Coast Guard's mission. First, Coast Guard officers must ask themselves if they are "doing the right thing" for themselves, their mission, their families, and for the communities they serve. "Doing the right thing" means providing operational excellence which requires good leadership, teamwork and innovation. Good teamwork must be applied to external, as well as internal operations. To be successful, the U.S. Coast Guard must partner effectively with agencies such as the Department of Public Safety (DPS) and the Department of Environmental Conservation (DEC). The more the Coast Guard is able to coordinate its efforts in operational excellence, the better the result will be for the industry it serves.

REAR ADMIRAL BARRATT noted the second most important component of his philosophy is that Coast Guard members must look out for each other as well as for the communities they serve. Community outreach efforts by the Coast Guard are very important in Alaska. He emphasized that he always has an open ear for legislators and believes outreach to the Legislature is important to ensure that he fully understands what legislators' issues are in regard to their

# **CORRECTION**

**THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION**



Rev. 6/98

Central Microfilm Services  
Department of Education & Early Development  
State of Alaska

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constituents.

REAR ADMIRAL BARRATT said his last directive to Coast Guard members is to honor the public trust they hold and to approach their jobs with integrity.

REAR ADMIRAL BARRATT discussed the issues he faces at this time. Oil transportation safety is an ongoing issue and the most important. The safety of other commercial vessels is also on the top on the list. He noted many commercial vessels dock at Dutch Harbor and that he believes it is better to enforce safety regulations and keep a ship in port than to find the ship out on the rocks. Passenger vessel safety, especially in light of the growth of the tourism industry in the state, is the second most important issue he faces. Small passenger vessel safety is also of concern. REAR ADMIRAL BARRATT said he first attempts to find regional solutions to problems and to reach out to industry representatives to avoid regulatory solutions whenever possible. He believes the best solutions are developed with cooperation, understanding, education, and partnerships.

REAR ADMIRAL BARRATT acknowledged that he is very personally bothered when deaths occur that could have been avoided and he is convinced that the Coast Guard is not doing as well as it could in that arena. He noted two young Canadian girls drowned in a skiff accident on the North Slope recently. The two girls were on a long journey without any emergency or life saving equipment. He said he will work as hard as he can to find a way to reduce the number of preventable deaths in Alaska.

CO-CHAIR TIM KELLY asked what the equivalent is to the United States Coast Guard in our neighboring countries.

REAR ADMIRAL BARRATT replied they have similar but not identical organizations. He will be meeting with the director of the Russian Federal Border Service this week. Historically, that organization has been more of a customs agency but it is taking on the additional responsibilities of fisheries enforcement and environmental protection. Russia's search and rescue operations are entirely separate from the Federal Border Service at this time. Canada's Coast Guard has recently taken on fisheries enforcement duties. Japan has a Coast Guard-type organization but inspection functions are not linked to it.

CO-CHAIR KELLY asked if the Canadian agency is referred to as the Canadian Coast Guard. REAR ADMIRAL BARRATT said it is, however it is under the purview of the Canadian Armed Forces.

REPRESENTATIVE RICHARD FOSTER asked what function Loran stations play now that satellites are used for navigational purposes.

REAR ADMIRAL BARRATT explained that Loran stations are used as a back-up system and he expects them to be in place for another eight to 10 years. Aircraft pilots use the GPS system but, because of reliability, transmission, and redundancy concerns, the aviation community is not willing to let go of the back-up system.

REPRESENTATIVE FOSTER asked if any Coast Guard icebreakers will be visiting the Nome and Kotzebue area in the near future.

REAR ADMIRAL BARRATT noted the icebreaker Healy (ph) will be visiting this fall and that although he is unaware of specific schedules, the Coast Guard plans to occasionally operate icebreakers in that area.

Number 285

SENATOR PEARCE asked if the Coast Guard has considered asking Congress to change the statute and regulations governing the gross tonnage for passenger vessels so that the Coast Guard can get more regulatory authority over the smaller vessels that have had problems.

REAR ADMIRAL BARRATT said nothing is underway now but when the small passenger vessel safety task force finishes its work, he will look at that issue. He noted that part of the problem lies in the fact that the masters on the vessels that Senator Pearce referred to are required to have a 100 ton license, even though the vessels they operate are larger. He stated that naval architects can be very creative in getting more passenger capacity and larger vessel size while complying with existing regulations. He maintained that the problem may lie in the regulations, but it may also lie in the competence and training and the approaches used by the industry to ensure that the masters are capable. He pointed out that some of the better tourism vessel operators require three, four, or five escorted trips to a destination before they allow a master to operate the vessel alone.

SENATOR PEARCE stated she is not necessarily questioning the ability of the masters on the smaller ships, however she would prefer that pilots be hired whenever a ship is carrying a large number of paying passengers. She noted what she thinks is happening on these ships is that the master is trying to navigate the boat, act as tour guide with a loudspeaker, and accommodate tourists on the bridge deck simultaneously. She expressed concern that because of the way the vessels were designed, the Coast Guard

cannot control the "manning" of the ships.

REAR ADMIRAL BARRATT said that is correct. He pointed out that these vessels are traveling to areas that are inherently dangerous; the master must pay attention to navigation and cannot "eyeball" a route.

Number 335

REPRESENTATIVE GENE THERRIAULT indicated that the Alaska Legislature has been debating the issue of whether to require recreational vessels to register and pay a tax to provide a match for federal dollars to establish a boating safety program. He asked Rear Admiral Barratt to comment on such a program.

REAR ADMIRAL BARRATT noted that the death rates have dropped substantially in states that have established boating safety programs. Effective state programs involve education and minimal regulatory requirements and use existing enforcement mechanisms. The death rate in Alaska is 10 times higher than some other states. He would like to work to cut that rate in half. He offered to talk about such a program in detail with Representative Therriault at another time.

SENATOR AL ADAMS asked if bulk fuel storage facilities fall under the jurisdiction of the Coast Guard.

REAR ADMIRAL BARRATT said they do.

SENATOR ADAMS asked what steps the Coast Guard is taking to get rural communities to comply with the regulations governing bulk fuel storage facilities and whether the Coast Guard has funds for that project.

REAR ADMIRAL BARRATT said that matching federal and state funds have been made available to do some of the work. The Coast Guard and DEC are prioritizing the facilities in need of repair so that the worst situations can be addressed first. He expects this project to take at least five years to address.

CO-CHAIR TIM KELLY thanked Rear Admiral Barratt for speaking to the committee. He then announced that representatives of the U.S. Army would brief the committee on the Army's privatization efforts.

CO-CHAIR ELDON MULDER introduced Major Brian Hilferty, Public Affairs Officer; Mr. John Toenes, Deputy Director of the Directorate of Public Works; Mr. Greg Endsley, Deputy Director of the Directorate of Logistics; Mr. Mark Bryant, Chief of Management

Services Division and Deputy Chief of Staff for Resource Management; and Colonel Mike Sandberg, Deputy Chief of Staff for Logistics, U.S. Army Alaska, and the Director of Logistics for the U.S. Army Garrison Alaska.

CO-CHAIR TIM KELLY noted that Representative Brian Porter, Senator Al Adams, Representative Lisa Murkowski, Representative Gene Therriault, Representative John Harris and Senator Pete Kelly had joined the committee.

Number 400

COLONEL SANDBERG informed committee members that the U.S. Army Alaska (USARAK) Directorates span Fort Richardson, Fort Wainwright and Fort Greeley.

COLONEL SANDBERG pointed out that his group gave the same briefing to the Joint Committee on Privatization on Monday. The group is attending to inform committee members of what USARAK, as a federal entity, is doing in the way of commercial outsourcing and privatization. The group has no intention of telling the State of Alaska how it should go about its efforts in that arena. He noted Mr. Bryant would begin the presentation with a general overview, and then he would give a director's perspective on how USARAK prepared its workforce to accept the fact that they were being studied for commercial outsourcing.

MR. MARK BRYANT presented a slide show consisting of 38 slides showing the basic history, regulatory requirements, and results of USARAK's competitive sourcing and privatization project.

Slides 1 and 2 are introductory and describe the purpose of the presentation.

Slide number 3 contains the general philosophy behind the project which is that government should not compete with the free enterprise system.

Slides 4 and 5 define competitive sourcing and privatization. Competitive sourcing is an activity in which government retains ownership of some of the equipment and the facilities. After the competitive sourcing study is conducted, USARAK chooses one of three ways to have the service performed: USARAK can turn control of the operations over to contractor performance but do the surveillance itself; it can provide the service in-house; or the service can be provided by another federal agency. USARAK may instead decide to privatize a service in which it turns over its assets to someone else and get out of the business entirely. The

choice between competitive sourcing and privatization is based on economy. The best examples of privatizing services are the ongoing studies on privatization of utilities and housing. The only stipulation for privatizing services is that it must be economical, so a cost analysis is conducted to determine if the service can be provided cheaper by a contractor.

Slide number 6 contains a detailed definition of an A-76 cost competition which Mr. Bryant explained is basically a full cost competition study. The study determines all costs involved in providing the service in-house. USARAK then solicits prospective bids. The cost competition methodology in A-76 is specified in the OMB circular. USARAK studies entire organizations, not only the functions it wishes to compete. The competitive sourcing can be done in two ways: if the organization has 10 or less appropriated funded positions, a direct conversion is done. If the organization has 11 or more employees, by law USARAK must do a full cost competition study.

Slide number 7 contains the history of competitive sourcing in the federal government. The Nichols Amendment of 1987 created a moratorium from 1987 to 1995 at which time the Commission on Roles and Missions was created by Secretary of Defense Cohen.

Slide number 8 shows the results of the studies from 1979 through 1996. After 468 studies were completed, a 28 percent savings resulted.

Slide number 9 contains the results of a GAO study completed in February of 1999. In 18 of the 53 studies, the performance work statements had to be revised. The performance work statement is the most important document in the entire process as it describes what the contractor is expected to do. Of 32 contracts, 4 were terminated for unsatisfactory performance.

Slide number 10 contains USARAK's strategy which is to achieve greater efficiency to get the best deal for the government and the taxpayer.

Slide number 11 shows the time limits for the studies established by OMB Circular A-76. A single function study is limited to 18 months. A multi-function study is limited to 36 months. Congress also set time limits for spending funds on studies that are a little bit longer.

Slide number 12 shows the starting point as determining what USARAK's commercial activities are and what the inherent government activities are.

Slide number 13 contains the major categories of the functions that can be studied according to the OMB Circular. This represents about 320 sub-functions. The functions that can be studied are also contained in other guides published periodically as part of the annual appropriation acts. MR. BRYANT said if a service can be found downtown or in the phone book, it has the potential of being contracted out to the commercial sector.

Slide number 14 contains the definition of an inherent government activity. MR. BRYANT said if an employee has the authority to make a decision on behalf of the government and commit it to an action, that position is an inherently governmental function.

Slide number 15 contains the reasons why cost competition is important to the federal government. Basically, USARAK just wants to perform better. MR. BRYANT credited the civil servants who have a vested interest in the studies and know how the functions are performed for the success of USARAK's privatization program.

Slide number 16 shows some of the perceptions of A-76 competitions. They are seen as difficult, controversial, and as always leading to appeals, which is not true. Of the 53 studies conducted, 10 were appealed, and only one of the appeals was won.

Slide number 17 discusses federal employee and union roles. No closed meetings occur and employees participate fully until the end of the process, at which time management begins to close off the process to the unions and employees. Employees are critical to the process in that they document their workload and identify areas for improvement.

TAPE 99-2, SIDE B

Slide number 18 shows the process for compiling documentation to announce USARAK's studies. By law, the process must be announced to Congress. The performance work statement is very detailed; the typical performance work statement for the vehicular logistics study fills several binders. After the performance work study is developed over 12 to 14 months, it is given to USARAK's director of contracting to solicit contract offers, and to a management review team. The performance work statement and the most efficient organization work documents are given to the U.S. Army audit agency to check the process. The contractor proposals are evaluated for past performance, quality, best value, and bench marking. When completed, USARAK selects the top bid which will compete with the in-house bid to complete a cost comparison. Standard software is used to compare the numbers and an initial decision is made. Once the initial decision is made USARAK automatically allows protests

and appeals for 30 days.

REPRESENTATIVE COWDERY asked if USARAK allows contractors to "cherry pick" when bidding.

MR. BRYANT explained that most studies are multi-function studies because of the economy of scale. USARAK requires contractors to bid on the entire contract. Furthermore, the directors of logistics and public works require one bid for public works projects and logistics for both Ft. Richardson and Ft. Wainwright.

MR. BRYANT noted after the appeals process is finished, USARAK notifies Congress and then takes 6 to 12 months to implement the contract. The contractor's bid must beat the in-house workforce bid, at least on personnel costs, by at least 10 percent or up to \$10 million, to compensate for the transition costs.

Slide number 19 contains the milestone requirements which are based on the statutory and regulatory mandates for completing the studies. In addition, headquarters gives USARAK specific due dates for completing the studies. The U.S. Army audit agency concluded that a large study would take about 33 months.

Slide number 20 lists the success factors of which the most important is open communication on every activity being conducted. USARAK publishes newsletters, a web page, and newspaper articles, and holds meetings with the workforce and the union. Both participate in the study. USARAK also tries to keep communities informed about what the studies involve. USARAK promotes a positive approach from the outset, and wants to complete the process as soon as possible. It believes it will not have to do large multi-function studies again for about 4 or 5 years. Current civilians have right of first refusal by law. If a contractor wins the bid, the contractor must first offer the displaced employees the right to a job if qualified.

Slide number 21 shows the general lessons learned. The A-76 program has been refined and revised and is an improvement over the program in existence in the 1980s.

REPRESENTATIVE COWDERY asked Mr. Bryant to explain the Brown and Root award in Kodiak to committee members.

MR. JOHN TOENES informed committee members that USARAK has a contract with a company named Brown and Root. It has a job order contract; it is not an A-76 cost comparison study. Beginning about 10 years ago, USARAK received consecutive year reductions in its number of civilian employees. USARAK took those reductions out of

a class of work it calls "project work" as opposed to scheduled maintenance and services. USARAK chose to solicit a contract for that work at Fort Richardson and Fort Wainwright and some other small sites around the state. Brown and Root was the successful bidder; its contract was for one year with four option years. It is now in its second contract. Contracting for those services has been very successful monetarily and administratively.

REPRESENTATIVE COWDERY asked how long Brown and Root has been performing the contract.

MR. TOENES replied that Brown and Root has been providing the services for over a decade.

SENATOR WARD asked Mr. Toenes to tell committee members what A-76 means.

MR. TOENES explained that in the 1950s, when this program first started, the executive branch of government decided the number of civil servants it wanted and how the agencies would be staffed. President Eisenhower decided to contract out commercial services. Congress, given that it had a constituency of over 3 million civil servants, created a public law (PL 105-262, Section 81-04) which required that anytime more than 10 civilians are involved in a study, some kind of cost comparison must take place before those employees can be displaced. The Office of Management and Budget, which is part of the executive branch, built OMB Circular A-76 which prescribes the method to be used to do a cost comparison study. A-76 was most recently revised in 1996.

Number 506

SENATOR PEARCE asked whether Congress must give approval when USARAK notifies it of a study with more than ten civilians involved, or whether notification is sufficient.

MR. BRYANT stated USARAK only notifies Congress of the result of the study.

SENATOR PEARCE asked, in reference to the Brown and Root contract, whether the union management was a part of the contract renewal process, during which she assumed another scoring would take place.

MR. BRYANT assumed not, however he deferred to Mr. Endsley to answer. Mr. Bryant clarified that the contracts are awarded for five years: one year with four option years. Upon the anniversary of the first review year, he asked Mr. Endsley if the union would be involved with that review.

MR. ENDSLEY explained that the director of resource management that remains at the installation oversees how well the contractor is performing and the costs. If the director sees that performance is poor or that costs are escalating, the government can take action to recompet the contract and bring it back in-house. Therefore, the union that remains at the installation will certainly be watching to see how the contractor does.

SENATOR PEARCE asked if, at the end of five years, the review process is much more elaborate, and whether the union is back at the table at that time.

MR. ENDSLEY said that right now there is no allowance for that. The contract bids are resolicited like any other government contract, therefore there is no methodology for the government to jump back in to compete at that time.

SENATOR PEARCE asked how many five year extensions can be granted before the full process must occur again by law.

MR. ENDSLEY explained that at the end of five years the full process must occur but it does not include the government part of the competition, it is just a contract resolicitation in which the private sector competes. The A-76 process does not allow in-house government services to compete at that time if everything is going well with the contract process.

MR. BRYANT added that the government could come back in and compete but it would have to beat the contractor's bid by ten percent.

MR. ENDSLEY noted a cost transfer study allows a review of a contractor who may become overpriced. If the study proves that the contractor is overpriced, the government workforce could compete but would have to beat the contractor's bid by ten percent.

MR. TOENES stated the process of commercial activities is actually designed to ultimately result in a contract, so when a scenario in which the in-house workforce wins, a commercial activity review is initiated again almost immediately and is continuous until the contract is bid again. There are only a few exceptions in which the in-house workforce might have the chance to reparticipate in the competition. The A-76 process is trying to guarantee that a cost competitive contractor ultimately winds up performing the services.

SENATOR PEARCE asked whether the bias is toward outsourcing.

MR. BRYANT said there is no bias.

SENATOR PEARCE noted that Mr. Toenes said that the process immediately starts again until outsiders do the work.

MR. BRYANT clarified that the term "bias" is inaccurate because this process is designed to be as fair as possible.

SENATOR PEARCE said she did not mean to use the word "bias" in a pejorative manner, however USARAK is deliberately trying to get the services provided by contractors.

MR. BRYANT agreed.

MR. BRYANT continued presenting the slides.

Slide 22 lists USARAK's four largest organizations under study: the Directorate of Logistics; the Directorate of Public Works; the Directorate of Plans, Training, Security, and Mobilization; and the Directorate of Community Activities. All totaled, the military and civilian personnel of those organizations represent 78 percent of USARAK. A much smaller percentage will be competed even though the entire organization is under study.

Slide number 23 contains the goals for USARAK's workforce. To identify all of the services that USARAK wants to buy as accurately as possible is the number one goal. Second, the in-house workforce must be prepared to be the successful bidder.

COLONEL SANDBERG asked committee members to note the second goal because he believes it is critical that the boss talk to the workforce and alert it to USARAK's efforts to make the workforce as competitive as possible.

MR. BRYANT noted that the third goal is to plan a smooth transition to the performance work statement, and the fourth goal is to pursue every avenue possible to take care of the people in the Directorates of Public Works and Logistics.

Slide number 24 contains study time lines for the years 1998 through 2001.

Slides 25 and 26 contain examples of before and after performance work statements for the service of lawn mowing.

Slide number 27 shows the source selection evaluation structure. It contains a formalized process for selecting the best contractor's bid to compete with the in-house workforce. It uses a source selection advisory council composed of senior staff members and a source selection evaluation board made up of 5 or 6

people. Technical experts also participate.

Slide number 28 defines privatization and lists the Army's privatization goals and its on-going studies. The on-going studies focus on steam, heat, electric, gas, and water and sewer facilities, as well as housing.

Slide number 29 is a cartoon depicting USARAK's implementation summary. USARAK may be smaller in the future but it hopes to be more streamlined and businesslike.

Slide number 30 is entitled "Conclusion" and describes USARAK's primary focus as mission performance with cost savings.

MR. BRYANT turned the presentation over to Colonel Sandberg for a perspective on actual studies conducted by USARAK.

Number 375

COLONEL SANDBERG stated that he has a number of individuals who are affected by the commercial activities studies that are underway in the Directorate of Logistics. Most of them are in jeopardy of losing their jobs. He discussed the last slides which pertain to the in-house employees.

Slides 31 through 38 are a briefing given to USARAK employees in each installation being studied. USARAK does not want its employees to read a headline in the newspaper once the studies are completed. USARAK is trying to prepare its in-house workforce to compete with any contractor and to win the ability to remain a viable government workforce. Initially, employees were trained. They were told how the study was going to take place and what would be expected of them so that they could prepare themselves and the rest of their workforce. They were then told they had to arm themselves by identifying in detail all tasks that they do, to be truthful in the information they provide, and to be tenacious about incorporating any changes into all study documents. Employees have been told that USARAK has to be brutally efficient. Because the person doing a job knows the best way to do it, employees were asked to communicate ideas about streamlining jobs and to think "out of the box." Employees understood that although USARAK will be smaller, it is confident that its employees can do the job best if the workforce can be more efficient, and that no contractor can do the job any better, especially for ten percent less.

SENATOR WARD noted that the subcommittees of the Joint Commission on Privatization are having some trouble getting through management to find out what individual employees are doing.

COLONEL SANDBERG remarked that the federal sector hired a contractor to come in and assist management to identify the tasks done by each employee. His employees were individually interviewed before any performance work statements were written. Before the interviews took place, all individual and collective tasks and functions of the subdivisions within the Directorates were flow charted.

SENATOR WARD asked if the flow-chart exposed inefficiencies in USARAK's operations.

MR. ENDSLEY replied that flow-charting is an incredibly good tool for finding inefficiencies.

CO-CHAIR MULDER asked if any duplication of services was highlighted.

MR. ENDSLEY said they found there were a number of duplicated services, primarily among the smaller services.

REPRESENTATIVE CISSNA asked how long the flow-charting process takes.

COLONEL SANDBERG replied that it depends on the complexity of what one is flow-charting. Some of the flow-charts were three inches thick. The process of creating a flow-chart takes a significant effort on the part of everyone in the organization from the lowest to highest level employee. In his directorate he has more than 20 people working full time to flow-chart at this time. More than 20 people worked full time to flow-chart the individual processes.

MR. TOENES said the process the Army goes through is based on Army Regulation 5-20, however it mirrors industrial engineering standards. It has two major components: brainstorming, the goal of which is to identify every task performed for at least one hour per year by anyone in the workforce; and second, to determine the cost of every step of each product made and service performed in a year. Flow-charting is invaluable in the process. He advised that almost every contract that has failed did so because of a poor performance work statement or because the contractor did not follow the structured industrial engineering process and simply "winged it."

REPRESENTATIVE COWDERY asked Mr. Toenes to tell committee members about the study for the replacement of light bulbs.

MR. TOENES conveyed that the original performance specification required that all lamps be lit. The contractor could choose two

alternatives: to replace each bulb as it expires, or to replace all bulbs at once, based on the life expectancy of the bulb. The most cost effective method is to replace all bulbs at once because the highest cost (up to 80 percent) of such services is labor.

Number 187

REPRESENTATIVE CISSNA referred to Slide 34 and asked if the training comes first.

COLONEL SANDBERG replied that his directorate did most of the preliminary work first.

MR. ENDSLEY added that he trained all employees on how to brainstorm and do flow-charts.

REPRESENTATIVE CISSNA asked if any materials could be shared from that process.

MR. ENDSLEY explained that USARAK hired a firm to train its workforce, but before that it held its own in-house training in which it used basic management techniques of brainstorming and flow-charting. He noted material is available at bookstores or any consulting firm could do that type of training.

MR. TOENES added that the material provided by the contractor is proprietary. Mr. Toenes said regarding the cost of the studies, some nearly 400 employee positions have been covered by performance work statements. The three year process will cost nearly \$9 million.

CO-CHAIR MULDER asked what percentage of USARAK's budget the \$9 million represents.

MR. TOENES replied the budget of the Directorate of Public Works for this year will be about \$160 million. He assumed the \$9 million would come out of three years' budgets, costing about \$3 million per year.

MR. ENDSLEY noted the Army hired contractors and paid them \$1,000 per position to perform the study. The Army has discovered that \$8,000 to \$9,000 per position is insufficient to hire a contractor to perform the study. They are estimating that \$13,000 to \$14,000 would be adequate.

Number 120

CO-CHAIR MULDER stated that basically seven percent of the budget

is dedicated toward doing the study of efficiency.

REPRESENTATIVE KEMPLER asked where the money comes from for the A-76 competition and whether other projects must compete for those funds.

COLONEL SANDBERG commented that the Army has budgeted for the position of Assistant Chief of Staff for Installation Management with funds to pay contractors to initiate the studies at the rate of \$1,000 per employee. USARAK has basically picked up the remainder of the cost.

MR. BRYANT noted that the Army Headquarters knew the studies would be difficult so it decided to centrally fund them, however it underfunded the studies. At one time they increased the amount to \$1400 per position, however now the Army audit agency believes it will cost \$8,000 to \$9,000 per position. About \$2.6 million was given to USARAK to do the project; \$1.2 was for the Directorate of Public Works study alone. The \$9 million that Mr. Toenes referred to was for the in-house workforce for training and meetings, and for materials and equipment for the core team. USARAK will pay about 75 percent of that amount.

COLONEL SANDBERG stated while training, employees were not doing their core functions within the Directorate.

MR. TOENES said that unfortunately, whether an in-house workforce cost comparison competition is the scenario, or whether USARAK would choose to go direct to contract should legislation allow that and it does not, the same process must be used to come up with a performance work statement to guarantee that the product and services are adequately provided. Therefore, the costs of the study would only be reduced slightly if the in-house workforce was not included.

REPRESENTATIVE KEMPLER asked whether the performance work statement is included in the \$9,000 per employee rate.

MR. BRYANT replied that it is not.

MR. TOENES clarified that Mr. Bryant was saying that the cost of the contractor was not built into that cost. The \$9 million amount includes the cost of building the performance work statement which entailed months of brainstorming and other industrial engineering processes by management and training the in-house workforce. The contractor's cost was not built into that amount.

REPRESENTATIVE KEMPLER asked if there are two costs, one for the

performance work statement and the second for the A-76 study process to determine whether the services could be provided by the private sector.

MR. ENDSLEY clarified that the process begins with writing a performance work statement which USARAK is doing with some outside assistance funded by the Army. USARAK then writes its government proposal for the contract. That is all part of the A-76 process. Not only is USARAK writing its proposal, private firms are simultaneously writing their proposals based on the solicitation and they compete at the end. From the starting point of writing the performance work statement to the cost comparison is all part of the A-76 study. A separate management study is done by USARAK to prepare a technical proposal, however that is just one part of the A-76 study for outsourcing.

REPRESENTATIVE KEMPLER asked if the state wanted to follow USARAK's process, whether the Legislature would be obligated to provide additional funding just as USARAK is receiving from Congress.

TAPE 99-3, SIDE A

MR. TOENES said the federal government did it in two ways. It centrally funded some of the consulting contractors, some of whom have been more successful in helping than others. Clearly 70 or 80 percent of the \$9 million is coming out of the annual operating budget of the Directorate of Public Works.

CO-CHAIR MULDER said it would seem that a long term savings could result from two things, even with the additional expense. Savings will result from outsourcing itself and they will result from the discovery of inefficiencies even in cases where services are not privatized.

COLONEL SANDBERG remarked that if USARAK determines that the production of some product or service cannot be done efficiently in-house, either because of the payroll rules involved or the levels of skills required, whether necessary or not, it can elect to contract the service as part of the in-house bid against which the other contract proposals will compete. He noted that the federal government was so sure that USARAK would realize savings, it incurred cutbacks before it began the study.

CO-CHAIR MULDER noted the incentive for the Department of Defense was based on the fact that it could capture and retain savings and use them for other projects within their own department.

CO-CHAIR MULDER asked who decided which core functions could not be

studied.

MR. BRYANT replied that is done by law and it is also spelled out in the OMB Circular. Office of Procurement policy statements are published regularly, and Army regulations are promulgated regularly. The basic determination was made by the Office of Management and Budget.

MR. TOENES added that the primary criteria used had to do with the proprietary nature of the work.

MR. BRYANT added the Defense Reform Initiative Decision Number 20 (DRID 20) pertains to inventory reform of commercial functions. It changed the way USARAK documents what is considered to be commercial in nature and what is not, therefore USARAK does have further promulgating guidance. In addition the Freedom from Acquisition Inventory Reform Act (FAIR) requires that the DRID 20 inventory be publicized in a commerce-business arena.

CO-CHAIR MULDER said that would allow someone to contest the fact that a core function could be handled by the private sector.

MR. BRYANT said that is correct.

SENATOR WARD asked Mr. Bryant to discuss the restrictions put on the group of people who make the final awards.

MR. BRYANT explained that all personnel who participate in the groups within the source selection evaluation board are exempted from the right of first refusal because they will have insider knowledge of the bids.

MR. ENDSLEY added that the folks that put together the government's technical proposal are also exempted from the right of first refusal.

COLONEL SANDBERG noted that firewalls are essentially established so that certain people are not privy to the information in the government's independent bid. That way they do not lose the right of first refusal which is key for the employees.

There being no further questions, CO-CHAIR MULDER thanked the group for sharing their presentation.

CO-CHAIR TIM KELLY noted Representatives Cowdery and Cissna, and Carol Carroll from the Department of Military and Veterans Affairs had joined the committee. He asked Chris Nelson, JASC staff director, to update committee members on interim activities.

CHRIS NELSON informed committee members that committee packets contain trip reports from the Washington, D.C. trip and the NAID Conference, among other materials. He noted an overnight trip to Ft. Greeley and Clear Air Station is planned for the quarterly meeting on October 4. The purpose of the trip is to view the proposed ground launch interceptor sites for ballistic missile defense. By the time that meeting occurs, a few significant events will have taken place in the ballistic missile defense program. The Environmental Impact Statement (EIS) for the Alaska sites has been completed and will be issued on October 1. Public hearings on the EIS are tentatively set for the first week of November in Fairbanks, Anderson, Delta, and Anchorage. Second, the first test of the exo-atmospheric kill vehicle, the "bullet that will hit the bullet", is scheduled for the first week in October. Also, while at Fort Greeley, the JASC will be briefed on the Northern Warfare Training Center and it will visit the Cold Regions Test Center.

MR. NELSON informed committee members that the Federal Aviation Administration is hosting a conference on the specific issues of privatization and joint use of military airfields on October 17-19. Also, the conference on ballistic missile defense with the Japanese is scheduled for November 8-9 in Honolulu, Hawaii. Mead Treadwell from the Institute of the North is coordinating that conference. A third conference of interest will be held in Tempe, Arizona on January 27-28, 2000. It is being put on by NAID and the subject is making military bases cost competitive.

MR. NELSON discussed background reading material he included in committee member packets. The National Intelligence Council's unclassified version of the CIA report on foreign missile developments outlines the magnitude of the threat. An excerpt of the Deutsch report is also included.

MR. NELSON noted that he and Senator Pearce learned that nations like China and North Korea are financing their weapons programs by raising capital in the Western stock and bond markets through companies directly owned by those countries. Federal legislation is being proposed that will require disclosure so that potential shareholders will be aware of what they are buying when stock or bond offerings are put on the Western stock market. Also, an article in Investors Daily pointed out that the largest public employee retirement system, the California system, has direct investments in several of the companies that build Chinese missiles.

MR. NELSON informed committee members that copies of an alternative

proposal to the national ballistic missile defense system, the AEGIS cruiser system, is contained in committee members' packets. The JASC is not opposing that system as it is a good supplement, however it is not an adequate replacement for a dedicated ground launch system.

Regarding the Base Realignment and Closure (BRAC) issue, MR. NELSON pointed out that he and Senator Pearce were told during their meeting with Pentagon officials that BRAC is off the table until at least the year 2003. The good news is that Alaska will have some time to assist its military bases in becoming more cost competitive, however the bad news is that the two items up for consolidation review in 2003 are depots and labs. Alaska has no depots but the Cold Region Test Center is a lab and will be a BRAC target.

MR. NELSON noted that the Department of Defense is looking at privatizing all utilities on Alaska bases by the year 2003. Both Elmendorf Air Force Base and Ft. Richardson officials are engaged in ongoing discussions with the Municipality of Anchorage. Some systemic problems have been discovered. The military, like other public agencies, has a deferred maintenance problem; the existing delivery systems are not in good shape. JASC wants to assist the Department of Defense in its privatization efforts, however it must be careful not to take on a white elephant.

MR. NELSON discussed proposed legislation. Staff is working with DEC on a solution to the statutory ban on the use of smoke in Alaska. DEC would allow the Army to use smoke on a permit basis. If DEC does not feel it can implement a permit process in compliance with existing statute, it will provide suggestions for legislation before the next legislative session to modify the existing statute.

SENATOR PEARCE asked if the dates for the public hearings on the EIS have been set. MR. NELSON said they have not, but the target date is the first week of November.

SENATOR PEARCE asked why the release of the EIS was delayed until October 1. MR. NELSON replied that he is unaware of any problems that may exist. He added that the Pentagon was originally looking at four Alaska sites for the ground launch interceptor system, but it has narrowed the field to two sites and is no longer considering Eielson or the Yukon maneuver area at Fort Wainwright.

JAKE LESTENKOFF asked Mr. Nelson if he has a copy of a report by the Pentagon that was sent to Congress in August entitled On the Utility of Sea Based Assets to National Missile Defense. MR.

NELSON answered that committee packets contain a policy paper by Frank Gaffney (ph) of the Institute of Strategic Studies. He offered to send a copy of the Pentagon's report to Mr. Lestenkoff.

SENATOR WILKEN asked about the agenda for the quarterly meeting.

MR. NELSON informed committee members they will leave Anchorage at about 7:30 a.m. and fly on National Guard aircraft to Allen Army Airfield where committee members will overnight. The following day the committee will fly to Clear. He noted that portions of the trip are available to other legislators and staff as the aircraft can accommodate them.

CO-CHAIR KELLY asked Mr. Nelson to prepare a memo to legislators to that effect.

SENATOR WILKEN offered to coordinate travel for Fairbanks participants who plan to drive.

CO-CHAIR MULDER suggested meeting with the City Council. MR. NELSON said that could be added to the agenda.

CO-CHAIR TIM KELLY asked committee members to submit the names of nominees for the Citizens Advisory Board to Mr. Nelson. He noted Mr. Nelson is preparing a mission statement and meeting schedule for the Board and that a meeting is tentatively planned in December.

There being no further business to come before the committee, CO-CHAIR KELLY adjourned the meeting at 12:40 p.m.

**JOINT ARMED SERVICES COMMITTEE**

September 23, 1999

10:40 a.m.

**SENATE MEMBERS PRESENT**

Senator Tim Kelly, Co-Chair  
Senator Drue Pearce  
Senator Pete Kelly  
Senator Gary Wilken  
Senator Al Adams

**HOUSE MEMBERS PRESENT**

Representative Eldon Mulder, Co-Chair  
Representative Lisa Murkowski  
Representative Gene Therriault  
Representative Reggie Joule  
Representative John Harris

**PUBLIC MEMBERS PRESENT**

Dean Owen (via teleconference)  
Jake Lestenkoff (via teleconference)

**OTHERS PRESENT**

Senator Jerry Ward  
Senator Loren Leman  
Representative Brian Porter  
Representative Joe Green  
Representative John Cowdery  
Representative Allen Kemplen  
Representative Sharon Cissna  
Representative Richard Foster  
Jim Chase, Department of Military and Veterans Affairs, via teleconference  
Carol Carroll, Department of Military and Veterans Affairs

**COMMITTEE AGENDA**

U.S. Coast Guard Overview by Rear Admiral Barratt  
Special Presentation: Army Privatization Programs  
Interim Activities Report  
Issues Update

## **WITNESS REGISTER**

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Mr. John Toenes  
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## **ACTION NARRATIVE**

**TAPE 99-2, SIDE A**  
Number 001

CO-CHAIR TIM KELLY called the Joint Armed Services Committee

JT ARMED SERVICES CMTE

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09/23/99

**SCOMM**

**122:24**

COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES  
Anchorage, Alaska  
October 28, 1999  
9:08 a.m.

MEMBERS PRESENT

Representative John Cowdery, Co-Chair  
Senator Al Adams

PUBLIC MEMBERS PRESENT

Commissioner Bill Allen  
Commissioner Tom Fink  
Commissioner Kathryn Thomas  
Commissioner George Wuerch  
Commissioner Emil Notti  
Commissioner Michael Harper

MEMBERS ABSENT

Senator Jerry Ward, Co-Chair  
Representative Tom Brice  
Commissioner Don Valesko

DEPARTMENT OF REVENUE SUBCOMMITTEE MEMBERS PRESENT

Mary Ann Pease, Chair  
Leisa Roberts  
Leonard Steinberg  
John Main  
Dana Owen - Department of Revenue Liaison (via teleconference)

COMMITTEE CALENDAR

Department of Revenue Subcommittee Draft Report

PREVIOUS ACTION

See Privatization Commission minutes dated 7/20/99, 8/16/99 and 9/20/99.

ACTION NARRATIVE  
TAPE 99-7, SIDE A

CO-CHAIR COWDERY called the Commission on Privatization and Delivery of Government Services meeting to order at 9:08 a.m. Members present at the call to order were Representative Cowdery

and Senator Adams and Commissioners Allen, Fink, Harper, Notti, Thomas and Wuerch.

CO-CHAIR COWDERY noted the approval of minutes would be delayed until Mr. Pignalberi's return from the Legislative Ethics Committee meeting which he is attending to verify that no Commissioner has a conflict of interest in his or her participation on the Commission.

CO-CHAIR COWDERY introduced a new Commission member, Emil Notti.

COMMISSIONER NOTTI informed Commission members that he was raised on the Yukon and trained as an electronics engineer. He brings experience to the Commission as a person who has been on both the government and private sector sides of the workforce. He served as the Commissioner of the Department of Community and Regional Affairs and as a board member of Cook Inlet Region Incorporated, and he has been serving as a board member of a bank for 26 years.

Number 055

CO-CHAIR COWDERY asked Mary Ann Pease, Chair of the Department of Revenue Subcommittee, to present the subcommittee's draft report.

MARY ANN PEASE introduced Department of Revenue Subcommittee members Leonard Steinberg, Leisa Roberts and John Main, and made the following comments. The Department of Revenue Subcommittee had some very dedicated members and, although not all could be present today, they unanimously supported the draft report. At the subcommittee's first meeting, members looked at government functions that could be transferred to the private sector via contract, transferred to other levels of government, and/or consolidated to make efficiency changes. The draft reports prepared on the Child Support Enforcement Division (CSED), the Alcohol Beverage Control (ABC) Board, the Income and Excise Audit Division, the Oil and Gas Audit Division, the Treasury Division, the Permanent Fund Division, the Alaska Municipal Bond Bank Authority, the Alaska Permanent Fund Corporation, the Alaska Housing Finance Corporation (AHFC), the Alaska Mental Health Trust Authority, and the State Pension Investment Board are contained in Commissioner's packets. Subcommittee members were unable to do an exhaustive audit on any of the divisions with the limited time and participation available and therefore concentrated on certain areas that are identified in the draft report. Members reviewed all divisions but focused their recommendations on CSED and the ABC Board. Subcommittee members believe that before any of their recommendations on privatization can be carried out, a detailed audit should be done with a primary emphasis placed on the areas brought forward in the subcommittee's report.

MS. PEASE asked Leisa Roberts to present the subcommittee's findings on CSED to Commission members.

CO-CHAIR COWDERY noted it is his intention to extend the sunset date of the Commission on Privatization of Government Services during the next legislative session for the purpose of continuing the work the subcommittees have started. He acknowledged that he is aware that the subcommittees could not get their hands around everything they wanted to look at in the given time frame.

MS. PEASE commented that Ms. Roberts put many hours into her review of CSED and has become an expert in this field. She urged Commissioners to direct any questions about that agency to Ms. Roberts.

LEISA ROBERTS introduced herself to Commissioners and informed them that she is representing ARCO on the subcommittee. She made the following remarks about her review of CSED. CSED is a very large organization that has undergone many changes in the recent past, the most notable change being the implementation of a system of staff retraining. Of CSED's 47,000 cases, 37,000 cases have orders in which the child support obligor has been established, and 27,000 of the cases with orders are in arrears. CSED has no clear definition of cases in arrears and its arrearage accounts are not aged in the way typical accounts are. Because of the magnitude of the caseload and the difficulty reviewing the agency, she looked at sections within CSED that might benefit from privatization. Those areas are the investigations section, the locate section, and any area that does not provide direct case work.

MS. ROBERTS commented that in order to get a complete understanding of CSED's operations, a thorough business process review should be undertaken. She stated that one area that stood out is that some employee tasks could be done more efficiently if mechanized.

CO-CHAIR COWDERY asked Ms. Roberts to expand on that statement.

MS. ROBERTS indicated that the data for new hire information received from employers around the state is manually keyed in to a computer program by CSED employees. The same information is reported to other divisions and could easily be mapped out of those divisions' systems and uploaded to CSED so that potential matches could be identified. Second, other data is extracted from the mainframe system and entered onto an excel spreadsheet by CSED employees. A very inexpensive computer program is available that can download the data from the mainframe system onto an excel spreadsheet. She noted that CSED has put forth some effort to reduce its manual data input. For example, a small number of

payments are now received via electronic funds transfer. CSED could encourage more payers to use that system and also implement a system in which recipients receive payments via electronic transfer, thus eliminating check printing and file sorting and updating. If some of the inefficiencies are more thoroughly investigated, checked for compliance with laws and regulations and corrected, better client service is likely to result.

While doing her review of CSED, MS. ROBERTS said that she found a general feeling of discontent among people involved in the process. MS. ROBERTS pointed out that modifications of cases are backlogged to the point that a payer might be required to make more child support payments after a child turns 18 because the backlog prevented review of the modification while the child was a minor, a scenario that agitates payers. In a good many cases, paternity has not yet been established. CSED's immense caseload requires as many employees as possible to work the active cases but CSED must figure out what to do with the cases in arrears and privatization might be the answer. CSED did solicit proposals for collection of some cases in arrears, however restructuring the proposal might attract more bidders from the private sector. She added that the state might get more "bang for the buck" if some of the services provided to CSED by other government agencies, such as legal services, are provided by the private sector.

MS. ROBERTS acknowledged that she did not have time to thoroughly review the implications of some of the recommendations but she believes that basic business process changes would make CSED a lot more efficient.

Number 212

COMMISSIONER WUERCH commended Ms. Roberts on her excellent report and asked, regarding interagency assistance, whether the divisions have a general overlay of costs for the services they provide, regardless of the amount of assistance each provides, or whether they charge on a per-task basis.

MS. ROBERTS explained that legal services are billed in a manner similar to that of a law firm, however the divisions work closely together so that they "staff up" and determine how many attorneys will be needed for the caseload. To change that number, an attorney has to be reassigned to another division or agency, which does not allow for the flexibility available in the private sector.

COMMISSIONER WUERCH asked about the number of CSED cases.

MS. ROBERTS replied that of the 37,000 child support orders, 27,000

are in arrears. The total number of cases is 47,000, however 10,000 of those do not have orders established as of yet, and that could be a matter of establishing paternity or locating the non-custodial parent.

COMMISSIONER ALLEN asked Ms. Roberts to expand on the arrearage and collections situation.

MS. ROBERTS explained that CSED does not age its accounts, therefore a case in arrears is defined as anything past due over one day. She suggested that the first action that should be taken before considering outsourcing any of the collection function is to establish criteria with which to consider cases in arrears. Typically, private industry ages accounts by 30, 60, and 90 days. Accounts delinquent for more than 90 days receive the most attention. She noted the amount of outstanding child support payments equals about \$561 million. Much of that amount is uncollectible because the amounts are based on forced orders, in other words some orders are not reasonable considering the payers' income. CSED has no method to clearly identify the cases that are uncollectible, nor can it identify those accounts that are seriously in arrears. She recommended that CSED determine what can be collected and that it prioritize collection of cases in arrears. She pointed out that in cases in which the custodial parent is a public assistance recipient and child support payments are collected, CSED is reimbursed by the federal government and it receives a special incentive as well.

COMMISSIONER ALLEN asked at what point judicial remedies kick in, and whether there is a point of time when the collection should be outsourced.

MS. ROBERTS replied that she was unable to establish that based on the fact that she has no idea of the number of cases in that category. CSED has about 221 employees plus some temporary employees, and just managing the ongoing cases, catching up, and changing some of the business processes would probably keep every employee very busy. She guessed that any account in arrears beyond 90 days should be outsourced.

COMMISSIONER ALLEN asked how efficient CSED is in garnishment and attaching, in particular permanent fund dividend checks.

MS. ROBERTS said she did not have adequate time to compare potential collections to the amount that CSED actually collected, specifically permanent fund dividends, but CSED appears to do relatively well in the area of garnishment when the payer is active in the system.

Number 287

SENATOR ADAMS noted that Ms. Roberts recommended that a cost-benefit analysis be performed on CSED and asked if she was suggesting that the cost-benefit analysis be outsourced.

MS. ROBERTS answered that CSED is working very hard to implement processes and systems to improve its performance, but she wonders if the agency is capable of determining when implementation of a new process is guaranteed to be of benefit versus when it is trying a good idea to see if it works.

SENATOR ADAMS asked Ms. Roberts if she looked at restructuring settlements. He noted that the interest on some of the arrearage accounts can amount to \$10,000 and the arrearage might be due to health or employment problems. He questioned whether Ms. Roberts looked at the possibility of reaching settlements with obligors before an account is outsourced for collection.

MS. ROBERTS said she did not but thinks that is a great idea. She suspected that a comprehensive review would identify those areas and isolate such cases.

COMMISSIONER THOMAS questioned whether figures are available to determine the amount spent to collect child support payments in cases that are current versus cases in arrears.

MS. ROBERTS thought she could come up with those figures but said she had trouble determining what should be included in that figure in terms of staff costs, for example whether paternity determination and investigations should be included. When she took a first look at it on a per dollar collected basis, the State of Alaska falls within the mid-range nationwide.

CO-CHAIR COWDERY asked other subcommittee members to comment if they wished to do so at any time.

COMMISSIONER WUERCH asked whether Ms. Roberts was able to do any bench marking against other states on a cost per case basis.

MS. ROBERTS replied that she only did bench marking against cost per dollar collected and, again, Alaska fell in the mid-range. She pointed out that many states have incorporated private industry into their CSED processes.

COMMISSIONER WUERCH asked if Ms. Roberts could recall the cost per dollar collected.

MS. ROBERTS did not recall but said it is in the report.

CO-CHAIR COWDERY asked the number of states that have privatized some of their CSED functions.

MS. ROBERTS indicated that data from 1995 shows that at least 20 states privatized one or more of their child support services statewide; 18 states privatized services at the local office level; and another study reported that 21 contracts were awarded for full service child support operations.

Number 346

SENATOR ADAMS asked if any of those states reverted to using government agencies again to provide the service.

MS. ROBERTS said that she cannot answer that question with assurance, but she heard that a few states have had negative experiences with privatizing services.

MR. JOHN MAIN, the representative of the Alaska Public Employees Association and the chief investigator of CSED, noted that several states have withdrawn from their contracts with private entities, especially in the area of locate. He added that the IRS announced at a conference he attended the previous week that it will start withdrawing information from those states that have privatized CSED functions that use IRS information. The IRS is particularly concerned about 1099 information because of the confidentiality issue.

COMMISSIONER THOMAS noted that as an employer, she was just hit with the federal mandate regarding the new hire notification requirement. She asked how the government can justify mandating businesses to provide new hire information immediately while the IRS is backing away.

MR. MAIN replied that the IRS is an entity unto itself and makes its own rules. He added that the Office of Child Support Enforcement in Washington, D.C. is challenging some of those rules, including the IRS rule about non-cooperation with private businesses. He suspects the IRS will come out ahead, however, because it controls the information. He noted that his section uses the new hire data and that employers are given 20 days to submit to CSED the names of new hires and re-hires. That gives CSED five days to check its system to determine if the person is in the system and to set up a garnishment process. That information is then sent to Washington, D.C. where it is checked for arrearage in other states. Alaska then receives the information about

payments due in other states.

MR. MAIN said one reason the federal government mandated the new hire information is that the labor department collects quarterly wage information but it was taking too long to disburse that information to effectively help the CSED collections process. Congress then passed a law requiring employers to notify their state CSED office within a month when a person is employed, so that CSED can garnish wages immediately. Some states have contracted out with private contractors to do the new hire reporting, others use their state departments of labor. The State of Alaska decided that CSED should conduct the program in-house because Department of Labor notification would have cost an additional \$1 million.

Number 412

MARCO PIGNALBERI, Commission staff, asked Mr. Main to write a memo to the Commission regarding the late-breaking information about the IRS ruling so that the Commission can research that change before it gives its recommendations to the Legislature. He asked which of the discrete steps in the CSED process the 1099 problem affects.

MR. MAIN replied that it affects almost every section except the case maintenance team. The locate section has access to 1099 information, as does the caseworker, but all 1099 files must be kept in cabinets with IRS-approved locks. The IRS is very concerned about access to its confidential information.

MR. PIGNALBERI asked if the federal office that oversees the distribution of funds to the states is challenging the IRS on the new policy.

MR. MAIN said it is challenging some aspects of that ruling. The IRS has said that if a private contractor currently has access to 1099 information, the state cannot renew the contract when it expires. If the state has no contract, it advises against going in that direction. He offered to write a memo of explanation to Commission members.

MS. PEASE asked Leonard Steinberg to talk about the Income and Excise Audit Division and the Oil and Gas Audit Division.

Number 445

LEONARD STEINBERG, Department of Revenue Subcommittee member, noted that he would first like to respond to a question asked by Senator Adams about who should do a cost benefit analysis of CSED. After discussing the issue, the subcommittee thought it would be

beneficial to use an outside agency with experience in privatization and consolidation to do the analysis because such expertise and insight could benefit CSED's program.

MR. STEINBERG explained that the Department of Revenue Subcommittee met several times and that 10 to 12 individuals participated on a regular basis. The different agencies within the Department of Revenue were divided up among subcommittee members to review and investigate with an eye toward privatization, consolidation, and opportunities for cost saving efficiencies. Each individual prepared a written report on his or her agency, and the draft reports were discussed among the entire subcommittee and members of the public. The subcommittee adopted the recommendations supported by a majority of its members; many of the recommendations received unanimous support. Those recommendations then became the body of the draft report presented to the Commission. The consensus of the subcommittee was that the highest areas of opportunity for efficiency improvements within the Department of Revenue are with CSED and the ABC Board.

Regarding the Oil and Gas Audit Division and the Income and Excise Audit Division, MR. STEINBERG said that during his review, he learned that the two divisions plan to merge into one agency in the Spring of 2000. Some efficiencies will be gained by that merger. Some functions of both divisions are currently being outsourced, however the subcommittee recommended that the divisions explore further opportunities to outsource. For the most part, the subcommittee feels that the two divisions are on the right track. He noted that the Administration and division directors were very cooperative in this process.

COMMISSIONER FINK stated that the Subcommittee's mission statement does not include the investigation of government functions that should be eliminated, which was part of the Commission's enabling legislation. Also, the Subcommittee's report recommends that AHFC be looked into. He noted that AHFC is a big ticket item while the other recommendations are small ticket items. He maintained that if the state got out of the secondary mortgage business, it could accrue \$1 billion, and that it is a service that most states do not provide. He asked if the subcommittee discussed that concept at all.

MS. PEASE replied that the subcommittee did discuss that specific subject and realized it is a key area that could be eliminated, however it did not have the resources nor the expertise to review AHFC in depth. The subcommittee member with that expertise who was assigned to that area was unfortunately unable to do the work. The subcommittee's report instead says that it recognizes that it

lacked the resources to do a full audit of AHFC but it wholly believes that is the one function that could be eliminated or changed substantially.

COMMISSIONER FINK asked if there was any particular reason why the elimination of government functions was not listed in the subcommittee's mission statement.

MS. PEASE replied that the omission was an oversight and that it should have been included because the subcommittee certainly did address the subject.

MR. PIGNALBERI pointed out that the report is a draft and that the subcommittee will make any changes it feels are appropriate to the final.

COMMISSIONER THOMAS indicated that oil and gas functions are carried out in other departments. She asked whether the subcommittee looked at any cross-department functions.

MR. STEINBERG said the subcommittee did not look at the oil and gas functions within the Departments of Law and Natural Resources except that the Oil and Gas Audit Division performs royalty audits for the Department of Natural Resources.

Number 538

CO-CHAIR COWDERY commented that during the House floor debate on the Commission's enabling legislation, many legislators felt that the time line to achieve the Commission's task was too short. For that reason, he initially asked subcommittees to focus on what they could get their hands around with their limited resources and time. He expects a further review of certain agency functions to take place, possibly next year.

MS. PEASE stated that John Main was able to bring his expertise to the review of the ABC Board and she noted the subcommittee unanimously supported Mr. Main's recommendations. She asked Mr. Main to discuss the details of his report with the Commission.

MR. MAIN made the following comments about the ABC Board. One thing that stood out when he began his review of the ABC Board is that the board has a very limited function. He has spoken with ABC Board investigators over a period of years, and he believes the ABC Board's functions could be expanded to govern the regulation of tobacco use and gaming, two functions currently housed under two other divisions. At present, two investigators focus on gaming violations, and three or four investigators focus on alcohol

violations, while no investigators focus on tobacco violations. The state contracts with a few police departments to enforce tobacco regulations and laws.

MR. PIGNALBERI noted that one page had inadvertently been omitted from the ABC Board section of the draft report and that a corrected version had been distributed to Commissioners.

Number 570

SENATOR ADAMS commented that when functions are merged within one agency, that agency often becomes less efficient in carrying out each individual function. He noted that the Legislature has not provided enough funds to the ABC Board so that its investigators can handle their own duties around the state now.

MR. MAIN maintained that he believes the combining of functions will improve efficiency because the investigators will be able to look into all three types of violations when they travel to areas throughout Alaska. He agreed with Senator Adams in that the number of ABC Board investigators needs to be increased and that some of the laws governing the ABC Board need to be changed. He pointed out that the ABC Board estimates it needs 10 investigators to adequately cover the entire state. At the present time, three people work in the tobacco prevention program, one solely contracts out the enforcement aspect.

TAPE 99-7, SIDE B

SENATOR ADAMS asked who would prioritize the cases on alcohol, gaming, or tobacco violations for the 10 investigators. He noted that gaming violations are very difficult to investigate.

MR. MAIN replied that it would be up to the ABC Board to determine, but at the same time, most investigators have law enforcement backgrounds as well as economic crime backgrounds. He believes any new hires should have a background in both, because investigators will need a knowledge of how violators of the gaming regulations operate. He believes the investigators, if given the enforcement ability to look at all three areas, would do so with diligence.

MR. PIGNALBERI called Commissioners' attention to the conclusion paragraph on page 6 of the draft report which offers an alternative solution that would vest the ABC Board with the statutory authority to do the enforcement without actually combining the agencies.

MS. PEASE pointed out the subcommittee's first choice is to combine the functions but, if that is not possible, the subcommittee's

second choice is to modify Title 4 to allow the ABC Board to enforce tobacco and gaming laws under contract.

Number 556

SENATOR ADAMS asked if, out of all of the recommendations for the Department of Revenue, only one statutory change is recommended and that is to Title 4.

MS. PEASE said that is correct.

COMMISSIONER FINK asked whether Mr. Main determined a dollar amount that might be saved from combining the three functions.

MR. MAIN replied that he did not, although he looked at the current cost of enforcement for tobacco violations. The federal government pays the state to contract out for that enforcement, and police officers are paid about \$60 per hour under those contracts.

MR. PIGNALBERI asked if that is federal pass-through money.

MR. MAIN said it is.

AN UNIDENTIFIED COMMISSIONER asked what strings are attached to that federal money.

MR. MAIN explained that the contractors have to ensure that they are in compliance with the number of visits they make to establishments and the number of violations they find.

MR. PIGNALBERI asked whether the federal dollars could be used for simultaneous enforcement of alcohol or gaming violations.

MR. MAIN replied that he believes the state could have offered the enforcement dollars to any state agency with such authority, but instead the state offered it to the various police departments.

CO-CHAIR COWDERY asked Elmer Lindstrom to comment on the tobacco prevention program.

Number 540

MR. ELMER LINDSTROM, Special Assistant to the Department of Health and Social Services (DHSS), informed Commission members that he has not had a chance to review the recommendation related to the ABC Board. Mr. Lindstrom commented that the Division of Public Health in the DHSS receives about \$300,000 per year from the Food and Drug Administration to enforce tobacco violations, which DHSS has passed

through to local police agencies. He is unsure whether the ABC Board is aware of what DHSS is doing in this area. He pointed out that tobacco enforcement activity is not centered around liquor stores or bars because its focus is on preventing youth from purchasing tobacco products, an activity that centers around grocery stores. He noted that he is not aware of all of the constraints on those federal funds, however they are significant. Although DHSS is very aware of the need for more ABC Board investigators for enforcement of alcohol violations, he asked Commissioners to look at this recommendation very closely. DHSS's tobacco control team is a public health program of which law enforcement is only one element. The program also looks at a host of prevention activities put together by the Center for Disease Control. DHSS would be reluctant to carve up that comprehensive tobacco control program.

MR. PIGNALBERI asked Mr. Lindstrom to provide the Commission with a written response to the ABC Board recommendation.

MR. LINDSTROM agreed to do so.

COMMISSIONER HARPER asked if the total budget is about \$600,000.

MR. MAIN replied that the ABC Board has \$600,000.

COMMISSIONER HARPER asked if the \$300,000 in contract money would be added.

MR. MAIN said yes, plus the amount of funds allocated to the gaming section for its investigations. He noted that he does not have that figure but that section has only three investigators.

COMMISSIONER HARPER said he is struck by Commissioner's Fink concern about AHFC's involvement in the secondary mortgage market and that the \$600,000 and \$300,000 is probably the equivalent of three to five homes that AHFC has secondary mortgages on. He suggested that Commissioners take some time to speak to the AHFC chairman about why the state does not save \$1 million from AHFC.

CO-CHAIR COWDERY agreed that further discussion about AHFC is important.

MS. PEASE stated that the subcommittee is aware that AHFC is a huge area that needs to be investigated at a much more thorough level than the subcommittee was able to do. The subcommittee did not mean to short AHFC, however it is an enormous organization, and the subcommittee member dedicated to do that report was unable to do so. Ms. Pease maintained that the subcommittee would be more

than happy to review AHFC if the time line was extended but it believes a professional audit would be well warranted.

COMMISSIONER WUERCH thanked Ms. Pease and subcommittee members for all of the hours they put into this project. He said as a postscript to Commissioner Harper's comment about the importance of looking at some of the big dollar issues, he believes that rather than focusing on a detailed audit, the fundamental question of which state services should be provided in an era of declining revenues needs to be addressed. Although it would be nice to continue to provide all of the services the state has offered over the last 20 years, it may not be able to afford to do so anymore. He asked Commissioners to think about some of the bigger policy issues in addition to the detailed reports before the Commission adjourns in December.

MR. PIGNALBERI indicated that the Commission could ask the subcommittee to do a further review of AHFC or the Commission could create a subcommittee of Commissioners to review that agency.

COMMISSIONER FINK stated that he intends to pursue this issue before the Commission adjourns and that he agrees with Commissioner Wuerch that this issue is a policy question. He maintained that he was in the Legislature when AHFC was created and that it was appropriate at the time because Alaska had very poor secondary markets and was being mistreated by the "outside." He maintained that is no longer the case as an adequate private sector market now exists. He indicated that AHFC has \$3 to \$4 billion in net assets, and it pays out about \$106 million per year. By liquidating the mortgages or letting them run out over a period of ten years, \$3 or \$4 billion dollars would be freed up. He repeated that the continuation of AHFC is a policy question. Rather than conducting an audit, he suggested getting a copy of AHFC's balance sheet. He believes the quarrelsome area of this issue for the Commission will be the advisability of getting out and whether an adequate private sector secondary mortgage market exists. He suggested that because the Commission's work is supposed to be completed by the end of December, the topic be discussed by the full Commission.

MR. PIGNALBERI asked Commissioners if they want to extend an invitation to AHFC to have a full discussion at the next Commission meeting.

COMMISSIONER HARPER thought the Commission should look at AHFC's balance sheet and revenue statements. He also suggested getting more information from the financial sector on the secondary mortgage market.

COMMISSIONER NOTTI commented that Alaska used to be the borrower, but conditions have changed, and Alaska is now exporting cash all over the country therefore it may be a good time for review.

COMMISSIONER WUERCH agreed that it would be useful to get financial statements from AHFC because it sounds as though AHFC's yield is about three percent. If the Legislature could take that same \$3 or \$4 billion and invest it in the CBR fund or Permanent Fund and get six to seven percent, the revenue stream would double.

COMMISSIONER THOMAS suggested that since Ms. Pease offered to review AHFC, the Commission should ask the subcommittee to take a look at it and report back.

MS. PEASE agreed the subcommittee would be happy to do that. She noted the subcommittee might reconvene as a smaller group but members would be focussing solely on AHFC and could review the financial statements of AHFC and look at the impact to the state of reallocating that money.

COMMISSIONER HARPER asked that the subcommittee recommend whether AHFC is a necessary government function or whether the private sector could offer those services. He repeated that he does not believe an audit is necessary.

MS. PEASE commented that speaking to local bankers would be helpful.

CO-CHAIR COWDERY acknowledged the Commission would like the subcommittee to review the policy question.

Number 408

MR. PIGNALBERI stated, for the record, that the Department of Revenue Subcommittee will do an additional report on AHFC.

COMMISSIONER HARPER suggested writing a letter to Mr. Cuddy and Mr. Rasmussen informing them that the Commission is looking at ways of streamlining and saving money by doing away with AHFC.

COMMISSIONER HARPER noted that he was limiting his remarks to the secondary mortgage market because he does not want to get involved with the ASHA aspect.

MS. PEASE asked Commissioner Fink to contact Jerry Anderson and ask him to lend his expertise to the Subcommittee in this venture.

CO-CHAIR COWDERY noted his appreciation for the thoroughness and professionalism of subcommittee members and thanked them on behalf of the Legislature.

MS. PEASE asked about the time line for reporting back to the Commission.

MR. PIGNALBERI asked for the report before the November 18 Commission meeting.

Regarding approval of the minutes from the previous meeting, MR. PIGNALBERI noted two corrections, and Commissioner Wuerch noted the correct spelling of his name.

SENATOR ADAMS moved that the September 20, 1999 minutes be approved with the noted corrections. There being no objection, the motion carried.

MR. PIGNALBERI announced that the subcommittees on the Departments of Corrections, Law, Labor, Environmental Conservation, and Courts will present their draft reports to the Commission at the November 4th meeting.

CO-CHAIR COWDERY informed Commissioners that the Commission will be very active in the next few weeks listening to the subcommittee recommendations and preparing a final report for the Legislature.

MR. PIGNALBERI thanked Dana Owen from the Department of Revenue for his cooperation and asked him to submit comments on the subcommittee's draft report to the Commission before the next meeting. He suggested that the Commission consider accepting the draft report, or parts of it, at the next meeting after it receives the department's comments. He asked Mr. Owen if he is aware of the department's position on the two major recommendations concerning the CSED privatization proposal and the consolidation of the investigative functions within the ABC Board.

MR. OWEN replied that in general, the Department of Revenue does not object to any of the recommendations if they are focused on studying the matters further. CSED is an extremely complex and technical matter and some areas deserve to be looked at, particularly the business processes. He warned that everyone be very cautious about unintended consequences when studying CSED because of problems like changes in IRS policies. He thought that overall the Department of Revenue will be neutral on the recommendations and that there will be no surprises.

CO-CHAIR COWDERY commented that, for the most part, the staff from

the Administration have been very cooperative and he expressed appreciation for that cooperation.

Number 315

SENATOR ADAMS asked that the agencies' responses be included with the presentation of the subcommittee reports, and that once a report is accepted by the Commission, the recommendations be provided to Commissioners on one sheet of paper. He also expressed hope that the Commission does not lose sight of the Legislature's intent when it passed the Commission's enabling legislation. He said it will be Anchorage, not the rural areas, that take the brunt of the cuts in services that may result from privatization.

With no further business to come before the Commission, CO-CHAIR COWDERY adjourned the meeting at 10:20 a.m. until November 4.

**SCOMM**

**122:25**

COMMISSION ON PRIVATIZATION AND DELIVERY OF GOVERNMENT SERVICES  
Anchorage, Alaska  
November 4, 1999  
9:10 a.m.

COMMISSION MEMBERS PRESENT

Representative Cowdery, Co-Chair  
Representative Brice (via teleconference)  
Senator Ward, Co-Chair (via teleconference)  
Senator Adams  
Bill Allen, Former Mayor of Fairbanks (via teleconference)  
Tom Fink, Former Mayor of Anchorage  
Emil Notti  
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

Mike Harper, President, Kuskokwim Corporation

OTHER HOUSE MEMBERS PRESENT

Representative Gail Phillips

COMMITTEE CALENDAR

Reports from the following Privatization Subcommittees:

Department of Labor  
Department of Environmental Conservation  
Department of Corrections

PREVIOUS ACTION

See Commission on Privatization minutes dated 7/20/99, 8/16/99, 9/20/99 and 10/28/99.

WITNESS REGISTER

VALERIE BAFFONE, Chair  
Department of Labor Subcommittee  
POSITION STATEMENT: Presented the subcommittee's report.

DWIGHT PERKINS, Deputy Commissioner  
Department of Labor & Workforce Development  
PO Box 21149

Juneau, Alaska 99802-1149

POSITION STATEMENT: Provided additional information with regard to the Department of Labor.

VIRGIL NORTON, Chair

Department of Environmental Conservation Subcommittee

POSITION STATEMENT: Presented the subcommittee's recommendations.

MARY SIROKY, Manager

Information Education & Coordination

Division of Statewide Public Service

Department of Environmental Conservation

410 Willoughby Avenue, Suite 105

Juneau, Alaska 99801

Telephone: (907) 465-5355

POSITION STATEMENT: Provided information with regard to when the Department of Environmental Conservation would have its final comments to the subcommittee's recommendations.

GREG MAGEE, Member

Department of Environmental Conservation Subcommittee

POSITION STATEMENT: Provided additional information.

BOB GILFILIAN, Member

Department of Environmental Conservation Subcommittee

POSITION STATEMENT: Provided additional information.

BILL LAWRENCE, Member

Department of Environmental Conservation Subcommittee

POSITION STATEMENT: Provided additional information.

MIKE ABBOTT, Economic Development Assistant

Office of the Governor

500 West 7th Avenue, Suite 1700

Anchorage, Alaska 99503

Telephone: (907) 269-7450

POSITION STATEMENT: Provided comments from the Administration.

GREG HORNER, Member

Department of Environmental Conservation Subcommittee

POSITION STATEMENT: Provided additional information.

JERRY BROOKMAN, Member

Department of Environmental Conservation Subcommittee

POSITION STATEMENT: Provided additional information.

SHARON ANDERSON, Chair

Department of Corrections Subcommittee

POSITION STATEMENT: Presented the DOC Subcommittee's recommendations.

GREG PEASE, Member

Department of Corrections Subcommittee

POSITION STATEMENT: Provided additional information.

GARLAND WARREN, Member

Department of Corrections Subcommittee

POSITION STATEMENT: Provided additional information.

BRUCE RICHARDS, Program Coordinator

Department of Corrections

4500 Diplomacy Drive, Suite 207

Anchorage, Alaska 99508-5918

Telephone: (907) 269-7394

POSITION STATEMENT: Provided additional information.

BILL PARKER, Deputy Commissioner

Department of Corrections

4500 Diplomacy Drive, Suite 207

Anchorage, Alaska 99508-5918

Telephone: (907) 269-7397

POSITION STATEMENT: Provided additional information.

#### ACTION NARRATIVE

#### TAPE 99-8, SIDE A

CO-CHAIR COWDERY called the 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 Brice, Senators Ward and Adams, and Commissioners Allen, Fink, Notti, Wuerch, Thomas, and Valesko. Commissioner Harper was not present.

CO-CHAIR COWDERY announced that the first order of business would be to approve the minutes from the October 28, 1999, meeting.

MARCO PIGNALBERI, Legislative Assistant to Representative Cowdery, Alaska State Legislature, informed the commission that a copy of the minutes had been sent to the chairman of the Department of Revenue Subcommittee for review. Since he had not yet received word from that subcommittee, he requested that approval of the minutes be held until the Department of Revenue Subcommittee has reported back. Therefore, the approval of the minutes from the October 28, 1999, meeting was postponed.

MR. PIGNALBERI informed the commission that the packet includes a summary of recommendations taken from the report from the Department of Revenue Subcommittee. He noted that the commission did not vote on the Department of Revenue Subcommittee recommendations at the last meeting in order to have more time to review those recommendations.

Number 068

COMMISSIONER FINK suggested that the commission could take action on the recommendations after all the reports have been provided.

MR. PIGNALBERI explained that the idea was to vote on the recommendations while the subcommittee was present, while information was fresh in the minds of the commissioners.

COMMISSIONER FINK commented that adopting all the recommendations would be terribly bulky. Perhaps after hearing from all the subcommittees, the commission could decide on some of the recommendations and leave the remaining to be supplemental recommendations.

COMMISSIONER THOMAS stated that she would like to wait until all the information from the Department of Revenue Subcommittee was available before deciding on that subcommittee's recommendations.

MR. PIGNALBERI reminded the commission that the Alaska Housing Finance Corporation is being treated as a separate subcommittee. He informed the commission that additional information has been provided regarding the Child Support Enforcement Division (CSED) and a report on CSED should be arriving this morning. Returning to approval of the recommendations, the recommendations could be preliminarily approved today and [addressed formally] at the final meeting.

COMMISSIONER WUERCH commented that the commission, by endorsement, could simply forward all the recommendations. He indicated the need, near the end of the process, to focus on a priority list of recommendations. Therefore, Commissioner Wuerch agreed with Commissioner Fink with regard to the need to adopt a strategy that would lead to some focus at the end.

COMMISSIONER FINK suggested that it may mean that at the last two hearings the commission would digest each report and make decisions on the recommendations.

Number 145

SENATOR ADAMS noted that he would like to see each agency's response to the corresponding subcommittee recommendations. He hoped that the commission doesn't lose focus with regard to what privatization is about. He emphasized the need to remain focused on effective government and cost-savings measures as well as good service to Alaska. Senator Adams didn't object to returning to any recommendations at the end of the process.

CO-CHAIR COWDERY recalled Commissioner Thomas' point at the last hearing in which she cautioned everyone to stick to Section 5 of SB 33.

MR. PIGNALBERI discussed the difficulty in providing all the information to all the commissioners at the same time. The complete record will not always be available at the time the recommendations are offered, especially for these early reports. That would seem to support having a final vote at the end in order to obtain and digest all the information. If that were the case, commission members could move to accept a particular recommendation thought worthwhile. If a recommendation is not moved by a member, then that particular recommendation would die. Mr. Pignalberi offered that as a suggestion.

COMMISSIONER FINK moved that the commission not finalize the content of the report, until the commission has received all the subcommittee reports.

UNIDENTIFIED COMMISSIONER seconded the motion.

COMMISSIONER VALESKO spoke in favor of the motion. He commented that there is little time left. He pointed out that other states have taken years to deal with privatization. At best, he believed that the commission would have to look at a few of the recommendations.

CO-CHAIR WARD said that he didn't object to the motion.

THEREFORE, THE MOTION CARRIED.

REPRESENTATIVE BRICE stated that he believed [that approach] is appropriate. However, he expressed concern that there hasn't been agency response to some of the recommendations. Representative Brice echoed Senator Adams concern with regard to the need for those agencies to respond.

CO-CHAIR COWDERY commented that, for the most part, the agencies have been responsive to requests by the commission.

MR. PIGNALBERI informed the commission that the Department of Revenue's response is being faxed to the commission. The commission packet should include responses from the Department of Environmental Conservation and the Department of Corrections. He believed the Department of Labor's response has been submitted.

REPRESENTATIVE BRICE clarified that his concern with the Department of Revenue was in regard to CSED information as well as some of the other recommendations.

Number 311

VALERIE BAFFONE, Chair, Department of Labor Subcommittee, provided copies of the subcommittee's report. She began by noting that Commissioner Flanagan, Department of Labor, contacted her early on and offered the full cooperation of the department. Furthermore, Deputy Commissioner Perkins was assigned to work directly with the subcommittee. She informed the commission that members should have the agency responses attached to items I-IX as well as memorandums that are responses to subcommittee member questions.

MS. BAFFONE informed the commission that the Department of Labor's budget includes a "vast" percentage of funds which are "pass through" dollars, funding received from the federal government. Those funds are used to provide benefits and services consistent with federal laws, mandates or quotas. These funds are primarily used to pay for unemployment benefits, provide job training, vocational rehabilitation, safety inspections, et cetera. Ms. Baffone explained that the subcommittee first reviewed the current contracting practices in order to determine whether federal law would need to be enacted to move forward with privatization. Further review occurred regarding whether federal funding would be reduced or eliminated by contracting. At that point, the subcommittee determined if a cost savings and/or better services could be obtained by contracting. Although the subcommittee took notice of areas where services could be better provided and/or provided at a cost savings by state agencies versus current contracting, the subcommittee determined such was beyond the scope and intended purpose of the subcommittee. Therefore, such review was not pursued.

MS. BAFFONE informed the commission that the subcommittee suggested no changes in the Office of the Commissioner, the Division of Administrative Services, Employment Securities Division, Division of Labor Standards and Safety. Although the subcommittee had no recommended changes in the Division of Labor Standards and Safety, there was concern regarding the mechanical inspections backlog in this division. She noted that improvements may occur with the

recent changes that allow plumbing inspectors to conduct some of the boiler inspections. Furthermore, potential changes to program receipts may help fund more inspectors by using the funds generated by these inspections. The subcommittee found that the state's cost for providing these inspections to be surprisingly low. The subcommittee also found it unlikely that privatization would occur without increasing the cost of the inspection. She stated that recruiting and maintaining state inspectors is an ongoing concern.

MS. BAFFONE informed the commission that industry representatives on the subcommittee expressed the need to maintain the state's voluntary safety program. The subcommittee believed the voluntary safety program to be a wise investment which would maximize federal matching dollars in order for the program to achieve a safe workplace in a cooperative and nonpenalizing manner. Such is accomplished largely through the consultation and training sessions of this agency. She also expressed the concern of all the subcommittee members regarding the stability of the state's safety compliance program. The subcommittee strongly feels that attempts to return this program to the federal Occupational Safety and Health Administration (OSHA) program would not be in the best interest of Alaskan workers or Alaskan industry.

SENATOR ADAMS turned to the issue of mechanical inspections. He asked if the subcommittee gave any consideration to recommending that more inspectors be funded through increased program receipts or through the state's budget.

MS. BAFFONE noted that the subcommittee heard testimony from the Chairman of the Professional Boilers Association who expressed concern with regard to the backlog. The testimony further indicated that the program receipts pay for the inspectors, however there are not enough inspectors.

REPRESENTATIVE BRICE inquired as to how much money is returned to the state from those inspections. Is the state adequately reinvesting those fees into inspection?

Number 378

DWIGHT PERKINS, Deputy Commissioner, Department of Labor & Workforce Development, informed the commission that the Mechanical Inspection Division takes in approximately \$250,000 more in program receipts than it's authorized to spend through the budget process. He pointed out that last year legislation was passed which allowed plumbing inspectors to perform, although to a lesser degree, some of the boiler inspections. That legislation should help with the backlog.

CO-CHAIR COWDERY noted that he has sat on the House Finance Standing Committee, Department of Labor subcommittee. From sitting on that subcommittee, he learned that state inspections achieve far greater oversight than would be the case if the program returned to the federal government. Would that be correct?

MR. PERKINS answered that is correct. He pointed out that last year the House did delete OSHA funding for that, but the Senate restored that funding. Industry and "user groups" expressed concern regarding the possibility of the OSHA funding being returned to the federal government. The industry and "user groups" preferred to deal with Alaskan inspectors versus Washington, D.C. inspectors.

CO-CHAIR COWDERY interjected that if Alaskan inspectors are utilized, then there is an avenue for which to deal with them.

MR. PERKINS stressed that the first priority is to have workplace safety. He explained the process in which a contractor, after the department specifies what needs to be cleaned up, is given a certain length of time to perform that. If that time is not met, a fine structure is established. However, even with the fine structure [the department] has the ability to negotiate reduced fines for a first-time offense. In Mr. Perkins' opinion, the federal government is present to collect fines and seems to have real difficulties negotiating down fines.

Number 431

COMMISSIONER ALLEN requested that Mr. Perkins brief the commission on the necessary qualifications for boiler inspectors. He informed everyone that he represented a company that owns several buildings for which the company inspects its own boilers annually. Then the state inspector performs an inspection. The company pays for both inspections. Commissioner Allen suggested that the private sector could be turned to in order to deal with the backlog.

MR. BAFFONE informed the commission that in the State of Kansas there was a drastic increase in property insurance rates when that state moved away from a state-maintained program. She noted that currently, there are mechanical inspections being performed by some private companies and insurance representatives.

COMMISSIONER ALLEN clarified that his company has three inspections, one inspection the company performs itself and the insurance company and the state perform the other two inspections. He suggested that one inspection by a certified individual should suffice for certification under the state's criteria.

MS. BAFFONE returned to the subcommittee report. The subcommittee had no suggested changes to the Division of Workers' Compensation. She noted that all subcommittee members commented on the trend of reduced workers' compensation insurance rates and thus felt no need to delve into the program. However, Ms. Baffone, as an appointed member of the Alaska Workers' Compensation Board, was concerned with the high turnover being experienced with hearing officers on the board. She explained that the hearing officer positions are very specialized positions which require knowledge of a complex body of laws and regulations. She emphasized that it is imperative for the integrity of this system to recruit and maintain qualified legal staff in these positions.

MS. BAFFONE turned to the Division of Vocational Rehabilitation (DVR) for which the subcommittee had no suggested changes. She pointed out that recent legislation has placed DVR in the Department of Labor which appears to be appropriate. The subcommittee closely reviewed the feasibility of privatizing the duties of the vocational rehabilitation counselors. However, the subcommittee's findings indicated that the private sector vocational rehabilitation counselors utilized by the Division of Workers' Compensation come at a higher cost. The hourly rate for the state's DVR counselors is typically under \$18 per hour, while the hourly rate for the Division of Workers' Compensation private sector rehabilitation specialists range from \$90 to \$140 per hour. She specified that the private sector rehabilitation specialists are basically paid for by insurance companies whereas within DVR the state agency pays for the services. Even factoring in the payroll costs, the subcommittee found no justification to pursue privatization in this area.

MS. BAFFONE concluded by saying that the subcommittee finds the Department of Labor to currently practice a great deal of privatization. She provided the commission with the documents utilized by the subcommittee, which illustrate the areas reviewed by the subcommittee.

CO-CHAIR COWDERY noted that during Finance hearings he had inquired and received much response from the private sector regarding keeping the federal government out of inspections.

Number 503

COMMISSIONER WUERCH commented that one of the challenges of reviewing a privatization decision is to cost-value the services. He referred to the next to the last page of the report which refers to the cost per hour and inquired as to how that hourly rate was arrived at.

MS. BAFFONE explained that there are a couple of ranges for DVR counselors. The \$17 per hour range is where the lion share of DVR rehabilitation counselors fall. There were a few that received a higher hourly rate. Ms. Baffone clarified that she did not mean to infer that to be the total cost. In further response to Commissioner Wuerch, Ms. Baffone explained that the private sector rehabilitation specialist wage was the amount billed to the insurance company. She agreed that the private specialist wage she mentioned earlier did include employee benefits, overhead and profit.

COMMISSIONER WUERCH asked if Ms. Baffone felt the two wages were comparable.

MS. BAFFONE replied no. She believed the state wage represents a lower cost for a comparable service.

COMMISSIONER WUERCH emphasized that these two wages are not comparable because the numbers are based on different assumptions.

MS. BAFFONE explained that taking the \$18 per hour state wage and attempting to equalize the assumptions, the subcommittee did review what those additional costs would be to the \$18 wage. Even with a \$20 wage, a high estimate of 50 percent more would still not arrive near the Division of Workers' Compensation wage.

COMMISSIONER WUERCH asked if Ms. Baffone really believed that there are counselors with a salary of \$30,000 per year.

MS. BAFFONE stated that she had no reason to doubt that the information provided to the subcommittee is inaccurate.

COMMISSIONER ALLEN commented that he didn't believe that anyone who worked for the state made \$18 per hour. He indicated that the only way to determine what the private sector would charge would be to "test the waters." He added that other elements, payroll and overhead, need to be included in the wage in order to have an appropriate comparison.

Number 552

COMMISSIONER THOMAS asked if, in the comparison of the wages, there was a factor for the telephone, building maintenance, and electricity which would all factor into the hourly rate for the department.

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MS. BAFFONE explained that the subcommittee didn't seek an exact or specific overhead cost per DVR counselor. The subcommittee felt that even applying the most ludicrous measures to the state DVR counselors would result in a more cost efficient wage. With regard to Commissioner Allen's comment, Ms. Baffone noted, perhaps, there is a major misconception with regard to the wages of state employees. In response to Commissioner Thomas, Ms. Baffone said, "So, not specifically, but yes we did include what would include all overhead costs more than direct or indirect payroll costs - we looked at those type of items."

MS. BAFFONE clarified that the subcommittee did take into consideration the qualifications of both the DVR and the Division of Workers' Compensation counselors in order to ensure the qualifications were comparable. The subcommittee found the education backgrounds to be comparable.

COMMISSIONER THOMAS asked the agency whether it had a total cost allocation.

MR. PERKINS said that the agency did have that information. Mr. Perkins informed the commission that DVR has formed strong partnerships with the private sector. The Rehabilitation Act requires the program to utilize services provided by the private sector rehabilitation programs for consumers who need such services to assist them in maintaining or obtaining employment. In federal fiscal year 1998, DVR paid an additional \$860,900 to private sector service providers. He pointed out that the [state] rehabilitation specialists left oversee the private sector which is required in the federal legislation. Mr. Perkins said that he could provide the commission with any information regarding the breakdown or dollar value.

Number 565

COMMISSIONER VALESKO understood Commissioner Allen's earlier comment regarding state wages to mean that he didn't realize that anyone earned as much as \$18 per hour working for the state. If that is not the case, then the commission needs to educate itself because there are some state employees who earn less than \$10 per hour.

COMMISSIONER VALESKO wondered whether the subcommittee had given any consideration to a recommendation that the Division of Workers' Compensation should perform the rehabilitation counselors' duties in-house. He recalled that Mr. Perkins may have indicated that to be restricted by federal law.

MS. BAFFONE said that was an area reviewed by the subcommittee with regard to whether the state agency could provide the services at a cost savings over the private sector. However, that was not the scope or purpose of the subcommittee. The subcommittee was directed to review areas in which there could be a savings through the private sector. On that point, Ms. Baffone expressed frustration.

COMMISSIONER ALLEN commented that there is something wrong with this picture. He agreed that almost anything could be added to this base hourly rate and the result would not near the minimum wage of \$90 in the private sector. With regard to the educational requirements, he understood Ms. Baffone to say the educational requirements are the same in reference to the counselors.

MS. BAFFONE replied that is correct. She informed the commission that DVR counselors are primarily range 16 and are required to have a Masters degree, a minimum of three years experience, and the certified rehabilitation counselor credential - a national credential. Ms. Baffone understood that the Division of Workers' Compensation rehabilitation specialists do not have a requirement to meet or exceed the aforementioned standards. Although the DVR credentials may be a bit tighter, she believed the comparison to be fair.

COMMISSIONER ALLEN commented that the state is receiving quite a bargain.

MR. PERKINS, in response to Commissioner Thomas, offered to provide the commission with the overhead cost of the department and the allocation.

Number 509

CO-CHAIR COWDERY announced that the commission would now hear from the Department of Environmental Conservation Subcommittee.

VIRGIL NORTON, Chair, Department of Environmental Conservation Subcommittee, informed the commission that the subcommittee had 35 recommendations which would all result in cost savings and efficiencies. He noted that the subcommittee did not have the time to research the actual cost savings. He referred the commission to the preface on page 17 of the subcommittee's report. Mr. Norton commented that although the subcommittee was fortunate in that some members work on a daily basis with the Department of Environmental Conservation (DEC), it took time to bring everyone up to speed. Mr. Norton pointed out that the subcommittee's recommendations did not increase any expenditure of state general fund, with the

exception of the recommendation to perform an audit. An audit would provide the legislature with more suggestions regarding savings in the department.

The following subcommittee members were introduced: Greg Horner, (indisc.) Environment; Bob Gilfilian, Gilfilian Engineering; Keith Bucklin, Audio Video; and Jerry Brookman, Chair of Oil Spill Prevention and Response Committee in the Prince William Sound Region Advisory Council and member of the (indisc.) Cook Inlet Region Advisory Council; Bill Lawrence, Government Affairs Consultant and Contractor; Stephanie Madsen, Alaska Vice President for the Pacific Seafood Processors Association.

MARY SIROKY, Manager, Information Education & Coordination, Division of Statewide Public Service, DEC, noted her presence as well.

Number 443

MR. NORTON explained that the subcommittee approached everything as a group. Each of the six divisions of the DEC presented an overview of the division. He reviewed those who helped make this report possible. Mr. Norton pointed out that following the preface is the subcommittee's general recommendations. Although the department has responded, it has not responded to the final report.

MR. PIGNALBERI inquired as to when DEC would provide a response to the final recommendations.

MS. SIROKY explained that the department submitted preliminary recommendations about a week and a half ago. She estimated that DEC could provide final recommendations by the coming Monday or Tuesday. The department has been reviewing the report. She appreciated the fact that the subcommittee considered the department's preliminary recommendations.

MR. NORTON referred to Recommendation 9 which recommends that the legislature should authorize and fund a thorough audit of DEC. Furthermore, "The audit should include the intent of SB 33 and the scope of work defined in Section 5." Mr. Norton informed the commission that he had received many calls from folks within the department. From those calls, he believed there to be many ideas within the department to implement the intent and scope of SB 33.

MR. NORTON, in response to Representative Brice, noted that in the Division of Spill Prevention & Response (SPAR) the department utilizes many outside companies. To that extent, there is a

recommendation to broaden the base in order to allow more participation by smaller Alaska companies.

REPRESENTATIVE BRICE commented that the department seems to have more areas of privatization than recommended by the subcommittee. Therefore, he asked whether the process was working fairly well.

MR. NORTON said that he believed the department is trying to privatize. He referred to page 15 of the subcommittee report entitled, "Privatization Primer."

SENATOR ADAMS referred to Recommendations 29-35, which speak to the Division of Facility Construction & Operation. He asked if any subcommittee members met with the Rural Sanitation Task Force to assist in these recommendations.

MR. NORTON requested that subcommittee member Greg Magee speak to that as he developed those recommendations.

Number 313

GREG MAGEE, Member, Department of Environmental Conservation Subcommittee, answered that he did not personally consult with anyone on the Rural Sanitation Task Force. However, he did review the task force's documents and the 2005 plan.

COMMISSIONER FINK inquired as to whether any subcommittee member suggested that any of these areas should be eliminated.

MR. NORTON replied no. He explained that by the time each division had given its presentation, the subcommittee did not have the time to carefully examine each program for reductions. Mr. Norton commented that he did so, to some extent, in Recommendation 12. Recommendation 12 states, "All employees of DEC that are classified as information officers, or whose work involves press relations or public information, should be transferred to the Division of Statewide Public Service." Therefore, the Division of Administrative Services would be left to perform only the programs essential to it: the human resources programs, the financial programs, and the budget programs. He commented that the legislature may want to encourage the department to move to a public service officer concept. With the public service officer concept, the employees could be trained to provide one-stop shopping and coordination with the other technical sections.

COMMISSIONER VALESKO referred to the recommendation to perform an audit. He asked if the subcommittee reviewed the cost of such an audit.

MR. NORTON answered no. The subcommittee could not address that in the specified time frame.

COMMISSIONER VALESKO asked if the subcommittee reviewed the total budget of DEC.

MR. NORTON responded that DEC's total budget is on page 3 of the subcommittee report. He believed that DEC had a total budget of \$47 million or so. With regard to the general fund use of money, much of the department is being funded from the Response Fund. He explained, "That Response Fund is a 'split the nickel' fund and its the two cents side stops on the prevention side at \$50 million and doesn't go any further." He commented that the department exists partly because there is big oil in the state. Mr. Norton suggested that perhaps, the legislature may want to consider not having a cap at that \$50 million - if the department is to be funded from that.

COMMISSIONER VALESKO inquired as to how much of DEC's budget is currently going to the private sector through various services and contracts in order to provide a benchmark.

MR. NORTON pointed out that the department has provided a summary of privatization activities, but there are no dollar breakdowns attached. The subcommittee did not request such a breakdown. The summary of privatization activities is located on page 12 of the report. Furthermore, page 7 of the report notes how many employees there are in DEC.

COMMISSIONER VALESKO referred to Recommendation 22 which speaks to sanitary surveys. Part of Recommendation 12 says:

However, the Department field staff also provides the save services at a relatively low cost to the owner of the water system. Consequently, the Department often finds itself in competition with the private sector. To avoid the conflict of services, the Department should require all public water system owners to seek services rendered by the private sector.

Commissioner Valesko asked if the subcommittee's recommendation was that the public water system owners should pay more to get their systems inspected.

MR. NORTON answered yes. He deferred to Mr. Gilfilian.

Number 190

BOB GILFILIAN, Member, Department of Environmental Conservation

Subcommittee, agreed with Commissioner Valesko's assessment. He informed the commission that the department's services cost about \$500, while the private sector charges about \$750 for that service. What the department charges, \$500, is difficult to compete against.

COMMISSIONER WUERCH asked Mr. Gilfilian if the department is not recovering other costs in that \$500 charge.

MR. GILFILIAN indicated that to probably be the case. With regard to sanitary surveys in the Bush, he commented that the private sector simply cannot compete. He didn't know how the department arrived at the \$500, but he didn't believe that amount accounted for overhead and other costs.

COMMISSIONER WUERCH directed the commission's attention to page 24, Recommendation 26. He commented that one of the most far reaching impacts on every village and municipality in Alaska is the Clean Water Act, Section 401 [the wetland's issue]. Recommendation 25 is surprising in that the recommendation seems to imply that DEC no longer reviews wetland permits. Commissioner Wuerch requested elaboration on this matter.

BILL LAWRENCE, Member, Department of Environmental Conservation Subcommittee, stated that he made Recommendation 26. He understood that DEC has internally decided not to perform 401 certifications on federal permits. He explained this to be because these are federal permits and DEC is going to reorganize its priorities. Mr. Lawrence noted that he has been personally involved with the regulated community. This reprioritization within DEC could have some significant affects on the mining, the timber, and the seafood industries through the 402 permits. There could also be affects to the 404 permits for wetlands. He pointed out that there are two provisions in the state's water quality standards which provide the state with the authority to issue a mixing zone and a zone of deposit. He explained that a mixing zone is an area at the end of a pipe where the effluent doesn't have to meet the standards. The zone of deposit is a small area where accumulation of materials is allowed. Mr. Lawrence stressed that the federal government can't do those provisions. Therefore, if the state can't issue those two provisions, then the state can't have a mixing zone or a zone of deposit. That will seriously affect Alaskan industry. Mr. Lawrence explained that the recommendation grew out of his belief that an Alaskan department regulating the environment should first look at Alaskan concerns.

COMMISSIONER WUERCH requested that the commission keep this issue in mind for the final wrap-up. He commented that the list of recommendations seem to imply that DEC is putting resources in