ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
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APPENDIX C
(continued)

DOTPF - SEF
Schedule of Bid Cancellations
July 1, 1987 - August 15, 1989

Bid Number - Item	Lot #	Entity Requesting Cancellation	SEF Justification for Cancellation
SEF 052 - Motor Graders	1	SEF	Issued as an emergency procurement prior to receipt of Commissioner's approval. Commissioner determined that not urgent enough for use of emergency procurement. (Rebid of SEF-044. Rebid as SEF-053.)
SEF 060 - Used Belly Dumps	1	User	Inadequate specs; all bids exceeded available funds. All bids were rejected. (Not to be rebid.)

were protested. Although we agree that this is an unacceptable number of protests, I believe it is important to give the proper perspective here by stressing that in only 2 cases (or 1% of the total) did vendors prevail in their protest or appeal.

This would indicate that although vendors felt aggrieved by SEF decisions, those decisions were ultimately deemed to be correct by various avenues of the protest process including outside appeal officers. We would submit that changes in the procurement law had as much to do with the number of protests as the actual decisions made by SEF personnel.

Recommendation No. 1

The State Equipment Fleet should improve its specification writing in the invitation to bid, should establish specific procedures for determining product equivalents, and should consistently apply guidelines for assessing material and immaterial deviations from bid specifications during the evaluation process.

SEF records show slightly different totals for bids, protests and cancellations than you show in your introductory paragraph. However, the difference does not appear to be substantial and would not significantly change your findings.

The research done by SEF also indicates that the protest trend has improved in the last 9-10 months. It was recognized in 1988 that there was a problem in this area and steps were taken to improve the procurement process. We feel it is important to point this out.

a. SEF should improve its specification writing in the Invitation to Bid.

There is general agreement that specification writing needs improvement. Three steps have been taken to address this within the last six months. First, a revised specification format was established for use by the specification writer. Second, pre-solicitation conferences are being held with users and vendors before final specifications are put out to bid. Finally, we are now asking user groups to sign off on final specifications.

We agree with your recommendation and will continue to use these policies towards the end of improving all specifications.

STEVE COWPER, GOVERNOR

EPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

PHONE.

November 28, 1989

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LEGISLATIVE AUDIT

Randy S. Welker
Legislative Auditor
Division of Legislative Audit
P.O. Box W
Juneau, Alaska 99811-3300

RE: Response to Preliminary Audit Report on:

"A Special Report on the Department of Transportation and Public Facilities, State Equipment Fleet, Procurement Policies and Practices, July 1, 1987 - August 15, 1989."

Dear Mr. Welker:

State Equipment Fleet (SEF) staff and myself have reviewed the subject Preliminary Audit Report. Our response to the Report Conclusion and to each recommendation is as follows.

Report Conclusion

There are several comments that need to be made relative to statements in the Report Conclusion.

Although the total reorganization of SEF Headquarters staff was not completed until February 1989, it is inaccurate to portray that group as being without management from 1986 until then. After it was determined by the department that a higher level of management was needed to oversee SEF (Equipment Manager Range 23 versus Equipment Coordinator Range 21), steps were taken to temporarily assign an "Acting Manager" in 1988. A permanent manager was appointed in February of 1989. It appears that your audit substantiates our conclusion that additional management and reorganization was required. It should also be noted that the reorganization and additional positions were accomplished without any increase in the section's budget. Transfers between budgeted line items and cost reductions made this possible.

As to protests, they are a normal part of the procurement process. The Report Conclusions show that 19% (22 of 117) of the bid lots between July 1, 1987 and August 15, 1989

b. SEF should establish specific procedures for determining product equivalents.

SEF agrees with this recommendation and will work to establish such procedures. These procedures will be communicated to the vendors by incorporation in the new bid package, with expected implementation during the first quarter of 1990.

c. SEF should consistently apply guidelines for assessing material and immaterial deviations from the ITB specifications during the evaluation process.

SEF agrees with this recommendation and had made a decision to pursue this prior to the initiation of the audit. As the audit report pointed out, materiality is a difficult issue. By its very nature, many decisions must be made on a "case by case" basis and cannot be predetermined and published. However, we do feel it is possible to develop guidelines that will help achieve consistency and we will work towards that end. We will communicate these guidelines to the vendors via a "bidder's list mailing", with implementation anticipated during the first quarter of 1990.

I would point out that the "materiality" language in AS 36.30 was written to provide the flexibility to make awards that are in the best interests of the state and to preclude throwing bids out for minor technical defects. This is consistent with practices at the Division of General Services and Supply, Department of Administration.

In an effort to more clearly communicate that materiality is a definite part of our bid award process, a letter was sent to all vendors addressing its basis in law and the requirement by statute that it be used in determining bid awards.

The bid evaluation process you have recommended whereby a minimum of two reviewers are used with disagreement moderated by a third reviewer, has already become standard practice within SEF.

Recommendation No. 2

The State Equipment Fleet should develop an office policies and procedures manual and a desk manual for each of its staff positions.

SEF concurs with this recommendation. This process has already begun and will include a complete rewrite of all SEF Policies and

Procedures. It is anticipated implementation will take until the end of CY 1990.

There are some statements in Recommendation No. 2 that need clarification. Reference is made to SEF 052 as "the use of an incorrect procurement method which resulted in a bid cancellation." SEF 052 was a rebid of an earlier Invitation to Bid (ITB) which had been cancelled. The user agency (DOT&PF Maintenance and Operations) requested alternate procurement methods be used because they needed the equipment sooner than a formal bid process would allow. The contract officer correctly processed a Request for Alternate Procurement (RAP) and was using an approved and correct procurement method. However, during this process, closer scrutiny by the using agency revealed that their needs really did not qualify under the Type B emergency. The RAP had already been approved before the ITB was issued. As a result of the user agency determining that they really did not have a Type B emergency, SEF cancelled the ITB. It is important to note here that the contract officer was complying with the request of the user agency and had based his decisions on information they provided. His approach and methodology were correct and in accordance with statutes.

Recommendation No. 3

The State Equipment Fleet should identify pertinent documents to be retained and implement a filing system for its bid files that will ensure they are organized and complete.

SEF concurs with this recommendation. A preliminary filing system has already been developed with full implementation expected prior to the end of 1989.

Additional Comments

We agree with the Auditor's comments that any decision to relocate the SEF procurement staff should be postponed and reevaluated at a future time. We intend to do this once sufficient time has passed for a proper evaluation.

We were pleased with the report conclusion that the State Equipment Fleet is in compliance with all provisions of Alaska Statutes 36.30. We were confident that your review would not reveal improprieties or illegal activities, either intentional or unintentional, and we were pleased to see your report confirms this to be so.

Summary

We appreciate the opportunity of providing our response to this preliminary report. We will look forward to reviewing the final version. In the meantime, please do not hesitate to ask if I can be of further help.

Sincerely,

Mark S. Hickey
Commissioner

cc: Robert N. Bartholomew, Director, Management & Finance
Ken Langel, Manager, Statewide Equipment Fleet

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

December 12, 1989

Members of the Legislative Budget
and Audit Committee

We have reviewed the Department of Transportation and Public Facilities' (DOTPF) response to our preliminary report. Our comment follows:

Recommendation No. 2

Overall DOTPF concurred with the recommendation. As a point of clarification, they mentioned that the Request for Alternate Procurement (RAP) for SEF 052 had been approved by the Commissioner. Therefore it had been correctly processed by the contract officer and was in accordance with Alaska Statute 36.30. To support this statement the department was able to locate a signed copy of the RAP which had not been included in the SEF 052 procurement file.

This clarification does not change our recommendation for the development of an office policies and procedures manual and a desk manual for each staff position.

Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

Assis From Legis

STATE EQUIPMENT FLEET

TASK FORCE

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STATE EQUIPMENT FLEET TASK FORCE

INTRODUCTION

The State Equipment Fleet (SEF) Task Force was established to review several aspects of fleet operations and organization. The primary goals of the Task Force were to develop recommendations which would improve the operations of the fleet, stabilize the fiscal condition of the Highway Equipment Working Capital Fund (HEWCF), and address the concerns of user agenices.

The Task Force focused its work on the following objectives:

1. Review of the current replacement program to ascertain whether conversion to managing the HEWCF using the cash flow concept is working. If not suggest remedies.

2. Address alternatives to state vehicles, including use of privately owned vehicles or lease vehicles.

3. Review current SEF organizational structure, i.e., centralization vs. regionalization for most efficient management structure.

4. Review and suggest policy guidelines on the number and use of state vehicles.

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5. Review effectiveness of current rate structure for both the replacement program and operations. Recommend necessary changes.

6. Review effectiveness of billing and accounts receivable process including the use of Equipment Management System (EMS) and suggest improvements.

7. Address and develop communication plan which will allow user groups to keep informed on SEF operations.

The members of the SEF Task Force are:

Frank Allan, Administrative Officer, Department of Public Safety
Elizabeth Engle, Director, Design and Construction, Northern Region, DOT&PF
Jack Kreinheder, Policy Analyst, Office of Management and Budget
Donald Morfield, Director, Maintenance and Cperations, Central Region, DOT&PF
D. Randy Simmons, Deputy Commissioner, Budget and Finance, DOT&PF

EXECUTIVE SUMMARY

The main findings and recommendations of the Task Force are summarized below, with the numbers coresponding to the ssues listed above.

1. The cash flow method of managing the HEWCF is not working adequately, and has placed the SEF in a financially unsound position. We recommend that a legislative appropriation or series of appropriations, to the HEWCF

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to partially restore previous reappropriations from the fund would be the most financially prudent option. Based on current information, an appropriation or appropriations in the range of $6 million to $8 million would be necessary to eliminate the current replacement backlog.

If this option is not feasible because of revenue considerations or other factors, several less attractive alternatives must be considered. These include but are not limited to, raising user replacement rates (which would simply shift the cost to agenices), replacing vehicles through lease/purchase agreements, or eliminating the current replacement funding system entirely and relying on annual capital appropriations by the Legislature.

The SEF needs to develop an accurate cash flow projection system if cash flow financing is to be continued. The SEF should also make more accurate estimates of replacement costs, particularly for extended life vehicles.

2. The Task Force evaluated several alternatives to the present SEF structure, including utilization of vehicles owned by state employees, replacing HEWCF vehicles with vehicles leased from the private sector, and replacing the SEF with a system in which each department would operate its own vehicles. None of these alternatives were determined to be preferable to the current SEF structure, because they are not cost-effective, or administratively practical, or both. However, unless some amount of supplemental funding is provided to eliminate the current replacement backlog, agencies may be forced to rely on lease/purchase arrangements for vehicle replacements, even though the long-term costs of this alternative are higher.

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3. It is the Task Force's recommendation that no major changes to the organizational structure be made at this time. That is, the regional operations should continue to report to the M&O Directors in their respective regions and the HQ functions should continue to report to the Director of Management and Finance in Juneau. As to the location of the HQ functions, because of their statewide nature it is recommended that these functions continue to be performed out of Juneau with one exception; that exception relates to the purchasing function. Since the majority of vendors reside in Anchorage it is recommended that on a trial basis, one purchasing specialist be located in Anchorage (but continue to report to HQ) in an effort to determine if additional efficiencies can be attained. However, the Task Force supports the current proposed DOT&PF internal reorganization of the Headquarters SEF section in order to improve the efficiency of SEF operations.

4. The SEF needs to take a larger role in approving vehicle replacements and evaluating vehicle utilization. Procedures should be developed which will identify vehicles that are under-utilized. The SEF should also monitor the utilization of existing vehicles on a regular basis, rather than waiting until a replacement is needed.

These recommendations involve a major shift from current practices and will require support from the Governor's Office to be effective. We recommend that a directive from the Governor or Chief of Staff requiring the new procedures be issued to all user agencies.

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5. The SEF should review the current rate structure, both operating and fixed, to establish rates that will allow for the collection of sufficient revenues to replace and operate essential equipment. Fixed and operating costs must be based on acquisition costs and actual operating costs and should be reviewed and adjusted yearly. Formulas should be simple and computerized for ease of calculation. Anticipated rates need to go to users early in the fiscal year to allow them to budget accordingly. To the extent possible, rates should not be influenced by political pressure.

6. We have identified twelve modifications which would reduce duplication of effort and improve the billing and accounts receivable process of the EMS. These include: (a) provide a one-entry system for vehicle use in EMS that would be entered by field personnel, verified at the user agency level, by SEF and then be read by AKSAS to produce billings; (b) modify EMS to include "inception-to-date" data on vehicle replacement costs; and (c) current month billing for both operating and replacement costs would be beneficial to users.

7. Communications between the HQ's SEF, regional SEF staff and user agencies needs to be improved. The Task Force recommends that regional SEF offices receive reading file updates, and possibly a newsletter, which could be passed on to user agencies informing them of SEF policy updates and information relating to vehicle usage. As the main contact point for user agencies, the regional SEF staff needs to be familiar with all SEF policies and procudures. We also recommend that an Annual Fleet Report be established to provide comprehensive information on the SEF to users.

The Task Force recognizes that it may not be feasible to implement every one of these recommendations because of limitations in funding and staff resources as well as other factors. However, we believe that the changes we have suggested are important steps in improving the efficiency of the fleet. They are also necessary to restore the HEWCF to a sound fiscal basis, which will result in the lowest long-term cost for meeting the state's vehicle and equipment needs.

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TASK ISSUE #1

"Review the current replacement program to ascertain whether conversion to managing the HEWCF using the cash flow concept is working. If not, suggest remedies."

RECOMMENDATIONS

- The cash flow financing method is not working adequately, and has placed the SEF in a financially unsound position. We recommend that a legislative appropriation or series of appropriations to the HEWCF to partially restore previous reappropriations from the fund would be the most financially prudent option. Based on current information, it appears that an appropriation or appropriations in the range of $6 million to $8 million would be neccessary to eliminate the current replacement backlog.

  If this option is not possible, other alternatives must be considered, including raising user replacement rates, replacing vehicles through lease/purchase agreements, or dropping the current replacement funding system entirely and relying on annual appropriations by the Legislature.

- The SEF needs to develop an accurate cash flow projection system if cash flow financing is to be continued. Parts of this system are already in place, but additional work is necessary to accurately project replacement costs and revenues.

- More accurate estimates of replacement costs should be developed, particularly for extended life vehicles.

- The SEF staff should determine the feasibility of tracking replacement charges by individual vehicle and department, rather than commingling replacement funds.

DISCUSSION

Our review of the current and projected financial condition of the HEWCF clearly demonstrates that the cash flow financing method as presently administered is not working adequately, and has placed the SEF in a financially unsound position.

Because of insufficient funds in the HEWCF, the SEF is approximately one and a half years behind on most scheduled equipment replacements. In addition, current and projected replacement revenues are not expected to be large enough to allow the SEF to "catch up" with this replacement backlog and to fund future replacement needs. This replacement backlog has resulted in equipment and vehicles being operated beyond their useful lives, increasing the cost of operations and maintenance and placing upward pressure on user rates.

This situation has been caused primarily by the drawdown of the HEWCF balance through several large legislative reappropriations of HEWCF monies, and the reduction of user replacement rates in FY87 to levels too low to cover actual replacement costs. It appears that the FY87 reappropriation of $25 million from the HEWCF removed about $12 million more than the fund could spare.

We believe that the cash flow financing system can operate properly once the HEWCF balance and replacement rates are restored to adequate levels and the replacement backlog is eliminated. Based on our review to date, it appears

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that a legislative appropriation or series of appropriations to the HEWCF in the range of $6 million to $8 million will be necessary to eliminate the replacement backlog and restore the SEF to sound financial footing. Additional analysis by the SEF staff of replacement funding requirements and rate levels is necessary to refine this estimate.

A second alternative for restoring the HEWCF balance would be to increase user replacement rates substantially above the level of actual replacement costs for several years. However, this option would just spread the cost of eliminating the backlog across all user agencies. If neither of these actions is taken, replacement delays will continue to occur, operating and maintenance costs will increase, and the risk of operating potentially unsafe vehicles will rise.

Why Cash Flow Financing is Not Working

For many years, the HEWCF was operated on a sinking fund basis in which the monthly replacement fees paid by vehicle users accumulated in the fund so that when a vehicle was replaced the cost was covered by the replacement revenues which accrued in the HEWCF over the life of the vehicle. In contrast, the current cash flow method of financing vehicle replacements does not allow replacement revenues to build up in the HEWCF, but instead collects just enough revenue each year to cover the cost of replacements for that year.

DOT&PF made the conversion from sinking fund to cash flow financing in FY86 when it became apparent that the cash balance left in the HEWCF after several legislative reappropriations from the fund was only large enough to meet the immediate needs of the replacement program. Between FY83 and FY87, a total of

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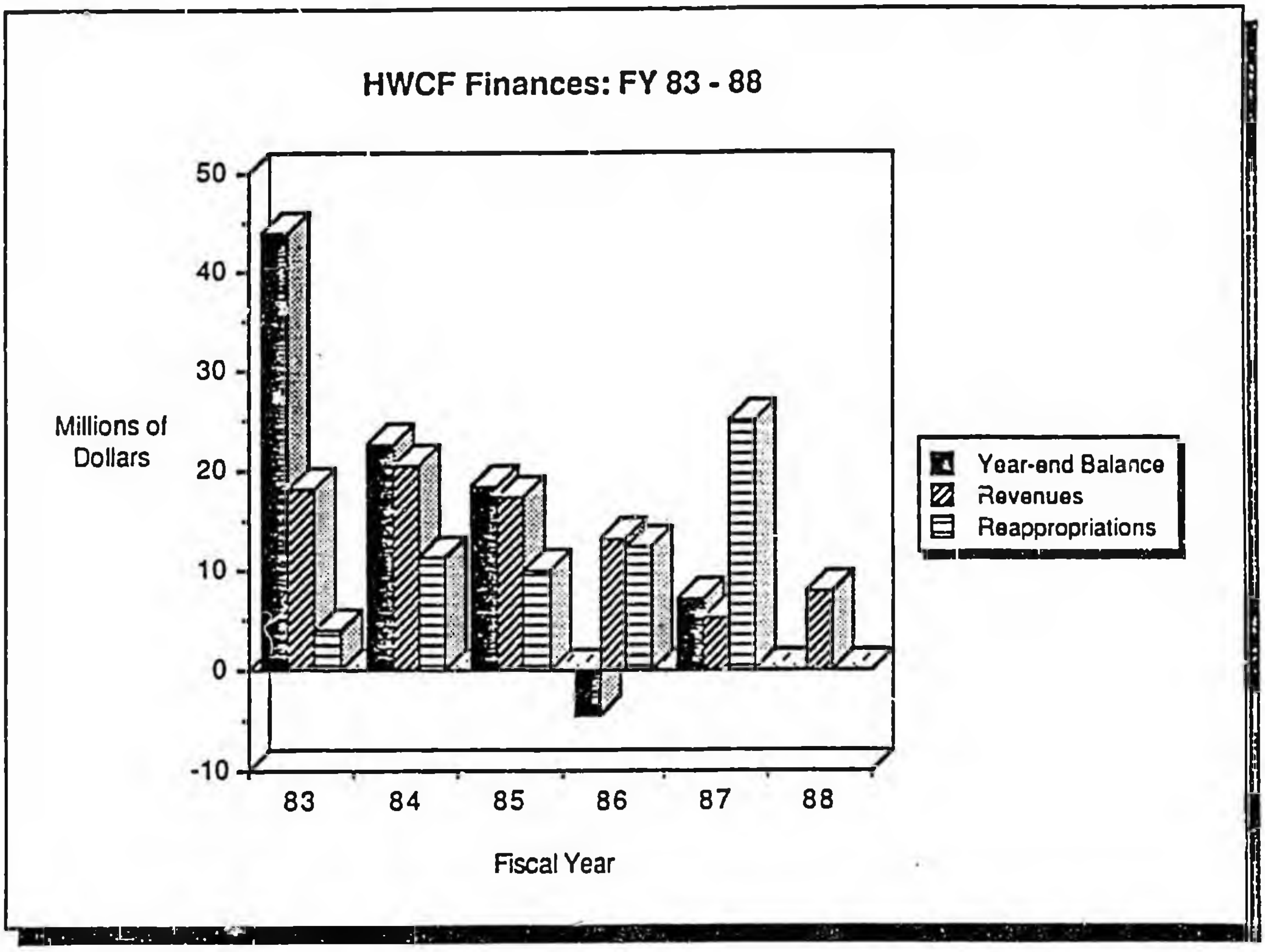
$62.7 million was reappropriated from the HEWCF to the general fund. Figure 1 shows the amounts reappropriated in each year and the end-of-year balance of the HEWCF.



The largest reappropriation from the HEWCF was made in FY87, when $25 million was transferred to the general fund. It appears that a major error was made in estimating how much money could be removed from the HEWCF, while still enabling the fund to cover vehicle replacement costs. About $12 million more was reappropriated in FY87 than was possible without causing a shortfall in replacement funds.

The SEF may have been able to adjust to the decreasing balance of the HEWCF and make a successful conversion to cash flow financing if replacement rates had remained stable. However, in FY86 DOT&PF determined that replacement rates were excessive, and reduced rates by an average of 21 percent.

In FY87, replacement rates were again reduced initially by about 7 percent, and then were lowered an additional 49 percent in response to Governor Sheffield's mandate to reduce all agency operating budgets. All of the parties invovled apparently recognized that with this reduction, the FY87 rates were well below the levels necessary to fund vehicle replacement costs, but the decision was made that the state's immediate fiscal situation required the rate reduction.

In FY88, replacement rates were increased by 47 percent, but even with this increase, average FY88 rates were still 35 percent below FY86 levels and 49 percent lower than FY85 rates.

Figure 1 shows the replacement revenues to the HEWCF in FY85-88. These revenues fell from $17.4 million in FY85 to $5.2 million in FY87, and are projected to rebound somewhat to about $8.0 million in FY88.

The sharp decrease in replacement rates and revenues, combined with the large reappropriation from the HEWCF, has left the HEWCF with insufficient funds to replace many of the vehicles which have been determined to need replacement in FY86-88. SEF staff estimate that the average delay in replacement is now approximately one and a half years.

It is important to note that the vehicles which have been designated for replacement have not just reached the end of their "paper lives," but have been individually inspected and determined to be either unsafe or more expensive to operate and maintain than to replace. As more replacements have been deferred, operating and maintenance costs for many of these vehicles have increased substantially.

In summary, the conversion to cash flow financing has not been the real cause of the current financial problems of the SEF; the primary causes have been reducing the HEWCF balance and annual replacement revenues to the point that cash flow financing cannot provide sufficient funds to make the necessary replacements.

An addtional factor was that the conversion from sinking fund to cash flow financing was not planned by DOT&PF, but instead occurred by default as the Legislature appropriated money from the HEWCF to the point that sinking fund financing was no longer possible. As a result, the detailed financial analysis which is necessary to properly administer a cash flow financing system was not implemented by the SEF. When the HEWCF had a large cash balance, precise annual projections of revenues and replacements were not as necessary, but such projections are essential when revenues must match replacement costs on a year-to-year basis.

Restoring the HWCF to a Sound Financial Basis

We believe that the cash flow financing method can operate properly once the HEWCF balance and replacement rates are restored to adequate levels and the replacement backlog is eliminated. Realistically, cash flow financing is

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probably the only way the SEF will be able to operate for the foreseeable future, since reverting to the sinking fund method would require a very large appropriation to the HEWCF.

The first step which is necessary to improve the financial condition of the HEWCF is to develop an accurate cash flow projection system. This system should be able to forecast both replacement costs and revenues over a two year period. Parts of this system are already in place, but further work is necessary to complete a reliable system for managing the HEWCF.

As part of this effort, more accurate estimates of replacement costs need to be developed, particularly for extended life vehicles (vehicles which have reached the end of their paper lives, but have been inspected and approved for continued use). Under current procedures, replacement projections assume that all vehicles in the extended life class will be replaced in the next year, when in fact, many of these vehicles may be usable for several years. Therefore, current replacement projections tend to overstate the number and cost of vehicles to be replaced.

The SEF staff should also investigate the feasibility of tracking replacement charges by individual vehicle and department, rather than the current approach of commingling all replacement funds in a single account. This alternative could allow the SEF to make adjustments for actual replacement costs that were higher or lower than the charges collected, and would allow agencies to be credited for vehicles which were not replaced. In addition, user agencies may have more confidence in the HEWCF if an individual accounting of their replacement funds is available.

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These measures are important steps in improving management of the HEWCF, but they will not solve the SEF's biggest problem--the backlog of vehicle replacements and the insufficient balance of the HEWCF. There are essentially five options for addressing the problem:

1. Obtain a legislative appropriation or series of appropriations to the HEWCF in order to restore the fund balance to a level that will cover the cost of the replacement backlog.

2. Increase user replacement rates above the level needed to cover actual replacement costs. The additional revenue could then be used to eventually eliminate the replacement backlog.

3. Enter into lease/purchase agreements for replacement vehicles instead of purchasing outright.

4. Eliminate the current replacement system and the HEWCF entirely and rely on annual capital appropriations by the Legislature to fund replacements.

5. Take no action.

Of these options, restoring the balance of the HEWCF through a legislative appropriation or appropriations is probably the best solution from a financial management standpoint. Justification for such an appropriation(s) can be provided by the fact that the FY87 reappropriation of $25 million from the HEWCF was largely responsible for the current financial condition of the HEWCF. Nevertheless, obtaining such an appropriation(s) may be difficult.

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Based on available information, it appears that an appropriation(s) in the range of $6 million to $8 million would be necessary to eliminate the current replacement backlog. Additional analysis of replacement funding requirements and rate levels is necessary to refine this estimate.

Increasing user replacement rates could accomplish the same objective over a longer period, but this approach would simply spread out the cost of an appropriation(s) to the HEWCF over all user agencies, and would increase their budgets accordingly. Substantial resistance to this approach from user agencies is to be expected, because with the exception of the low FY87 rates, the agencies have already paid for the vehicles awaiting replacement.

The lease/purchase option is discussed in detail in a separate section of this report. This alternative would allow the SEF to acquire replacement vehicles with no initial purchase cost, but would increase yearly user costs substantially. In addition, a buyout cost of as much as 25 percent of the vehicle cost may be required at the end of the lease term. In summary, lease/purchase agreements would defer vehicle purchase costs, but would increase overall cost of the SEF to the state. Therefore, this option only postpones the financial problems of the HEWCF, rather than providing a lasting solution.

A fourth alternative would be to eliminate the HEWCF and relay on annual appropriations by the Legislature to fund vehicle replacements. This approach would avoid the need to restore the balance of the HEWCF. It might also result in more legislative scrutiny of replacement funding requests. However, this alternative would eliminate the advantages of centralized financial management of the SEF, and would result in extensive duplication of effort among agenices. This duplication of effort would probably make this replacement approach more expensive in the long run than the current HEWCF structure.

Taking no action would result in continued replacement delays, and is likely to increase operating and maintenance costs as older vehicles must be maintained and overhauled beyond their useful lives. Operating rates would have to be increased to cover these additional costs. In addition, the likelihood of agencies operating potentially unsafe vehicles will increase if vehicles designated for replacement continue to be operated indefinitely.

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TASK ISSUES #2

"Address alternatives to state vehicles, including the use of privately owned vehicles or lease vehicles."

RECOMMENDATIONS

The Task Force recommends that the SEF as currently structured and the HEWCF remain in effect and that prior withdrawals from the fund be replaced to the level that would allow for the replacement of agency vehicles as scheduled.

DISCUSSION

This item can be broken down into five options that have been examined in detail. They are:

1) Utilization of vehicles owned by state employees and, in effect leased by the state from them.

2) Replace HEWCF vehicles with vehicles leased from the private sector.

3) Replace HEWCF vehicles with vehicles leased from the private sector with title transferred to the state at the conclusion of the lease or with a buy out option.

4) Replace the SEF with a system in which each department operates its own vehicles.

5) Maintain the SEF with changes to improve its operation.

Employee Owned Vehicles

Under this option, state employees would purchase vehicles specified by the state as to make, model and equipment. These vehicles would then be leased back to the state based upon either mileage driven in service of the state or by hours of operation in state service. This type of option has seen some success in the public sector but appears to be limited to small law enforcement organizations with limited responsibilities and a uniform operating environment.

Advantages:

a. No state vehicle purchase costs.

b. Limited inventory responsibilities.

c. Savings would be realized in the areas of SEF maintenance personnel costs if employee was responsible for providing a well maintained vehicle.

Disadvantages:

a. This option could not be universally employed within the fleet because heavy equipment is too expensive for employees to purchase initially. If this option was employed only on light duty vehicles, potential savings would be limited due to having what would amount to two fleets; one owned by the state and one not. Administrative costs would be increased over the present SEF requirements.

b. The SEF and the user agencies would still be responsible for determining equipment specifications and requirements. The administrative costs would not be removed under this plan; indeed they may be increased due to the complexities involved and the follow-up required to assure compliance.

c. Additional accounting controls would need to be put into effect to prevent potential fraudulent claims on hour or mileage reporting. This again would increase administrative costs.

d. A potential exists that if all maintenance costs were borne by the state, the employee would tend to incur unreasonably high maintenance to protect the employee's asset.

e. If the employee was responsible for maintenance there is a possibility that he or she might cut corners to save money. This may result in unsafe vehicles being operated in state service. Any resulting accidents could legally be attributed to the state for not assuring that the appropriate maintenance was performed. At a minimum, the state would need to put in place a maintenance oversight organization to protect itself against potential litigation. Again, this would incur additional expense for SEF or at least maintain a portion of the current SEF staff involved in the maintenance of the fleet. This would partially offset any potential savings.

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f. If the employee was promoted or transferred to a position that would require a different vehicle type either because of work assignment or climate, how would this program handle such a situation? It could not without the state purchasing the original vehicle or placing an unreasonable demand upon the employee. A related problem exists on termination. Would the employee be stuck with a vehicle he does not want?

g. Standardization and compatibility of vehicle equipment would be difficult to maintain. Radios, lightbars, etc. would all be troublesome to make uniform. This is not workable in a state as diverse as Alaska.

h. How would the vehicles be insured? The employee's private insurer would be reluctant to insure such a vehicle in state service because the insured population would be insufficiently large to cover the exposure. If the state covers the vehicle while it is in state service and the private insurer while otherwise employed, conflicts would be sure to arise. Employees would be tempted to charge damage to Risk Management rather than their own insurance to keep their personal expenses minimized.

i. If the employee's vehicle was involved in an accident or otherwise in need of a repair requiring time when it would not be available, how would the employee obtain a replacement? Short term rentals are often not readily available and usually could be expected not to have compatible equipment (radios with correct crystals, lightbars with the correct colored lenses, etc.).

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Potential savings of utilizing employee-owned vehicles leased back to the state would be lost to a multitude of legal, administrative and operational difficulties and therefore, this option is not recommended by the Task Force.

Straight Leasing of Vehicles

This plan of operation would cal: ...r the state to lease all or part of its fleet from the private sector and return the vehicle to the lessor at the conclusion of the lease. This possible option is not addressed in detail due to the universal refusal of potential vendors to accept a straight lease. They are categorically disinterested in having to accept back a large number of similar vehicles at the end of a lease period. As stated earlier, this option is not feasible because potential vendors have universally refused to accept straight leases.

Lease/Purchase Option

This option would replace the current HEWCF vehicles with a fleet obtained from entering into lease/purchase agreements with appropriate vendors. It appears through discussion with potential vendors that agreements could be signed whereby the state preferably would automatically obtain title to vehicles at the end of the lease or where a depreciated purchase price would be required at the end of the lease.

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Advantages:

a. No state vehicle purchase costs. This may be the only way to provide replacements if the HEWCF reappropriations are not replaced.

b. Ultimate ownership of the vehicle would revert to the state at the end of the lease and they could begin normal HEWCF treatment at that time if their life could be extended.

c. Sale of disposed vehicles could be used by the HEWCF (assuming current treatment remains in effect).

d. A potential for savings exists if the lessor provides maintenance. Such maintenance could, however, only be provided in cities such as Anchorage, Fairbanks, Soldotna and Juneau and not in out-lying communities. Several difficulties exist related to turn around time, priority for service, hours of operation, etc. Some vendors will not provide maintenance at all.

Disadvantages:

a. Increased yearly cost to agencies. Contacts were made with numerous vendors to obtain comparison figures which reveal that the fleet would cost substantially more under this option. Refer to Attachment 1. The substantial increase in the lease vs. SEF replacement cost is attributed to the existence of a profit margin in the lease data and the cost of lessors having to finance the leases, neither of which have a corresponding requirement in SEF costs.

b. No savings in SEF administrative costs since the same fleet data would need to be maintained. Further, such costs may increase as periodic payments would need to be made, contracts negotiated, etc.

c. Pool of repair cars (paid off older vehicles) would no longer be available to provide short term replacements as cars are repaired from accidents or to cover major mechanical related down time. Thus, more vehicles would need to be leased to cover the need, increasing the fleet costs further.

d. Operating cost data necessary to effectively manage the operation of the fleet would be lost if a portion of the fleet's maintenance was performed by one or more vendors.

e. Depending upon how the lease or leases were written, a buy-out cost of as much as 25% of the cost of the vehicles might need to be made in the final year of the lease. This would complicate the budget process as well as still require a substantial cash outlay by the state.

Lease/purchase of replacements for the SEF/HEWCF fleet units is a costly alternative that is not recommended by the Task Force. It should be noted however, that unless some amount of supplemental funding is provided the lease/purchase of replacement vehicles may be the <u>only</u> option available.

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Agency Responsibility

This alternative changes the existing vehicle responsibility from the SEF within the DOT&PF to each user department. This change would require statutory changes to AS 44 and other related statutes.

Advantages:

a. Such a change would eliminate past criticism of the fleet by smaller user departments.

b. Potential savings would be available to DOT&PF as some of the fleet management and related costs were shifted to the user departments.

Disadvantages:

a. The agencies would have to absorb the management of their portion of the current fleet. This might or might not involve transferring of SEF fleet resources to user agencies.

b. The user agency would be forced to provide its own replacement vehicles to c[illegible]ies involved in accidents, etc. It would not have access to a pool of vehicles currently available from the combined agency needs presently addressed by the SEF.

c. Statewide vehicle operating cost data will be lost as each agency maintains its own records.

d. No financial savings is anticipated under the alternative and administrative costs may increase overall as each department must develop knowledge of vehicle management.

There appears to be no substantive reason for making such a change other than to provide an overly simplified response to addressing some user departments misinterpretation of the SEF and the HEWCF. Based upon the absence of justification this change is not recommended by the Task Force.

SEF/HEWCF Retention

This option involves maintaining the revolving fund concept (HEWCF) managed by the SEF under DOT&PF as is currently the case, bu with some improvements. Suggested changes include a better defined and justified operating rate structure and improved communications with the executive branch, the Legislature and particularly with user departments (Task Issue #7).

Advantages:

a. Least expensive method to obtain replacement vehicles over the long run.

b. No disruption of the current level of service, management system or budgeting process.

c. Knowledgeable centralized management and purchasing staff in place.

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d. Pool of repair vehicles is available to all departments.

e. Training time/funds available are being used to refine current operations rather than introduce an entirely new system.

f. Overall, the existing system is less cumbersome than possible lease programs.

g. Due to having the responsbility for managing the entire fleet for the state, SEF provides volume purchases of repair parts, group shipments of vehicles and other user support.

Disadvantages:

a. Insufficient funds exist in the HEWCF to maintain the existing fleet.

b. The HEWCF provides an inactive substantial pool of funds that is a tempting target during periods of declining revenue.

The Task Force recommends that the current SEF and HEWCF remain in effect and that prior reappropriations from the fund be replaced to the level that would allow for the replacement of agency vehicles as scheduled.

TASK ISSUE #3

"Review current SEF organizational structure, i.e. centralization vs. regionalization for most efficient management structure."

RECOMMENDATIONS

It is the Task Force's recommendation that no major changes to the organizational structure be made at this time. That is, the regional operations should continue to report to the M&O Directors in their respective regions and the HQ functions should continue to report to the Director of Management and Finance in Juneau. As to the location of the HQ functions, because of their statewide nature it is recommended that these functions continue to be performed out of Juneau with one exception; that exception relates to the purchasing function. Since the majority of vendors reside in Anchorage it is recommended that on a trial basis one purchasing specialist be located in Anchorage (but continue to report to HQ) in an effort to determine if additional efficiencies can be attained.

DISCUSSION

Over the past several years, the SEF has been organized in a number of different ways. In the regions, the organizations have run the gamet from the SEF Equipment Managers reporting to the SEF Director located in Juneau to Administrative Directors located in the regions to the M&O Directors which is the current organization. SEF HQ personnel have either reported to the SEF Director or Administrative Director located in Juneau (current organization).

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The current organization is quasi-Regional, that is, some functions are centralized and performed in Juneau while others are performed in the regions.

The centralized operations currently include a staff of nine positions that report to the Director of Management and Finance. Their primary duties are to manage the statewide equipment program, including determining when and what equipment should be replaced, specifications writing, bidding, and contract award; setting policy by promulgating and distributing P&P's; preparing HQ budgets and overseeing regional budgets; managing the HEWCF; billing and collecting revenue; conducting excess/surplus sales; procuring lease vehicles; and devloping operating and replacement rates for the equipment.

The regional staff report to the M&O Directors in their respective region and are responsible for the day-to-day operations of SEF. These include but are not limited to: provide preventative, routine, and major maintenance for all state equipment; order and procure parts; and administer SEF operations within guidelines established by HQ including assignment of vehicles, budget preparation, payment of bills, etc.

There have been a number of questions raised recently as to the effectiveness and effeciency of the current organization. Some feel that the SEF should be divisionalized as it was in the past and all SEF personnel reporting to a division director in Juneau.

In order to formulate recomendations in this area, the Task Force reviewed previous audits and reports on SEF organization. Additionally, we interviewed and solicited comments via a written questionnaire from SEF and non-SEF personnel.

The key report that was done on this subject was the Morrison-Knudsen Study that was commissioned by the department in 1983-84. The major recommendations of that study were:

- "Based on functional considerations it is recommended fleet function in the field be assigned to the Maintenance and Operations units at managerial parity with other M&O sections."

- "At the centralized headquarters level assign the fleet to the Standards and Technical Services Division."

- "Evaluate the benefits associated with locating the central function in Anchorage so as to best coordinate with the Department of Administration and equipment vendors who are located in Anchorage."

Only the first recommendation was followed completely. An evaluation based on the third recommendation was recently completed and one of our recommendations was taken from that evaluation.

In order to evaluate the effectiveness of the current organization and to determine if the other two recommendations could provide benefits to the SEF, the following questions were asked of fleet and non-fleet personnel:

- Is SEF operating efficiently and effectively under the current organizational structure?

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- If not, can the fleet operate efficiently and effectively under the current strucutre?

- Should the regional SEF personnel report to HQ SEF?

- Should HQ SEF report to the Director of Management and Finance or the Director of Engineering and Operations Standards?

The only clear-cut concensus was to question 3; the overwhelming majority felt that reigonal SEF personnel should continue to report to regional M&O Directors. This was based on the fact that most people felt that the functions performed in the regions were of a different nature than those performed by the HQ unit and it would be more efficient to have the direction come from the individual regions.

As to the other questions, there was no clear concensus. Most felt that there were pro's and con's to each specific situation. What came out of the discussions was fairly consistent. Most agreed that no matter what the organization, the following needed to be done:

- The duties and responsibilities of each unit needed to be clarified and written down. Some people were unclear as to who had what authority which has caused confusion and inefficiencies.

- Policies and procedures needed to be followed.

- The HQ equipment coordinator position needed to be filled as soon as possible with a qualified individual.

- Staffing levels need to be addressed to insure their is sufficient qualified staff to perform the duties required. A number of people felt that the HQ unit is understaffed to perform the duties required of them. This is also apparent from reviewing the 1987 OMB Audit on the fleet.

As to the recommendation of locating the HQ functions in Anchorage, the fleet recently completed an evaluation of this concept. They talked not only to regional personnel, but also to local vendors in Anchorage. It was concluded that:

- HQ SEF functions as a unit and ongoing communications between the HQ sections is essential. The flow of information between the Accountant, Management Analyst, Specifications writers, C.O., etc., is essential. Moving the C.O. and specification writers to Anchorage, while addressing one problem, would create another, more serious problem.

- In order to maintain the HQ group unity, if any part moved to Anchorage, the entire group should go. This prepresents problems as the Accountant and Management Analyst functions rely heavily on other DOT&PF HQ units. Moving SEF HQ to Anchorage would require more staff to fill these voids.

- Too much familiarity is not good. One of the reasons vendors want ready access to the C.O. and Specification Writer is to sell their point of view. Although this is not completely bad, the possibility of influencing a decision concerning the outcome of a bid review or the way specification is written must be a consideration. Distance, and the resultant hassle free work time associated with the Juneau environment, may be a plus.

- The majority of the user agency contacts are located in Juneau. These are the vehicle coordinators assigned by other departments to oversee their agency's needs.

To address vendor concerns it was recommended that:

- A toll free number for vendors be established to Juneau.

- Competitor bid packages should be available in the regions for review.

- The intent to award letter should be fax'ed to all vendors, not just the low bidder.

- A purchasing specialist should be located in Anchorage on a trial basis to see if efficiencies could be gained.

These recommendations were accepted by the Commissioner and are currently in place. Additionally, a number of reorganization recommendations within HQ SEF were made and accepted. They include:

- Upgrade of vacant existing HQ Component, Microfilm Operator I position to Manager.

- Upgrade of vacant existing HQ Component, Supply Technician II position to Management Analyst II.

- Transfer in from SE SEF and upgrade of existing Clerk II to Accounting Clerk III.

- Transfer in from Interior SEF and upgrade of existing Equipment Mechanic WG IV to Accountant III.

- Retention of existing Automotive Equipment Coordinator position.

- Add a second Equipment Operations Analyst on a PFT basis as soon as an available PCN can be identified. Until then it is essential to bring on a non-permanent employee to complete the needs of the FY87-88 program in a timely manner.

- Utilize Non-permanent Supply Officer II to complete the needs of the FY87-88 replacement program and begin the FY89 program.

No additional funding was required to make these changes. Additionally, this reorganization should allow the HQ SEF unit to perform required duties more efficiently and effectively.

Based on the above, it is the Task Force's recommendation that no major organizational changes be made at this time. It could not be determined that any deficiencies in the SEF were caused by the organizational structure. On the other hand, if the SEF staff had clear direction as to who was responsible for what, consistent support from upper management to get the job done, and sufficient resources to do the job, then the current organization should be able to function more efficiently.

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TASK ISSUE #4

"Review and suggest policy guidelines on the number and use of state vehicles."

RECOMMENDATIONS

- The SEF needs to take a larger role in approving vehicle replacements and evaluating vehicle utilization. Procedures should be incorporated into the replacement review process which will identify vehicles that are under-utilized or used inefficiently.

- The SEF should also monitor the utilization of existing vehicles on a regular basis, rather than waiting until a replacement is needed.

- The first two recommendations will require support from the Governor's Office to be effective. We recommend that a directive from the Governor or Chief of Staff requiring the new procedures be issued to all user agencies.

- When under-utilized vehicles are identified alternatives such as pooling of agency vehicles, short-term rentals, and use of employee-owned vehicles should be considered before replaciing or retaining the vehicle. User agencies should be required to demonstrate why these or other alternatives would not be feasible substitutes for a low-use vehicle.

- The current procedure of providing credits to user agencies for vehicles turned in should be improved by implementing a system to allow credits to be carried forward beyond the current year. In addition, agencies should be required to justify the upgrade or purchase of a new vehicle using such credits.

DISCUSSION

This review focused on the following areas:

- Agency and SEF replacement policies and procedures;
- Assumption of a larger role by the SEF in approving vehicle replacements;
- Minimum vehicle mileage and other usage requirements;
- Alternatives to the retention of low-usage vehicles; and,
- Issuance of credits to agencies for vehicles not replaced.

Current Vehicle Replacement Policies

Under current SEF procedures, only two options are considered when vehicles used by either DOT&PF or other agencies are reviewed for replacement: (1) replace the vehicle; or (2) continue to use the vehicle if its condition and maintenace history allows. The option of removing the vehicle from the fleet is not addressed, and no review of the utilization of the vehicle is made (other than total mileage or hours of use). This type of utiliztion review is left up to each agency. However, it appears that most agencies do not routinely conduct this type of review either, despite the budget incentives to reduce excess costs.

Without a routine procedure for reviewing the usage level and type of use for individual vehicles, there could be a significant number of vehicles which are underutilized and adding unnecessary costs to the state's equipment budget. Not enough information is readily available to determine the full extent of this potential problem, but it is clear that good management of the vehicle fleet requires some type of regular evaluation and monitoring of vehicle usage. This is especially true as the size of the state workforce declines and agencies are reorganized or assume different responsibilities.

Expanding the Role of the SEF in Vehicle Replacements

The current state statues regarding SEF appear to grant the agency the authority to approve or disapprove vehicle replacements. However, the SEF has never exercised this authority, other than by extending vehicle lives, and a tradition of user agency autonomy in this area is firmly established. If the SEF is to assume a stronger role in evaluating vehicle utilization and replacements, some type of directive from the Governor's Office to all user agencies will probably be necessary to accomplish this change. The Governor's Chief of Staff has previously stated his support for justification of vehicle replacements.[1]

Additional staff support for the SEF may also be necessary if the SEF is to undertake additional responsbilities in reviewing vehicle utilization. The existing staff is already fully occupied in keeping up with the routine operations of the fleet. The added staff cost would probably be more than offset by reductions in vehicle operating and replacement costs.

An alternative approach would be to require each user agency to conduct its own regular review of vehicle utilization. While this approach might be more popular with user agencies, DOT&PF would probably be able to

1 Memorandum to Mark Hickey from Garrey Peska, 12/1/87.

accomplish this task more objectively and consistently. User agencies should be encouraged to evaluate the utilization of their vehicles and to not replace under-utilized vehicles, but giving final authority over this type of review to user agencies would be similar to having agencies conduct their own audits.

In addition to reviewing vehicle utilization when replacement is due, the SEF should also monitor vehicle usage on an ongoing basis. The Equipment Management System (EMS) could be modified to produce an exception report when vehicles are used less than a certain number of miles or hours per month or year. If a vehicle fell below this minimum use level, it would not necessarily be removed from the fleet, but user agenices could be required to explain why the vehicle was used infrequently.

Vehicle Utilization Factors

The variables which could be included in a periodic vehicle utilization review include: mileage driven or hours of operation per year and per month, number of days of use per year, number of users per vehicle, and type of use, i.e., transportation, maintenance. This review would need to consider special needs for seasonal vehicles, which may accrue relatively few miles per year, but which are used intensively during the summer or winter months.

Alternatives to Low-Usage Vehicles

The vehicle utilization review should also consider alternatives to the retention or replacement of a vehicle that is used infrequently. In some cases, such as for certain emergency and safety vehicles or specialized equipment, there would be no practical alternatives to continued state ownership of the vehicles, even though the vehicles have low utilization.

However, for other uses, such as routine employee transportation, short-term vehicle rentals or pooling of vehicles among agency divisions may provide valid alternatives to keeping low-use vehicles. The use of vehicle pooling could be facilitated by designating a person in each agency to coordinate vehicle assignments and usage. Another alternative for routine transportation would be to encourage the use of privately owned vehicles, with reimbursement to vehicle owners for mileage driven on state business. This approach could be substantially less expensive than maintaining a vehicle that is used infrequently or seasonally.

The number of vehicles available for use by any agency ("R class" vehicles) could be increased as the number of agency vehicles is reduced to provide a cushion for peak needs or user agencies.

Under current SEF policies, agencies can receive a credit for the replacement fees paid on vehicles which are no longer needed and are turned in. This credit can be applied to the upgrade of another vehicle which is being replaced or the purchase of a different vehicle which is needed by the agency. However, the credit must be used in the same year it is received, because the SEF does not have a system in place for tracking these credits over a multi-year period. Establishing a system which would allow agencies to carry forward credits to future years would increase the incentive to turn in under-utilized vehicles and avoid the "use it or lose it" situation which now applies to replacement credits. In addition, agencies should be required to justify the upgrade or purchase of a new vehicle.

See attachment #2, dissenting opinion by Frank Allan, Administrative Officer, Department of Public Safety.

TASK ISSUE #5

"Review effectiveness of current rate structure for both the replacement program and operations. Recommend necessary changes."

RECOMMENDATIONS

SEF should review the current rate structure, both operating and fixed, to establish rates that will allow for the collection of sufficient revenues to replace and operate essential equipment. Fixed and operating costs must be based on acquisition costs and actual operating costs and should be reviewed and adjusted yearly. Formulas should be simple and computerized for ease of calculation. Anticipated rates need to go to users early in the fiscal year to allow them to budget accordingly. To the extent possible, rates should not be influenced by political pressure.

DISCUSSION

The primary purpose of the SEF is to procure and maintain essential state owned equipment as mandated by statute and regulations. To do this, the SEF collects revenue from user groups in the form of fixed fees and operating fees. Fixed fees are the monthly rental charges that provide for replacement of worn out equipment. These fees are based on replacement costs, expected vehicle/equipment life and estimated salvage value. Fixed fees are established for each equipment class and applied to all vehicles in that class. The operating or usage fee is used for the maintenance of equipment. It is based on analysis of past practice, use of a particular class of vehicle and historical service cost. Operating fees are charged on a per hour/mile of reported usage with some exceptions for equipment attachments.

The recently completed OMB audit on the SEF management procedures reviewed the rate structure area. The Task Force recommendations came predominantly from that review.

OMB found that:

> In 1985 the SEF reviewed fixed rates and determined that they could be reduced. This review included past spending levels for the replacement program. The SEF also reviewed the procedure used to estimate expected vehicle life. As a result, the SEF changed the fixed rates.
>
> In FY86, the SEF reduced fixed fees by an average of 21 percent. At the same time, the expected vehicle life was also increased. Rate changes resulted not only in reduced user cost, but also diminished revenue available for vehicle replacement. Rates in FY87 were further reduced.
>
> In August 1986, the Governor ordered major reductions in all operating budgets using general funds. The HEWCF was not considered a general fund but its revenues came from other state agencies general fund budgets. DOT&PF decided to further reduce the FY87 fixed rates by another 49 percent as a one-time help to reduce agency operating budgets. This decision coupled with the original reduction, amounted to an average reduction of 55.7 percent below FY86 rates.

This decision changed the foundation for establishing rates. Instead of rates based on the criteria discussed previously, rates in FY87 reflected the need to reduce agency budgets. The new rates no longer bore any relationship to vehicle replacement costs.

The FY88 rates reflect the decision to maintain low user budgets. Although FY88 rates were raised by an average of 47.1 percent, the FY88 rates still average 48.7 percent <u>less</u> than the rate in FY85.

DOT&PF has not made any changes to usage fees in three years. While fixed rates were declining, usage fees remained stable. The many variables that are used to determine rates have changed over the years. With the aging experienced by the fleet, average maintenance costs can also change.

Based on those findings, OMB recommended that "DOT&PF should establish a rate structure that will provide the HEWCF with sufficient revenue to enable the replacement of essentail equipment and encourage efficient vehicle usage."

It has been over a year since OMB issued its findings and recommendations. There has been a fixed fee rate adjustment in FY89 and there is a proposed operating rate adjustment in FY90. These adjustments were based on the most current information avialable to the SEF. They were not calculated using a set formula that can be consistently applied. It is still recommended that SEF review this area and set rates based on an accepted formula that can be consistently applied and will ensure efficient vehicle use, needed equipment replacement, and protection of the current investment. Additionally, the rates should be adjusted annually with users being informed as soon as possible about a potential rate adjustment. Political pressure should not influence the setting of rates.

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TASK ISSUE #6

"Review effectiveness of billing and accounts receivable process including the use of EMS and suggest improvements."

RECOMMENDATIONS

- Provide a one-entry system for vehicle use in EMS that would be entered by field personnel at some appropriate level, verified at the user agency level, by SEF and then read by AKSAS to produce billing. This would involve a refinement of the EMS/AKSAS interface work presently being considered. It is estimated that such a change would handle operating costs (based upon mileages) and replacement costs (based upon the identification numbers of the vehicles incurring the mileages). This process is estimated to cover 80% - 90% of the total funds received by the HEWCF. Only special billing for items such as repairs to dry vehicles, etc. would not be covered by this change in procedures.

- Modify EMS to include "inception-to-date" data on vehicle replacement costs. Add a field to EMS that would keep a running total of costs per vehicle each month from the date of initial assignment through the current date.

- Corrections should be acknowledged either by a phone call or note. Changes made would thus be confirmed, and changes denied could be discussed and a mutual resolution be determined.

- Either pro-rate costs by the half-month, or do not charge the final month replacement cost for the replaced vehicle.

- Billing each component for actual usage would be ideal. There would need to be clear communication between SEF personnel and the users when this would be initiated so that users would not deny charges on the basis of duplicate billings (same vehicle in two components).

- If costs were pro-rated, the partial amount charged would be an automatic flag that the vehicle had been turned in (or whatever the specific case might be).

- Similar to the first recommendation, mounds of work and significant clerical time would be saved if the number of operations could be cut.

- Some class rates vary from DOT&PF region to region (i.e., A152P). If the class code could be an automatic change when the department user code is changed, this problem would be eliminated. Ideally, EMS could be modified so that all class codes and department user codes would have to begin with the same letter, or would not be accepted in the system.

- A modification of EMS so that the status code would be changed automatically on the appropriate date would save a lot of record keeping and correspondence.

- Runs should be distributed at regular intervals, or at least be made available so users would know what procedure to follow in order to request current inventory runs when they are needed.

- Current month billing for both types of costs would be beneficial to users.

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DISCUSSION

A review has been made of the effectiveness of the HEWCF billing system and the collections process. The review has indicated that the system is inefficient and that extensive duplication of effort exists. The following specific shortcomings have been identified (the numbering of these shortcomings corresponds to the recommendations listed above):

(1) Data relative to the usage of vehicles is handled several times within each user agency and then several times by SEF personnel to generate the billings and again by the user agency personnel in reconciling the billing back to the original usage data. This is a textbook example of bureaucratic duplication of effort that is costly both to the agencies and to the SEF.

(2) When the EMS system was put in place the "inception-to-date" (not year-to-date) accumulation of replacement costs was one of the items of information that was not retained. This had been an item of data that existed in the pre-EMS data retention system which was a useful tool in determining vehicle replacements. SEF needs some way to determine <u>total</u> costs incurred per vehicle (not just current fiscal year). Inception-to-date in addition to (not instead of) year-to-date figures would be most helpful when considering replacing vehicles.

(3) When corrections are requested, users do not see a subsequent document allowing or denying their requests. If these requests were acknowledged by correspondence or even over the phone, users could know the status of the changes without having to take the time to continue to check EMS at regular intervals. In many cases, users find that the changes are not made and the same requests must be made on the subsequent billing.

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(4) Replacement costs are not pro-rated when a new or additional vehicle is assigned, even though users have been told pro-ration is possible. There are cases when users have been charged a full month's replacement cost for the replaced vehicle in addition to the replacement vehicle.

(5) Operating costs are not split if a vehicle is re-assigned during the month. For instance, a vehicle shows 1000 miles usage on the 15th, and is transferred from "B" Detachment to Anchorage JS - at month's end the car shows 2000 miles usage. One billing code is billed for the total usage.

(6) Lack of pro-rating affects vehicle count. When one vehicle replaces another, the old one remains on the report to be charged final usage and the new one is added. This also results in replacement costs for two cars as described in #2.

(7) If users could enter their own usage, bills would be paid much sooner. Presently users enter the mileages in their PC to generate monthly vehicle reports. Those reports are then sent to each DOT&PF region for data entry. Once the regions have the information entered, SEF HQ notifies them that they can check their usage through an EMS function. Users are given approximately two weeks to check. Then the bills are printed in Juneau and sent to them. Users then reconcile the billings, and process for payment through the Dual Authorization function of AKSAS. If users could make the initial entry for monthly usage of their vehicles with the Dual Authorization function, literally weeks of work and much clerical staff payroll could be saved. SEF could have their money at least a full month sooner.

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(8) When a vehicle is transferred from "A" Region (DOT&PF) to "B" Region (DOT&PF), for example, the department user code will be changed in EMS, but the class code is not. This should be automatic, or at least obivous that the change needs to be made.

(9) There should be a faster, more convenient manner for changing status to WZ/DZ. Presently users keep a manual listing of each vehicle and the date it is to be converted to the "Z" Class. Users send a monthly list to notify each DOT&PF Region which cars are scheduled for class change in the coming month. It would be faster and more convenient if a feature could be added to EMS that would make these changes automatically.

(10) If users received an inventory run at regular known intervals, they could eliminate some of their correspondence to DOT&PF. Such a run would be helpful in many areas.

(11) Presently users are billed for March usage and April replacement costs. (The usage is current month; replacement costs are in advance.) We submit that if these were billed for the same month less errors would occur; hence, less time for correction request forms, etc. Problems could be lessened, particularly the last month of the fiscal year.

(12) Replacement costs are not high enough. At the end of the scheduled vehicle life, there will not be enough replacement costs paid to replace that same class vehicle. Potential problems created as a result are many and could be serious.

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TASK ISSUE #7

"Address and develop communication plan which will allow user groups to keep informed on SEF operations."

RECOMMENDATIONS

Communications need to be improved from the SEF HQ's to both regional SEF staff and user agencies. The Task Force recommends that regional SEF offices receive reading file updates, and possibly a newsletter, which could be passed on to user agenices apprising them of SEF policy updates and information relating to vehicle usage. As the main contact point for user agencies, the regional SEF staff needs to be familiar with all SEF policies and procedures. We also recommend that an Annual Fleet Report be established to provide comprehensive information on the SEF to users.

DISCUSSION

An improved flow of information to regional SEF offices and user agencies on SEF policies, rates and other issues would enhance efficient management of the fleet and increase the satisfaction of users with SEF operations. At present, many SEF users are uncertain about SEF policies and procedures, particularly the establishment of operating and replacment rates. An Annual Fleet Report, and possibly a newsletter, could be the basic elements of a comunication plan.

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The Annual Fleet Report should be distributed to all user agenices, as well as OMB. The report would contain a brief Executive Summary covering the main points and a much more detailed report for those interested. The first report would probably be much more detailed than subsequent reports, because it would need to discuss the history of the fleet and how it developed into what we have now.

Specifically, the first report would include the following items:

1. Executive Summary
2. History/Concept of the State Equipment Fleet
3. Current Status of the fleet
4. Fund Financial Analysis
    a) Rate Supporting Calculations, both Operating and Replacement
5. SEF Organization
    a) Services Provided
6. Equipment Management System
7. Goals and Objectives of the fleet

If a subsequent major event, such as a rate change, took place, an amendment to the report could be made. The report should contain an in-depth analysis of the rates that are going to be charged in the next budget preparation cycle. This would answer in advance most of the questions asked by budget analysts and would eliminate a major source of dissatisfaction among SEF users.

The Annual Fleet Report would provide a one-stop reference for any administrator or legislator who wishes to obtain an understanding of the fleet.

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ATTACHMENT #1

State Equipment Fleet Task Force
Lease/Purchase Cost vs. Highway Equipment Working Capital Fund Cost
Yearly Costs

The following vehicles are representative of the types of vehicles utilized by state agencies. Lease estimates were obtained from more than one potential vendor in each case. The HEWCF replacement rates are those used in the FY89 budget.

Class	Description	Lease/ Purchase	HEWCF	Difference (HEWCF savings)
108	Intermediate Sedan	3,914	1,584	2,330
115	Police Interceptor	5,958	3,576	2,382
152	4x4 Vehicle (Blazer type)	5,506	2,964	2,542
154	4x4 Pickup	5,080	2,364	2,716
217	8 Cy Dump truck with snow plow and full hydraulics	19,536	15,804	3,690
338	3 1/2 Cy Loader	21,000	16,032	4,968
351	14,000 lb Grader	12,504	6,672	5,832

<u>Conclusion</u> - Potential leased vehicle rates are over 33% higher than HEWCF rates.

DRAFT ATTACHMENT #2

TASK ISSUE #4

"Review and suggest policy guidelines on the number and use of state vehicles."

Do Not Concur:

The policy should simply be that the departments determine the number and use of their vehicles based on their operational needs and their budget capabilities. The state pays senior executives to manage their departments and we should not arbitrarily limit their use of resources.

I take strong objection to the current first recommendation in the draft of the final report which notes in part "The SEF needs to take a larger role in approving vehicle replacements...." While I cannot speak for other departments, I am comfortable with the current review process that is made of the DPS fleet requirements which consists of independent condition and mileage review by representatives of both DPS and the SEF. During a meeting of the representatives of both departments it is determined if the vehicle should be extended or replaced. At that time it is determined if the vehicle is to be retired or reclassified into an 'L' car (recycled patrol vehicle for less critical duties - they have replaced many cars formerly leased for administrators). There is no problem as noted in the report that the vehicle's continued use is not addressed. This first recommendation is addressing a perceived problem that I do not believe exists. The report even notes that "Not enough information is readily available to determine the full extent of this potential problem...." If this is correct, which I believe it is, then how can the Task Force make a recommendation until a sufficient amount of information is made available and appropriately analyzed?

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I do agree with the remaining recommendations under Task Issue #4 dealing with monitoring the utilization of existing vehicles, identifying under-utilized vehicles and providing credits for vehicles turned in, but I strongly believe that a close liaison with user agencies is critical. If users are dictated to regarding replacement determination and use they will be reluctant to endorse the SEF and its support will be eroded further.

In conclusion, my concern is primarily that the Task Force recommendation proposes to limit users agency participation in the determination of their fleet needs and to shift this authority to the SEF. I do not find this recommendation acceptable from a user management point of view.

PETITION

JAN 23 1990

TO THE STATE OF ALASKA:

The Statewide Alaskan automotive and equipment business community members once again are requesting that the Department of Transportation, Public Facilities address their responsibilities to the Alaskan constituency and state agencies.

We request that the State Equipment Fleet Headquarters be transferred to Anchorage, Alaska.

JUSTIFICATION

1. Stop needless travel in and out of Juneau. Curtail ineffective user and constituent communications. Prevent lost productivity of Juneau personnel. Eliminate per-diem and travel expense.

2. Eliminate questionable procurement and award practices and procedures which continue to increase at an alarming rate. (Reference Federal procurement regulations C.F.R. 41 and concurrent comptroller general case rulings which were the basis for State title 36.)

3. Gain centralized management to service and respond to the majority of the user agencies and statewide agencies.

4. Eliminate lost productivity of all state agencies due to untimely equipment replacement. This will result in safe and cost effective state programs.

	Name	Address	Company Name
1.	Mary Hollowell	2020 E. 3rd Ave.	Yukon Equipment, Inc
2.	John Bush	1300 E. 5th Ave.	Alaska Sales & Service
3.	Bob Brown	2009 Spar Ave.	Bob Services Inc
4.	[illegible]	2200 Spar Ave	General Parts + Service Inc
5.	[illegible]	2601 E 5th	Anchorage Chrysler C
6.	[illegible]	6171 Rosewood	Freight Liner Alaska

PETITION

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1. GARY SCHADE 1301 POST ANCHORAGE ALASKA TRUCK CENTER
Name Address Company Name

2. Al Benk 100 E Int Apt Rd Anchorage Alaska Generator ~~Anch~~
Name Address Company Name

3. Jim Strong 1950 E Bowling Rd. Trailer Craft Inc.
Name Address Company Name

4. Steve Hammond 2701 E. Mt Village Wasilla New Frontier Ford
Name Address Company Name

5. Richard M Van Ostrahm 4517 Old Seward Hwy Anch AK 99503 Van Ostrahm Const. & Mine Eqt
Name Address Company Name

6. Ed Keiler 105 Post Rd. Anchorage AK 99501 Firestone
Name Address Company Name

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	Name	Address	Company Name
1.	Charles C. Parker	1702 Ship Ave	Sahlberg Equipment Inc
2.	[illegible]	733 E. Whitney Rd	Craig Taylor Equip. Co
3.	[illegible]	2400 Commercial Dr	Fessler Equip Ser Inc
4.	[illegible]	2618 Commercial Dr	Cummins NW Inc
5.	[illegible]	2756 Commercial Dr, 99501	Howard Cooper Corp.
6.	[illegible]	2536 Commercial Dr. 99501	Totem Equip. & Supply, Inc.

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	Name	Address	Company Name
1.	[signature]	1950 Gambell	Worthington Ford
2.	Craig Thomas	2838 Porcupine Drive Anch.	Kenworth Alaska
3.	[signature]	5400 Homer Drive	Construction Machinery
4.	Robert S. [illegible]	6730 Arctic Blvd	Tope Equip Co
5.	[signature]	3222 Commercial	AK Mining + Diving Supply
6.	[signature]	4510 Gambell	Northern Hydraulics Ltd.

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1. Jack L. Welch 1636 E. 1st Ave. 1st Street Body
Name Address Company Name

2. John Brant 5811 Old Seward AK. Rubber & Supply Inc.
Name Address Company Name

3. Scott D. Matthews 1301 Huffman Rd. Waukesha Alaska
Name Address Company Name

4. Terry T. Swanson P.O. Box 91418 Ind. Boiler & Controls Inc
Name Address Company Name

5. Don Redmond 405 Boniface DJ's Alaska Rentals, Inc
Name Address Company Name

6. Jeanne M. Stearns 1716 Post Rd. Jackovich Ind & Const. Sup.
Name Address Company Name

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	Name	Address	Company Name
1.	R. Hewitt	2820 COMMERCIAL	DENALI BANDAG INC
2.	[illegible]	342 W. CHIPPERFIELD	GOODYEAR COMM. TIRE & SERVI
3.	[illegible] (FLEET MANAGER)	3200 SEWARD HWY	ALASKA AUTO PRESERVAT
4.	Allan Feadler	4748 OLD SEWARD HWY. #	ANCH NISSAN/JEEP/EAGLE
5.	Larry Bate	166 E. POTTER, ANCHORAGE AK 2610 E. 144TH	CADILLAC PLASTIC
6.	James M Drake	1800 W 47TH ANCH, AK 99517	DITCH WITCH OF AK

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	Name	Address	Company Name
1.	Terry S. Daggett	6030 Old Seward Hwy	Anchorage Small Engine
2.	W. Mark Lamoth (Sales Manager)	730 E 5th Ave	Stepp Bros.
3.	[illegible]	4109 Old Seward Hwy	Alaska Battery Mfg.
4.	[illegible]	824 E 5th Ave	Nye Frontier Toyota
5.	[illegible]	4940 Old Seward	Cont. Mtr. Co.
6.	[illegible]	4904 Old Sew. Hwy	Pacific Mitsubishi

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	Name	Address	Company Name
1.	William A. Daum	2192 Viking Dr.	Alaska Industrial Hardware
2.	Francis McLuhan	2402 E. 3rd Ave.	N.W. Handling Systems
3.	[illegible]	1203 West International	Alaska Diesel Electric
4.	[illegible]	6131 A St.	Kem Equipment, Inc.
5.	[illegible]	1230 A St.	Independent Lift Truck of Ak.
6.	[illegible] Murdock	240 E. Potter	Alaska Diesel Service Inc.

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	Name	Address	Company Name
1.	[illegible]	500 WEST POTTER DR.	AK HYDRAULICS
2.	Judy Webb	Anchorage AK 5274 E. 147th	Drive Line Serv.
3.	John R. Pinegar	Anchorage 99501 832 E 4th Ave	American Tire
4.	Kathryn L. Weil	Anch, AK 99501 467 Chipperfield	Prescott Equipment Co. Inc.
5.	[illegible]	2700 Commerce Dr Anchorage, AK 99501	Anchorage Truck Welding Inc
6.	W. McBride	3038 RAMPART Anch AK. 99501	AUTOMATIC Welding

TRAVEL FROM NOME TO SIBERIA

ALASKA/SIBERIA PROPOSED FERRY SERVICE

Mr. Vicktor Mukhortove, the Port Director of Provideniya, has contacted the Nome Chamber of Commerce requesting help to provide ferry service between Alaska and the Soviet Far East. Vicktor has indicated that he has support from his government officials to implement ferry service across the Bering Strait.

There are many questions surrounding this issue and therefore numerous departments and individuals will be in attendance at this meeting to help answer the questions.

People who wish to testify:

William Lorch	-	Alaska Maritime Industry
Commander Fierman	-	U.S. Coastguard
Dick Monkman	-	State Board of Marine Pilots
Harold Mosier	-	Alaska Marine Highway System
Ron Clarke	-	Office of International Trade
Jim Stimple	-	Nome Chamber of Commerce
Don Stoltz	-	Artic Lightering, Nome
Jim Rowe	-	Bering Airlines, Nome

Sites on line via teleconference
Nome
Savoonga
Gambell
Homer
Kotzebue
Bethel
Anchorage
Juneau

1. Mr. Ron Clarke - Division of International Trade.
   Ron has been working on this project with the Governor's office. He has been in contact with the Soviets and can provide up-to-date information on what our neighbors are planning for the future.

   The Soviet/Alaska Commission was established last session, however funding was not provided for this Commission.

   Ron can also provide information on the visa waiver program which will be in effect March/April 1990.

2. Mr. William Lorch, Alaska Maritime Industry.
   Under the current proposal, the maritime industry will act as the agent for travel between the two countries. This organization will handle piloting, customs, immigration, docking etc.

3. Commander Tiernam - U.S. Coast Guard
The U.S. Coastguard predominately places requirements on U.S. vessels entering U.S. ports. The state is responsible to set down its own requirements on foreign vessels entering U.S. ports. As this will be a Soviet vessel entering a U.S. port, strict state requirements will need to be met. The coastguard does have several requirements, Commander Tiernam will elaborate on these.

4. Mr. Dick Monkman, Chairman, State Board of Marine Pilots
Mr. Monkman will explain the state requirements as they pertain to the Bering Straits.

5. Mr. Don Stoltz, Artic Lightering, Nome.
Don will provide information on the piloting services currently provided by Artic Lightering. Questions surrounding piloting requirements for the Bering Straits remain unanswered, however, initial conversations indicate that most piloting companies within Alaska would be unable to meet the current state piloting requirements for the Bering Straits.

6. Harold Mosier, A.M.H.S. Design and Construction
The vessel proposed by the Soviets is similar to the M/V Bartlett in size. Initial correspondence indicates the vessel will have the capability to land on the beach. Mr. Mosier is familiar with our marine facilities and he should be able to help determine if the vessel will be able to land at the proposed ports. Some real economic questions exist with providing this service.

Official Business

Alaska State Legislature

House of Representatives

House Transportation Committee

P.O. Box V
Juneau, Alaska
99811

Phone:
(907) 465-4859

January 23, 1990

Mr. Randall Burns
Director
Division of Occupational Licensing
P. O. Box D-Lic
Juneau, AK 99811

Dear Randall:

Thank you for participating in the teleconference this morning. The information you provided regarding the state requirements for vessel operation between Alaska and the Soviet Union was very helpful.

I would like to further research several of the points we discussed this morning. The following questions outline these areas:

1. What state regulations are currently in place for operations of commercial vessels between Alaska and Siberia?

2. Who establishes these requirements?

3. Would the requirements remain the same if a skin boat was operated on this route on a commercial basis?

4. Would operators of a non commercial skin boat need to meet the same requirements? (I am thinking of the boat owner who takes his family on a trip from Gambell to Provideniya).

5. Are the piloting requirements for the Bering Straits different from other areas within Alaska?

6. Are there currently licensed pilots within Alaska who meet the qualifications and experience requirements necessary to pilot a vessel from Alaska to the Soviet Union?

7. Do you forsee are other problem areas that we may need to address?

Again, thank you for your assistance. This information will help members of the committee ensure that state marine requirements are adhered to for all proposals offering marine transportation services.

Sincerely,

Richard Foster

Representative Richard Foster,
House Transportation Committee Chairman

Official Business

Alaska State Legislature

House of Representatives

House Transportation Committee

P.O. Box V
Juneau, Alaska
99811

Phone:
(907) 465-4859

January 24, 1990

Commander Scott W. Tiernan
U.S. Coast Guard
P. O. Box 3.5000
Juneau, AK 99802

Dear Commander Tiernan:

Thank you for participating in the teleconference this morning regarding travel between Alaska and Siberia. Your expertise in U.S. Coastguard regulations and requirements was most helpful.

I would like to research further several of the issues we discussed at this teleconference. The following questions outline these areas:

1. What US Coastguard regulations/requirements are in place for commercial vessels operating between Alaska and the Soviet Union?

2. If a skin boat was operated on a commercial basis between Gambell and Provideniya, what U.S. Coastguard requirements would need to be met?

3. Would the requirements be the same if a skin boat was operated on a non commercial (non paying) basis?

4. Do you foresee any other U.S. Coastguard or vessel operation concerns that may need to be addressed?

I appreciate you taking the time to answer these questions. This information will help the House

Transportation Committee members ensure that proposals for sea travel between Alaska and Siberia meet U.S. Coastguard requirements.

Again, thank you for you particpation.

Sincerely

Richard Foster

Representative Richard Foster
House of Representatives
Transportation Committee Chairman

FEB 10

U.S. Department of Transportation
United States Coast Guard

Commander
Seventeenth
Coast Guard District

P.O. Box 3-5000
Juneau, AK 99802-1217
Phone: (907)586-7195
Staff Symbol: m

16731
6 Feb 90

The Honorable Richard Foster
Alaska State Legislature
House of Representatives
Chairman, House Transportation Committee
P.O. Box V
Juneau, Alaska 99811

Dear Mr. Foster:

I wish to thank you for allowing Commander Tiernan to participate in the teleconference held by your committee concerning ferry transportation between the Soviet Union and Alaska. The prospect of opening ferry service between the two countries is very exciting, but will pose some problems.

Members of my Marine Safety Staff have researched the questions you posed in your letter dated 24 January 1990. The first question was, "what Coast Guard regulations are currently in place for commercial vessels operating between the Soviet Union and Alaska"? Generally, the rules/regulations for foreign vessels operating in U.S. waters are generic except for certain fisheries regulations. Therefore I will just address the rules/regulations for foreign vessels operations in general and operational restrictions that apply to Soviet vessels.

Requirements for foreign vessels operating in United States waters include compliance with our pollution prevention laws, marine sanitation device regulations and compliance with maritime treaties such as Safety of Life at Sea (SOLAS) and Prevention of Pollution of the Sea From Ships (MARPOL). Shipping restrictions for foreign vessels prohibit the carrying of cargo or passengers between U.S. ports. Also, foreign passenger vessels operating in U.S. ports are subject to control verification inspections by the Coast Guard. These inspections ensure compliance with applicable international safety standards. Soviet vessels must also request entry approval into U.S ports under the Special Interest Vessel program. Depending on its size, a Soviet passenger vessel may be require the services of an Alaska State Pilot to call at Alaskan Ports.

While these requirements may seem very broad based, Morflot, the Soviet shipping ministry, has operated extensively in U.S. ports and is very familiar with the applicable requirements. As CDR Tiernan stated at the teleconference, there should be few if any difficulties encountered with the proposed ferry operation.

Your second question concerned the requirements for commercial use of traditional native skin boats in commercial service between Gambell on St. Lawrence Island and Provideniya, Siberia. This proposal raises some interesting questions. There are three scenarios that must be examined and I will discuss each one separately.

The first scenario is carrying 6 or less passengers for hire. This operation requires that the operator of the vessel hold a license suitable for the area of operation. In this instance, the operator would need to obtain an Operator, Uninspected Passenger Vessels endorsed for Near Coastal operation. The vessel would have to meet the minimum safety requirements located in Title 46, Code of federal Regulations, Parts 24,25 and 26.

The second scenario would be the carriage of 7 to 11 passengers. In this case the operator would be required to hold a Master Near Coastal Steam or Motor Vessels of not More Than 100 Gross Tons. This license is more difficult to obtain than the license described above. When more than 6 passengers are carried, the vessel must be Coast Guard inspected and be issued a Certificate of Inspection (COI). To obtain a COI, the vessel would have to be built according to plans approved by the Coast Guard and meet substantial lifesaving and firefighting requirements. There may be other special requirements that the vessel would have to meet but because of the unique nature of the vessel, this could only be determined after a plan review was conducted and the proposed operation reviewed.

The last scenario would be the carriage of 12 or more passengers. The operators license requirements and requirement for Coast Guard inspection of the vessel would be the same as scenario number two, but the SOLAS regulations come into play when 12 or more passengers are carried on an international voyage. Again, the unique nature of the vessel makes a discussion of applicable regulations very lengthy and nearly impossible without some hard proposals on which to base the discussion.

If the residents of Gambell are considering any of the above commercial operations, they should contact the Marine Safety Office in Anchorage, at 271-5137. MSO Anchorage would be the office that would conduct license examinations for the residents of Gamble, and would also do any required inspections on the boats. If there is serious consideration of carrying more than 6 passengers it is imperative that steps are begun immediately to have plan reviews conducted, etc. Plan review and construction inspections can be very time consuming, especially when a unique craft or operation is anticipated.

Finally, I wish to remind you that the residents of Gambell can travel back and forth from the Soviet Union in their traditional skin boats without need for licenses or inspection as long as there are not paying passengers carried. In this case payment means any type of consideration including shared fuel expenses, meals provided to the operator or any other benefit to the operator and/or owner.

I hope this information proves useful.

If there is any further information that we can provide please do not hesitate to contact CDR Tiernan at 586-7195.

Sincerely,

D E Bodron

D.E. Bodron
Captain, U. S. Coast Guard
Chief, Marine Safety Division
By direction of the District Commander

Alaska State Legislature

House of Representatives

House Transportation Committee

Official Business

P.O. Box V
Juneau, Alaska
99811

Phone:
(907) 465-4859

January 24th, 1990

Ambassador Gunnadi I. Oudovenko
Soviet Mission to the United Nations
136 East 67th Street
New York, N.Y. 10021

Your Excellency:

I write to express my concern and seek your assistance to help our countries resolve the Soviet navigator requirement imposed by the Soviet Ministry of Civil Aviation. As Chairman of the Alaska State Legislature, House Transportation Committee, I am troubled by the interruption to this vital and long awaited transportation link.

In July, 1989, when Bering Air received Federal Aviation Administration authority to operate international flights between Nome and Siberia, I felt another milestone had been reached in the efforts to increase relationships between our two countries.

Unfortunately, all flights now appear to be on hold while the decision to waive the Soviet navigator requirement is being considered. I urge your support to assist us in resolving this issue.

In April, 1990 we will commence the visa free travel program between Alaska and the Soviet Union. While implementation of this program reflects tremendous efforts between both our countries, the real benefits of the program will not be realized unless people have a means by which to travel between the two points. If, by working together, we can resolve major issues such as immigration, then I am sure we can find a solution to the Soviet navigator requirement.

It is my understanding that between July and November 1989, Bering Air made 85 flights to and from the Soviet Union without a Soviet navigator. These flights benefited both Alaska and the Soviet Union as it provided an opportunity for scientific, health and student exchanges. It also allowed native people to visit their families in both Siberia and Alaska. In summary Mr. Ambassador, the flights provided by Bering Air greatly benefited both the Soviet Union and Alaska.

I therefore request the requirement calling for a Soviet navigator to be aboard all Bering Air flights be waived. This waiver is imperative if we are truly sincere about opening the doors and increasing relationships between Alaska and the Soviet Union.

I appreciate your consideration of this important request.

Sincerely

Richard Foster

Representative Richard Foster
Chairman House Transportation Committee

Eugene G. Kubina

Representative Gene Kubina
Vice Chairman, House Transportation Committee

Ben Grussendorf

Representative Ben Grussendorf
Member, House Transportation Committee

Bill Hudson

Representative Bill Hudson
Member, House Transportation Committee

Loren D. Leman

Representative Loren Leman
Member, House Transportation Committee

Alaska State Legislature

House of Representatives

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Official Business

P.O. Box V
Juneau, Alaska
99811

Phone:
(907) 465-4859

January 24th, 1990

Ambassador Yuri V. Dubinin
Embassy of U.S.S.R.
1125 16th St N.W.
Washington, D.C. 20036

Your Excellency:

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Bill Hudson

Representative Bill Hudson
Member, House Transportation Committee

Loren S. Leman

Representative Loren Leman
Member, House Transportation Committee

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Alaska State Legislature

House of Representatives

House Transportation Committee

P.O. Box V
Juneau, Alaska
99811

Phone:
(907) 465-4859

January 26, 1990

TO: All House subcommittee members
Dept. Commerce and Economic Development

FROM: Representative Richard Foster
House Transportation Committee chairman

SUBJECT: Alaska/Soviet travel

This past week, the House Transportation held hearings on transportation alternatives between Alaska and Siberia. We heard testimony from Mr. Ron Miller, Office of International Trade and Mr. Jim Rowe, owner and operator of Bering Air concerning the Soviet navigator requirement. In an effort to express our desire to have this requirement waived, the House Transportation Committee forwarded the attached letter to both Ambassador Gunnadi Oudovenko and to Ambassador Yuri Dubinin.

The committee also addressed the proposal to provide ferry service between Alaska and Siberia. In discussions with Ron Miller, it appears this idea is still in the planning stages. Mr. Victor Mukhortov, Director, Port of Provideniya has indicated initial interest from Soviet government officials to provide ferry service across the Bering Straits. Establishing a transportation link between our two countries is undoubtedly the most important step toward increasing our future relationships and ties with our neighbors.

For ferry service to be feasible, the Soviets are probably going require a joint venture agreement with a private sector group here in Alaska. While several groups and individuals have expressed an interest in undertaking this project, the lack of any traffic projections, anticipated costs/revenues and other relevant data has made progress on this project very difficult.

I would like to request funding for the Division of Tourism to conduct a complete analysis of this proposal. The division informed my office the funds required to adequately evaluate this proposal would be approximately $50,000. This initial money would provide us with the information required to attract private sector participation. This is a small amount when we consider it could eventually lead to the development of an inexpensive and efficient travel mode between Alaska and Siberia.

I urge your support for this funding.

Thank you.

Introduced: 1/24/90 go00400h
Referred: Special Committee on Foreign Trade, STATE AFF. and Finance

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

companion
SB -

IN THE HOUSE

HOUSE BILL NO. 440

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act establishing the Alaska-Soviet Far East Commission; and providing for an effective date."

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

* Section 1. AS 44.19 is amended by adding new sections to read:

ARTICLE 16. ALASKA-SOVIET FAR EAST COMMISSION.

Sec. 44.19.605. ALASKA-SOVIET FAR EAST COMMISSION. There is created in the Office of the Governor the Alaska-Soviet Far East Commission.

Sec. 44.19.615. PURPOSE. The purpose of the commission is to represent the state in Alaska-Soviet issues and to serve as the point of contact and official coordinator in the development of economic, cultural, scientific, technical, and educational contacts between the Soviet Far East and the State of Alaska, University of Alaska, and the private sector.

Sec. 44.19.625. COMPOSITION. (a) The commission consists of seven members appointed by the governor. At least two members must be from the private sector, at least two members must be from higher education, and at least one member must be from the Native community.

(b) The governor shall designate one member of the commission as chairperson of the commission. This member shall serve as chairperson for a term of one year, but may be reappointed for successive terms.

Sec. 44.19.635. TERM OF OFFICE. The term of office of each member is three years. Terms shall be staggered. The governor shall designate who among the initial appointees shall serve one-, two-, and three-year terms in accordance with AS 39.05.055(5). A vacancy shall be filled for the remainder of the term in the same manner as the original appointment.

Sec. 44.19.645. POWERS AND DUTIES. The commission shall

(1) serve as the official coordinator and representative of the State of Alaska for all Alaska-Soviet exchanges;

(2) serve as a forum for the exchange of information between the state, the University of Alaska, and the private sector about current developments and contacts in Alaska-Soviet Far East relations;

(3) host and coordinate official delegations visiting Alaska and the Soviet Far East; and

(4) accept monetary gifts or grants from the federal government or an agency of it, from any charitable foundation or professiona association, or from any other sources for implementation of any program or project necessary or desirable for carrying out the general purposes of the commission.

Sec. 44.19.655. MEETINGS. Within 60 days after the appointment of all the members of the commission, the governor shall call the first meeting. A majority of the members constitutes a quorum for conducting business and exercising the powers of the commission. The commission shall meet at the call of the chairperson, at the request of a majority of the members, or at a regularly scheduled time as determined by a majority of the members

Sec. 44.19.665. COMPENSATION. Members of the commission serve without compensation but are entitled to per diem and travel allowances as authorized by AS 39.20.180 and AS 39.20.185.

Sec. 44.19.675. ANNUAL REPORT AND RECOMMENDATIONS. Each year the commission shall submit to the legislature and the governor a report of its activities during the previous calendar year and any