

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

9057 SENATE STATE AFFAIRS

fairness for vendors. It is typical, for example, for procurement rules to prevent agencies from basing an award on things learned during the evaluation of bids but not listed as a requirement in the request for proposals, or from using information that was not supplied directly by the vendor (since such information might be selected by a process which was biased against the vendor). Procurement awards are usually based primarily on price (since lowest price is both an important criterion for selecting among bidders and perceived to be the objective). Awards are rarely determined by past performance (because measuring past performance would be subjective or would create a bias against new contractors). The focus of procurement decision-making is very much on one contract at a time.

Despite all the controls within the process, procurement results are widely seen as unsatisfactory, and often out of control. The problems most visible to the general public are those of cost and delay, and of continuing allegations of favoritism. Less visible but of great importance are the problems generated because rigid procurement rules serve as a drag on learning, innovation, and excellence. Requiring that all procurement specifications be known in advance makes it difficult for governments to learn of better solutions. Thus, to the extent that the biggest long-term benefits of I-T use are generated through learning and innovation (and not through the straightforward automation of existing organizational routines), many attempts to make the procurement process objective serve as obstacles to effective I-T

use. In addition, the very low influence given to past vendor performance makes it difficult for governments to reward worthy contractors who provide excellent products or services.

Not all is bleak, however. Some I-T procurements involve goods and services which are well-known and which can be precisely specified in advance, and for these procurements the present system can be made to work very well. The system does not work well, however, for the growing portion of I-T and other procurements involving complex and innovative problem-solving in a rapidly changing market.

Uses of I-T for Procurement: The Need for Reengineering and Electronic Markets

If poor procurement hurts I-T use, poor I-T use likewise hurts procurement. I-T applications within governmental procurement processes lag far behind what is possible. For many knowledge workers — those designing automobiles, selling insurance, trading on commodity markets, diagnosing medical illnesses — the power of I-T has recently been harnessed to great effect. Expert systems and electronic workstations have improved the productivity of individual workers, largely by indexing information and codifying knowledge so it can be reached quickly and applied in the context of the real-time flow of work. Where the guidance and control of work is based on codified rules — as for procurement and for bureaucratic work in general — the ability of computers to look up information quickly makes it possible

for a single worker to cover a broader array of work responsibilities, leading to fewer work hand-offs and greater organizational flexibility.

Computers and telecommunications also have become valuable for work which must be handed off many times back and forth in a work group, as networking makes it possible for information to be interactively updated and transmitted to many users simultaneously. Capitalizing on computer networks, organizations are completely redesigning or "reengineering" procedures such as order fulfillment to make them as much as 10 times faster and two-thirds less costly. As a general principle, time and distance are being removed as barriers to coordinating work. Computer systems link across many independent organizations to support trade and business partnerships via just-in-time delivery systems, worldwide electronic markets for financial services, and concurrent engineering for manufacturers. Increasing reliance on electronic commerce expands the scope and scale of trading activity and makes it more efficient. So far however, only small amounts of reengineering and electronic commerce have reached the world of government procurement.

I-T and Procurement: A Failure to Keep Up with Complexity

Over the years, procurement practices and I-T use have failed to support each other in government organizations. The procurement process has not learned how to handle complex and innovative I-T procurements effectively, and has not used I-T for the organizationally complex job of reengineering rule-based procedures.

Procurement regulations designed originally to purchase simple and well-known commodities have not been kept up with the challenges of markets dominated by complexity and innovation.

The results have left taxpayers and other stakeholders unhappy, with accusations of gross inefficiency and even favoritism still prevalent. Procedural complexity makes procurements very expensive and gives losing bidders both a motive and a means to protest. When attention is drawn to the issue of favoritism, as it often is when losers protest the process, the politically understandable impulse is to add on yet more controls. But traditional paper-based controls add cost and delays to the procurement process, usually without satisfying the real concerns of losing vendors. On the government side, procurement officials respond by managing defensively, fearing protests and micro-management. This makes innovation and excellence difficult to achieve. The problems spiral, getting worse rather than better, and have been doing so for most of the past thirty years.

Study Process

This study has addressed issues of I-T and government procurement via a process of collaborative, applied research. While led by an academic institution, it was collaborative in its heavy use of practitioners and case studies. It was applied in that its purpose was not primarily to develop new theory, but — in the traditions of

(NASIRE).³ A focal point of the research was a 126-question mail-in survey on practitioner perceptions and best practice regarding information technology and procurement. A two-day workshop of practitioners, vendors, and researchers was convened to share and critique the field work, teaching cases, and preliminary statements of policy options developed as of that point in the study. We believe that the study process itself, as well as its substantive results, may be valuable to others, given that many agencies and jurisdictions will need to examine and reformulate the proposals evaluated here in the specific context of their own political and administrative realities. For such an examination, a participative process involving many stakeholders likely will prove valuable.

CHAPTER TWO

THE VIEWS OF PRACTITIONERS

What do those practitioners who are working on problems of information technology and procurement think about the possibilities for reform? Their views should be important not only in providing substantive front-line data and knowledge, but also in offering key perspectives on the politics of what is possible.

To explore practitioner views we mailed a survey to some 1,000 individuals identified by either Harvard's Strategic Computing and Telecommunications program, the National Association of State Purchasing Officials (NASPO) or the National Association of State Information Resources Executives (NASIRE) as being active participants in the government technology or procurement communities. We received 250 usable responses. The respondents come from state government (55%), the U.S. federal government (24%), and local government (7%), as well as the private sector (13%) and research organizations (1%). Forty percent identified themselves as technology managers while others identified themselves as general managers (20%), procurement managers (15%), policy makers (14%), or vendors (11%). Respondents claimed to have expertise on the high end of a 5-point scale when it came to "the

procurement process in your agency" (81%), "uses of information technologies in your agency" (89%), and "the concept of reengineering processes" (76%).

Preliminary results from the survey were discussed at a workshop of seventy-five participants held at Harvard on June 1-2, 1995. Workshop participants were similar demographically to the survey respondents. At the workshop, in addition to discussing the survey, participants analyzed case studies and debated reform proposals as presented by leading edge practitioners assembled from around the country. On the second day of the workshop, participants were polled on many of the same questions included in the mail-in survey. These polling results were fed back in real time in order to facilitate debate and evaluate the strengths and weaknesses of the various proposals.

What follows is a summary of the opinions of survey respondents and workshop participants.

I-T and Procurement: Major Problems, Ripe for Reform

How do practitioners describe the problems of I-T and procurement reform?

According to the Harvard 1995 survey:

1. Some 86 percent see the federal procurement system as either a "major problem" or "in a state of crisis," while 65 percent describe state procurement systems this way.

2. Some 65% rate the federal government unfavorable on its use of I-T to improve services, while 54% give state governments an unfavorable rating. In comparing I-T use by various institutions in fulfillment of their missions, survey respondents ranked large businesses high and government generally low (especially the schools and the civilian federal government — see Figure 2.1).
3. Respondents also ranked governments extremely low on I-T use within the procurement process (88% unfavorable ratings for the federal government, with 71% unfavorable for the states).

Figure 2.1

Using IT to Fulfill Mission

	<u>Favorable Rating</u>
Large Businesses	93%
Colleges and Universities	71%
The Pentagon	64%
Small Businesses	43%
State Government	37%
Civilian Federal Government	28%
Public Schools	17%

Survey respondents feel that recent progress has been slow and fitful; about half see no change at all over the past five years and, of those who do see change, only three think things are getting better for every two who think they are getting worse.

Note that the above views are from government insiders who rate government overall as "favorable" almost twice as often as does the average American.⁴

To what degree are the above descriptions "problems" (things that must be coped with) as opposed to "opportunities" (things that can be improved)? It is here that the 1995 survey respondents make a break with earlier conventional wisdom, which held that procurement systems were extremely resistant to progress. In contrast, the Harvard survey respondents are optimistic:

1. Some 91% believe the impacts of I-T use in procurement could be "excellent or good" (a somewhat lower favorability rating than in revenue collection and law enforcement agencies, but higher than in social services, health care, or the judicial system). The most frequently mentioned factors contributing to better I-T use within procurement include the growing use of I-T in the support of knowledge work (85%), and the growth of electronic data interchange (EDI) within the business community (84%).
2. Practitioners identify better procurement as an important factor leading to successful I-T use, citing it only slightly less often than better planning and standardization, and more often than other factors such as staff skills and motivation. Forces mentioned as leading to better I-T procurements

include rapid changes in I-T markets (86%) and growing knowledge and expectations among governmental I-T users (83%).

3. While participants are generally optimistic about I-T and procurement reforms, they emphasize that, in order to succeed, reformers must overcome significant resisting forces. The forces most frequently cited as "major" include:

- difficulty in getting funds (78%);
- turf protection by the procurement establishment (77%; 67% by procurement professionals);
- leaders unwilling to spend political capital (71%); and,
- legislative gridlock due to "bigger" problems (71%).

In general, practitioners in both the technology and procurement communities believe that the problems of I-T and procurement are "ripe for reform." Below are the most important priorities and next steps which the survey practitioners support.

Priorities: A Faster Process, With More Emphasis on Best Value and Innovation

In exploring reforms, the survey first asked about general areas needing improvement, then about more specific reforms. The general areas cited most often were:

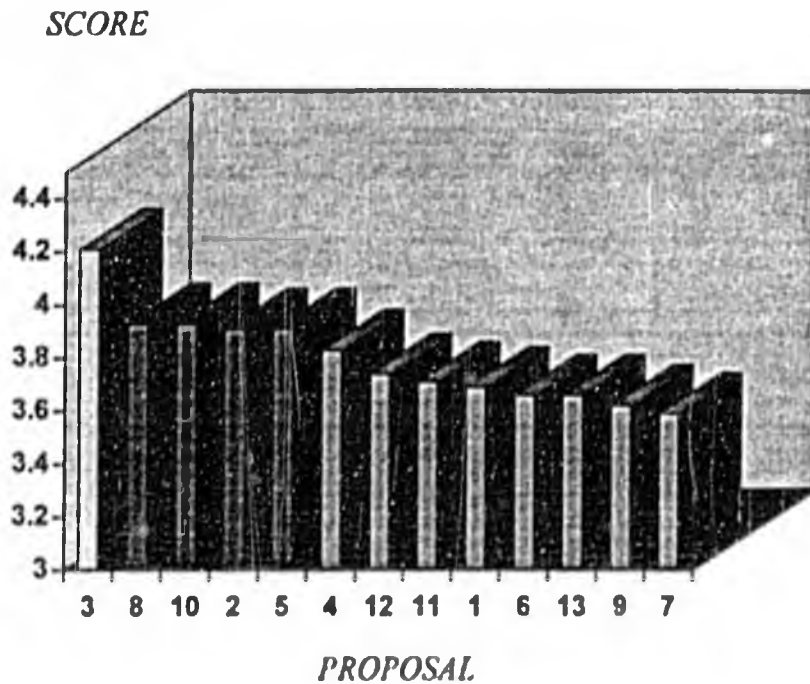
1. The need for faster, more timely procurements (cited as "one of the most important" or "very important" improvements by an overwhelming 90% of survey respondents);
2. The need for better planning for procurement (78% — especially important to state-level respondents);
3. The need to secure better value relative to the price in goods and services procured (75%); and,
4. The need for better I-T use within the procurement process (75%).

Major sections of both the survey and workshop were dedicated to evaluating thirteen reform proposals. In the survey, each proposal was described in a short paragraph. At the workshop, the proposals were presented to participants on the first day and then debated and evaluated on the second day. Key results from these

evaluations are summarized in Figure 2.2. This figure shows the aggregate "contribution" scores for each proposal, where "contribution" was a number from 1 to 5 (1=low; 5=high) representing the net contribution to society (value in excess of costs) which the respondent expected each proposal would create if implemented. Given that a 5-point scale was used, it appears that all reforms were considered generally desirable, as the lowest mean score was 3.59.

Figure 2.2

**Practitioners Evaluations of the
Net Social Contribution of Proposed Reforms**



- 3 Best value procurements
- 8 Education and training
- 10 Electronic markets and outsourcing
- 2 Discretion for learning and innovation
- 5 Avoidance of "grand designs"
- 4 Weight to past vendor performance
- 12 Public-private and public-public partnerships
- 11 Relationships (not just transactions)
- 1 Discretion for program managers
- 6 Aggressive standard-setting and blanket contracts
- 13 Radical change
- 9 Electronic job aids
- 7 New classification, then new pay schedules

Two major themes emerged from this data and the workshop discussions.

“Best Value” Procurements: The #1 Reform

The top-ranking proposal — its contribution score rising far above the next best proposal — was to base procurement awards on “best value” rather than “least cost”.

Best value procurements (contribution score = 4.21). *“Procurements are driven too much by price and not enough by value. We need to implement workable approaches to select best value, so as not to be influenced unduly by a low bid price.”*

The central idea is to give more weight to the non-cost elements of bids, even though these are admittedly difficult and subjective to measure. The concern is that, especially for complex and innovative procurements such as those often involved in I-T projects, the non-cost elements are often critical, yet subordinated in traditional procurement cultures. The Harvard participants felt that an overemphasis on costs was often the result of worrying too much about avoiding controversy and protest. Initiatives to base vendor selections explicitly on a “best value” rather than “least cost” have recently taken center stage in the procurement world.⁵ Some agencies are even asking for bids to come in at a fixed budget level, thereby neutralizing cost as a

variable and forcing the vendor selection process to rely more on the non-cost elements of the proposals.

The "best value" reform was ranked #1 overall in the mail-in survey and #1 by technology managers and vendors both in the survey and at the workshop. It was a strong #3 priority of the procurement officials (behind "electronic markets and outsourcing" and "education and training"). This represents a remarkably strong consensus in support of "best value" procurements.

"Learning and Innovation": A Package of High Priority Initiatives

The four proposals that were rated next highest in net social contribution focused thematically on learning and innovation.

1. **Education and training** (contribution score = 3.93). *"Key I-T and procurement skills can be cost-effectively obtained through the education and training of existing personnel. Governments need to increase I-T-related education radically for project managers, program managers, and purchasing officials."*

This proposal is seen as an essential enabler of other learning and innovations-oriented initiatives. Practitioners are leery of relaxing traditional procurement controls without making major investments in education and training, as well they should be. Empowering the front-line requires education, as recognized by the federal General Services Administration in their well-received Trail Boss educational

program and the Defense Personnel Support Center in Philadelphia, whose management trained their entire workforce in EDI when they applied it to various business systems.⁶ As might be expected, education and training is most strongly supported by the procurement community (with a 4.18 net contribution score).

2. Electronic markets and outsourcing (contribution score = 3.93).

"Electronic links between buyers and sellers reduce the costs of using markets — i.e., they reduce the costs of searching for and analyzing alternative sources of supply. To prepare for electronic markets, governments should aggressively begin to create electronic links to both suppliers and clients."

This is perhaps the "hottest" new area of learning and innovation, given ongoing explosive growth and commercialization of the Internet. It is also an arena where public sector practitioners feel they lag behind and can learn from elements in the private sector that are moving ahead. Not all industries are ready to participate yet in electronic markets, as the Commonwealth of Massachusetts has learned.⁷ Recent initiatives at both federal and state levels include the electronic commerce program of Vice President Gore's National Performance Review, and the state of Oregon's award-winning V.I.P. program to communicate electronically with state bidders and suppliers.⁸

Electronic markets ranked as the very top initiative among procurement officials in the mail-in survey. It was not ranked as highly at the workshop, reflecting

views that electronic markets are somewhat ancillary to the core "procurement reform" agenda, despite their undeniable importance.

3. Avoidance of "grand designs" (contribution score = 3.91) *"In turbulent and uncertain environments like those of major I-T projects, an iterative approach works better than overly detailed pre-planning. To encourage such development, we need to design a procurement process which is less burdensome for small projects than for large ones, and which allows early phases to be rolled over into later phases without excessive demand for new documentation or re-competition."*

This is a move to encourage learning and innovation via incremental rather than quantum-leap systems development and procurements. It was supported most strongly by technology managers, perhaps because large I-T procurements have a frightening reputation as a source of career-threatening problems.⁹ I-T procurements of a grand scale will logically require a longer time line for review and approval, thereby running larger risks of falling far behind the state-of-the-art by the time they are acquired.¹⁰

4. Discretion for learning and innovation (contribution score = 3.91).
"Innovation requires trial and error which is stifled by the delays and premature specificity of rigid acquisition procedures. Pilots and other innovative projects, if not too large, should have access to a quick and simple procurement process which would not be overly rigid about "free and open competition,"

This proposal makes the most direct attack on the inability of traditional procurement systems to handle complex and non-routine problem-solving. It is also the initiative which surfaced the most debate and disagreement between the I-T and procurement communities. Such disagreement is easy to understand, as truly expanding discretion for the front-line managers would reduce the authority of central procurement staff and might also compromise the "free and open competition" value of traditional procurement processes. Many procurement officials believe that setting up a "back-door" process for innovations-oriented projects would be dangerously subjective and difficult to control. Discretion for learning and innovation ranked #10 among procurement officials (who nonetheless gave it a social contribution score of 3.5, which, on a 5-point scale, is more favorable than unfavorable). Technology managers and vendors ranked discretion for learning and innovation very highly, at #2 and #4 respectively. The state of California has developed a special procurement process for projects using advanced technologies, and the DoD's Advanced Research Projects Agency (ARPA, the agency that created the precursor to the Internet) has long benefitted from extensive procurement discretion in awarding contracts in support of government research and development.¹¹

In the above proposals, there is a noticeable difference between the views of the procurement community and those of the technology community. Procurement people note the large volume of routine commodity-like procurements and support

explicit rules and controls to ensure "free and open competition." Technology and program officials and vendors, on the other hand, note the smaller but growing volume of extremely complex and innovations-oriented procurement, supporting "empowering the front line" and turning suppliers into "partners."

All groups, however, strongly support certain fundamental efforts: (1) to speed up the procurement process, (2) to focus on best value and not just on lowest cost, and (3) to improve the capacity for coping with learning and innovation.

Next Steps: Some Easy, Others Not So Easy

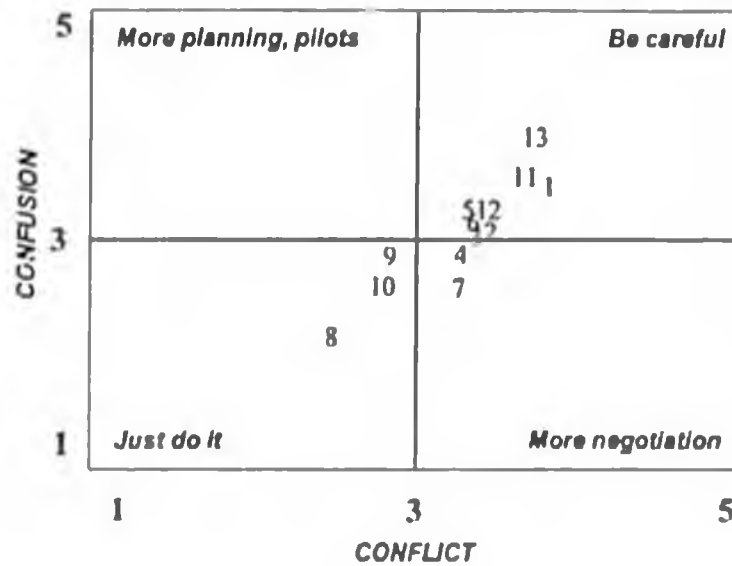
How should we package and prioritize procurement reforms in order to give us the best chance for successful implementation? To explore this question, we asked survey respondents and workshop participants to assess the degree of "confusion" and "conflict" associated with each reform proposal. A low confusion score meant that it would be easy for the people involved in implementation to understand what is expected of them. A high confusion score, on the other hand, meant that it would be difficult even for supporters of a proposal to know what to do. A low conflict score meant that people would readily agree to support implementation; a high conflict score meant that many people would fight the proposal.

Figure 2.3 plots each of the thirteen procurement reform proposals on a "confusion X conflict" matrix to illustrate the relative positioning of each proposal as

evaluated by the survey respondents. The closer the proposal number lies to the lower left ("southwest") corner, the less confusing and less conflicting it is in the minds of the respondents. For example, proposal #8, "education and training," is considered the least confusing and the least conflicting of the thirteen.

Figure 2.3

Confusion X Conflict



- 1 Discretion for program managers
- 2 Discretion for learning and innovation
- 3 Best value procurements
- 4 Weight to past vendor performance
- 5 Avoidance of "grand designs"
- 6 Aggressive standard-setting and blanket contracts
- 7 New classification, then new pay schedules
- 8 Education and training
- 9 Electronic job aids
- 10 Electronic markets and outsourcing
- 11 Relationships (not just transactions)
- 12 Public-private and public-public partnerships
- 13 Radical change

What do these scores tell us? First, note that the overall distribution of scores falls strongly southwest to northeast, from those that are easiest to implement to those

that are hardest. No proposals in this set — unlike other proposals we have analyzed using this technique — are high in confusion yet low in conflict or high in conflict yet low in confusion.

Next, note that — of the three proposals in the easiest or “just do it” quadrant — two are top scorers in terms of social contribution. The “easiest” proposal — education and training — is ranked #2 in net contribution. The next easiest proposal — electronic markets and outsourcing — is ranked #3. It is a very happy and relatively rare event when the proposals that are easiest to implement are also among the most important. These proposals should therefore be given careful attention and not be overlooked in any reform agenda.

The other “easy” proposal — “electronic job aids” — is closely related to the proposal for electronic markets and outsourcing. Its summary paragraph read:

“Procurement should be a prime target for electronic job aids since it depends on huge volumes of rapidly changing data which can be readily digitized and indexed for speedy retrieval and problem-solving. Governments should develop electronic workstations for I-T and other procurements, much like those being developed for portfolio analysis, medical diagnosis, and the repair of complex machinery.”

While this proposal was ranked relatively low by those outside the procurement community, it received a generally positive 3.62 contribution score. It, too, deserves attention for early implementation.

In general, participants at the workshop, especially the procurement officials, were more optimistic than their mail-in counterparts about the ease of implementing reforms and the desirability of making some radical changes in the way things are done now. Perhaps this was because the workshop provided opportunities for interaction and group process (a valuable exercise in any implementation process), or because the workshop included many leaders of recent procurement reform initiatives. In any case, it is worth noting that the workshop participants scored two additional proposals as falling in the "easier to implement" quadrant of Figure 2.3: the "best value" proposal and the "aggressive standard-setting and blanket contracts" proposal. As mentioned above, the "best value" proposal received the top-ranking contribution score in the survey; the "aggressive standard-setting" proposal was ranked lower but nonetheless received a quite positive 3.66 contribution score.

Beyond these "easier to implement" proposals, the other proposals present much more substantial implementation challenges. For most, survey and workshop practitioners feel it will be necessary to reduce both confusion (through pilots, planning efforts, etc.) as well as conflicts with various stakeholders (through negotiations and trading, etc.). The general advice for implementation, in dealing with proposals which fall farther north and east on the matrix, is to be increasingly careful. Such carefulness can perhaps best be served by waiting, perhaps by slowing

down to break big projects into smaller pieces, or perhaps even by speeding up to attack the problem with the greatest level of commitment and resources possible.

Conclusions: Emerging Possibilities for Reform

In summary, the relationships between I-T and procurement are seen by the Harvard survey and workshop participants to be simultaneously problematic and ripe for change. The changes requested most often involve making procurements faster and based on calculations of best value rather than least cost, alone. Not surprisingly, procurement officials see the possibilities for reform somewhat differently than do technology managers and general managers. Procurement people give top priority to electronic markets and outsourcing (a good way to improve systems and controls for high volume, commodity-like transactions). Technology and general managers, in contrast, give top priority to best value procurements and to creation for learning and innovation (empowering the front-line to make the judgment calls involved in complex and innovative high technology projects).

Despite these differences, substantial common ground for the technology and procurement communities can be found in initiatives to speed up the overall process, to pursue best value procurements, to expand education and training, and to move towards greater utilization of electronic markets and outsourcing. Both procurement

and technology practitioners rate these proposals as extremely important and also as among the easier ones to implement.

CHAPTER THREE

RECOMMENDATIONS FOR REFORM

About 100 years ago, near the turn of the 20th century, a primary goal of government reformers was to introduce the bureaucratic model of control. This model created centralized budget processes, centralized personnel process, and centralized procurement processes. Within each process, staff functions were established to hold line managers accountable under rules designed to protect the public interest. The rules for procurement, as they evolved over the course of the 20th century, became exceedingly detailed. They were enforced via numerous transactional reviews and protests by disappointed vendors.

Bureaucratic controls on procurement were designed largely to reduce the waste and corruption found in "spoils system" procurements of the late 19th century. They worked reasonably well for a long time, especially for simple commodities in slowly changing markets.

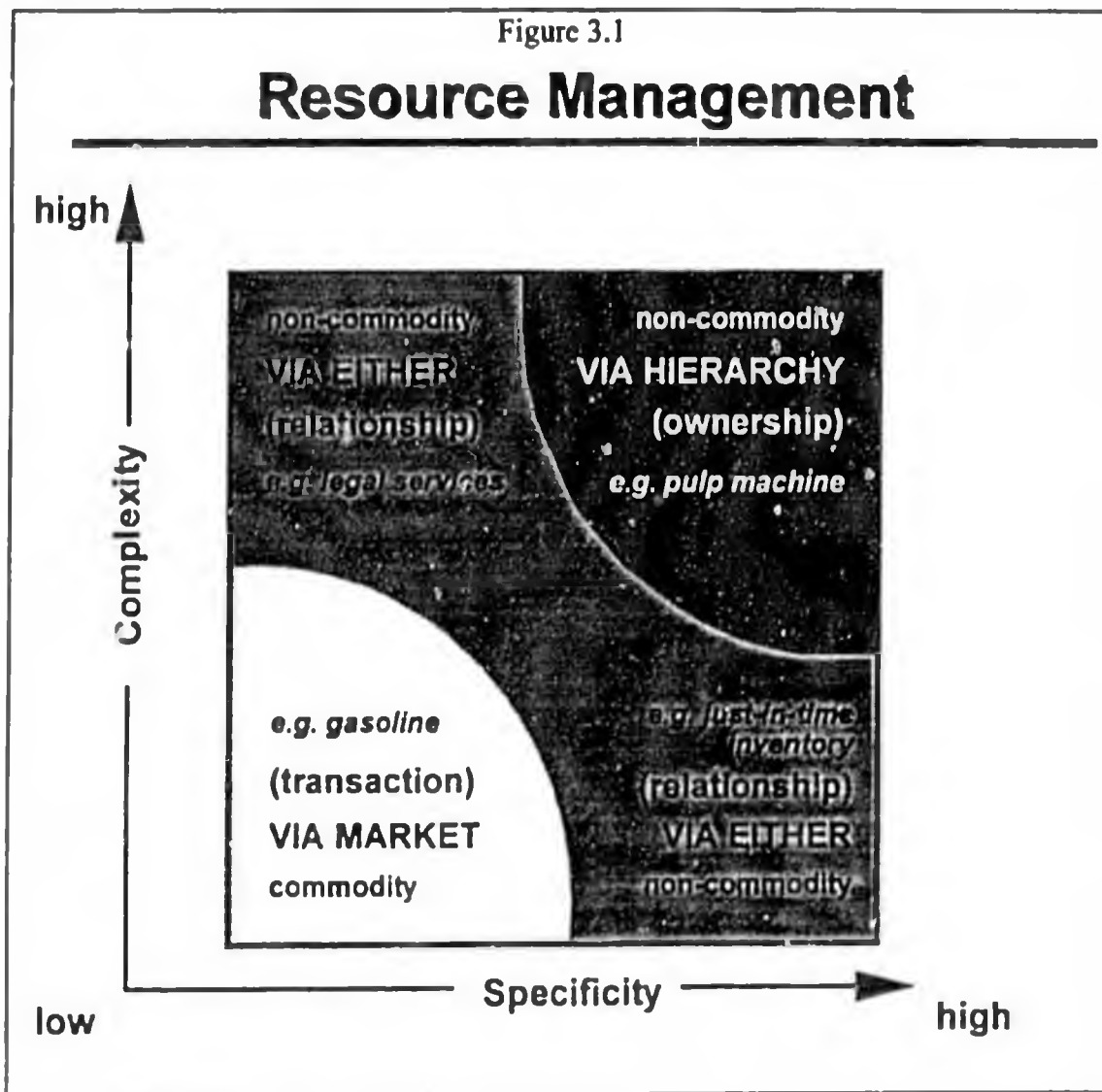
As America enters the 21st century, however, a fundamental organizational problem — for public and private sector organizations alike — is to find a new mix of controls suitable for a world of great complexity and rapid change. The bureaucratic model is under challenge. Based on the research of this study into both the theory and practice of I-T use and procurement in government, this chapter presents our four top-priority recommendations for reform:

1. Distinguish between commodities and non-commodities, then develop different procurement approaches for each.
2. Prepare for electronic markets, especially for commodities.
3. Support discretion and organizational learning, especially for non-commodities such as complex systems development projects.
4. Organize for issues of electronic commerce and innovation as much as for procurement reform *per se*.

RECOMMENDATION 1: Distinguish between commodities and non-commodities.

The first step in reform is to define the problem correctly. Not all aspects of the procurement system function poorly for all types of acquisitions. Policy makers need to distinguish between commodities and non-commodities, then design different procurement approaches for each, at least at the extremes of these definitions.

Useful distinctions for our purposes are identified by the economics of resource management as outlined in Figure 3.1. Resources to be used in a production process can be differentiated by their *complexity* (cost to describe and understand) and by their *specificity* (cost to coordinate at the site where used).



Let us call the low complexity, low specificity cases “commodities.” An example would be gasoline — easy to describe and widely used without much site-specific coordination with other factors of production. Now let’s call the high complexity, high specificity cases “non-commodities.” An example would be a machine to make paper pulp — complex to describe, not useful without tight coordination with other resources such as the water supply, rail and truck transportation, electricity, skilled maintenance and repair personnel, etc. Commodities like gasoline are managed efficiently via near-term transactions from markets. Extreme non-commodities like the pulp machine, however, are best managed through long-term ownership and hierarchical control.

Resources in the mixed cases (complex but not site specific, like legal services, or site specific but not complex, like just-in-time inventory systems) can be managed either through markets or hierarchies. In either of these mixed cases, *management will benefit from ongoing relationships spanning many transactions, since the experience provided by an ongoing relationship improves communication.*

Note in Figure 3.1 that, of the types of resources often procured from markets, only commodities are well-managed by traditional (one at a time) transactions and simple rules. The other categories are “non-commodities” (because of their complexity or need for coordination) and these are the categories handled most poorly

in public procurements. To deal with the problem of non-commodities, procurement systems should be segmented, with new and different procurement approaches explored for non-commodity segments. Note that, with the exception of things which are obviously commodities, the distinction between non-commodities and commodities is continuous and fuzzy, not discrete and clean. Progress can nevertheless be made by focusing attention for reform initially at the ends of the spectrum — i.e., we can make progress by developing different procurement procedures and decision-making for those goods and services that are *most* and *least* commodity-like (but still procured from markets). In today's world, buying everything through traditional and rigidly homogenized procurement systems is a major mistake.

RECOMMENDATION 2: Prepare for electronic markets, especially for commodities.

When we go to purchase commodities, we have typically accumulated enough experience to know very clearly what we want. Thus, for commodity-like purchases, using a procurement process that requires us to publish detailed and binding product and service specifications in advance may generate good results.

For even better results on commodity-like procurements, governments should redesign the procurement process by developing computer networks to more flexibly

and efficiently link buyers and sellers. Historically, face to face markets for grain, stocks, or antiques have provided high interactivity between buyers and sellers but at a very high cost: participation is limited if face to face interaction is required. Recently, however, it has become clear that — once cross-organizational computer networks reach a critical mass of buyers and sellers — electronic trading becomes the most efficient and preferred means of doing business. This has already happened for commodities such as currency, stocks, and airline tickets, where offers can be communicated readily over a computer network. As electronic markets capture business and jobs from less efficient markets, electronic commerce is emerging as an economic development tool for governments. Directly to the point of this study, electronic markets support markedly more efficient procurement — for government as well as others — and should therefore be developed and encouraged.

To prepare for electronic markets, government should:

2.1 Develop infrastructures and experience in selected electronic markets.

Governments need to select target markets, work with other institutions to define standards for electronic data interchange, build networks and databases to interconnect participants, and test new approaches for network-based commerce. If Americans are to gain access to high-paying and satisfying work, our governments need to help us in preparing for global electronic commerce. Initiatives will include

projects like the Oregon V.I.P. project, and the many recent initiatives to commercialize the Internet.

Two projects studied in the Harvard study were the DoD CALS project and the TradeNet project of the Singapore government. (See Example 3.1 below). Electronic commerce will ultimately surround and transform procurement processes as we understand them today. It will expand the scale and efficiency of markets for commodity-like products like paper, gasoline, and standardized computer parts. It will make it easier for government to enter cooperative purchasing arrangements with each other, and to benefit from just-in-time delivery agreements. Electronic communication will also help in non-commodity situations where government needs iterative rounds of discussion with vendors in order to hone in precisely on what should be procured. While such interactivity is extremely time-consuming and costly in today's paper-dominated procurement world, it will be easy to support electronically.

Example 3.1
CALS and TradeNet:
Government Investments in Electronic Commerce

CALS and TradeNet are two instructive examples of government-led initiatives to develop electronic commerce.

CALS (Computer-aided Acquisition and Logistics Support) is a program of the U.S. Department of Defense to establish electronic data interchange (EDI) with weapons contractors. Contracts, procurement documentation, parts designs, and maintenance manuals will be passed back and forth electronically rather than on paper. While Phase I of CALS concentrates on text files and images of existing documents, Phase II will standardize distributed database structures so more powerful processing can readily continue on either side of the transmission — e.g., so CAD drawings can be rotated and analyzed at the receiving computer, not just viewed as a static diagram.

CALS will greatly reduce the data entry mistakes and delays involved in contract administration. More important, however, will be its role in: making contract information accessible (so secondary vendors can get detailed designs needed to bid re-supply orders); avoiding overload (reducing a 14 foot stack of manuals for tank repair to a single and well-indexed CD-ROM); and improving the weapons design process (through “concurrent engineering” so downstream steps like manufacturing engineering can be readily consulted before upstream product engineering mistakes are “locked in”).

Early studies suggest that CALS could save as much as 30% on the life-cycle costs of weapons systems. It is a huge initiative, however, and it is too early to judge its ultimate success.

In contrast, TradeNet in Singapore offers a more mature set of electronic commerce initiatives. TradeNet is designed to process all trading information — customs clearance, taxation, insurance, bills of lading, etc. With other ports in southeast Asia offering new competition, Singapore built TradeNet to make it more efficient to do business in Singapore than in other ports, thus preserving its preeminence as a cargo switching port.

Under strong government-led leadership, Singapore has beaten ports like Hong Kong and New York to the punch on EDI. TradeNet has reduced, for example, the turn-around time for ships from as many as ten days to two. Since boats make money while at sea, not in the harbor, this is a competitive advantage for Singapore.¹²

2.2 Develop electronic procurement aids. Computer-assisted procurement

tools are needed as early steps in the push for electronic commerce. Their

development will require experimentation with expert systems, hypertext databases, and indexed access to databases of RFP's, winning proposals, protest appeals and judgments, product pricing and reviews, etc. Making such information readily available to general managers (without overwhelming them) should give program managers greater influence over procurement results. It should encourage them to adhere to good procurement practices. Building such computer-assisted tools may take several years, but promises a high return on the investment. Recent projects to simplify and publish the Federal Acquisition Regulations (the FAR) and the Federal Information Resource Management Regulations (the FIRMR) on CD-ROM are steps in the right direction.

2.3 Experiment with post-audit controls. Experiments with electronic commerce should explore the use of controls based on post audits rather than time-consuming prior approvals. Steps to simplify or eliminate sign-offs might be experimented with in conjunction with the implementation of electronic procurement aids, since the detailed record-keeping needed for post-audits is more readily maintained in a computer-based environment.

RECOMMENDATION 3: Support discretion and organizational learning, especially for non-commodities.

To make significant progress in procuring complex and innovative goods and services, we need to expand the discretion given to front-line managers, and encourage them to be in much better communication with vendors.

It is easy to understand why discretion is needed to discriminate among the suppliers of complex goods and services. Complexity, by definition, means that simple rules cannot capture all the contingencies involved. But if the rules that govern a situation are complex (or ambiguous) instead of simple, their application will require good information about the specific situation at hand as well as good judgment (which is typically gained over time by dealing with many different situations). Rules and guidelines are helpful, but rules alone are not self-implementing, nor can they be applied effectively by those cut off from sources of needed information. In complex situations, good control often requires empowering the front-line to make judgment calls based on their better access to hard-to-capture local information, while simultaneously supporting them with training and information about the needs of the larger organization, and with incentives to maximize global rather than local interests. A similar logic applies to managing in the face of site-specific complexity — e.g., in settings such as just-in-time delivery

systems. Here front-line discretion is again valuable, as is the long-term development of shared knowledge and better communications between a customer and supplier.

Greater front-line discretion is becoming important for a broad range of government procurements. For the first steps of procurement reform, however, we recommend focusing on extreme non-commodities, where the case for discretion is strongest. In rough priority order we recommend the following:

3.1 Greatly expand procurement discretion, not for all procurements, but for a subset related to a defined and limited set of organizational innovations. This would be a significant procurement reform, but its main thrust is to make it easier for governments to engage in research and development (a small portion of government procurement activity). We believe that developing a separate and innovations-oriented procurement system offers many long-term benefits at small cost and limited amounts of risk.

An early step would be to designate subjects (e.g., certain advanced technologies such as voice recognition, or certain learning domains such as managing a dispersed workforce) as strategic priorities. Procurements related to investments in these subjects could then have access to a highly simplified vendor selection and contracting process which would give substantial discretion to local program and procurement managers. Vendor selection rules might be as simple as requiring that

the decision be made by a group and justified in writing. This innovations-oriented procurement process might be limited to some small fraction of agency procurement volumes, say 5 percent. This is essentially the approach described in a Harvard case study on "Computer Procurement in Albuquerque." (See Example 3.2 below.) It is also like the "advanced technology" procurement process in California and elsewhere, and much like the procurement approach of R&D agencies like the DoD's Advanced Research Projects Agency, the agency that created what has become the Internet.

Example 3.2
Computer Procurement in Albuquerque

The Albuquerque case, a teaching case used at the Harvard workshop, provides an example of a jurisdiction that gives more procurement power and discretion to front-line managers than is typical in American governments.

Department heads in Albuquerque can buy almost all the hardware and software they need without a competitive procurement if they get the prices quoted on the U.S. General Services Administration multiple vendor price list, or on a similar list produced by the New Mexico state government. When they do go the fully competitive procurement route, they give heavy weight to past vendor performance as measured by the vendor selection team (which is not forced to work under complex rules designed to ensure absolute objectivity). Albuquerque vendor selection teams are allowed, if they need to, to justify their selection on the basis of "other factors" which may be learned during the evaluation but were not stated in the original specification of needs. Further, Albuquerque allows "innovative" applications to opt out of the fully competitive process so that agencies can quickly gain experience with new applications (such as the use of fax machines in police cars).

The Albuquerque approach was constructively controversial at the Harvard workshop. While some felt it was overly "loose," others admired its encouragement of vendor responsiveness and government innovation.

3.2 Increase the use of best value procurements and the weight given to past vendor performance. The goal of a procurement is to obtain that product or service which offers the best net value, not necessarily the least cost. A least cost bid is only best value when all bids are equal in their non-cost elements (or at least close enough to equal that their cost differences determine the best overall value). The least cost procurement process thus seeks to make the value elements of bids equal. It does this by assuming or mandating that the requirements specified in a request for proposals are all-or-nothing generators of value — i.e., that there is no additional value created by a bid that exceeds a requirement, and therefore all bids that meet the minimum requirements are equal in terms of the non-cost elements of the bid. In such situations, least cost is the same as best value, and focuses the evaluation on the relatively “objective” cost elements rather than the more “subjective” value elements.

The least cost approach works reasonably well for commodities, but poorly for goods and services where the value can't be specified as minimum requirements. Recognizing this, both the procurement community and the I-T community support recent initiatives to expand the use of best value procurements. In some cases this will require (or at least benefit from) new legislation. In other cases, executive leadership and training is all that is needed for the shift in emphasis to occur.

As part of the best value approach, agencies could be encouraged to give more weight to past vendor performance. Agencies should be allowed to judge such performance flexibly. They should not be restricted to marginally relevant data such as "response time to service requests." Vendors need stronger incentives to build responsive long-term relationships with government, and serious weight to past performance would provide such an incentive. A number of state and local governments allow this sort of discretion with good results, and the federal government is now trying to implement a similar approach.

3.3 Develop procurement guidelines to support evolutionary systems development methodologies. Evolutionary development is an approach which shifts software development from a "grand design" philosophy (design it all, then build it all) to an "iterative" philosophy (design and build some, use and test some, design and build some more, etc.). Evolutionary approaches tend to be more expensive up-front (coding and user involvement come earlier), but arguably far less expensive over the full life cycle (no "grand design" fiascoes such as have happened an embarrassing number of times with huge computer procurements). To encourage evolutionary development, new procurement approaches are needed to make it easier to gain approval for projects developed under an evolutionary plan, and to move from one phase of an evolutionary project to the next. In a similar fashion, maintaining links

between a government's planning, budgeting, and procurement procedures is needed so that agencies with good I-T planning are rewarded with easier approvals during the budgeting and procurement phases of their projects.

Network-based computer services such as electronic mail and conferencing can be used to support heavy back and forth communications between agencies and suppliers. This interactivity should greatly improve the ability of governments to learn about the markets they deal with and to specify what they really need in procurements. Evolutionary methodologies and computer networks can thus work together to support the extremely iterative processes needed to clarify uncertainty in complex and novel settings.

3.4 Develop and support the staff and skills needed for complex and innovations-oriented I-T procurements. For many governments, this will require classification and pay scale adjustments along with a major expansion of education and training activities, and performance evaluations. Governments will also need access to skilled professionals who may be difficult to attract to government salaries and working conditions. These people might be more easily recruited to non-profit institutions that could be given the mission to assist with I-T experimentation and major computer systems acquisitions. For the practitioners involved in this research project, education is a bedrock issue: useful in almost all government settings,

becoming available in small investment increments (such as CD-ROM-based training courses), and absolutely essential to long-range success.

3.5 Experiment more broadly with greatly simplified procurement procedures. While experiments with greater front-line discretion within very innovative procurement projects can provide an important and relatively safe arena for reform, experiments with greater discretion are also needed in the much higher-volume arena of commodity-like procurements. The growing use of credit cards for government procurement is a sensible step in this direction. So are recent experiments with oral proposals, and with the Canadian concept of "down-selecting." In down-selecting, the government chooses a potential partner from many vendors based on responses to an early, general problem statement and the capabilities of the vendor, followed by much more detailed, two-way communication to define and negotiate the detailed specifications of the particular acquisition. Both the oral proposal and "down-selecting" approaches save time and money for both the government and the vendors. Procurement systems today go too far in trying to be fair to all potential vendors; as a result, they are often not fair to taxpayers.

RECOMMENDATION 4: Organize around issues of electronic commerce and innovation as much as procurement *per se*.

In today's changing political and economic environment, it may be best to combine procurement reform with other initiatives. What we recommend here is not traditional procurement controls to reduce favoritism, but a series of interrelated initiatives to speed electronic commerce and productivity-oriented governmental innovation and — as an additional but less emphasized theme — to reform the traditional procurement process. This is a flanking maneuver. The main effort is on the key but relatively undefended flanks of the problem (electronic commerce and government innovation) where the procurement and I-T communities are largely in agreement on what to do. The lesser effort is a head-on attack on procurement reform (where the procurement and I-T communities are somewhat more conflicted about the balance between program vs. procurement control of results).

Electronic commerce and government innovation are bigger issues to organize around than procurement, *per se*, and are likely to mobilize a broader range of internal and external supporters. Electronic commerce is strongly supported by the procurement community. Innovation in government — through reengineering or reinvention — has become the major theme of the National Performance Review and many state-level initiatives, and its core concept of empowering the front-line with information technologies can be brought to bear on procurement reform as well. For

the reforms we propose here to have the best chance to succeed, public leaders should work creatively to build support for broadly based and interrelated efforts in the areas of electronic commerce, innovation, and procurement reform. The greatest challenge will be to build understanding and support among political leaders who must pass judgment on these initiatives as worthy investments for a more efficient government.

In Summary: I-T and Procurement As Strategic Issues

In many organizations, I-T and procurement are emerging as central elements of strategy and operations. Just-in-time logistics are leading to closely and electronically linked organizations. I-T is being used innovatively to create organizations which are flatter, faster, and friendlier in their responsiveness to outside clients. Complexity is requiring the core organization to develop much broader and higher levels of expertise, or to build partnerships with external experts in consulting-style relationships. Resource allocation is depending more on markets and near-market styles of coordination. Outsourcing is becoming more important even in government, where, for example, human services programs are run by contractors, as are elements of health care and education.

The improvements proposed here — see table 3.1 below — would make a visible difference to commercial citizens and taxpayers alike. Conversely, if governments fall too far behind in electronic commerce, in productivity innovations

that gain efficiencies, and in speeding up the procurement process to gain better value procurements, we face the threat of a continuing erosion of governmental legitimacy. Over the next decade, we expect that electronic commerce will grow so much that it will surround and transform from the outside much of the world we now call procurement. We also believe that, again from the perspective of a decade or so into the future, the value from today's I-T applications will not have been created so much by the automation applications (representing the huge preponderance of today's I-T budgets), but rather by the innovations-oriented applications (representing a small portion of today's I-T budgets).

Largely because of the high leverage possible from successful electronic commerce and government reengineering — both of which are relatively ignored in typical debates about procurement reform — we are optimistic about the possibilities for the future. We can do a lot with a little, and we should get on with doing it.

Table 3.1
RECOMMENDATIONS

- 1. Distinguish between commodities and non-commodities, then develop different approaches for each, at least at the extremes.**
- 2. Prepare for electronic markets, especially for commodities.**
 - Develop infrastructures and experience in selected electronic markets, much like the Oregon V.I.P. program and federal electronic commerce initiatives.
 - Develop electronic procurement aids.
 - Experiment with post-audit controls.
- 3. Support discretion and organizational learning, especially for non-commodities.**
 - Expand procurement discretion for a limited set of organizational innovations, much like California's advanced technology procurement process and the procurement flexibility given to the federal Advanced Research Projects Agency.
 - Increase the use of best value procurements and give increased weight given to past vendor performance.
 - Develop procurement guidelines to support evolutionary systems development methodologies.
 - Develop and support the staff and skills needed for complex and innovations-oriented I-T procurements.
 - Experiment more broadly with greatly simplified procurement procedures.
- 4. Organize around issues of electronic commerce and innovation as much as procurement *per se*, as these more outward-looking initiatives are likely to be more effective in mobilizing supporters.**

END NOTES

¹U.S. Bureau of the Census, Statistical Abstract of the U.S.: 1994, 114th edition, Washington, DC: 1994.

²*Creating a Government that Works Better & Costs Less: Reengineering Through Information Technology*. National Performance Review, Office of the Vice President, Washington, DC: September, 1993. Measurements of procurement and technology spending are only approximate, due to ambiguities in source data.

³NASPO and NASIRE formed a joint working group on I-T Procurement reform in 1994 and invited Harvard to partner with them in search of common solutions. See the Appendices for members of the NASPO/NASIRE advisory group.

⁴A mid-March, 1995 national survey conducted for The Council for Excellence in Government (202-728-0418) by the Peter Hart and Robert Teeter organizations measured the American people's attitudes about their governments. The Hart/Teeter job approval ratings for each level of government were consistently half as favorable as the ratings offered by the respondents to the Harvard survey on IT and Procurement: for the federal government, Hart/Teeter was 15% favorable v. Harvard's 31%; for state government, Hart/Teeter was 23% v. Harvard's 55%; for local government, Hart/Teeter was 31% v. Harvard's 57% favorable rating.

⁵The State of New Mexico has practiced value-based procurements for the past ten years, including I-T hardware, software, and services; the State of Vermont allows best value procurements if justified and documented. See also California Franchise Tax Board procurement methods and the State of Michigan's Purchasing Reform Task Force report.

⁶Several survey respondents observed that states have failed to address the budgetary needs for better education. Federal agencies were more often cited as addressing this need.

⁷When the Commonwealth of Massachusetts launched its multi-agency EDI system in October, 1994, officials were surprised to find that very few private trading partners were technologically prepared to take advantage of the state's initiative. Massachusetts plans to have its 16⁺ agencies on the EDI system in the near future.

⁸Most initiatives are in their pilot stages. The states of Oregon, Texas, Massachusetts, and Florida have ventured in this direction. The State of California has mandated EDI for all local government. The federal government's Electronic Commerce Acquisition Project Management Office (ECAPMO) has been tasked to guide the implementation of electronic commerce at the federal level. The Department of Energy is one example of recent initiatives, while the Defense Personnel Support Center (DPSC) in Philadelphia designed and developed electronic commerce based on best commercial practices several years ago.

⁹The State of Florida's Department of Revenue experienced many problems with its version of a grand design, the FLORIDA system.

¹⁰To combat such problems, the Colorado State Senate has considered a bill (95-13) which relates to a phased approach for large I-T projects. At each phase, an independent analysis can be performed, if deemed necessary, to determine if the project is on-track and to decide whether to go forward, or discontinue the project.

¹¹Numerous other states and agencies have programs in this area including: the New York State Department of Public Service; the State of Washington's Department of Information Services; the State of New Mexico; the State of North Carolina initiatives with its information highway; and the New York City Procurement Policy Board's new rules on innovative, pilot projects.

¹²The Port of Seattle, Washington has recently followed the initiative of Singapore in attempting to establish an economic development advantage through a system similar to TradeNet.

APPENDIX A

RECOMMENDED READINGS

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APPENDIX B

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APPENDIX C

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SB

280

CS SB 280 Fiscal Notes

Department	Division	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
(Thousands of Dollars)							
Administration		0.0	0.0	0.0	0.0	0.0	0.0
Commerce & Economic Dev.		0.0	0.0	0.0	0.0	0.0	0.0
	Organizational Grants	0.0	0.0	900.0	1,800.0	2,600.0	3,200.0
Community & Reg'l Affairs	State Assessor	63.5	70.7	79.2	79.5	77.4	78.4
	Local Boundary Comm.	15.6	31.2	31.2	41.6	0.0	0.0
Corrections		0.0	0.0	0.0	0.0	0.0	0.0
Education	K-12	0.0	0.0	0.0	0.0	2,530.7	41.2
Environmental Conservation							
Fish & Game							
Health & Social Services		0.0	0.0	0.0	0.0	0.0	0.0
Labor		0.0	0.0	0.0	0.0	0.0	0.0
Law	Civil Division	0.0	177.5	171.0	171.0	171.0	0.0
Military & Veterans Affairs							
Natural Resources	Resource Development	0.0	0.0	127.0	127.0	247.0	247.0
Public Safety	DPS Statewide Support	0.0	0.0	0.0	0.0	0.0	0.0
Revenue		0.0	0.0	0.0	0.0	0.0	0.0
Transportation & Public Fac.	Engineering Operations	0.0	0.0	0.0	0.0	0.0	0.0
Elections	Elective Operations	25.4	25.2	64.5	19.8		
TOTAL FISCAL NOTES RECEIVED		104.5	304.6	1,372.9	2,238.9	5,626.1	3,566.6
Cumulative		104.5	409.1	1,782.0	4,020.9	9,647.0	13,213.6

FISCAL NOTE

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SESSION

6 Dept. Affected: DOT&PF
 Act relating to the mandatory incorporation of unorganized borough.* BRU: Engineering & Operations
 Ferguson, Green, Phillips Component: Engineering & Operations
 RA, STA COMPONENT SERIAL NO. #547

Revenues (Thousands of Dollars)

REVENUES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
FEES						
CONTRIBUTIONS						
GRANTS						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0
EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
NET REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

EXPENDITURES (Thousands of Dollars)

EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
General Receipts						
Match						
Program Receipts						
MHTA						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimated of any current year (FY96) cost: \$ 0.0

POSITIONS

POSITIONS	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)
 No anticipated department cost associated with this legislation.

Prepared by: Loren Rasmussen, P.E., Acting Director Phone: 465-2960
 Division: Engineering and Operations Date: 3/7/96
Joseph L. Perkins Date: 3/7/96
 Joseph L. Perkins, Commissioner
 Department of Transportation and Public Facilities

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1996 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: Public Safety
 Title: Mandatory Incorporation of Certain Boroughs DPS Statewide Support
 Component: Commissioner's Office
 Sponsor: Senator Torgerson
 Requestor: S CRA COMPONENT SERIAL NO. 0523

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL EXPENDITURES	-0-	-0-	-0-	-0-	-0-	-0-
CHANGE IN REVENUES ()	-0-	-0-	-0-	-0-	-0-	-0-
Code Revenue						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY 96) impact: \$ _____

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS (Attach a separate page if necessary)
 No noticeable fiscal impact is anticipated to the Department of Public Safety at this time

Prepared By: Sandy Perry-Provost, Special Assistant to the Commissioner Phone: 465-4322
 Division: Commissioner's Office Date: March 5, 1996
 Approved by Commissioner: Ronald L. Otte Date: 3/5/96
 Agency: Ronald L. Otte, Dept. of Public Safety

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FISCAL NOTE

no. 8
 Bill Version: CSSB 280 (CRA)
 (S) Publish Date: 3-14-96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

BI

Revision Date: Original Dept Affected: Natural Resources
 Title: An Act relating to the mandatory BRU: Resource Development
incorporation of certain boroughs in the unorganized borough Component: Land Development
 Sponsor: Senator(s) Torgerson, Green, Phillips ...
 Requestor: Senate CRA Component Serial No. 431

Expenditures/Revenues (Thousands of Dollars)

	FY97	FY98	FY99	FY00	FY01	FY02
OPERATING EXPENDITURES						
PERSONAL SERVICES			110.0	110.0	220.0	220.0
TRAVEL			5.0	5.0	5.0	5.0
CONTRACTUAL			10.0	10.0	20.0	20.0
SUPPLIES			2.0	2.0	2.0	2.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	127.0	127.0	247.0	247.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF			127.0	127.0	247.0	247.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	127.0	127.0	247.0	247.0

Estimate of any current year (FY96) cost: \$ None

POSITIONS

FULL-TIME	0	0	2	2	4	4
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Currently there are about 45,000,000 acres of state land located outside of existing municipalities. If boroughs are formed about 4,500,000 acres of this land must be conveyed to effected municipalities.

Current law, AS 29.65, requires us to certify the municipalities land entitlement within 2 1/2 years of incorporation. The municipality then has one year to select the land and the state is required to convey the land within nine months of selection.

This fiscal note estimates the cost to implement this process.

Prepared by: Jane Angvik, Director Phone: 269-8503
 Division: Land Date: 6-Mar-96
 Approved by Commissioner: [Signature] Date: 6-Mar-96
 Agency: Natural Resources

FISCAL NOTE

to. 7
 Bill Version: CS SB 28D(CRA)
 (S) Publish Date: 3-14-96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: Department of Law
 Title: "An Act relating to the mandatory incorporation of BRU: Civil Division
certain boroughs in the unorganized borough." Component: General Legal Services
 Sponsor: Senator Torgerson
 Requester: Senate C&RA Committee COMPONENT SERIAL NO. 2087

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES		115.2	115.2	115.2	115.2	
TRAVEL		7.8	7.8	7.8	7.8	
CONTRACTUAL		43.7	43.7	43.7	43.7	
SUPPLIES		3.3	3.3	3.3	3.3	
EQUIPMENT		7.5	1.0	1.0	1.0	
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	177.5	171.0	171.0	171.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
1002 Federal Receipts						
1003 GF Match						
1004 GF		177.5	171.0	171.0	171.0	
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	177.5	171.0	171.0	171.0	0.0

Estimate of any current year (FY96) cost: \$ 0.0

POSITIONS

POSITIONS	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
FULL-TIME	0.0	1.0	1.0	1.0	1.0	0.0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This bill will require the Department of Community and Regional Affairs to prepare a second class borough incorporation proposal for each of the model boroughs identified for formation in the report issued in 1995 by the Local Boundary Commission entitled "Model Borough Boundaries." The bill has the effect of including most of the unorganized borough within the boundaries of a borough, with the exception that the few areas not organized under the bill will be annexed to existing municipalities. Thus, 18 new boroughs would be established, and areas of 5 existing boroughs would be expanded. These changes would take place over a four year period, beginning in FY98, based on a sliding scale of the estimated full and true value of taxable property in the areas to be incorporated.

The Department of Law believes that the mandatory incorporation of the unorganized borough into a large number of second class boroughs will result in considerable litigation involving lawsuits from opponents residing in several areas of the unorganized borough. The department therefore believes that it will be necessary to add

Prepared by: Richard I. Peques, Director Phone: 465-3672
 Division: Administrative Services Division Date: 3/5/96
 Approved by Commissioner: Bruce M. Botelho, Attorney General Date: 3/5/96
 Agency: Department of Law

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Work Draft 2/28/96
BILL NO. CSSB 280 (C&RA)

ANALYSIS CONTINUATION:

a full-time attorney, and provide for out-of-pocket trial costs, to defend the bill if it is enacted. These costs will begin in FY98 and continue for three or four years thereafter, until all of the litigation is resolved.

The fiscal impact analysis is based on 1,500 project hours of Attorney IV (journey level) services annually. Project hours are those hours that are attributable to a specific work assignment, and they do not include the time lost to leave, training, supervision, or other duties and activities that are not specific as to a particular legal matter. Project specific costs include the weighted overhead cost of clerical support, space, communications, supplies, and law library. Additionally, \$7,500 for case travel and \$30,000 for experts and depositions will also be required annually.

03/05/96

15:52:51.3

PERSONAL SERVICES EXPENDITURES NEW POSITION DETAIL REPORT

PAGE: 11

DEPARTMENT OF LAW
SCENARIO: 1
COMPONENT #: 9701010101 NAME: GENERAL LEGAL SERVICES (GF)

DRU NAME: CIVIL DIVISION

PCN	UNAUTH PCN	JOB CLASS TITLE	T S	LOCATION NAME	R B C U	S	R&S BUDG	MOS	SALARY	PRER PAY	DERES	PER.SERV. COSTS	G. F. AMOUNT
037040		ATTORNEY IV	F	JUNEAU	A	XF	AA	24A	12	61923	0	20100	82023.52

**** JUSTIFICATION:

This attorney position will be needed to defend SB280 which mandates the incorporation of unorganized borough into 18 new second class boroughs and the expansion of 5 existing boroughs. Challenges will probably be based both on the basis of the constitutionality of the mandate and on the actual boundaries and other fact-based situations involved in the establishment of individual boroughs. Because of the importance of these issues, Journey-level Attorney IV services will be required. Non-personal services include \$7,500 in travel and \$30,000 for depositions and experts. The remainder of the non-personal services is in accordance with the civil division's approved cost allocation/billing rate plan. Additionally, \$33.2 in personal services costs over and above the amount shown in this report is included in the fiscal note to pay clerical pool support costs.

TRAVEL COSTS	7000.00	
CONTRACTUAL COSTS	43700.00	
SUPPLIES COSTS	3300.00	
EQUIPMENT COSTS	7500.00	
OTHER COSTS	0.00	
TOTAL COSTS	144323.52	82023.52

*** FUNDING DETAIL:

1004 GENERAL FUND RECEIPTS	82023.52
TOTAL FUNDING	82023.52

**** COMPONENT TOTALS:

FULL TIME NEW POSITIONS	1	TOTAL PERSONAL SERVICES	82023.52
PART TIME/SEASONAL NEW POSITIONS	0		
NON PERMANENT NEW POSITIONS	0	TOTAL COSTS INC. ASSOC COSTS	144323.52
OTHER.....	0		

NUMBER OF NEW POSITIONS IN COMPONENT: 1

FUNDING DATA: G.F. & G.F. MATCH:	82023.52
OTHER FUNDS:	0.00
TOTAL FUNDING:	82023.52

303

FISCAL NOTE

Bill Version: CSSB 280(CRA)
 (S) Publish Date: 3-14-96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

Revision Date: February 28, 1996
 Title: "An Act relating to the mandatory incorporation of certain boroughs in the unorganized borough."
 Sponsor: Senator Torgerson
 Requester: Senator Torgerson

Department Affected: Education
 BRU: K-12 Support
 Component: Foundation Program

COMPONENT SERIAL NO. 141

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	2,530.7	41.2
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL EXPENDITURES	-0-	-0-	-0-	-0-	2,530.7	41.2
CHANGE IN REVENUES						

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	-0-	-0-	-0-	-0-	2,530.7	41.2
1005 GF/Program Receipts						
1006 GF/MHTA						
Other						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY96) impact: \$ -0-

ANALYSIS (Attach a separate page if necessary) See Attached.

Prepared by: Eddy Jeans Phone: 465-8685
 Division: School Finance Date: 3-12-1996
 Approved by Commissioner: [Signature] Richard S. Cross
 Agency: Education Date: 3-12-1996

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Fiscal Note CSSB280

AS 29.05.130 allows a newly incorporated municipality to integrate service areas within two years after date of incorporation. Regional education attendance areas are included as service areas according to AS 29.03.020. AS 14.17.025(f) allows the phasing-in of local contributions to schools over a four year period after the newly formed borough operates schools. The phase-in provisions are as follows: the first year is zero, the second year is the equivalent of 2 mills, the third year is the equivalent of 3 mills and fourth year is the equivalent of 4 mills. Currently, home rule and first class cities in the unorganized boroughs are required to contribute to schools the equivalent of a four mill tax levy. When a first class city is incorporated into a borough, the city's local share to schools is subsidized with state general fund during the phase-in provisions of AS 14.17.025(f). Based on the schedule of borough incorporation outlined in section 2 of CSSB280 and the phase-in provisions of AS 29.05.130 and AS 14.17.025(f), all boroughs will be subject to the 4 mill required local effort of AS 14.17.025 by fiscal year 2007.

Following is the potential increase in required local effort when all boroughs are fully phased-in and contributing at the 4 mill requirement.

	4 Mill Equivalent	
Existing 1994 Full Values utilized in foundation formula excluding North Slope, Unalaska and Valdez. /1	\$27,658,929,310	\$110,635,717
Proposed 1994 Full Values utilized in foundation formula excluding North Slope, Aleutians West (Unalaska area) and Prince William Sound (Valdez area).	\$30,694,380,530	<u>\$122,777,522</u>
	Difference	\$12,141,805

/1 - North Slope, Unalaska and Valdez full values have been excluded because their required local effort under the foundation program is 35% of basic need of the preceding year.

	A	B	C	D	E	F	G
1	CSSB280 Fiscal Note						
2							
3							
4							
5	Incorporation						
6	Date	FY98	FY99	FY00	FY01	FY02	
7							
8	7/1/98	C & RA	C & RA	ED	2,530.70	(2,460.60)	
9						(4,991.30)	2 mill Eq
10							
11							
12	7/1/99	N/A	C & RA	C & RA	ED	2,501.80	
13							
14				Total	2,530.70	41.20	
15							
16	KEY						
17	C & RA = AS 29.05.130, Integration of special districts and service areas - within two years after date of incorporation						
18	ED = AS 14.17.025, Local Contributions - four year phase in of required local effort, after borough operates schools.						
19	First year is zero, second year equivalent of 2 mills, third year equivalent of 3 mills and fourth year equivalent of 4 mills						
20							
21							
22							
23							
24							4 Mill Equivalent
25	Existing FY1994 Full Values utilized in foundation formula excluding North Slope, Unalaska and Valdez				\$27,658,929,310	\$110,635,717	
26	Proposed FY1994 Full Values utilized in foundation formula excluding North Slope, Aleutians West and Prince William Sound				\$30,694,380,530	\$122,777,522	
27					Increases in required local effort by the year 2007	\$12,141,80.	
28							

To: Eddy Jeans, Department of Education (by fax: 463-5279) [telephone 465-8685]

From: Dan Bockhorst (fax: 269-4539) [telephone 269-4559]

Date: March 5, 1996

Subject: CSSB 280 (C&RA)

For purposes of preparing its fiscal note for the subject legislation, DCRA will assume that incorporation of new boroughs and annexation to existing boroughs and unified municipalities will take effect according to the following schedule:

July 1, 1998

1. Incorporation of Prince William Sound Borough (Chugach REAA, Cordova and Valdez)
2. Incorporation of Copper River Basin Borough (Copper River REAA)
3. Incorporation of Upper Tanana Basin Borough (Alaska Gateway and Delta Greely REAAs)

July 1, 1999

1. Incorporation of Yukon Koyukuk Borough (Yukon Koyukuk REAA, Galena; excludes Nenana)
2. Annexation of Nenana to the Denali Borough
3. Incorporation of Yukon Flats Borough (Yukon Flats REAA, excluding Livengood, Central and Circle Hot Springs)
4. Annexation of Livengood, Central and Circle Hot Springs to the Fairbanks North Star Borough
5. Incorporation of Aleutians-West Borough (Aleutian Region REAA, Unalaska) [note: this would combine two model borough regions into one which appears warranted due to closure of Adak Naval Air Station]
6. Incorporation of Wrangell/Petersburg Borough (Wrangell, Petersburg, Kupreanof) [note: It is possible, indeed likely that DCRA would recommend that Wrangell and Petersburg be allowed to form separate boroughs]

July 1, 2000

1. Incorporation of Lower Kuskokwim Borough (Lower Kuskokwim REAA, Yupiit REAA)
2. Incorporation of Bering Straits Borough (Bering Straits REAA, Nome)
3. Incorporation of Southwest Region Borough (Southwest Region REAA, Dillingham)
4. Incorporation of Prince of Wales Island Borough (portion of Southeast Islands REAA - all of Prince of Wales Island, including Hydaburg, Craig and Klawock, the southern end of Baranof Island including Port Alexander and the southern end of Kuiu Island)
5. Annexation of Hyder and Meyers Chuck to the Ketchikan Gateway Borough

Page 2

- 6. Incorporation of Lower Yukon Borough (Lower Yukon REAA, Kashunamiut REAA, St. Mary's)

July 1, 2001

- 1. Incorporation of Pribilof Islands Borough (Pribilof Islands REAA)
- 2. Incorporation of Glacier Bay Borough (portion of Chatham REAA encompassing Gustavus, Elfin Cove, Freshwater Bay, Game Creek, Whitestone Logging Camp and Tenakee Springs; Hoonah, Pelican)
- 3. Incorporation of Chatham Borough (Rowan Bay, Cube Cove, Kake, Angoon)
- 4. Annexation of Skagway and Klukwan to the Haines Borough (note: DCRA may support formation of a separate borough for Skagway)
- 5. Annexation of Hobart Bay to the City and Borough of Juneau
- 6. Incorporation of Kuspuk Borough (Kuspuk REAA)
- 7. Incorporation of Iditarod Borough (Iditarod REAA)
- 8. Incorporation of Annette Islands Borough (Annette Islands REAA)

575

FISCAL NOTE

5
Bill Version: CS SB 280 (CRA)
(S) Publish Date: 3-14-96

Revision Date: March 12, 1996 Dept Affected: Community & Regional Affairs
Title: An Act relating to the mandatory incorporation of certain boroughs in the unorganized borou BRU: _____
Sponsor: Sen Torgerson Component: _____
Requestor: Senate CRA COMPONENT SERIAL NO. _____

Expenditures/Revenues (Thousands of Dollars)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS			900.0	1,800.0	2,600.0	3,200.0
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0	900.0	1,800.0	2,600.0	3,200.0

REVENUE FUND SOURCE: _____

FUNDING (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF			900.0	1,800.0	2,600.0	3,200.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	900.0	1,800.0	2,600.0	3,200.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY94) impact \$ none

ANALYSIS: (Attach a separate page if necessary)

Organizational Grants

The requirement for organizational grants is discussed in Attachment 1 under the heading "Organizational Grants". Recent organizational grants have been budgeted under the Capital Budget:

Prepared by: Remond Henderson, Director Phone: 465-4708
 Division: Division of Administrative Services Date: 3/12/96
 Approved by: Commissioner Date: 3/12/96
 Agency: Community & Regional Affairs

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Attachment I: Fiscal Note Analysis for CSSb200

This bill provides for the mandatory incorporation of the unorganized borough into a number of new boroughs as well as the expansion of several existing boroughs and unified municipalities. The incorporation process would occur on a phased basis over four years, based on the criteria of the estimated assessed value of the areas to be incorporated. This significant undertaking would involve substantial use of DCRA staff resources, including the staff to the Local Boundary Commission, the Office of the State Assessor, and numerous local government program and technical assistance staff who would be working on an ongoing basis with area residents and other agencies to facilitate the transition to municipally incorporated status.

While this proposal places substantial new demands on the department, we believe that much of the effort can be performed by existing staff and resources. The incremental expenditures presented in this fiscal note reflect those demands that cannot be met by existing staffing and resources. With regard to this department, there are basically three areas of fiscal impact that need to be addressed: Local Boundary Commission support, State Assessor support, and the municipal organizational grants as required by statute.

Local Boundary Commission

DCRA assumes there will be a total of 23 incorporation and annexation petitions developed under this bill. A contractor would be used to prepare the petitions at the cost of \$5,200 for each petition. DCRA will perform all other functions required by law relating to the processing of the petitions utilizing existing resources. These other requirements include publication of notice of filing of the petitions, analysis of the petitions, publication of draft and final reports concerning petitions, conducting public informational meetings concerning the proposed boroughs, publishing notice of the hearings of the Local Boundary Commission (LBC), hearings of the LBC, decisional meetings of the LBC, preparation of decisional statements, opportunity for reconsideration by the LBC, and implementation of the decisions of the LBC including coordination with the Division of Elections, preparation of the federal Voting Rights Act preclearance submissions and filing of legislative review proposals for annexation.

The contractual expenses would occur as follows:

FY 1997 - 3 petitions at \$5,200 each =	\$15,600
FY 1998 - 6 petitions at \$5,200 each =	\$31,200
FY 1999 - 6 petitions at \$5,200 each =	\$31,200
<u>FY 2000 - 8 petitions at \$5,200 each =</u>	<u>\$41,600</u>
Total - 23 petitions at \$5,200 each =	\$119,600

Office of the State Assessor

The bill requires the Office of the State Assessor to complete Full Value Determinations for another eighteen organized boroughs. This is in addition to the existing sixteen boroughs and unified municipalities. This has been accomplished for the last four years with a staff of two. The addition of an Assistant State Assessor position would be needed to effectively accomplish the new annual requirements imposed by the bill. The addition of this position would allow the Full Value Determinations to be realistic representations of the actual value of all boroughs statewide. Additionally, this position could assist the State Assessor meet the increased demands for education and training of the staffs of the new municipalities with regard to correct and

appropriate assessment practices. This fiscal note provides for this position as well as additional travel and contractual funding associated with creation of numerous new boroughs each year.

Organizational Grants

Alaska Statutes (AS 29.05.190) provide for organizational grants to newly incorporated boroughs to defray the start-up costs of establishing local government until the borough can establish its local revenue generation mechanisms. Every borough formed after December 31, 1985 is entitled to organizational grants of \$300,000 for the first full or partial fiscal year, \$200,000 for the borough's second year, and \$100,000 for the third year. The following table presents the anticipated order of borough incorporation and the cumulative schedule of organizational grant requirements. We are assuming that actual incorporation of boroughs would occur one year after DCRA borough proposals are presented to the IBC.

Borough	Incorporation Date	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Prince William Sound	July 1, 1998	\$300,000	\$200,000	\$100,000			
Copper River Basin	July 1, 1998	\$300,000	\$200,000	\$100,000			
Upper Tanana Basin	July 1, 1998	\$300,000	\$200,000	\$100,000			
Yukon Koyukuk	July 1, 1999		\$300,000	\$200,000	\$100,000		
Yukon Flats	July 1, 1999		\$300,000	\$200,000	\$100,000		
Aleutians West	July 1, 1999		\$300,000	\$200,000	\$100,000		
Wrangell Petersburg	July 1, 1999		\$300,000	\$200,000	\$100,000		
Lower Kuskokwim	July 1, 2000			\$300,000	\$200,000	\$100,000	
Bering Straits	July 1, 2000			\$300,000	\$200,000	\$100,000	
Southwest Region	July 1, 2000			\$300,000	\$200,000	\$100,000	
Prince of Wales	July 1, 2000			\$300,000	\$200,000	\$100,000	
Lower Yukon	July 1, 2000			\$300,000	\$200,000	\$100,000	
Pribilof Islands	July 1, 2001				\$300,000	\$200,000	\$100,000
Glacier Bay	July 1, 2001				\$300,000	\$200,000	\$100,000
Chatham (Northern SE)	July 1, 2001				\$300,000	\$200,000	\$100,000
Kuspuk (mid-Kusk.)	July 1, 2001				\$300,000	\$200,000	\$100,000
Iditarod	July 1, 2001				\$300,000	\$200,000	\$100,000
Annette Islands	July 1, 2001				\$300,000	\$200,000	\$100,000
Total		\$900,000	\$1,800,000	\$2,600,000	\$3,200,000	\$1,700,000	\$600,000

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Attachment 2: Evaluation of Effects of CSSB280 on DCRA Programs.

Replacing the unorganized borough with a set of incorporated boroughs would have direct programmatic effects on communities located within the unorganized borough. Much or all of DCRA program funds now going to these communities would be redirected to the new boroughs.

In general, this shift in funding would result in no net difference in the State's general fund, or in the level of federal receipts. An exception would be the National Forest Receipts Program for which certain federal funds now shared to the State in conjunction with state-maintained roads in the unorganized borough would be re-directed to certain new boroughs or expanded boroughs.

The table below presents estimates — some of these are very rough estimates — of four DCRA program funds that would be re-directed to the proposed new boroughs. The notes at the bottom of the table indicate of the how this re-redirectation of funding would affect current program participants. The effects assume no change in overall program funding levels. Following the table are descriptions of these four programs. Finally, the implications for another department-administered program, the federally-funded Alaska Coastal Management Program, are discussed.

New Borough Name	Municipal Assistance	Revenue Sharing	Natl Forest Receipts	Fisheries Business Tax
Prince William Sound	\$25,419	\$82,836	\$29,500	\$38,244
Copper River Basin	\$1,315,797	\$34,000	\$0	\$0
Upper Tanana Basin	\$205,302	\$62,899	\$0	\$0
Yukon Koyukuk	\$36,738	\$31,000	\$0	\$0
Yukon Flats	\$43,353	\$31,000	\$0	\$0
Aleutians West	\$214,338	\$52,745	\$0	\$372,304
Wrangell/Petersburg	\$18,795	\$65,761	\$1,135,000	\$23,140
Lower Kuskokwim	\$342,799	\$140,247	\$0	\$5,070
Bering Straits	\$42,813	\$99,000	\$0	\$1,778
Southwest Region	\$19,587	\$45,244	\$0	\$83,841
Prince of Wales Island	\$53,586	\$53,550	\$1,066,000	\$30,746
Lower Yukon	\$23,367	\$70,857	\$0	\$495
Pribilof Islands	\$7,080	\$29,000	\$0	\$28,248
Glacier Bay	\$43,749	\$24,000	\$363,000	\$19,183
Chatham	\$16,836	\$24,000	\$804,000	\$23,140
Kuspuk	\$26,931	\$31,000	\$0	\$0
Iditarod	\$16,332	\$31,000	\$0	\$0
Annette Islands	\$86,995	\$23,000	\$68,000	\$0
Totals	\$2,539,817*	\$931,139**	\$3,465,500†	\$626,189**

* This figure represents 7.9% of the FY '96 Municipal Assistance Appropriation which would be absorbed by the other participating municipalities.

** This figure represents 3.5% of the FY '96 State Revenue Sharing Appropriation which would be absorbed by the other participating municipalities.

† This money would come from the cities and REAs located within the Tongass and Chugach National Forests and the State (\$650,000) as they would no longer be eligible for funding.

** These fish tax \$ currently collected outside municipal boundaries, and shared back by DCRA, would be collected within the new borough boundaries and shared back by DOR.

State Revenue Sharing Program

The State Revenue Sharing Program, established in 1970, is designed to support services provided by local governments while making allowances for the unequal distribution of taxable property throughout the state. Funding is available to municipalities, unincorporated communities and volunteer fire departments serving areas outside organized municipalities. The SRS Program includes two components: Municipal Tax Resource Equalization and State Aid for Miscellaneous Purposes. As new boroughs were formed, program payments to unincorporated communities and volunteer fire departments would cease to occur. This represents about \$500,000 at current funding levels. The estimates of program funding required for the new boroughs (about \$900,000 collectively) is difficult to project because these payments are based on formulas which include a measure of locally generated revenues. We cannot predict what these locally generated revenues will be with any substantial degree of confidence. There would clearly be some increased demand on program funding. Assuming no change in program appropriations, this additional demand would have to come out of the payments to current program participants.

Municipal Assistance Program

The Municipal Assistance program replaced the Gross Business Receipts Program (GBRP) in 1979. The program provides for a "base amount" distribution equivalent to a municipality's 1978 GBRP allocation. An appropriation to this program, above the level necessary to fund the total base amounts (\$10.6 million), is distributed on a per capita basis. Funds appropriated in excess of the base amounts are designed to provide property tax relief. According to statutes, the base amount of a newly incorporated borough is set at the same amount as whichever existing borough has the closest population count compared with the new borough. Note that the new Copper River Basin Borough would have a large Municipal Assistance payment because its population is most similar in number to the North Slope Borough which enjoys a large base amount. Assuming no increase in overall program appropriation, the payments to new boroughs would come out of the payments to existing municipalities. Because the base amounts are currently held harmless, the payments to new boroughs would come out of the per-capita element of Municipal Assistance funding. This would have much greater consequence for smaller, rural cities which typically have small base amounts.

Shared Fisheries Business Tax Program

The Shared Fisheries Business Tax Program was created in 1990. The purpose of this program is to provide for an annual sharing of fish tax collected outside municipal boundaries to municipalities that can demonstrate they suffered significant effects from fisheries business activities. The funding available for a given program year is equal to half the amount of state fisheries business tax revenues collected outside of municipal boundaries during the preceding calendar year. Funding has varied from \$675,000 to \$850,000 for the several years the program has existed. This program would cease to exist if the unorganized borough were incorporated as boroughs. In that case, all fisheries business tax would be collected inside of some municipality and consequently shared through the Department of Revenue's fish tax sharing program which shares back taxes collected inside municipal boundaries.

National Forest Receipts Program

The National Forest Receipts Program, established in 1908, is a federal revenue sharing program where 25% of the income earned from activities within the Tongass and Chugach National Forests is distributed to boroughs, cities and Regional Education Attendance Areas (REAA's) within the national forest. Federal and state law requires that national forest income be expended only for the benefit of public schools and public roads. About \$7.6 million (federal funding) was distributed in FY 96.

Payments from the State to organized boroughs are made on the basis of the national forest acreage within each borough proportional to the entire acreage of the national forest in which the borough is located. Within the unorganized borough, payments to cities and REAAs for schools are made on the basis of school enrollment. The State's share and payments to cities for roads are based upon the number of miles of state and locally maintained roads. In FY 96, the State general fund received about \$650,000 under the program. If all areas of the state with national forests were incorporated as boroughs, all federal funds under this program would go to the boroughs containing national forests.

Impacts of CSSB 280 on ACMP Grants:

The funding scheme for the FY96 ACMP grants is noted in the table on the next page. DCRA is currently proposing changes to the FY97 funding scheme. Generally, the new scheme, if approved, will reduce the CRSA grants and increase several borough grants.

As boroughs organize in accordance with CSSB 280, DCRA would simply make adjustments to the funding scheme. The adjustments would be over several years and, for this reason, would not have significant impacts. DCRA adjusts the funding scheme every few years anyway.

As noted below, in FY96, 4 CRSAs received \$382,000. 18 cities received \$108,000. As boroughs form, cities will no longer be eligible for ACMP funding (the borough will become the grant recipient) and CRSAs will dissolve. DCRA anticipates the bulk of the \$490,000 will be distributed to the boroughs along the coast. Thus, the level of funding for boroughs (as noted in the FY96 funding scheme below) will increase.

The change to borough status will require that local coastal management plans be amended, so some of the \$490,000 will likely go towards plan updates. But, the bulk of the \$490,000 will likely be distributed to the boroughs to pay for day-to-day staff functions.

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FY96 ACMP Awards:

Group		Amount for each district	Total for the group
CRSAs	Aleutians West, Bering Straits, Bristol Bay CRSA, Cenaliulriit (4)	\$ 95,500	\$ 382,000
Municipalities over 20,000 population or high permit activity	Municipality of Anchorage, City and Borough of Juneau, Kenai Peninsula Borough, Matanuska-Susitna Borough, North Slope Borough (5)	35,500	177,500
Other Boroughs	Aleutians East, Bristol Bay Borough, Ketchikan Gateway, Kodiak Island, Lake and Peninsula, Northwest Arctic, City and Borough of Sitka, City and Borough of Yakutat (8)	23,500	188,000
Cities	All cities (18)	6,000	108,000
Special projects	Distributed on a competitive basis.	250,000	221,500
Total			\$1,077,000

Assuming the FY96 ACMP funding scheme for future years, the following estimated impacts would occur:

FY98 (fiscal year ending 6/30/98) - No significant change.

Lose 3 city grants (Cordova, Whittier, Valdez = \$18,000) and write 1 borough (PWS = \$23,500) grant.

FY99 - \$72,000 would become available for reallocation.

Lose 1 CRSA (AW = \$95,500) and write 1 borough (AW = \$23,500) grant.

Neither Wrangell or Petersburg currently participate in the ACMP. Assume no borough participation.

FY00 - \$193,000 would become available for reallocation.

Lose 1 CRSA (Cenaliulriit = \$95,500) and write 2 borough (Lower Kuskokwim and Lower Yukon = \$47,000) grants.

Lose 1 CRSA (Bering Straits = \$95,500) and write 1 borough (Bering Straits = \$23,500) grant.

Lose 1 CRSA (Bristol Bay = \$95,500) and write 1 borough (Bristol Bay = \$23,500) grant.

Lose 4 city grants (Craig, Hydaburg, Klawock, Thome Bay = \$24,000) and write 1 borough (Prince of Wales = \$23,500) grant.

FY01 - \$28,500 would be required to fund borough participation in the ACMP.

Lose 1 city grant (St. Paul = \$6,000) and write 1 borough (Pribilofs = \$23,500) grant.

Lose 2 city grants (Hoonah, Pelican = \$12,000) and write 1 borough (Glacier Bay = \$23,500) grant.

Lose 2 city grants (Angoon, Kake = \$12,000) and write 1 borough (Chatham = \$23,500) grant.

Lose 2 city grants (Haines, Skagway = \$12,000) and write 1 borough (Haines = \$23,500) grant.

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FISCAL NOTE

n. 4
Bill Version: CS SB 280(CRA)
(S) Publish Date: 3-14-96

Revision Date: March 12, 1996 Dept. Affected: Community & Regional Affairs
Title: An Act relating to the mandatory incorporation of certain boroughs in the unorganized borou BRU: Local Gov't Assistance
Sponsor: Sen Torgerson Component: State Assessor
Requestor: Senate CRA COMPONENT SERIAL NO. 673

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES	59.0	60.7	62.6	64.5	66.4	68.4
TRAVEL	2.5	7.5	15.6	14.0	10.0	10.0
CONTRACTUAL						
SUPPLIES	0.5	1.0	1.0	1.0	1.0	
EQUIPMENT	1.5	1.5				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	63.5	70.7	79.2	79.5	77.4	78.4

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE FUND SOURCE:						
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FUNDING (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	63.5	70.7	79.2	79.5	77.4	78.4
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	63.5	70.7	79.2	79.5	77.4	78.4

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

Estimate of current (FY94) impact \$ none

ANALYSIS: (Attach a separate page if necessary)

Office of the State Assessor:

The fiscal effects of this legislation on the Office of the State Assessor budget component are discussed in Attachment 1 under the heading "Office of the State Assessor."

Prepared by Reynold Henderson, Director Phone: 465-4708
 Division Division of Administrative Services Date: 3/12/96
 Approved by Commissioner [Signature] Date: 3/12/96
 Agency Community & Regional Affairs

FISCAL NOTE

No. 3
Bill Version: CSSB 280(CRA)
(S) Publish Date: 3-14-96

Revision Date: March 12, 1996 Dept. Affected: Community & Regional Affairs
Title: An Act relating to the mandatory incorporation of certain boroughs in the unorganized borou BRU: Local Gov't Assistance
Sponsor: Sen. Torgerson Component: Local Boundary Commission
Requestor: Senate CRA COMPONENT SERIAL NO. 674

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	15.6	31.2	31.2	41.6		
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.6	31.2	31.2	41.6	0.0	0.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0

REVENUE FUND SOURCE:

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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	15.6	31.2	31.2	41.6		
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	15.6	31.2	31.2	41.6	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY94) impact \$ none

ANALYSIS: (Attach a separate page if necessary)

Local Boundary Commission:

The fiscal effects of this legislation on the Local Boundary Commission budget component are discussed in Attachment 1 under the heading "Local Boundary Commission."

Prepared by: Ramond Henderson, Director Phone: 485-4708
Division: Division of Administrative Services Date: 3/12/96
Approved by Commissioner: [Signature] Date: 3/12/96
Agency: Community & Regional Affairs

FISCAL NOTE

N 2

Bill Version: CS SB 28X(CRA)

(S) Publish Date: 3-14-96

**STATE OF ALASKA
1996 LEGISLATIVE SESSION**

Revision Date: 3/12/96 Dept. Affected: Office of the Governor
 Title: An Act relating to mandatory incorporation of certain boroughs in the unorganized borough BRU: Elective Operations
 Sponsor: Senator Torgerson Component: Elections
 Requester: Senate Community and Regional Affairs COMPONENT SERIAL NO. 21

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 100	FY 01	FY 02
PERSONAL SERVICES	00	00	00	00		
TRAVEL	00	00	00	00		
CONTRACTUAL	25.4	25.2	64.5	19.8		
SUPPLIES	00	00	00	00		
EQUIPMENT	00	00	00	00		
LAND & STRUCTURES	00	00	00	00		
GRANTS, CLAIMS	00	00	00	00		
MISCELLANEOUS	00	00	00	00		
TOTAL OPERATING	25.4	25.2	64.5	19.8	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	25.4	25.2	64.5	19.8		
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	25.4	25.2	64.5	19.8	0.0	0.0

Estimate of any current year (FY96) cost: \$ 00

POSITIONS

FULL-TIME	0	0	0	0		
PART-TIME	0	0	0	0		
TEMPORARY	0	0	0	0		

ANALYSIS: (Attach a separate page if necessary)

The contractual costs shown above reflect the cost of conducting the elections for initial borough officials. The division of elections used a schedule prepared by Local Boundary Commission staff to determine the year in which elections for the various boroughs will occur. The FY99 estimate is significantly larger because of the incorporation of boroughs that include two large REAAs.

The contractual line shows the cost of advertising, printing and shipping ballots, payment of election boards, absentee voting officials, and state review boards.

Prepared by: Dana LaTour *D. LaTour* Phone: 465-5347
 Division: Division of Elections Date: 3/12/96
 Approved by: Lt. Governor Fran Ulmer *Fran Ulmer* Date: 3/12/96
 Commissioner: Office of the Lt. Governor
 Agency: Office of the Lt. Governor

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FISCAL NOTE

No. 1

Bill Version SSB 280 (CRA)

(S) Publish Date: 3-14-96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to the mandatory incorporation of certain boroughs in the unorganized borough providing for an effective date.
Sponsor: Togerson
Requestor: _____

Department Affected: Administration
BRU: Administrative Services

COMPONENT SERIAL NO. 46

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0	0	0	0	0	0
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CHANGE IN REVENUES ()	0	0	0	0	0	0
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FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

The administrative cost of the Capital Matching Grants Program in the Department of Administration would not be substantially impacted.

As new boroughs are created, this bill would increase the number of eligible grantees to the municipal side of the Matching Grants Program and would eliminate the unincorporated portion of this program. Allocated funds would need to be adjusted accordingly.

Prepared by Sharon Barton
Division: Administrative Services

Phone: 465-2277
Date: _____

Approved by Commissioner: Mark Boyer
Agency: Department of Administration

Date: 3/11/96

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CS FOR SENATE BILL NO. 280(CRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered:
Referred:

Sponsor(s): SENATORS TORGERSON, Green, Phillips, Donley

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the mandatory incorporation of certain boroughs in the
2 unorganized borough."

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

4 * Section 1. LEGISLATIVE FINDING AND PURPOSE. (a) The legislature finds that
5 the rights, opportunities, and obligations of borough residents are not equal to those of
6 residents in the unorganized borough, particularly in respect to education, taxation, and land
7 use regulation, and that this is not in keeping with art. I, sec. 1, Constitution of the State of
8 Alaska, that states in part, ". . . . that all persons are equal and entitled to equal rights,
9 opportunities, and protection under the law; and that all persons have corresponding
10 obligations to the people and to the State."

11 (b) It is the purpose of this Act to abide by the intent of the framers of the state
12 constitution and the voters who adopted it and to implement a more equitable distribution of
13 rights, opportunities, and obligations among all residents of the state by including most of the
14 unorganized borough within the boundaries of a borough, with the expectation that the few

1 areas not organized under this Act will be annexed to existing municipalities.

2 * Sec. 2. BOROUGH INCORPORATION PROPOSAL. (a) The Department of
3 Community and Regional Affairs shall prepare a second class borough incorporation proposal
4 for each of the model boroughs identified for formation in the report issued in 1995 by the
5 Local Boundary Commission entitled "Model Borough Boundaries." During the process of
6 preparing an incorporation proposal, the department shall hold at least one public hearing in
7 the area covered by the proposal and consider recommendations regarding the proposal. The
8 proposal must include the following information:

- 9 (1) name;
- 10 (2) boundaries;
- 11 (3) maps, documents, and other information considered by the department to
12 be necessary;
- 13 (4) composition and apportionment of the assembly;
- 14 (5) a proposed operating budget for the borough projecting sources of income
15 and items of expenditure through the first full fiscal year of operation; and
- 16 (6) a designation of areawide and nonareawide powers to be exercised.

17 (b) By January 1, 1997, the state assessor shall estimate the full and true value of
18 taxable property in each of the model boroughs identified for formation in the report issued
19 in 1995 by the Local Boundary Commission. The Department of Community and Regional
20 Affairs shall submit each borough incorporation proposal to the Local Boundary Commission
21 by

- 22 (1) July 1, 1997, for model boroughs with an estimated full and true value of
23 taxable property of at least \$550,000,000;
- 24 (2) July 1, 1998, for model boroughs with an estimated full and true value of
25 taxable property of at least \$350,000,000, but less than \$550,000,000;
- 26 (3) July 1, 1999, for model boroughs with an estimated full and true value of
27 taxable property of at least \$75,000,000, but less than \$350,000,000;
- 28 (4) July 1, 2000, for model boroughs with an estimated full and true value of
29 taxable property of less than \$75,000,000.

30 (c) Within six months after receiving a borough incorporation proposal submitted
31 under (b) of this section, the Local Boundary Commission may request the department to

1 make changes to the proposal. When the commission determines that the proposal meets the
2 standards for incorporation of a second class borough, the commission shall accept the
3 proposal and notify the director of elections of its acceptance.

4 * Sec. 3. ELECTION OF INITIAL OFFICIALS. (a) Within 30 days after receiving notice
5 from the Local Boundary Commission of its acceptance of an incorporation proposal, the
6 director of elections shall order an election in the proposed borough for initial borough
7 officials. The election shall be held under AS 29.05.120 not less than 30 nor more than 90
8 days after the date of the election order. The election order must specify the dates during
9 which nomination petitions of election of initial officials may be filed.

10 (b) At an election held under this section, each nonareawide power included in the
11 incorporation proposal shall also be placed separately on the ballot. Adoption of a
12 nonareawide power requires a majority of the votes cast on the question, and the vote is
13 limited to the voters residing in the proposed borough but outside all cities in the proposed
14 borough.

15 * Sec. 4. INCORPORATION OF NEW BOROUGHES. A region is incorporated as a
16 second class borough on the first Monday following certification of the election held under
17 sec. 3 of this Act. AS 29.05.130 - 29.05.150 and 29.05.190 - 29.05.210 apply to boroughs
18 incorporated under this section.

Alaska State Legislature

District Address:
145 Main St. Loop; Suite 226
Kenai, AK 99811
(907) 283-2690; fax 283-9267



Session Address:
State Capitol, Room 427
Juneau, AK 99801-1182
(907) 465-2828; fax 465-4779

Senator John Torgerson

MEMORANDUM

March 20, 1996

TO: Senator Bert Sharp, Chair
Senate State Affairs Committee

FROM: Senator John Torgerson *John*

RE: Schedule Request for Senate Bill 280

Please schedule CS SB 280(CRA) for a hearing in your committee. Attached are the following for your information:

- Sponsor Statement
- Sectional Analysis
- Fact Sheet
- Summary of Fiscal Notes Received
- List of schools that could be consolidated as a result of this legislation

I will forward additional information to your staff as it is received. Thank you for your time and your consideration of this request.

Alaska State Legislature

District Address:
145 Main St. Loop, Suite 220
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(907) 283-2690; fax 283-9267



Session Address:
State Capitol, Room 427
Juneau, AK 99801-1182
(907) 465-2828; fax 465-4770

Senator John Torgerson

SENATE BILL 280 SPONSOR STATEMENT

The Alaska Constitution states "that all persons are equal and entitled to equal rights, opportunities, and protection under the law; and that all persons have corresponding obligations to the people and to the State." Unfortunately, this is not the case today, particularly in regard to local efforts required for state programs. Education is just an example of where one part of the State does not have to contribute anything, while others are required to contribute large amounts.

The constitution also requires that boroughs be formed which embrace an area and population with common interests to the maximum degree. Alaska statutes further stipulate that the borough population be "integrated as to its social, cultural, and economic activities." The unorganized borough of Alaska fails to meet this criteria. It is recognized that it embraces an area that is greatly diverse in interests and activities.

Senate Bill 280 is the first step in resolving the above conflicts and concerns by requiring that the unorganized part of Alaska be incorporated into boroughs. The Department of Community and Regional Affairs is directed to submit second-class borough incorporation proposals for all areas of the unorganized borough to the Local Boundary Commission. These proposals are to be based upon the model borough boundary report issued by the Local Boundary Commission. Once accepted by the commission, elections are held for assembly members and the selection of borough powers, and the boroughs are formed upon the certification of the election.

This legislation differs from previous attempts at mandatory incorporation in that it references a specific report as a starting point, sets a deadline for the boundary proposals to be submitted, and provides a timeline for the process of borough incorporation.

The incorporation of the unorganized areas of the state into boroughs has many advantages both to the state and to the areas themselves. The formation of boroughs and the transfer of duties and responsibilities from the state allow greater local involvement in decision making that directly affects the residents. Currently these residents must depend on lawmakers to make these decisions for them.

Residents will have to contribute to the operation and maintenance of programs and projects in their area. This removes the perception held in many organized parts of the state that others are "getting a free ride."

While a certain amount of revenues, as well as costs, will be shifted to local governments, there will also be substantial savings realized by the consolidation of services that will occur through borough formation. In the long run, the organization of the entire state into boroughs is the most cost-effective way of providing comparable and equitable services to all the residents.