



State of Utah

Privatization
Policy Board

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

January 3, 2007

Honorable Jon M. Huntsman, Jr., Governor
Office of the Governor
E220 Capitol Complex
Salt Lake City, Utah 84114

Honorable John L. Valentine, President
Utah State Senate
W115 Capitol Complex
Salt Lake City, UT 84114

Honorable Greg J. Curtis, Speaker
Utah House of Representatives
W030 Capitol Complex
Salt Lake City, UT 84114

Dear State Leaders:

The Utah State Privatization Policy Board was established by the State Legislature to study and make recommendations to state and local agencies regarding effective privatization of government services. It also functions as an avenue to address concerns from the private sector regarding unfair competition. *Section 63-55a-3* directs the board to (a) review whether or not certain services performed by existing agencies could be privatized to provide the same types and quality of services that could result in cost savings; and (b) review particular requests for privatization of services and issues concerning agency competition with the private sector and determine whether privatization would be feasible and would result in cost savings and ways to eliminate any unfair competition. The statute directs us to submit an annual report to the Legislature and the governor.

It is worth noting that the board is a balanced body composed of majority and minority members of both houses of the state legislature, as well as representatives from local government, state administration, higher education, public employees

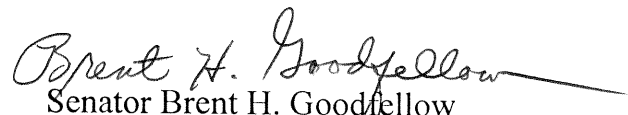
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and private enterprise. While the board has no power to mandate action on the results of its findings, it has the responsibility to see that administrative and legislative entities of government are made aware of them, and wherever possible, to support and pursue the implementation of these findings through the appropriate entity.

In 2005 the board studied issues in both these areas of our responsibility. As required by statute, we are submitting the enclosed annual report, which details the board's activities. During the past year, the board reviewed unfair competition by government, outsourcing of certain human resource management functions, current privatization and outsourcing in the Drivers License Division and the Tax Commission's DMV.

The board stands ready to assist the legislature in its deliberations regarding these and any other privatization issues that may merit consideration. If there are any issues you would like us to study in the coming year, please don't hesitate to let us know.

Sincerely,


Senator Brent H. Goodfellow
Chair,
Utah Privatization Policy Board

enclosures

cc: John Massey, Legislative Fiscal Analyst

Privatization Policy Board Annual Report

Annual Report 2006

Statutory Mission

The Utah State Privatization Policy Board was established by the State Legislature to study and make recommendations to state and local agencies regarding effective privatization of government services. It also functions as an avenue to address concerns from the private sector regarding unfair competition. *Section 63-55a-3* directs the board to (a) review whether or not certain services performed by existing agencies could be privatized to provide the same types and quality of services that could result in cost savings; and (b) review particular requests for privatization of services and issues concerning agency competition with the private sector and determine whether privatization would be feasible and would result in cost savings and ways to eliminate any unfair competition.

Issues Considered

During the course of the year, several potential issues were brought to the attention of the Board. Each issue is listed below, along with the rationale for the Board's decision whether to review and report on the topic. There is also a section of this report on other presentations made to the board.

Unfair Competition by Government

- Who brought forward this issue? Senator Howard Stephenson
- Selected for review and reporting? Yes

Rationale: In 1999 Senator Stephenson sponsored legislation that would have given the Privatization Policy Board greater latitude and actual authority to impose sanctions and penalties for instances of government unfairly competing with the private sector. It also would have empowered the board to advise the legislature on further legislation that would assist in eliminating or curtailing unfair competition by government by the tax paying private sector. He also sponsored legislation in 2006 (SB74) to establish a Privatization of Government Functions Task Force. The legislation did not pass.

Senator Stephenson is still interested in accomplishing something that will help free enterprise in Utah be protected from unfair competition. Senator Stephenson stated that the biggest area that the board has looked at over the years has been state privatization of services that are typically done in house. He feels the board has done an excellent job of moving a lot of these services to the private sector by saving money are reducing headaches for various agencies in the state.

The biggest concern and the most complaints that Senator Stephenson hears from businesses facing competition from government is with local government. He stated "we have a lot of local government entities that are competing head to head with the private sector". He cited catering, wedding facilities and businesses that private vendors have put a lot of capital into only to find that the government is competing head to head at rates that the private businesses cannot compete with. Melva Stine, representing the Utah

Restaurant Association said that for example for just a few hundred dollars one can use the Matheson Court House Rotunda, the Red Butte Arboretum or the Salt Lake Library for a wedding reception. Hotels, wedding reception centers and other facilities are facing unfair competition.

Senator Stephenson would like to see an ongoing study and a thorough investigation and then have recommendations for legislation on unfair government competition by the Privatization Policy Board or a commission referred to in SB74 (2006 Legislative session). That way there will be a level playing field in this area. He suggested that it is quite a big undertaking because there is so much of it in the state and feels that there ought to be statutory standards in place to prohibit unfair competition and if it is allowed to require that the facilities must charge a full competitive rate comparable with the private sector and that the taxes are paid on that facility.

He distributed a letter to the two legislative interim committees (Revenue and Taxation Interim Committee and the Business and Labor Interim Committee). The letter recommended to legislative management that a task force be appointed to study this issue. Senator Stephenson asked the Privatization Board to endorse the concept of a legislative task force, and suggested that it include some legislative members of who also serve on the Privatization Policy Board.

Board Action:

Following considerable discussion, the board unanimously adopted a recommendation articulated in a motion made by Senator Goodfellow and seconded by Representative Hunsaker to support the recommendation of the legislative committees and also endorse the creation of this legislative task force. The motion was unanimously approved. Senator Goodfellow cautioned that the task force (if adopted) be careful to insure that public entities not be allowed to spin off into 501C3's to get out of the overview of any proposed legislation.

Outsourcing of certain Human Resource Management Functions

- Who brought forward this issue? Convergys
- Selected for review and reporting? Yes

Rationale: Mr. Morris Applewhite, a vice president of Convergys presented the board with an overview of some of the outsourced services that his firm provides to various governments in the U.S. He indicated that they have had conversations with Steve Fletcher (executive director of the Utah Department of Technology Services) about Utah's IT consolidation and the IT billing services that Convergys performs for the State of Georgia and the State of South Carolina. The United States Postal Service contracts with Convergys to provide customer management services over the telephone and web including speech applications and web applications. They provide outsourced human resources and benefits administration services, payroll services, HR services, recruiting/staffing services, benefits administration and learning management. The State of Texas and the State of Florida outsources some of their HR administration to Convergys.

Board Action:

The board invited Mr. Jeff Herring, executive director and representatives of the Utah Department of Human Resource Management (DHRM) to offer their perspective on the potential for privatization in the human resource area. Mr. Herring provided an informative presentation and explained that it would be difficult to compare DHRM's services with those provided by Convergys to Texas and Florida, and it is also somewhat difficult to compare one state's human resource function to another as well. The board elected to not recommend privatization in this area at this time.

Other Board Workings**Review of Driver's License Division**

At the board's request, Nanette Rolfe, director of the Drivers License Division provided an overview. They are challenged with having to hire a large number of part time seasonal employees (without benefits) because of budget constraints. This results in a large (30%) turnover. This challenge is compounded by the fact that it takes about six months to train a new employee. She discussed ways that the division is attempting to reduce lines and improve efficiencies at the division. The Drivers License Division is asking the legislature for the ability to turn 20 of these part time positions into full time positions to help with the high turn over rate. There was a healthy discussion by the board on ideas of how the Drivers License Division could possibly run more efficiently.

Presentation on Privatization at the DMV

At the board's request, Rod Marrelli and Brad Simpson, Tax Commission executives provided the board with an overview of the outsourcing and privatization efforts of the Division of Motor Vehicles. They stated that their goal of finding ways to keep people from needing to come into the DMV buildings to conduct their transactions. They highlighted several innovative outsourcing initiatives.

Renewal Express - This is an internet service that allows people to renew their car registration and make payment with a credit card at any time for their convenience. Last year 350,000 people renewed their car registration online. It is estimated that 370,000 will use the system this year. That is about 1/3 of the renewals, the highest percentage in the nation.

Self-Plating Program - This program gives the large auto dealers, car rental firms and state fleets direct access to the licensing system. The system allows the dealer to register, title and plate the car before the customer leaves the dealers office. There is also the Independent Dealer Solutions, a third party system that allows used car dealers to go into the system and do their own plating. Overall there were 250,000 vehicles plated with this system last year. Rep. Hunsaker applauded the innovative system, saying that this is an example of outsourcing at its best.

"On the Spot" Program - There are currently 127 safety and emissions stations in 14 counties that partner with the Tax Commission and for a fee provide a value added service to complete the registration renewal and decal process. This program started in 2005 will process almost 120,000 subtransactions in 2006.

Coversnet Program – This program allows large motor carrier companies to self plate their vehicles and process renewals. The Tax Commission projects that 3,300 subtransactions will be accomplished via this system in 2006.

Possible Future Expansion – Mr. Simpson and Mr. Marrelli indicated that they are looking at the following new areas.

Kiosks – Potential renewal of driver’s license and motor vehicle registration in public areas.

E-Lien – Electronic lien releases from financial institutions (on vehicle titles). There was a discussion with the board on challenges with titles and the criticality of the security of titles.

Privatization Policy Board Website

The board has a website –

<http://www.purchasing.utah.gov/main/index.php?module=Pagesetter&func=viewpub&tid=1&pid=42>

The website includes a roster of board members, the statute establishing and governing the board, a mission statement developed by the board, meeting agendas, and minutes of board meetings.