

**Minutes of the Meeting of the Utah Privatization Policy Board**  
**Wednesday March 24, 2010 10:00 p.m.**  
**Seagull Room, East Building**  
**Salt Lake City, Utah**

**Attendees**

Randy Simmons, Curtis McCarthy, James Kesler, Dave Osborn, Kim Jones, Representative Fred Hunsaker, Alan Bachman, Gary Nielsen, Steve White, Tanya Henrie, Steven Dickson, Steven Densley, Ted Boyer, Robin Riggs, Kent Beers, Nancy Orton, Chris Bruhn

**Excused**

Senator Howard Stephenson, Senator Brent Goodfellow, Kerry Casaday,

**Visitors**

Gary Thorup, Royce Van Tassell, Scott Wennerholm, Jon Butler

**Welcome and Introductions**

Randy Simmons, Chair conducted the meeting.

**Approval of Minutes:**

Steve White made a motion that we approve the February 24, 2010 minutes. Representative Hunsaker seconded his motion and the minutes were unanimously approved.

**Manheim Utah Request to Access DMV Record and Print Titles**

Curtis McCarthy reminded the board of a letter they got from the Governor from TRAA Auctions Company introducing themselves as Manheim an industry leader in wholesale vehicle auctions. They wanted to have access to the DMV computer equipment to print titles. There are also two other companies interested in doing the same thing.

Scott Wennerholm represents Manheim Utah. TRA Auctions is a subsidiary of Manheim. Manheim is a subsidiary of Cox Enterprises. We do consider ourselves to be the leading factor in wholesale vehicle auctions. They have almost 200 auctions worldwide. Just in the USA they processed over 5 million titles last year. They do have the ability in certain areas, in certain states namely Arizona and Florida to do full in house titling. We do anything from auditing the title to entering in title information to being able to print the title on site. Dealing with the variety of customers we deal with, it could be local auto dealerships, capital finance companies, banks, or insurance companies we touched over 200,000 titles here in Utah last year. This doesn't necessarily mean we performed the work on them or converted them into Utah titles. They have a relationship with well over 1,000 dealers in the state of Utah that visit them every week. They feel this service would greatly benefit a number of their clients. They know they can allocate people and designate people to do nothing but title work in house. These are people they would love to have trained by the state of Utah on their title processes. They have a number of title clerks that are familiar but they would love to take that to the next step and be able to print those in house. In the state of Utah it is a 7 day average turn around time on titles from the time the application is submitted until they get that title back. They would like to have the turn time go from 7 days to an hour. They understand that there are some obstacles that have to be overcome with that. That is part of the reason they are here to identify those obstacles and see what they can do to help overcome them.

Randy Simmons said that Curtis McCarthy has had contact with two other companies who would like to bid on the same sort of thing. He asked Mr. Wennerholm to talk about the industry as opposed to just Manheim.

Scott Wennerholm said the industry faces the same challenge whether they are on a state by state basis. The states govern the title laws. In some states it is an hour turn time such as in Arizona or Florida. Colorado is lucky to turn a title in two weeks. We do have a good turn time and we would like to make it better. In his most recent conversation with the DMV he found out they do have a system in place right now that allows third party vendors to enter in title information. It doesn't allow them to print that but it shaves a day off that 7 day time. The statistic that Mr. Parc gave him was a little bit shocking. He said that they found their third party vendors have 10 in 100 errors versus their in house state employees which average between 15 and 20 in 100 errors. So they are finding that their third party vendors are more efficient in doing this. He feels if there is a way to increase revenue for the state and there should be a premium attached to this and decrease in expenses in reducing head count which he thinks this will do. He feels it is a winning situation all the way around.

Curtis McCarthy gave the board a handout and read the response from DMV.

Jim Kesler would like to have the MVDA person talk about the status of these titles. In the past three years he has had three occasions where he was demanded the title of his truck right then. What does MVDA require on these titles? Could the private company do the whole thing? Would it have to be done by several contractors?

Scott Wennerholm said that if you buy a car through their auction the seller has 21 days to provide title for that vehicle. This brings up a whole other can of worms. If you bought that vehicle you could go ahead and retail that vehicle to a retail customer, obtain financing for that customer, and never have received it at the auction. So there is a lot of grey area in there. We don't pay the seller until we are provided with a good executable title. We are a wholesale auction. If a dealer buys that car it is more than likely he already has that car sold and will have that car in a retail customer's hand, be paid on that car from the bank having never seen the title. The 21 days is the State of Utah Statute. Sometimes this is too short because in dealing in a state by state basis California allows 30 days. If you have a car that was purchased at auction in California and brought to Utah the following week, he still has three weeks to get that title and there is kind of an overlap period of two or three days where he is not required to have it in California but is required to have it in Utah.

Steve Densley feels there is a conflict of interest here because the person who sells the cars is also processing the titles to those cars. How does that not create an opportunity for fraud?

Scott Wennerholm said I guess it does but they don't own any of the vehicles. All they do is service clients.

Steve Densley asked if they were asking for access to the state database.

Scott Wennerholm said not knowing the system side of it, no. They already provide access for them to be able to input title information. He is asking for access in for what they say the two day turn time, then two days in the mail room and two days in the mail.

Steve Densley said that what he is getting at is that if someone with less integrity had that kind of access couldn't they go in and change it from a salvaged vehicle to a repaired vehicle and sell the car at the auction with an altered title.

Scott Wennerholm said again not knowing the system he doesn't think that is in there right now. He thinks there is a bunch of system overrides and a number of people would have to sign off on that process. There are ways where you can convert a salvage title vehicle back into a clean title permanently.

Steve Densley said that DMV said there are currently 350 companies processing vehicle registrations. Are you asking to be one of those companies?

Scott Wennerholm said that is part of the proposal we have talked about is servicing the number of Utah dealers that we service we do think that there is a great opportunity for us to abbreviate the workload. They can do the in house registration and can issue vehicle license plates which are all permitted. The biggest thing is their clients are asking is for a shorter title turn time. Two days is great. If he could truly get a title in two days he would be jumping for joy. It typically is a minimum of 7 days from the time he drops the title off at the state until he receives one back is a minimum of 7 days. Talking to Mr. Parc at DMV it would be nice if the state had a way for us to batch drop off and batch pick up titles. They don't have that ability.

Steve Densley asked what the change was they are asking for.

Scott Wennerholm said we would like to see a change in the system that will allow off site printing. It doesn't have to be in one hour. Let it run through their overnight database verification after it meets all of their checks let the titles print off at our location. Let's batch print titles in a way that I could send a runner down to the state office every day and drop off titles and pick up titles.

Kim Jones asked what about the E-Title option why would that not work well and you would not have to go running down anywhere to pick stuff up.

Scott Wennerholm said that currently exists is an input only. So you can input the information into the system. It is still somewhat processed. The state requires that they still see the actual documents so you still have to mail those in or have a courier deliver them. It still takes the overnight process and then they are batch printed. There is still no way for them to be picked up except through a courier.

Steve White asked if there was a way to preserve the integrity of the title. Certainly the Department of Corporations allows the corporations to file and update. He thinks we can find a way to make this work. His question was would the fixed cost at the state drop? Like the total number of employees to do what needs to be done on a day by day and week by week basis. If that is the case then it is a benefit to the taxpayer. If it is simply a function that everything stays as it was now we have one more player and it doesn't help the overall business.

Scott Wennerholm said he thinks there are steps that need to be taken with stolen cars. The verification that takes place does a 50 state sweep and verifies that car has not been stolen in any state and there has been no branding on it in any state by all means lets print the title. Our cost is no more but there is an extra amount of time that goes into it and it is because the state is doing all of its homework. He has no problem taking that 1% or 2% of out of state titles and still sending those in and letting them take their 7 to 10 day course.

Randy Simmons asked based on what DMV said there really isn't anything for us to do is there? They have a proposal, they can take it straight to the DMV and the DMV is willing to respond. It appears that other people like them who have similar requests can go straight to DMV.

Scott Wennerholm said that DMV told him they were not going to look at this any further. That is part of the reason he came here to try to get some additional help. He knows the system has to be updated. But with no disrespect to any of the elected officials in the room he thinks they are acting like an elected official in the sense that sometimes their fear of doing something to be put on the radar is greater than doing what might be best.

Kim Jones asked what is the difference then between verbally committed to allow on this paper so despite what you're saying it sounds to me like they are committing.

Scott Wennerholm said that they have verbally allowed us to do everything except talk about in house or expedited title printing. That's the delay. The rest of that he is ok with. In his last email with Kevin Bartlow he said we are waiting on a written proposal from you. He is happy to get that to him he wanted to go to this meeting first. Let's see what we can accomplish here.

Steve Densley asked if the hang up changing the computer system to allow printing?

Kim Jones said she is in this business and she does systems that do these types of things and they need to be security authorized and it would take some development and other things into consideration as part of the state. However, she is willing to bet that Mr. Wennerholm is absolutely correct about the long term reward to himself and other companies and also for the citizens of Utah. She said the efficiencies would far outweigh what they are currently doing.

Kent Beers made a suggestion that the board give Chris Bruhn an assignment here so that when Manheim develops a full written proposal and submits it to DMV that then Chris could work with DMV in their analysis and come back to the board to talk about the kinds of things Kim has mentioned. The cost of upgrading their computerized system to allow the access that has been talked about. The number of employees that would be impacted at DMV and a cost benefit analysis associated with that. He thinks this is the exact type of work that Chris is capable of doing for the board and he could come back to the board with more information both from DMV and once we have seen the written proposal from Manheim. He feels this might be something the board might entertain.

Gary Thorup introduced himself. He represents a company called CoPart Inc. He would like to also participate in this process. CoPart is one of the largest online salvage auction companies dealing with about a million vehicles per year. They would also like to participate in making a proposal. One of the things that he has considered is it possible for companies like Manheim and CoPart to make a contribution to the state to allow them to do what they might not now have money to do as far as changing their technology and upgrading their systems. That is something I would like to be looking at as well.

Steve Dickson mentioned that security was brought up. Medicaid, Medicare had people entering information for claims and for partners, their process for the state. It turns out it was being done out at the prison which is not bad in and of itself. It became a security issue because you might have an unscrupulous prisoner. The program was discontinued so all the data these guys were entering in a timely basis fell back on the staff which is understaffed. Because there is a lot of sensitive information on a title that someone might have. He knows the DMV has a screening

process and the idea of fraud coming up is very real in his mind. He asked what kind of process they have so they don't have unscrupulous people working for them.

Scott Wennerholm said they run full background checks on all their employees. Any additional protocol that is required they would be happy to do whether it is in terms of bonding employees, additional background checks subject to background checks performed by the State of Utah. They are willing to do whatever it takes. Their basic hiring policy is credit check, background check and a drug screening.

Randy Simmons said that would be a part of what we would have on part of the staff report. We would be looking at like what kind of processes do we already have in place making sure these transactions are secure and the information is secure and how would that also spill over into doing these kinds of things so he thinks this would be part of the responsibility in this report that we would get back from the staff.

Steve Dickson feels we would have to also include DTS into the program because they do the programming and allow for upgrading systems and programs. You might want to add that to his responsibilities.

Randy Simmons said that given this suggestion we should make this into a motion and have Curtis McCarthy work with staff to work on this report and bring it back to the next meeting.

Kent Beers said it is also contingent on Manheim and others developing a proposal for DMV to evaluate.

Scott Wennerholm could have a proposal submitted by the end of the day.

Alan Bachman asked if there was some way to publish the invitation for proposals in this area that the state is at least considering looking at this. What he doesn't want is one or two competitors drafting so many things that in the end results the specifications would end up benefiting just those particular competitors.

Kent Beers said the proposal that would be generated would be for DMV to evaluate whether it is feasible to do this. If in the course of their analysis which they have done on these other private vendors, they have a process in place to evaluate private proposals. He is just suggesting that Chris work with DMV in analyzing their process and then bring a report back to the board. If DMV determines that this is feasible then they would work with State Purchasing to develop an RFP that would go out to any other interested vendor that may be out there. He is not suggesting in any way that by opening up this idea that you would receive an exclusive right, you or any other firms out there.

Scott Wennerholm said they did not expect that. In a competitive world he would love it but that was not expected. They know there are a number of companies CoPart is one of them who would love to have access to a system such as this. They feel like they are being the point man on a group effort here. As you read through this you will find many companies who would be very interested in something very similar.

Kent Beers said the first step is an analysis of the concept. When it comes time to contracting it would be opened up to any competitor who may be interested.

Randy Simmons said so just that he understands the first step would be Chris, Curtis and DMV doing an analysis of the concept based on proposals from Manheim and CoPart. Based on that analysis we would suggest or not State Purchasing developing an RFP.

Jim Kesler made a motion that Mr. Beers direct Chris Bruhn to follow through on the recommendations to bring to the board so we have more information so we can have a discussion. Tanya Henrie seconded his motion and it was unanimously approved.

Steve Densley said the motion was well taken the only thing he would want to make sure of is if Chris didn't lose sight of the priorities we outlined in the last meeting. We do still have the survey to take care of and the tabulation and as he has time to work on projects that this would fit into that category and that we not get distracted and derailed with these other projects.

Ted Boyer said it seems to me that we are getting the cart before the horse. If a written proposal is submitted and DMV say yes we can accommodate this then problem solved. If not then the only aspect we would be involved in is whether or not privatization of that function might be an interest to the state according to our statutory power. Maybe we ought to go to step one first. Take the proposal and get DMV's reaction and then involve Chris.

Kent Beers said that this is what he was trying to suggest that we go through DMV's normal process except that Chris would be in communication with DMV to understand what they were looking at and bring that information back to the board. But then if the board is in disagreement and if DMV says yes this is doable and let's move forward they work directly with purchasing on an RFP. If they said no it is not doable then the board would look at it and say we may want to look deeper into this and then the board under statute has the ability to make a recommendation to the Governor and Legislature to privatize a certain function.

Steve Dickson made a motion that we change the order of the agenda and discuss how to follow up on the survey with the update on the survey. Gary Nielsen seconded his motion and it was unanimously approved.

### **Discussion on Legislation to Request Regarding the Scope of the Privatization Policy Board**

Randy Simmons said that in the last meeting we had an extended discussion about Uintah Basin Medical Center which is not a state activity but a county activity where Duchesne County was opening a facility in Uintah County. What they have is a 501C3 that they claim is not operated by the county but if you look at the board of directors it is an entity of Duchesne County. So it is operating as a 501C3 in Uintah County and the private hospital in Uintah County thinks this is unfair competition. Our legislation says we are dealing with state issues. Mr. Simmons went and talked to a CFO of one of the private hospitals and asked why the folks and the Uintah Basin Medical Center would have wanted the 501C3 status. He laughed and said sales tax. The private hospitals have to pay sales tax on everything including the blood they use in the OR. Remember the imaging center the 501C3 has there. If you had a multi million dollar machine the sales tax is a huge deal.

Steve White said not only that but business personal property tax.

Randy Simmons said this CFO pointed this out as one of the major advantages that the non-profit has over the private for profit. We decided this was not anything under our jurisdiction. We got to hear interesting stories. Ought this board to be asking for permission from the legislature to look beyond just the state agencies. Should we look at county and city issues?

Jim Kesler thought that if they asked us to look at something we have that right under the present statute. The municipalities, corporate cities and counties have to ask us before we can take any action or any testimony.

Gary Nielsen said he thought the question was could private business bring up the competition issue, that is what we didn't have the authority to do.

Steve White said the question is does it have to be the injured party or could it be an interested third party because in many cases, just thinking about the Callahan vs. Millard County you run all the way to the supreme court to get a ruling it effects everyone who does similar types of things so your looking as a UAC representative how can I bring up something that is unrelated to Utah County simply because we are concerned about it.

Ted Boyer read in the statute and it says "The board my review upon the request of a local entity a matter relevant to privatization.

Alan Bachman said he didn't have a definitive opinion right now. You have a statute of 631-4-202 (1) which says that the board shall review privatization of good or service at the request of an agency or private enterprise, review issues covering agency competition etc. etc. That is pretty broad.

Kim Jones asked if the question on the table was are we wondering if private enterprise and agencies can bring these to us right. She asked if this seemed a little biased if there is a question about competition about an agency that only the agency can bring it to us.

Ted Boyer said that we are talking about a fairly narrow issue. We can handle complaints from private parties about state agency privatization or unfair competition. However, we cannot entertain complaints against local entities unless we are requested to do so by the local entity, according to current law. It may not be a level playing field but that is how the statute reads.

Tanya Henrie asked if we were the state policy board do we only get local entities coming to us.

Ted Boyer said that is the way the statute reads.

Alan Bachman said all he is saying is that there is a definition of agency, there is a definition of the use of the word may here. He doesn't have a definitive legal opinion today because it is just too quick to review this. If you wanted to make a recommendation whether it would be outside your jurisdiction I am not absolutely certain one way or the other. Obviously if you are going to effect someone else. Forget about the law just for a second. Just talk about procedure. No matter who it was. Let's say you had jurisdiction with DMV or anybody you would certainly want to know whatever entity you are dealing with what their opinion is of it. Do you want the board to review this? So clearly you can review local entities when the local entity requests it. Before we even get into a legal opinion lets question this. Is the local entity in opposition to your reviewing? If someone were to contact them and they were to say yes we would like you to look at it then that makes the legal issue sort of mute because of the statutes law. So that is the first way. Now lets say it's a great idea but the local entity says no we are not requesting it then you get into the legal issue whether you have the authority to make recommendations under the legislature. He doesn't have the answer right now because all we are doing is making a recommendation.

Steve Densley asked if once we finish surveying the state functions aren't we supposed to move to the local government functions and review those as well.

Ted Boyer said that the local entities are supposed to conduct their own survey.

Steve Densley thought this was coordinated through us. He asked if there wasn't a little bit of a gap there. If we are coordinating the review of local government functions but we don't have the ability to recommend anything to a local government entity without them asking us directly. He is suggesting that maybe the statute needs to be amended to clear up that issue.

Alan Bachman said that is why he is hesitant to make this a 100% black and white issue at this moment. He thinks the wise first step is to contact the local entity and ask how they feel about the board looking at this. If they say yes we want you to look at it then it resolves the legal issue for now and if they say no and you still want to look at it then we would have to look at the legal issue as to whether it is an allowable thing for you to do in meetings. And I think because of what Mr. Densley said and other issues that is too complicated for him to answer right now. It would not be fair without doing the proper legal research and looking at the whole statute and reading it together.

Steve Densley asked if his legal advise right now would be if we do get a request from a private entity and he has a problem with what a local government is doing we need to contact that local government and ask them if it is ok if we review the issue before we hear it.

Alan Bachman said that is what he would do right now letting them know if they were to say no that you are still going to be seeking legal advice to see if you can still do it anyway. His point is it is just a matter of courtesy. If someone says Utah County is doing something that we think we can do at a better price and cost efficiency for the tax payers then it would only be courteous to contact Utah County and say someone has come to us with a request, how do you feel about it? They may say we will look into it we are always interested in saving money the legal issue goes away. If they say no we don't want you to look into it then we will see what we need to do. Right now he can look into this legal issue and hopefully within the next few weeks he will have an answer. In the mean time he is just suggesting just asking people if they mind if the board looks at this. Frankly if someone said no would you not be a little suspicious.

Randy Simmons asked Alan Bachman if he will have looked at this before the next meeting.

Alan Bachman said that he will have it looked at.

Gary Nielsen said that he knows a couple of things the board has looked at like the Weber County Landfill. He thinks the party that had the conflict with Weber County was the one that initially pushed the issue to this board and Weber County ended up being here so he thinks as a courtesy if we have a private issue that comes up for the county and we put it on the agenda it would be wise to contact the county or the city and say we have this complaint coming before our board. We are informing you that you are welcome to come address this issue. That way we are not listening to a private complaint without the entity that is involved being there to respond.

#### **Update on the Survey and Analysis of ABC and Fleet Operations – Chris Bruhn**

Chris gave the board a handout of the surveys sent out and who had responded and when they are expected to respond. Most agencies have been very responsive and we are getting very detailed information back. Some of it is detailed in different ways. They have given what the

services are some said yes they are privatization possible however it has to go through state statute and other things. So we are getting a mix of different types of answers back. The only one we didn't get a response back from is Career Service Review Board. So far he has been putting all the results except the one from Community and Culture into a matrix and has been going through the information trying to figure out if it all makes sense to him and what could be privatized. For the next meeting he will bring the matrix and let the board look at it.

Kent Beers said that the bottom line is that the surveys are starting to roll in now.

Kim Jones asked if the Career Service Review Board was late on their information.

Ted Boyer asked Chris while preparing this matrix if there are any functions jumping out as being low hanging fruit for privatization.

Chris Bruhn said it is going to be a little difficult to decide what functions are to be privatized because some of the answers are vague. Some of these functions like laboratory for Agriculture and Food, some things can be privatized by private laboratories however some of them can't be because it has to be state certified test. Delving through these things is going to be a little bit difficult. Finding out what the services are will be difficult also.

Jim Kesler asked if a second letter of demand had been developed yet for those who have not complied.

Kent Beers said so far we have not had to do this. Career Services will reply they are just very understaffed. What Chris is talking about is what we have found with Administrative Services. He has worked there for twelve years now, looking at some of the responses that have come back, He knows what they basically do and just reading their responses he could not figure out what they were saying. So Chris is going to have to go into the departments and explain that he cannot figure out what is on the paper, so show it to him.

Kim Jones said it would have to be an interview cycle if you will.

Kent Beers said yes he is going to have to go out and do field work as we get moving here. It is not going to be enough to say, "Are there private sector firms providing this service?" Yes or no. Yes. He is going to have to look at that in more depth to determine what it is exactly that they do and would it make any sense at all to bring that back to the board to say this is a potential candidate. Then the board can decide if they want to look at it further.

Chris Bruhn wanted to make something clear with DABC, they said nothing could be privatized. He feels in needs to take a more introspective look into what they are giving him and how they are putting it. Yes, there is no other private industry selling the retail sales of alcohol which is true but it doesn't mean that is can't be privatized or done that way. Even when he gets into the matrix there can be a little play with that. There may technically not be any competition but that could become a monopoly and they could be open to competition.

Kim Jones asked what about other states where alcohol is distributed via retail and other avenues.

Chris Bruhn said that is what he has been looking at. There is going to be 30 some odd states that don't have a monopoly in alcohol sales and 18 states that do. So that is part of what he is looking at. He gets the response, looks at it and then is doing some research.

Fred Hunsaker asked if it could be that they are responding according to current state statutes. Current state statutes would not allow DABC to sell otherwise. He asked if there was anything in the survey that would open up to thinking outside the box. Perhaps with some change in statute there could be some privatization.

Chris Bruhn said that is what he is getting at. All of their responses were no. The second question is, "What is the process do you go through to determine how you deliver your services?" So you could tweak the answer or you could have questions as you go along saying, "Could it be provided by a private vendor if the statute were changed?"

Kent Beers said he thinks that is exactly what we are getting at here. The first cut is just the yes no response so first analysis is going to be ok with those that say yes there is private sector firms listed in the yellow pages and on the internet who do kind of what we are doing. Then it is when it really becomes critical that Chris goes out and does field work and says ok ABC, This just happened because he was talking to someone and they said ABC has contracts with private firm retailers already in the smaller towns and Chris thinks wait a minute they said no. So then he started looking at it and found that there are already private sector firms that already have the distributing on liquor. They have contracts with them. His field work is going to be critical.

Randy Simmons said to Chris that at the last meeting he had a large number that could be saved for the liquor stores.

Steve Dickson asked if there wasn't an article in the newspaper about privatizing liquor stores. He is going to look for the article and forward it to Chris.

Chris Bruhn passed out an article from the tribune which said that more people are using state liquor stores to purchase alcohol and bars to purchase food. So people are going to be drinking less in the bars. More people are using bars as a social restaurant. On page two of the handout there is also an increase of demand for property to be able to do retail sales of alcohol. As you can see from 2006 to 2009 it has increased on the square footage. That will tie into some of the savings that will come later if you were to privatize. The big number that he was talking about is on page four right down there in programs and then stores and agencies. Over on the right hand side you can see a number \$21,606,300. That is approximately what they spend for all their operations for their stores and agencies. If you were to privatize them you would be saving the state this amount of money. Warehouse and distribution is 1.5 million.

Robin Riggs asked if when are talking about privatizing liquor stores are we talking about privatizing them and keeping them as separate stand alone liquor stores. We are not changing their nature just their ownership.

Chris Bruhn said no not in this proposal you have the option of doing so which is another proposal. It is what Virginia was looking at. The Reason Foundation has put together 4 different models. Those models would include going to a state like California and there would be licensing and we would no longer control distribution of warehouse distribution or retail. That is not what he is proposing. This is just the retail side of it.

Robin Riggs said so instead of having the state running the liquor store and turn that operation over to a private entity, there is still a liquor store under the classic sense that they buy their liquor from the state, the price is controlled by the state and the liquor profits go to them.

Chris Bruhn said correct. This is what the DABC currently uses the 2009 numbers but this is based on the kickback or the compensation they give those rural area liquor stores that are actually privatized. This is the model they set up.

Robin Riggs asked what private individuals currently run liquor stores. Do we know?

Chris Bruhn said just in the mom and pop stores in the rural areas, any off premise sites.

Kim Jones asked why private enterprise would want to take over a state liquor store.

Chris Bruhn answered because of the revenue. You are pretty much transferring the sale of alcohol to that person while you are doing a compensation from what he can understand because you are mandating a sale of a select type of liquor. So the state pays them back for the little bit of money they could lose possibly based on the selection process. The state gets the excess tax.

Gary Nielsen said under this scenario where the state warehouse and distribution they would act in a true sense as a wholesale. They are buying alcohol in bulk and selling it to the retailers so could they possibly make money at the wholesale level?

Chris Bruhn said that they possibly could.

Gary Nielsen said and the then retail stores would make money over and above the wholesale price.

Kim Jones asked if they currently make money on just the excise tax.

Chris Bruhn answered that they make all the profits that come back from the sales.

Kim Jones asked if the 21 million savings take into consideration the profits they already made.

Chris Bruhn said this is just operational.

Kim Jones said from a consumer standpoint there is no real benefit it is just you take state off the liquor stores.

Chris Bruhn said yes you are taking the amount of money you are paying employees, the retirement, liability and you're just transferring it to private.

Gary Nielsen asked what the states revenue was now.

Chris Bruhn showed them on page two.

Robin Riggs said the state would give up a chunk of profit if they privatized.

Chris Bruhn said it could lose revenue however the models that you are going to show later can make it neutral and the reason being is because you're going to be generating a new revenue stream. You going to be generating new income to allow them to actually grow and your going to build the new buildings and the bonding for the new space you're going to transfer

that back off. Right now the state liquor stores are tax exempt. Those properties will then become taxable.

Kent Beers asked Chris if his proposal be to rent out the existing stores or sell them.

Chris Bruhn said at this point he would sell them, that way you are getting rid of your liability.

Gary Nielsen said in either case even if the state owned the properties and turned around and leased them the property would become taxable. There are real estate taxes which are not being paid now and property taxes which are not being paid now.

Chris Bruhn said the reason he would sell them is for the one time windfall that would come back and that would offset some of your revenue losses.

Kent Beers asked if other states have had the states run the stores and then sold them off. He also asked if Chris has found any cost benefit analysis that the other states have conducted to make their decision.

Chris Bruhn said yes, not the actual number but just coming through the whole thing. Alberta went through this but they retailed, they did the whole thing. They didn't have the urban model. They gave all the retail up to the private industry and then let them run the market, selection and prices. All of those were dictated by the market. They actually had to lower their excise tax in order to be revenue neutral.

Kent Beers asked Chris if he could get some copies of those reports.

The next handout was from the Reason Foundation entitled "Why Privatizing Liquor Stores in Virginia to Fund Transportation Makes Sense."

Kim Jones asked if we would even consider something like they did in Alberta in Utah or would that be a violation of the limitations.

Chris Bruhn said either way your going to have to change the code.

Gary Nielsen asked Chris if in his analysis of privatization if he noticed that the prices fluctuated much with the market and with state controlled prices.

Chris Bruhn said that they did, some places went up and some places went down, some consumption went up and some went down depending on population.

Steve Densley said there is a reason why state liquor stores were created in the first place and he suspects it was related to alcohol consumption so the legislature made a change on that and it would be one of the primary concerns is how this will effect alcohol consumption. He thinks one of the interesting things to do is take a look at the demographics of these other communities and see how they compare to Utah and try to project how this might effect alcohol consumption.

Steve White said the other delta might be underage drinking might increase.

Chris Bruhn said the Reason Foundation has done a lot of research on that. They looked at Iowa, they did wholesale and retail. They said the consumption went up but depending on what

number you are going to be looking at it is pretty much a wash on whether you had more or less incidents.

Robin Riggs said you might get a sense of where this might head because the Tribune article said the bars are down. Alcohol without food is down which is a good thing. He feels the food is the key component here if you don't change the nature of the liquor store or anything else it is probably a wash.

Steve White said meaning you don't put it in a grocery store but in a stand alone liquor store.

Jim Kesler asked what would be the cost of compliance compared to what it is now and who would be responsible.

Chris Bruhn said that is something he would have to look into.

Jim Kesler asked if there wouldn't be an increase with burden.

Steve White said they piloted after Iron County the Easy Program and then the State Legislature adopted it. It has driven down underage drinking and sales dramatically.

Ted Boyer congratulated Chris Bruhn on his findings. He said this is exactly the analysis that the board needed. It seems to him this is what the statute intended. We do the survey, the survey triggers an in depth analysis and at some point we will be ready to send this information to the legislature, the governor and the analyst and say, "Here is something that could be privatized and here are the plusses and the minuses, you make the call.

Chris Bruhn gave the board a handout of the survey for Fleet Operations. Pretty much every answer to privatization with Fleet Operations was a yes. The one thing he noticed as he was going through it was that they have a centralized contract with ARI which is a maintenance and repair facility. They contract with say Firestone and other companies for all their maintenance. However if a state agency has a repair shop of their own or a maintenance shop of their own and they can do it for less then they allow that agency to go to their own shop. One problem with that he sees is that as you're doing the research across the nation, most people are keeping their fleets in tact but are contracting out for all the maintenance repair but they are doing it out of one consolidated place and that saves a lot of money. Then there is no reason to have ARI provide a service when you have maintenance and repair employees who work for the state as well. It seems to him to be a duplication of efforts. Also if you contract with ARI the more deals you do with them the lower their price is going to go. Even though there is a contract in place for ARI he thinks there in some places efficiencies and some accurate effectiveness with those types of services. If it is cheaper to go with the agency he would suggest maybe dropping ARI and going straight through an agency and that way you don't have mechanics and repair people there doing the same job that you would get in the private entity. However that effects the question also. "Are you competing with the private industry" There was the question was there a potential to reduce the current fleet. Margaret Chambers, Director of Fleet Operations admitted that there was probably about a 10 percent over fleet and utilization is down to about 70% for cars which means that 30% of cars are sitting around. When an agency needs a car they go to fleet operations and fleet says the car is going down. However they can also go to legislature and get approval. Some of the agencies are taking advantage of this and they are saying well our car is going out and they go through fleet and then they go through the legislature and they get two cars. Centralizing Fleets operations and allowing them to have control over the agency just goes to fleet and then fleet goes to the legislature may be an option

to make sure you don't get overpopulation. You can lease all your car needs through Budget, Hertz and those type of things. Governmental vehicles are a little bit different because they are patrol cars and the DNR vehicles so selling them back is a little more difficult. There are certain cars that should remain state owned however the sedans that you have can go through Enterprise and rent it for \$52.00 per day where it is \$40.00 per day for the state. The extra \$18.00 goes to liability protection so you let Risk Management off the hook that the state doesn't have to pay if there is an accident. What he would suggest is limiting the amount of vehicles that actually go as state owned vehicles and anything that is below 4 wheel drive. A specialty vehicle is actually sold back and then it just goes through a rental company.

Fred Hunsaker thinks the biggest competition for poor utilization of the state is the reimbursement by the use of private vehicles. That will always be a major competition for our utilization of the state. The other is more of a question and that is you talk about the number of cars. Did you look at the right sizing of fleet?

Chris Bruhn said yes and that is where the 10% issue come into it a certain extent and only the vehicles where you have to have a 4 wheel drive that your are going to own. He suggests a proper mix where you would have two sedans, three SUV's and a couple of in-betweens. The depreciation you can actually control.

Kent Beers feels that with these two issues Chris has brought to the board today. He thinks the board on the ABC story is given the information and some articles to read it now comes to the board to go back and read the materials he has brought to you and then come back and give him further direction. Do you want him to continue with the analysis of ABC or back off on the issue? Now the board needs to direct Chris. On Fleet Operations he has given you some preliminary information today and given you a recommendation there on the fleet management service that the analyst conduct further review. On Fuel procurement he has said no, he doesn't think there is an opportunity there or with Surplus Property.

Chris Bruhn said the reason he doesn't feel we should privatize surplus because there is federal asset that comes through as well. If you don't have a state surplus property you cannot sell federal property and this is a very big revenue source for the state.

Kent Beers said we do have private sector firms that work with state surplus to sell cars for example. They have privatized many functions out there already.

Ted Boyer made a motion that we continue our analysis on the ABC questions in terms of consumption, liability and law enforcement and that we also continue the analysis on Fleet Operations on the cost side.

Robin Riggs seconded his motion and it was unanimously approved.

Randy Simmons asked if this is how the board would like Chris to follow up on the survey. As the surveys come in and he sees what is possible low hanging fruit and then start digging deeper into the survey as he has time. What he would like to see by the next legislative session that there would be a set of proposals that would go forward to the legislature that says "Here are some things that could be privatized and here is a list of statues that would have to be adjusted for those to be done"

Steve Densley said that there might be some think tanks out there who would be interested in getting involved with proposals. He doesn't know if we have space on the state website for

publishing some of this information but making some of the survey information available for third parties or maybe contacting them to maybe provide proposals to us. To him it seems like it might be a way of privatizing our work.

Randy Simmons said Leonard Gilroy at reason has volunteered to do some of this.

Steve White said even if there is space that the state can make available to us where we can just post these as PDF's it will make the process openly transparent.

Kent Beers said we would have to create a website for the Privatization Policy Board.

Royce VanTassell said during the legislative session he spoke with the folks in DTS about the feasibility of putting together a different site. They said giving the amount of in house expertise they had it is virtually no cost and is something they could put together pretty quickly if it is something you are just talking about dumping information. The board may want to figure out design issues.

Steve Densley said first you would want it to make the information available for third party analysis to make recommendations back to us and second it would be helpful to let third parties know we are doing this. There may be other people besides Reason who would be interested in getting involved. Maybe Chris could maybe contact third parties and inviting them to participate in the analysis.

Kent Beers said if the board is going to expect Chris to do an in depth analysis, let me give one example. When he was with the Legislator Auditor General's Office we did an audit of the fleet usage. It took an audit team of three auditors nine months to produce a report. To what level do you want Chris to do this work? If you want an in depth report for the legislature and governor he needs more help. He can't do the inventory and produce a detailed analysis. Right now he has given us a few newspaper articles, work that has been done by the fiscal analysts office but now if we say ok Chris conduct an in depth study of the cost benefit analysis on converting ABC to private retailers that will take him months to do. This is full time work. So we really need to get some help from some of these private think tanks and foundations if we are really going to pursue these to the level of depth we are looking at here.

Randy Simmons said he would bring possibilities to the next meeting.

Gary Nielsen said he appreciated the work that Chris has done but he feels that this is just the tip of the iceberg. With all these surveys coming in is it our anticipation to address these individually, pass them on, or try to formulate everything and give it to the legislature it seems pretty overwhelming and from Chris' standpoint he is having to take a lot of responsibility on these inventories and decisions like yes it needs further analysis, no it doesn't. It seems like it is throwing a lot of responsibility on him that may be good to have someone else help him review it.

Chris Bruhn said if you go to the board policy in the code it actually says there should be advisory committees formed and it would have to have at least one board member on it. He thinks this is the way to actually go about analyzing the followings of the agencies.

Robin Riggs said there are two or three tiers of analysis here. For example there may be some really easy ones where we can make a fairly good recommendation and expect some action on it. As Chris takes apart ABC you know darn well the legislature is not going to just take the

recommendation and pass it along. They will take it upon themselves to study it before they take any action on something like that. So he suggests we don't drill too deep on the stuff we know the legislature is going to take their time doing. They can provide their own resources for that.

**Next Meeting**

The next meeting will be held on Wednesday April 21, 2010 in the East Building in the Seagull Room, Southeast Corner