

**Minutes of the Meeting of the Utah Privatization Policy Board**  
**Wednesday June 16, 2010 10:00 p.m.**  
**State Capitol, Room 450**  
**Salt Lake City, Utah**

**Attendees**

Randy Simmons, Jim Kesler, David Osborn, Senator Goodfellow, Steve Densley, Steve White, Senator Stephenson, Kim Jones, Representative Hunsaker, Kent Beers, Paul Tonks

**Excused**

Steve Dickson, Tanya Henrie, Curtis McCarthy, Kerry Casaday, Ted Boyer

**Visitors**

Jon Butler, Nicole Sherwood, Cliff Strachan, Todd Losser, Royce Van Tassell, Kenny Brown, Steven Oberbeck.

**Welcome and Introductions**

Randy Simmons, Chair conducted the meeting.

**Approval of Minutes:**

Fred Hunsaker made a motion that we approve the April 28, 2010 minutes. Brent Goodfellow seconded his motion and the minutes were unanimously approved.

**Brief Discussion of Kinds of Privatization – Randy Simmons**

In getting ready for this meeting and in thinking of when we met with Leonard Gilroy from the Reason Foundation. I thought it would be useful for us to just take a minute and review the different kinds of privatization there are. We throw out the term privatization a lot without really necessarily thinking about what it might mean. So I just wanted to review that there are kinds because we had a couple of different sources we may end up talking about today. One is just straight forward Load Shedding we just say this is something the state is doing and it is not going to do any more. We either sell something or just stop doing it and either for the profit or nonprofit center picks it up or no one picks it up. But it is something you just decide the state is not going to do anymore. Straight up moving it from the public sector to the private sector with no more state controls.

The next type is contracting and there is a host of contracting possibilities. They can be as simple as; in Providence City we contract for the lawn mowing of the city parks, just straight forward contracting. We do a three year contract with bidding at the end of three years among various lawn care companies. This is just a straight forward contract where the Public Works Director becomes the monitor for the contract. Contracting can be one of the presentations we will do today is contracting for State Park Management. Talking about simply identifying some portion of a piece of what the state provides and saying this portion can be provided privately. We can contract this portion and leave the rest of this particular service within state control. But the state, notice in the contracting form of privatization the state says the terms of the contract and the state monitors. So that form of contracting the state is still directly involved. We call it privatization but it doesn't remove the state from the arena from control and from having serious functions so the hard core privatizers don't call that privatizing at all. I have mentioned multiple times the city of Idaho Falls contract as much as they can from snow removal to buses to nearly

everything. The other general form of privatization is one of the things that Leonard Gilroy talked to us about which are Public Private Partnerships. Public Private Partnerships are more complex in contract. Because they are complex I worry more about them. I am more skeptical about how they might work simply because of their complexity.

Tape stopped recording for a portion of this meeting.

### **Contracting for State Park Management – Kenny Kitchen Brown**

Kenny started out with a slide presentation.

Tape started back up here.

**Kenny Brown:** I am not talking about putting McDonalds on Old Faithful. That is what everyone says when we talk about privatizing state parks is we are worried that we are going to have Walmart, McDonalds and Cafés. That is not what we are talking about at all. I am talking about who would manage them. Warren Meyer. I have had a couple of conversations with him. He is the owner and CEO of RRN and based in Arizona. He manages State and National Parks across the nation and we are going to watch a brief interview with him because he does a really good job of explaining the business and then ALL, American Land and Leisure is a special recreation services company which specializes in operating private facilities on public lands and they are based in Orem, Utah and they are actually one of the largest in the nation. So we have people who are close to home. We have people who are close to home who are trained professionals. This is not some sort of flim flam operation. They manage hundreds of parks. They know how to do it. They know how to make money. They know how to keep it clean and make it attractive to the public. So now this is a brief interview.

Here is a brief interview with Warren Meyer

**Interviewer:** The Parks are in trouble like the rest of the country right now in Arizona alone 13 state parks are shutting down by June two closed just last night in Arizona while 9 remained opened. The Parks Department can't afford to operate them anymore. Well there is a guy that has come to the forefront and he said I'll run them for Arizona. I can sell concessions and everything else. I'll make money, I'll pay the state. Sounds like a win win because the state gets to keep the park. They just have to have someone else run them as a private business. Warren Meyer of the recreation resource management is with us now. Okay, Warren what is the catch here?

**Warren Meyer:** Well personally I am very passionate about it so I don't think there is one. There are a lot of things the state fears and I don't know exactly what is going on in Arizona yet because we are pretty early in the process. But in other states typically there are folks that are philosophically opposed to having capitalism in the parks there is folks that think it is new and it's risky and think there is a loss of control.

**Interviewer:** Wait. Why is it new and risky?

**Warren Meyer:** Well it's not I do 150 parks across the country. It is new for each authority we try. Remember recreation is federal agencies, state agencies, counties and cities so each of these individually is something new they have to digest. In my world I have the same frustration as you. This is what I do every day. I run parks in a high quality manner all over the country and I would love to do it in Arizona and keep more parks open.

**Interviewer:** Ok out of all the parks you run how many are running in the red?

**Warren Meyer:** Oh there are a few. One of the things that state agencies realize is they have some real dogs. What they don't want is the private company is to just high grade them, to take only the best ones and leave them with the dogs. So smart contractors will say ok you can have some of the good ones, you can have some of the bad ones. I don't have any contracts that lose money as an entire contract.

**Interviewer:** So how do you make money?

**Warren Meyer:** I make money on all of them. Completely from the user fees that people pay to come in. I don't take any government subsidies. I don't take any help from any other agencies. When someone comes to the gate and pays their camping or come to the gate and pay 6 dollars to park their car and use the picnic area or the boat launch.

**Interviewer:** How much does the state charge when you come to these parks? What is the difference? Are you jacking up the prices?

**Warren Meyer:** Actually just the opposite the state parks in Arizona are now raising the prices and in some places doubling them from 10 to 20 dollars. We have actually proposed keeping the prices in all the parks we are proposing to run flat the same as last year so we are actually proposing lower prices than the state. We have run a number of parks right next door. Remember there are of Federal Authorities that run things in Arizona. I run things for those Federal Authorities here in Arizona. I run parks right next to Arizona State Parks and do it for a lower user fee with less visitation. I make money and pay the government.

**Interviewer:** Okay, I am trying to figure out what the catch is what would be stopping people from doing something private. They say private business is evil. Is it possible the loss of jobs? Are you going to be hiring the same state workers?

**Warren Meyer:** Certainly I use different workers and different kinds of workers but here in Arizona we are past that. These parks are getting closed and the workers are getting laid off right now. So we're past the job loss here.

**Interviewer:** Okay hold on just a sec. I don't know why this doesn't make sense to more people.

**Kenny Brown:** Warren Meyer does a really good job of explaining himself. That is obviously not the most opposed force to privatizing so it was not super hard on him. Even still he brings out several concerns. I had a conversation with Mark Forbes who works for State Parks obviously he has an interest in making sure they don't privatize. He had good points. He said there were certain things that state could do well and certain things the private market can do. You have to keep clear boundaries there which I agree with. What this proposal is like Warren Meyer is the management of the parks. The recreation, the private aspect of public lands is what we want to privatize. It is not the state's job to provide people with snickers bars. It is not the states job to provide all these extra services. It can be done better by private companies. The critics of privatization that privatize park management will result in closure to the state parks access to the open public, price raising and all these other things. They say there exist concerns about commercialization of wilderness and rural parks in order to increase revenue. Some have concerns with the free market process. The thing is that in Arizona and Utah eventually is that the state parks are going to close. Obviously it is not guaranteed but it is politically likely and in Arizona it is happening. In Utah whenever we have a budget crisis as you saw in 2008 there is a sharp drop in what we appropriate to the state parks and that's felt by them. That means

bathrooms are not going to get cleaned, broken buildings are not going to get repaired. It is politically necessary at times. That claim doesn't really work. Privately managed state parks will stay open longer than publically managed state parks will. I have all these complaints. The other one is there is just philosophical concerns because people feel like it's the states job to provide access to public land. If that is a philosophical concern that gives no leeway there is no point in arguing this. But if your concern is the public having access to this land then it doesn't hold because these private contractors continue to, they have to be open. They have to be open for business and they have to attract people and they have to have ways to make it accessible to the public so I am a foreign buyer I have been converted through my research. I don't see except that it is unavoidable except the next thing in the transition some of the employees are going to loose their jobs. It depends in the recreation aspect. It cannot be promised that everyone is going to keep their jobs. There will have to be cuts. Besides that I have a difficult time seeing a downside so any questions?

**Senator Goodfellow:** I appreciate your research however; I think it would have been helpful had you gone a little deeper because state parks for the most part, every state park has contracted with the private industry for concessions. So state parks are not in the candy bar business. They contract that out. Renting boats, they contract that out so most of state parks contract out a lot of the services. Secondly it would be interesting if you had a comparison because we do have a couple of examples in Utah with Echo Reservoir and Rockport. Are you aware of those two?

**Kenny Brown:** I live three miles from both of them.

**Senator Goodfellow:** One of them is privatized already.

**Kenny Brown:** Yes that's true.

**Senator Goodfellow:** Compare the one that is privatized with the other one and it would have been interesting for you compare side by side which one has clean restrooms. Which one has up to date current facilities. That kind of research would have been very valuable to me.

**Kenny Brown:** Can I respond? On your first point what we are talking about is not just the candy shops. We are talking about comprehensively the management of the recreation aspects of the state parks. So we are talking the privatization management of collection of user fees, it is more broad based than just that.

**Senator Goodfellow:** You are saying state employees are selling snickers and that kind of thing is contracted out.

**Kenny Brown:** I know that in certain places it is that's true. But I am not 100% sure what the extent of that is.

**Senator Goodfellow:** Your research would have been better had you what was contracted and what was not so we have better information. Rather than just, you drew your conclusion.

**Kenny Brown:** One limitation that I have experienced is. Like I say I had a conversation with Mark Forbes and I did request specific appropriated information. Park by park appropriated information is as detailed as I could get. It has been slow coming. So you're right with more research I could have presented a more detailed report. And I understand what you are saying about drawing my conclusion early but what I would respond senator is that there is no study

that shows that the long term trends of state park management is successful or is making money or is in any way or gender to be long term. Like I said before we have a 155 million dollar capitol backlog. That is not going to be taken care of in the next five or ten years. Twenty to fifty years if the state is in control. It is not going to get taken care of. The second is the state parks are so far down the line on things that need appropriations. We have schools, we have roads, and we have police. We have so many things that need money before the state parks do. I am not saying we need to close these state parks. But when they come to the legislature saying we need five million dollars to keep our bathrooms clean. They say five million dollars. Where are you going to find it? We have schools that need to stay open. We have teachers that need to be paid. So I understand what you are saying but all research that I have studied so far has pointed in this general direction.

**Randy Simmons:** We may have to either get a request from one of you legislators to get the data for us or get a GRAMA request. We are at that point in terms of getting data.

**Steve White:** If you go back to the presentation and go back to the bar graph that shows what we are spending. When we look at general fund appropriations I think that the concern here is that regardless of whatever the snicker bar discussion is we can eliminate the general fund appropriations. That money could then augment either the capitol improvements that need to be done for future venues or could be returned to the general fund for better use.

**Kenny Brown:** And what has been the model is that with this money that is saved most states have in turn applied that to environmental protections aspects or the less commercial aspects of park management, research monitoring and all those other things. That money obviously there is an opportunity cost to that. It could be put to better use.

**Steve Densley:** I think it was a good presentation I appreciate you coming here and I think this is pointing us in the right direction. Obviously there is more detail and we need to flush this out better and make sure we don't go about this in the wrong way but there are a couple of things I am curious to know your reaction to. With the model there were two things that came up in my mind. One, how were the risks of failure born? If private industry goes in to operate the parks and they do a terrible job again is that just being picked up by the state? The other issue I think is why would we cut the private operator out of the planning process?

**Kenny Brown:** Well in response to your first question most times the risk is entirely more on the private operator. If they fail to make money like any business obviously they go bankrupt. However there exists the concern that if we get a contractor who takes a contract for six parks, lets them all just go, doesn't make any money but also at the end let's say it is a five year contract. We have five years of more capitol backlog. That is just a question of monitoring. In order for the state to protect itself it is kind of like Representative Hunsaker said just because we contract out to management doesn't mean we just let go and say ok it's in the private hands now we can just sit back and watch it flourish. It will require management. It will require supervision and so that's how the state protects itself against risk. But in terms of commercial risk it's entirely in the arms of the private guys. Their incentive is to make money.

In response to your second question the reason is it is more to say that planning is in terms of like maintenance and investment terms and deciding what building or what kind of buildings you want to have. This model says well we leave it in the hands of state so let's say we have got Antelope Island. Let's pretend we have five nice buildings there. Let's say in ten years we are going to have eight buildings and it is going to be this kind of facility. The state is the one who determines that. The private cannot say ok were just going to come to Antelope Island and we

are going to double the buildings and it is just so we can feel more secure in saying that the private contractors are not going to just take this and run away with it, the capitol building maintenance and all those things in that specific way are going to be monitored and supervised through the state.

**Steve Densley:** It seems to me that it may be more helpful to have a shared planning model.

**Kenny Brown:** I would agree. Especially if we are focusing on recreation. It makes sense that the guys are going to be running it will have a more on hand knowledge of exactly what kinds of facilities of what the public wants.

**Jim Kesler:** I would have to refer to the federal outsourcing to make my point on the state parks. Up Big Cottonwood, I take my motor home up there quite a bit those people are very helpful, the restrooms everything is great but the one point they always make is we sure need more forest service enforcement personnel. The few state parks that I have been to there is hardly any safe people enforcing. Now would it cost more or could we take some of the funds for state parks enforcement as a rule so laws governing those parks?

**Kenny Brown:** I suppose the short answer is yes. I mean if we are saving money elsewhere and I mean that is kind of the point of this proposal. One of the pro environmental, pro aspects of it are the money we are saving can be directed towards more enforcement and management.

**Jim Kesler:** Is there enough there?

**Kenny Brown:** Well that is a political question I suppose.

**Jim Kesler:** It is an administrative question for parks and recreation.

**Kenny Brown:** Yes you are right but it is also a matter of how much money they are being funded and what they need to fund. You are correct. The reason I would say it is a political question is because obviously how much money they are appropriated and for what costs.

**Senator Goodfellow:** Just a couple of more comments. Are you familiar with the This is the Place State Park?

**Kenny Brown:** I have never been there at least not in memory.

**Senator Goodfellow:** It is privatized but we still give them appropriations. Have you ever been to the Fairpark?

**Kenny Brown:** Yes I have.

**Senator Goodfellow:** They are privatized but we still give them appropriations. It would have been interesting to include that in your discussion as well.

**Kenny Brown:** I will log them down and I will get you more information on that. One thing I am sure you aren't making this point but you don't need to feel with these state parks that they are privately managed. Somehow the state needs to act as the insurance agent you know give them appropriations. We don't need to feel like we give them any money. We shouldn't give them money. There are private contractors who would be more than willing to take these with no

additional appropriations or capitol fees or anything like that. In that sense we can very much shed the load except for obviously managerial responsibilities. But I will jot those down.

**Randy Simmons:** Senators, This is the Place was owned by a non profit now right?

**Senator Goodfellow:** It is not.

**Randy Simmons:** It is not contracted how is that?

**Senator Goodfellow:** It is a quasi government agency. So This is the Place is still given appropriations each year. Same as the State Fair. It is privatized as well, has its own board.

**Randy Simmons:** So it is an odd duck. It is still a government agency of some sort.

**Senator Goodfellow:** No it's privatized.

**Randy Simmons:** Okay so then it's a private non profit organization. I am just trying to understand what it is.

**Senator Stephenson:** I really appreciate this discussion. I am wondering if we ought to look at the contracts and the arrangements at the Fair Park and the This is the Place Monument. I know that if a private contractor has an option for getting a state subsidy they are going to qualify for it. They will make sure they operate in such a way that they qualify for it. I mean who wouldn't. That is just a natural human motivator and so I wonder if these contracts are even sensible. I realize that the Fair Park is something that does big business two weeks a year. They have done a lot to try to be a venue for concerts, auto shows and other events throughout the year. I would like to get some expertise among people who know how to run these things such as Warren Meyer and it would be nice to have him on a teleconference or here in person to pick his brain and have him look at some of these contracts and say, my sense is he would say wow I would take that, I would take that tax subsidy sure. But I could also run your This is the Place State Park profitably. Maybe and maybe not but I would like to have someone who knows how to do that, look at it and say yes that could be run profitably or not.

You know I just got back from Goblin Valley State Park. We went down to Lake Powell around Memorial Day. Goblin Valley State Park is such an undiscovered jewel in our state. We took our grandkids there and they did not want to leave. There are these objects that you walk behind, crawl behind and hide behind and it just goes on forever over to these cliffs. It was such a magical place our grandkids did not want to leave. When I talk to groups when I get back and ask who has been to Goblin Valley State Park and not one in ten Utahans have ever been there. Yet you talk about Bryce Canyon and Zion's Canyon or the North Rim and almost everyone has been there. Those are National Parks that are well publicized and I think they are well publicized in part because of the concessionaires who need to make sure they are publicized in order to make money. I just noticed the golden circle as we call it in Southern Utah and in Northern Arizona that they just started new concessionaires for resorts and won a ten year contract for lodging, dining and retail operations and stole the contract which was long held by Zantara Parks and Resorts. When I was a kid they were run by Union Pacific which had a real interest in tourism at that time because they carried a lot of passengers for one thing. That golden circle in Southern Utah which includes Bryce, Zion and the North Rim of the Grand Canyon and a lot of other things has millions of visitors every year. I mean it is just incredible. Whenever you go there any time of the year your standing on those vistas and you hear all of those people speaking different languages, different nationalities. It is just flooded year around.

But yet we were up to Goblin Valley State Park and there was one other party there at the parking lot. This was around Memorial Day where there should have been a lot of activity. My sense is that if we were to have concessionaires who have an interest in making money at these places. For example at Goblin Valley if they actually constructed a lodge, if they had horseback rides, and the opportunities for hiking through little wild horse canyon you can even take children in. This is a magical place in Utah that is undiscovered and I believe it is undiscovered because it is operated by State Parks and Recreation. My sense is that it could be one more reason for people to spend an extra day or two in Utah if they were even aware of it. When our own people are not aware of it that suggests that we have not been doing a very good job. Frankly when you go there it is not the greatest amenities it is just bare bones but I would like to see a lodge there and a swimming pool and just whatever people want so they can spend time their either on their way to Lake Powell and back and on their way to other places. They don't even know it's there because it is not being publicized because no one has an economic interest in publicizing it. So I just want to encourage you and let's see what you can do to get more data and even more analysis maybe by people who have run these things successfully and have them look at some of ours and say what could you do?

**Randy Simmons:** When we started I said this is just preliminary information and Kenny is sort of an advanced scout. He has found some tantalizing information. What would you like next should we, there is a company in Orem we could get someone from there to come and talk about what they do. What Kenny and I though we would do is we could go down and meet with someone from State Parks and we could go talk with them about what it is they are currently contracting and understand their perspective on this process. One of the reasons the Warren Meyers model works is you take management of like five parks so you have a bundle as opposed to I am going to sell candy bars at this park, I am going to run the boats over here. What would you like done?

**Steve Densley:** I think it would be really helpful to hear from someone like Mr. Meyers. I think it would also be interesting maybe at the same meeting to hear someone maybe from Parks and Recreation that could respond to what Mr. Meyers is saying and help give us that perspective. Someone who could give us a balanced view on how to approach this.

**Representative Hunsaker:** I would support that also. There is no sense in reinventing the wheel. If Warren Meyers has a program that works I think he could answer some questions that could be very helpful. One that I would have is how does he manage the risk management of these parks. A lot of people are coming to these parks and they are still state properties and how do they cover the liability if an incident occurs? I think Jim hit on another important question and that is the enforcement. I have had a little experience with the property around Bear Lake, the Sovereign Lands concessions on that and one thing we hear constantly is we cannot have the enforcement without having post trained people there available. In other words the public doesn't pay much attention to summer employees that don't really carry the authority to enforce the rules and so it just seems to me if there is some very fundamental but very important issues that need to be addressed and I am just wondering if Warren Meyers might not be the one.

**Kenny Brown:** American Land and Leisure and actually the CEO is Dick Kemp, Jack Kemp's brother. I have a couple of people I have been in contact with but they would actually be the first people we would want to talk to. They operate concessions. I know they are a very large and very extensive company. I am not sure how their business differentiates from Warren Meyer. Warren Meyer's business is managing state parks comprehensively, not just candy shops he is

it. I am not 100% sure what American Land and Leisure specialize in but they would obviously be very important too.

**Steve White:** For every contract Utah County writes we require that the vendor or whatever, even if it is someone who is cleaning toilets for us carries a 2.2 million dollar liability and then the second thing is overall all Sovereign Lands in the State of Utah County Sheriffs have primary jurisdiction outside of the municipalities. Doesn't matter if it is Federal Land, Private Land, County Land or State Land. The County Sheriff is the one who is elected with that duty and responsibility. I know for BLM on the Wasatch Front district there are only two enforcement officers for those millions of acres. The Fed's have no enforcement people and probably Natural Resources has very few as well. Someone ought to step up and look at an enforcement contract or something for regularity of visits to camp sites. Remember that most police work is done on a response on a call for service. You cannot have enough policemen without having a police state to prevent crime. On an ongoing real time basis.

**Senator Stephenson:** I don't want to side track the conversation but I just have to make a comment on the state's 2.2 million dollar liability. I would hope that we would not extend that to the private sector because I think it is a morally wrong concept in the first place for the state to handle limitation on it's liability as if the king can do no wrong or at least no more wrong than 2.2 million dollars. But if it exists and is in place we have tried to bump it up there to make the state more conscious of the kinds of injuries that its negligence may cause people by having them pay the full bore of that cost. I would hope that whatever concessionaires we have that they have to go bare and they just have to be liable for whatever irresponsible actions that they have in the running of state facilities to the extent that the state is liable because they own the property the umbrella would still exist or the cap would exist.

**Randy Simmons:** Let me just note that going back to the original discussion, the kinds of privatization. In this case the state would remain as a service arranger and the contractor would be the service provider. So the state maintains that service arranger role completely. That goes to Fred's point there is still this strong state roll you don't do away with the state roll. It is the arranger of the services not being the provider of all the services. We will see about getting people who know far more than we do. We thought we could just provide you this little survey of ideas and move on in another meeting.

#### **UADBC Retail Stores – Robin Riggs, Chris Bruhn**

**Randy Simmons:** Robin Riggs is not here today. He is at another meeting discussing this issue and has asked that we put off discussing the UADBC Retail Stores until our next meeting.

#### **Survey – Chris Bruhn**

The surveys are going very well. Most of the agencies have responded by their due date and that last four or five surveys have come in and have been 75 pages so the agencies have well documented. As of around three o'clock this afternoon all surveys will have been sent out so all surveys should be back by the third week in July. That will give me a lit more time to digest the information and actually go out and speak with the agencies so I understand comprehensively what every service is and how to go about my analysis.

**Kent Beers:** I think at this point it is becoming important now for as the surveys keep coming in for Chris to start meeting with the agencies and then having them come back and report to the board on their activities in more detail. If the board members are here from when I gave the report on State Purchasing we went item by item of the services we provide and I think in addition to Chris talking to them I think we need a representative from the agency to come and

also assist in that presentation. I think we should start doing that on a regular basis otherwise we are not going to get through all of these agencies.

**Randy Simmons:** Who do you think we will have ready for our next meeting do you think?

**Kent Beers:** I just think as Chris has received them in order I think we should just take the first one that responded back and just let him arrange for them to come and contact you Randy as to which one would be on the agenda next and have Sue put it there.

**Senator Stephenson:** I am trying to remember has Workforce Services been one that has been listed in the response?

**Chris Bruhn:** No it has been my last one to send out. I have gone through the entire directory one by one in alphabetical order. So Workforce has just been the last one to go out. That will be done this afternoon.

**Senator Stephenson:** I am keenly interested in that one because it is such a huge budget and it involves a lot of kinds of services such as call centers and I would like to look at that and see what you find as soon as you find something. If you could let me know I would be really interested. Mr. Chairman I would like to depending on what the survey results show maybe have them as one of our early opportunities to review for outsourcing and public private partnerships because there are a lot of opportunities there that the private sector are already providing in and it seems to lend itself to that kind of early review. I know that as we begin to teeth ourselves on this process as we begin to learn about how to look at these opportunities, I think that would be a natural fit for us to look at early on and so I would like to just make that request.

**Chris Bruhn:** As soon as I get the review I will just forward it on to you. That way you can look at what I am looking at.

**Randy Simmons:** Any more questions for Chris on the survey?

### **Surplus Sales – Kent Beers**

We are passing out a letter that was sent to the Privatization Policy Board from the Government Operations and Political Subdivisions Interim Committee. The chairs of the committee write that we request that the Privatization Policy Board Study whether to privatize the sale of surplus state vehicles. They are asking that we report back our findings to the committee on the August 18<sup>th</sup> Interim Meeting. With that short of a deadline I took the liberty to ask Chris if he would do some preliminary work in studying how surplus vehicles are disposed of right now. Then on his work based right here we could move forward then with an inquiry to the private sector to see if there is any firms that would be interested in doing more of this work and then we could report back to the committee on August 18<sup>th</sup>. So with that Mr. Chair I would request that we give some time to Chris to present.

**Chris Bruhn:** I had the opportunity to go speak with Sam Lee who is the Director of Fleet Operations and he gave me a brief overview of how the whole operation worked for the agencies. Once they meet a 105 thousand mile date or had operational issues they send them down to state surplus and then Dan Martinez who is the director over there takes over the process. When the cars come in those vehicles are put up on NADA which is complimentary to Kelly Blue Book. They go through the listing of how much it is supposed to cost, they put the cars on different sites for marketing. They are in a transition period right now trying to figure out a better way to market those vehicles. They use gov.com which only does government vehicles

so it is to a select group that can actually view those vehicles. They also put them on EBay but very few go into that market. They also leave the vehicles on the surplus lot which is the preferred method. The reason for that is Dan came in about three years ago and they were contracting most of their vehicles through an auction which was called TNT Auctions. They used to have two contracted entities however TNT has become the preferred provider.

The vehicles according to Dan have a lot better resale through State Surplus. What they have done is they have come through a time scale so for the first 30 days it is full price of the NADA listing. 31 to 45 day they drop it down 10% and about every 15 days thereafter they drop down about 10% to a 60% margin. The reason they have done that is when they send them over to TNT 91% of the profits go to the agency who is selling the vehicle and 9% goes to state surplus. 4% of that 9% goes to TNT. So State Surplus takes only 5% of the sale.

**Kent Beers:** I am not clear on how they move to TNT.

**Chris Bruhn:** They try to hold them for about 90 days.

**Kent Beers:** So surplus tries to sell them on site for 90 days and if they don't sell they move them to TNT.

**Chris Bruhn:** Correct. 90 days is about their break even point they figured because of that 4%. When they send them over to TNT they only get about 60% of the profits out of that 99%.

**Steve White:** And so then in that 90 day period they are using their online tools to dispose of these vehicles.

**Chris Bruhn:** Correct

**Steve White:** And then in 90 days if there are no takers it goes to the public auction.

**Chris Bruhn:** The public auction is where they send it after that they do try to sell it online. They are in the middle of using an EBay type sell device. They could put it up on the web right now but they don't have a way to actually buy it now. So the people can look at it. What they are trying to do is get a web sale available to the public. So they can just buy the car and not have to go to surplus.

**Steve White:** You would think there would be a contractor that could just turn it on like that.

**Chris Bruhn:** That is an issue I brought up with Dan and he is looking into some of the specifics for costs.

**Senator Stephenson:** So you are saying that they claim that they get a lot better price for the vehicles by selling them online themselves and then those that are excess that they have not sold for 90 days they take to the auction and they get significantly less. I wonder if we could have someone look at that because I don't trust that on space.

**Chris Bruhn:** I didn't either and I asked them about it. Everyone is doing an optimization programs for the legislature this year. They had a free proposal that they had done and they just did a presentation on it. According to their numbers and I have the raw numbers to look at to their actual presentation numbers that they supplied to me. Surplus cars get 92% of what that NADA wholesale value is. So if the car is listed for \$5,600.00 they get 92% of that number.

**Steve White:** Just for the record in the NADA book there is an average retail, an average wholesale, I just wanted to make sure when you said 92% that we are talking 92% wholesale price.

**Chris Bruhn:** Actually I believe it is the retail price. I think what they have done is put it all together so the specs on the car the engine model, what they would actually get on the retail end of it. I need to clarify that but I believe that is what it is.

**Senator Stephenson:** I would like to get that confirmed. In fact I would like to have someone from the auto industry in here maybe to look at it. I think that they should be looking over your shoulder as you look at that. They know things to look for that you don't and I don't. For example by definition it makes sense that the excess vehicles that have not sold after 90 days are going to get significantly less because for some reason they didn't sell. Who knows we may be getting far less than we would be getting by putting them all on the auction.

**Chris Bruhn:** There is a very important aspect to that as well auctions are done quarterly so those vehicles are only sold, they stay on the lot at surplus for about 45 days on average where as the auction once they go from the State Surplus lot to the auction they sit at the auction for about 105 days because those vehicles did so poorly at the auction. That is the way TNT operates

**Senator Stephenson:** Well then let's use another auction.

**Chris Bruhn:** That was another comment that Dan had as well I think their contract is up the end of this year. He is going to try to get a multiple award contract.

**Steve White:** Well and you worry about the time value as well. There is a time value on it. It is sitting there for 105 days average before it goes to sale after sitting 45 days. Now your 6 months down the road

**Chris Bruhn:** Correct.

**Randy Simmons:** We could put a bundle on sale at KSL.com. So in order to respond to Senator Knudsen and Representative Frank and Hunsaker's request by August what do we do? Kent?

**Kent Beers:** Well a couple of things. I have one more question if I may for Chris. Did you look at Surplus Property and their entire operation? How much impact does the sale of vehicles help to fund their whole operation?

**Chris Bruhn:** That is a question that Dan is working on right now. I have asked him to give me all the overhead costs for the entire operation. What it would mean for State Surplus for Fleet Operations for the whole in a micro and a macro look.

**Kent Beers:** Because my question is if we remove the sale of the vehicles from Surplus Property could they continue to operate?

**Chris Bruhn:** It sounded like it was something that was an option however the details are being hammered out as we speak.

**Kent Beers:** But right now a large percentage of the sale actually goes back to the state agency anyway?

**Chris Bruhn:** Correct 91 of the actual sale goes back to the state agency. The one concern that Sam had that I should probably let you know is the fact that people go out for state property, a lot of them go out to look at vehicles and as they are on the site they do spontaneous shopping. It does add to their ability to create revenue.

**Kent Beers:** Well I am wondering if that is their most profitable item is the sale of the vehicles and Surplus Property is an ISF then how would they operate. We need to look at the whole package. But in the big scheme of things maybe it would be cheaper to appropriate some money to operate Surplus Property if we receive more money back on the sale of vehicles. So in response to your question Mr. Chair they are asking the Privatization Policy Board to study whether to privatize the sale and so I don't think that we need to come back to them with an actual yes we could privatize this at this time. I think that we can report back to them here is how the current operation works. We have looked and sent out a request for information to the private sector as to whether there are private sector firms that would be interested. I think Senator Stephenson has brought up a number of points today that need further investigation. I just think August 18<sup>th</sup> is a very tight time frame for this board to actually come back and say yes we have concluded. I think we should study whether to privatize which is what they are asking us. They are asking us to report on whether they say; we request that the Privatization Policy Board study whether to privatize the sale of surplus state vehicles. I don't know that we can really come up with a conclusion by then but we could ask the board.

**Randy Simmons:** We could have more information in our July Meeting that we could then report on in August.

**Steve White:** Mr. Chairman in the bottom of all this we would like to hear your findings. So as we go out and investigate what are the opportunities? What are the possibilities they would like that and we need to be thorough in our sifting. We need to see what is available out there in the marketplace. Having to do that they are going to decide whether that should be something that should be privatized or not we are going to just report our findings which is what they are asking for right.

**Senator Goodfellow:** Just a couple of questions sometime ago we put a cap on no agency could buy a car without approval of the legislature. We also pulled back so that most of the cars now are in state motor pool rather than being out to various departments. What percentage of these cars are in fact in a motor pool rather than in agencies?

**Chris Bruhn:** That I don't know I would have to do some research on that.

**Representative Hunsaker:** Just a comment on the timing. The real urgency is if this is determined that this is something that needs to be done like privatizing the sale of cars and it required legislation the committee felt like we needed to know fairly early so we could get working on the legislation if that's what it required. So that is one reason for the August date.

**Kent Beers:** So as long as it is the committee then that makes the recommendation to the full body of the legislature. I was just thinking of the whole process involved in contracting to a private sector firm we cannot accomplish that. So as long as Steve pointed out we are just reporting our findings of the study. It would actually be the legislature who then determines.

**Randy Simmons:** Okay. Anything more on that one?

**Chris Bruhn:** Senator Goodfellow one thing that has just been brought up in my mind is the motor pool for the smaller sedans and cars a significant percentage of the cars that they sell down at state surplus are heavy duty machinery. So it will skew the numbers just a little bit.

**Senator Stephenson:** I wonder if we could get Craig Beckmore from Utah Auto Dealers Association and or the person who handles the used card dealers. They may have some expertise too. Anyway Craig Beckmore of Utah Auto Dealers Association could give you the names of people who could be expert in this and would be willing to help you and the committee look at what is hidden under the rocks and knowing the right questions to ask. Course they may have a bias because they may likely be interested in privatizing but I'd like to hear their bias.

**Chris Bruhn:** I think in this case your going to get a bias from State Surplus and it is just as beneficial to have someone coming from the other side to equal it out.

**Kent Beers:** With the boards permission then State Purchasing would send out a request for information to the private sector to see which firms would respond back as to their interest in disposing of the state vehicles. This doesn't bind anyone to anything its just a request for information and then they report back for example a question was why does this one particular auction firm take so long to sell every quarter are there other firms out there that sell weekly or monthly? So we could get back a lot of information if we do a request for information for the private sector.

**Chris Bruhn:** In response to that there is something that actually sparked my memory. The auctions are held every quarter. However a very little known fact and they don't market it those cars can be bought on the fly. I am not quite sure exactly to the extent of how they market the vehicles through TNT but you can go to TNT in the interim most people don't and I don't think they know about it.

**Senator Stephenson:** Before we send a request for information back from the private sector I think it would be good to have informal discussions with people in the private sector similar to our discussion on This is the Place State Park. It seems that the plan may have been developed internally and therefore we may have put out this RFP that is so weird in its configuration that it may create a situation where we have to keep subsidizing because of the limitations and other kinds of things. I think it would just be good to do some preliminary discussions and research rather than just sending out a blanket request out to every auto dealer in the state asking if they would be interested or every auction or whatever to have the discussion first so that we know the right questions to ask. Because I don't. Maybe you folks do.

**Kent Beers:** Actually in the realm of purchasing that is the purpose of a request for information. It is we don't understand this industry. You guys tell us what you do and then we gather information so if we are going to put out procurement for an industry that we have no idea what it is. First time around we will send out a request for information and the firms will respond to us and give us information about how the industry works. So that is part of our education process. And again it doesn't bind anyone. It just tells us how it works out there. So it is kind of along the line of what you are asking for. Find some industry experts. Well that is what this is.

**Senator Stephenson:** Well still let me just say that as Cool Hand Luke said we sometimes have a failure to communicate. In asking them to respond we may be asking them to respond to the wrong thing. That is why I think informal discussions first can help create the request for

information to be more efficient and not to have to come back and say again I wish we would have asked for that now that we know about this. I don't know. I don't want to tell you how to do your job but it just seems to me that those kinds of discussions first can be very helpful in knowing how to craft a request for information.

**Kent Beers:** Why don't we go ahead and do that then have the informal discussions, learn what we can and I guess at this point I am going to recommend that we form a small task force to work with from the board because of the short time frame. So we could have the informal discussions with select members of the board and the industry people and then we can move forward with the request for information. In the timing of how often the board meets we are two meetings away from August 18<sup>th</sup>. Would that be acceptable senator?

**Senator Stephenson:** Yes thank you.

**Randy Simmons:** Are there people who want to be on this task force?

**Committee Members:**

Senator Stephenson

Senator Goodfellow

David Osborne

**Senator Goodfellow:** I was just going to say in gathering the information and so forth it would be interesting to, I have a company out in my area that has auto auctions Tuesdays and Thursdays and it is probably the largest in Utah, its Frasers and it would be interesting to see why the state hasn't taken cars out there and maybe there is a reason maybe there isn't. That is a possible solution. They move a lot of vehicles.

**Randy Simmons:** Thank you we have a lot of people who need to leave in five minutes. I have had members of city councils call me and ask if the Privatization Policy Board would be willing to look at UTOPIA in general. It is an organization that provides fiber optic service to several cities. Cities that have signed up, the people who called me are members of the city councils. Some of those cities are concerned about the fact that you have this Quasi State Organization providing a service that could they believe be provided privately. The argument for UTOPIA is those services couldn't and wouldn't be provided privately. So they have asked to look at it but again it's a sort of state agency providing service to municipalities. Is this the kind of topic that we can discuss?

**Jim Kesler:** Yes I think we can discuss it I don't think anything would come of it because I have property in Murray and we are under contract and there is nothing we can do about it. We are just paying into UTOPIA like crazy. They are so far in debt that it is unreal. If we could come up with a conclusion it would not be affected.

**Steve Densley:** You know under the statute and what council has advised us we can absolutely review this. It is a request that has been made by a local entity and so it is something we could do.

**Randy Simmons:** So what I will do is invite someone from UTOPIA to speak with us and someone from the committee to maybe put together a presentation like what Kenny did for the next meeting.

**Senator Stephenson:** The Administrative Rules Review Committee had a hearing on UDOT's plans for new process of tourist directional signs which are not on the freeways. Right now we have business oriented directional signs that you see that have multiple companies listed on one sign and they say take this exit and sometimes when you're on the ramp it tells you whether to turn left or right to get to those particular restaurants or convenience stores etc. They were going ahead with this and there seem to be so many questions raised about the equity of how it was being done. The wisdom of doing it the way they were planning it that they agreed to delay their implementation for 56 months to make sure they are doing it in an optimum way. The Administrative Rules Review Committee voted to request that the Privatization Policy Board review how the segmentation process related to scenic byways under House Bill 272. We would have this board review this and get back to us with recommendations. The Administrative Rules Committee probably wouldn't be addressing it but the transportation committee or the standing committee or the interim committee would be considering it. We felt that this body was a great entity to look at what would be equitable in the segmentation of those signs in our rural communities.

**Randy Simmons:** So who do we get to make a presentation so we could have enough information to?

**Senator Stephenson:** The same people who presented to the Administrative Rules Review Committee from UDOT. That is contained in their minutes. Our staff could also get you this information. Art Hunsaker or Susan Allred. Either of them could get you that information of the people who spoke there. They also had people from the industry speak including representatives of Regan Outdoor Advertising who pointed out things that we were not aware of. I think that would be a good place to start with those two entities UDOT and Regan Outdoor Advertising and others who may be in the minutes presented there.

**Randy Simmons:** Kent do you want to track down who they were?

**Kent Beers:** Actually I was in that meeting. I know everyone there. The only thing I am going to say is that we are compounding the assignments for Chris as the only staff and he is half time.

**Randy Simmons:** The survey is where he needs to be at this point. What I would view this assignment now is just a presentation to the board, not for Chris but from this seven people.

**Senator Stephenson:** May I suggest Mr. Chairman that each of the committees that send us these kinds of requests, I think it is not inappropriate to ask them. They have a vast staff at Legislative Research and General Council. I don't think it would be inappropriate for us to ask them to assist us in some way. It will be interesting to see what their reaction is there but the chairs at least who send us these letters ought to be asked ok we have a half time person doing this now can you help us with your staff augmenting that so that we can actually get the job done because I know that Chris is great but he can only do what he can do with four hours a day.

**Randy Simmons:** That is a really good suggestion.

**Kent Beers:** I will get a hold of Art and we will see what their response is and if they can help.

**Senator Stephenson:** And also with the other letter let's look at those chairs. Oh Mr. Hunsaker is one of those who signed that one so he could probably respond whether staff could help.

**Randy Simmons:** Let's corner him afterwards.

**Representative Hunsaker:** I would like to just say that I think it is a good idea to involve let's say Legislative Research and General Council staff so they are up to speed also on what is coming. I think it is a great idea.

**Steve Densley:** In addition to using the staff you know there are probably people who have made presentations to those committees who could help advise us well. Maybe they are referring an issue to us they can also refer people to us to make some kind of presentation instead of us trying to figure out who we can go to for information.

**Randy Simmons:** That is a great suggestion. So the next time we get a letter we will send it back saying who do you suggest, what staff are you going to send to us and what people should we be talking to?

Kim Jones made a motion to adjourn the meeting. Steve Densley seconded her motion and it was unanimously approved.

#### **Next Meeting**

The next meeting will be held on Wednesday July 28, 2010 at 10:00 a.m. in room 450 of the State Capitol