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Fact Sheet Outsourcing the State's Telephone System

**What is CALNET?**

In the 1980s, the state developed a state-owned, private-sector operated telecommunications network designed to provide phone and data transmission service to most state office buildings, various city and county governments, community colleges, schools, and other facilities across California. The system became operational in 1991. It currently provides 300,000 dial tones to government customers statewide. CALNET is overseen by the Department of General Services (DGS) Telecommunications Division.

**Why is the state privatizing CALNET?**

The rapid rate of technological change in the telecommunications industry is expected to increase the cost of owning and operating private networks such as CALNET. The private sector is much better equipped to keep pace with technological advancements, and to serve the state's changing telecommunications needs.

**Who competed for the "new CALNET" contract?**

In early 1997, 11 telecommunications firms initially expressed interest in taking part in an alternative procurement process that allows DGS to select the "best value" bid, as opposed to being limited only to the lowest bidder. In May 1998, DGS announced that final proposals had been submitted from AT&T, GTE, and Pacific Bell/MCI.

**Why was the team of Pacific Bell/MCI recommended by the selection panel?**

The winning proposal from the team of Pacific BELL/MCI, valued at \$929 million, scored approximately 25 percent higher from a technical standpoint, and came in nearly 80 percent lower in prices than its competitors.

**How much money does the state expect to save?**

Over the next ten years, taxpayers could save as much as \$117 million. This includes \$45 million in reduced maintenance, \$37 million from lower phone rates, \$25 million from the winning bidder taking over debt service on existing equipment, and \$10 million by avoiding the relocation of telephone switches from earthquake damaged buildings in San Francisco and Los Angeles.

**What services are covered under the contract?**

Long distance and local calling services, data services, calling card service, Internet service, video conferencing, personal communications services (PCS) mobile communications, building wiring and consulting services, and statewide billing service. Pay phone service is not covered under the contract.

**What is the volume of business?**

Once implemented, the contract will cover approximately 300,000 telephone lines. The current CALNET is the 13th largest phone system in the United States, and the 3rd largest system in California.

**Will this contract result in the loss of any civil service positions?**

The privatization of CALNET will not eliminate any current state jobs, but will allow employees to shift from a strictly operational role to more of a customer service and oversight function. Much of the operation and maintenance of the existing state telecommunication's network is already contracted out to the private sector.