

**ALASKA STATE LEGISLATURE**  
**SENATE HEALTH AND SOCIAL SERVICES STANDING COMMITTEE**

February 25, 2015

1:32 p.m.

**MEMBERS PRESENT**

Senator Bert Stedman, Chair  
Senator Cathy Giessel, Vice Chair  
Senator Pete Kelly  
Senator Bill Stoltze

**MEMBERS ABSENT**

Senator Johnny Ellis

**COMMITTEE CALENDAR**

PRESENTATION: MEDICAID EXPANSION

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

VALERIE DAVIDSON, Commissioner  
Department of Health and Social Services (DHSS)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information on Medicaid Expansion.

JOHN SHERWOOD, Deputy Commissioner  
Department of Health and Social Services (DHSS)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information on Medicaid Expansion.

RON KREHER, Acting Director  
Division of Public Assistance  
Department of Health and Social Services (DHSS)  
Juneau, Alaska

**POSITION STATEMENT:** Presented information on Medicaid Expansion.

## **ACTION NARRATIVE**

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**CHAIR BERT STEDMAN** called the Senate Health and Social Services Standing Committee meeting to order at 1:32 p.m. Present at the call to order were Senators Stoltz, Kelly, Giessel, and Chair Stedman.

### **PRESENTATION: Medicaid Expansion**

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CHAIR STEDMAN announced that there would be a presentation on Medicaid Expansion by the Department of Health and Social Services (DHSS).

VALERIE DAVIDSON, Commissioner, Department of Health and Social Services (DHSS), said she would discuss the Healthy Alaska Plan today. She introduced Mr. Sherwood.

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CHAIR STEDMAN brought the meeting back to order.

COMMISSIONER DAVIDSON began by introducing the recently released Healthy Alaska Plan that can be found on the department's website. She stated that the Healthy Alaska Plan found that Medicaid expansion is healthy for Alaskans, healthy for the Alaska economy, healthy for the state general fund budget, and it advances reform. She maintained that reform is necessary and Medicaid opportunities are enhanced with expansion. In the current fiscal environment, the state must ensure that there is a sustainable Medicaid program for years to come.

She referred to Governor Walker's state of the budget address where he asked the commissioners to look at the budget and plan for a total of 25 percent cuts to department budgets over the next several years. She related that the DHSS budget totals \$2.7 billion, of which Medicaid is \$1.7 billion. Reform provides an opportunity to identify and implement efficiencies, to make improvements, and to deploy innovations in order to minimize the impact to Alaska's most vulnerable population. She maintained that the conversation must go beyond simple fixes and look at the current Medicaid program as an opportunity to design an Alaska plan.

CHAIR STEDMAN opined that the target is closer to \$3 billion or \$4 billion.

COMMISSIONER DAVIDSON continued with a discussion of reforms the department is already undertaking. The first reform is to control the over-utilization of hospital emergency room services. The department has identified over 5,000 people who are Medicaid beneficiaries who over-utilize emergency rooms, costing about \$29 million a year. The department began a care management program that would direct those people to the appropriate level of care. The target was \$7 million in savings, or reducing the expense by 25 percent. The method used was through policy. She noted it is a voluntary program, and to make it mandatory would require a regulation change. She addressed the reason why individuals over-use emergency rooms; those who do not have health care coverage can, by federal law, receive it at emergency rooms.

She explained that the second reform looks at increased fraud and abuse prevention and control efforts. This is cost avoidance as a result of providers not submitting future claims based upon another provider found to be fraudulent. She said they saw this a lot with personal care attendant fraud prosecutions. The department then required all the personal care attendant providers to be registered as Medicaid providers. This allowed the department to reduce waste. The target of this reform is \$15 million in annual avoided costs. The method used was through policy.

SENATOR KELLY asked if the target had a time-certain date.

COMMISSIONER DAVIDSON said some of the cost-avoidance efforts have already begun. They anticipate arriving at the \$15 million mark in a couple years.

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COMMISSIONER DAVIDSON continued with the third reform effort - home and community-based service improvements. She said this option was available in 2010 under the Affordable Care Act. She said the department is currently exploring two of four possible options; a 1915-I waiver that replaces services that are currently being provided, with 100 percent state general fund. It would serve people that don't meet nursing level of care, but do meet another criteria, such as Alzheimer's-related diseases, traumatic brain injury, or severe mental illness. The types of services are personal care attendant services, general relief

services, adult day care, and senior in-home services. Some will be at 50 percent match or under the expansion group match. The 1915-K waiver would allow the department to replace existing Medicaid home and community-based waiver services matched at 50 percent federal with 1915-K services that are matched at 56 percent federal. The combined total waiver target is \$24 million annual savings upon full implementation, which is expected in two or three years. The method used is through a waiver.

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COMMISSIONER DAVIDSON turned to the fourth reform, patient-centered medical home initiatives which help those with chronic health issues. The initiatives allow individuals to reduce hospitalizations. The target in savings is between \$78,000 and \$165,000 annually per 1,000 enrollees. This recommendation came from the 2011 Medicaid Task Force and would be enacted by a regulation change making the initiatives mandatory.

She said the final reform is coordination with the Alaska Tribal Health System. She explained that when three agencies are involved with a beneficiary, the Indian Health Service, Medicaid, and Tribal Health, the state is allowed to claim 100 percent federal match. The department would like to target about 10 percent, or \$15 million in savings to the state general fund through policy and through agreements.

She noted other waiver opportunities are also available to explore, such as behavioral health and senior disability waivers. She clarified that all reforms are in the existing Medicaid program, however, some are voluntary, but some can be negotiated through a federal waiver.

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SENATOR STOLTZE asked if the department has statutory recommendations for the legislature or the Governor.

COMMISSIONER DAVIDSON clarified that none of the reform efforts require a statutory change; they may require regulation changes.

SENATOR STOLTZE pointed out that there is a 90-day session and the regulatory process can be much longer. He suggested that there might not be enough time to implement expansions and reforms might have to come first.

COMMISSIONER DAVIDSON reiterated that the reforms are already underway. The department would like to build upon those efforts and believes reform and expansion can go hand in hand. The

department has a longer-term strategy plan for 2017 and beyond. The department anticipates legislative suggestions and will take the time needed to develop an Alaska plan. The reason expansion is being addressed now is due to a very limited opportunity to take advantage of federal match under expansion. Under the Affordable Care Act, expansion is only allowed during the 2014-2016 years.

CHAIR STEDMAN mentioned the need for cost containment and reducing expenditures by 25 percent while absorbing the costs of expansion.

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COMMISSIONER DAVIDSON turned to additional reforms that have been recently identified: changing the eligibility for Personal Care Assistance (PCA) services for a savings of \$2.5 million, a possible savings of \$1 million in durable medical equipment, vision, and hearing, an increase in the number in the Super Utilizer contract for management of care, a \$1 million savings in dental, implement utilization control for Behavioral Health services, and ground transportation savings by reinforcing policy, encouraging escorts for multiple members for travel, and developing a fee structure.

She addressed other reforms that could happen by 2016 totaling \$10 million in savings, such as efficiencies in the Tribal Health System due to new facilities on board, resulting in savings in support and ancillary services - labs, dental, long-term care.

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SENATOR STOLTZE recalled a visit from families with disabled family members. They had two priorities, available used durable medical equipment and telemedicine. He inquired if they would require statutory changes or regulatory changes.

COMMISSIONER DAVIDSON replied that there is a surplus of durable medical equipment available and the department has had conversations with providers to let them know this is a priority. She added that regulations are available to go to public hearing now. She commented that the state often has to deal with challenging issues, however, when it works together with communities, stakeholders, and providers, progress is made. She agreed that telemedicine in Alaska should be utilized more than is being done and should be built upon.

JOHN SHERWOOD, Deputy Commissioner, Department of Health and Social Services (DHSS), added that neither change requires a statutory change. If it was a mandate, it might require statutory work. He offered to follow up on the issue.

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SENATOR KELLY asked about \$10 million in savings due to coordination with Tribal Health organizations. He maintained that some of that money was for the Alaska Native Medical Center and has been counted.

COMMISSIONER DAVIDSON responded that a part of those savings have been included in SB 88, but not all. For example, the projected annual savings the department allocated to SB 88 was \$3.8 million. The department anticipates about \$8.8 million in annual savings.

CHAIR STEDMAN requested information about the targeted savings and budget reductions from last year were.

SENATOR KELLY thought that an increase in Medicaid cost was included as expenses in the presentation, when, in fact, Medicaid costs have decreased. He asked for clarification.

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COMMISSIONER DAVIDSON said the department would be happy to provide that information.

She discussed designing reform by using funding from the Alaska Mental Health Trust Authority to fund technical assistance. The department will look at reform in other states and at how to engage stakeholders when building an Alaskan model. The contractor will also help identify the approval process, whether it be through regulation, statutory change, state plan amendments, and/or waivers.

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COMMISSIONER DAVIDSON reviewed the timeline for reform. In February 2015, the RFP was released, March is the deadline for proposal submissions, in April or May the department will meet with the contractor and stakeholders, and then in January of 2016, the department will present the report to the legislature and the public.

CHAIR STEDMAN said there might not be enough cash in the bank to survive the time schedule. He suggested that it be accelerated.

SENATOR STOLTZE asked how stakeholders are defined. He said his stakeholders are his constituents.

COMMISSIONER DAVIDSON responded that the department is open to all reform ideas and plans to have a conversation out in the open. She said she is a collaborative person and will meet with persons of all viewpoints.

SENATOR STOLTZE hoped for widespread involvement and a significant outreach.

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COMMISSIONER DAVIDSON spoke of additional reform options, building blocks to achieving meaningful reform, which the contractor will be researching. Some reforms are: payment reform, strengthened primary care, care management, workforce innovation, maximizing federal matching fund opportunities, and improved Telehealth capabilities. The department is looking at examples of what other states do.

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COMMISSIONER DAVIDSON continued with reform strategies for increasing prevention and shared responsibility: cost-sharing options, health savings accounts (HSA's), service to direct patients to the appropriate level of care, incentives for healthy behaviors, increased access to preventative services, and work assistance benefit for the expansion group. These are additional reforms other states have.

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SENATOR KELLY voiced concern about the lack of time to enact the reforms. He opined that the state already knows about other states' reforms. He suggested using a model to see various savings scenarios in order to extend reserves. He said the scenarios he looks at show the state running out of money in FY 2018. He suggested not studying reforms much more and just doing something. He thought there would be support from the Governor and the legislature.

CHAIR STEDMAN said he does not see any real reductions in the reforms. He agreed with Senator Kelly and cautioned about pending budget cuts in services.

SENATOR KELLY recalled sales courses and said, "If you think you should do something, do it."

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COMMISSIONER DAVIDSON related who is covered by Medicaid and who is in "the gap". She listed those not covered: adults without dependent children who earn less than 100 percent of the federal poverty level do not qualify for Medicaid nor a subsidy. She said the "donut hole" was created when the Supreme Court determined that states have the option of expanding Medicaid.

She explained what Medicaid expansion consists of: a higher federal match resulting in an immediate economic boost to the state, reducing uncompensated care of \$100 million by reducing the number of uninsured, and opportunities for reform and waivers by using higher federal match. She noted that Arizona saw their uncompensated care drop by 30 percent in the first six months of Medicaid expansion.

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COMMISSIONER DAVISON related who would be covered by the expansion. Adults between the ages of 19 - 64 without dependent children with incomes up to 138 percent of the federal poverty level would be covered. She showed a map of where these 42,000 adults live. Most live around large population centers. Anchorage and Mat-Su have about 21,000 people who would be covered, or about 50 percent. She listed the percentages in every area.

SENATOR KELLY asked if the total is 41,000 people.

COMMISSIONER DAVIDSON said yes - 41,910.

She showed a graph that depicts the expansion population with, and without, jobs. About 44 percent are working. About 43 percent of those eligible for expansion have no insurance and about 29 percent have partial coverage.

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SENATOR KELLY asked if 58 percent of Alaskans are not in the workforce.

CHAIR STEDMAN said 58 percent of those who qualify for expansion. He requested a breakdown by regions of those who are unemployed, unable to work, and not in the labor force.

COMMISSIONER DAVIDSON commented that everyone is impacted by those who do not have health coverage. Lack of health coverage impacts the workforce.

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COMMISSIONER DAVIDSON discussed how many people would sign up for Medicaid if it was an option. It is estimated that about 63 percent would sign up. Part of the Healthy Alaska Plan included the release of a report by Evergreen Economics that provided statistics about the projection of enrollment, the per-enrollee cost, and the estimate of total spending. The report showed that in the first year 20,000 would sign up. That number will increase to 26,000 by 2021.

The average cost per enrollee in 2016 would be \$7,248, increasing to about \$8,433 in 2021. Those costs are lower than previously projected by the state because 54 percent of enrollees are men and males are lower-cost beneficiaries. Also, the largest group is made up of enrollees ages 19-34, who are also lower-cost beneficiaries. Based on the analysis from the department's Medicaid Budget Group, between FY 2009 and FY 2013 the average spending per enrollee for adults and family Medicaid group grew on average by 1 percent annually to \$6,560 in FY 2013.

COMMISSIONER DAVIDSON turned to the subject of reducing the recidivism rate. She showed a web site where the recidivism reduction plan is found. The Alaska Judicial Council reported that of convicted felons who completed an ADOC substance program, 12 percent recidivated compared to the control group in which 20 percent recidivated within 12 months of being release. She noted that the prison population is predominantly made up of adults without dependent children. She said this is a great opportunity for Medicaid to invest in behavior health services and alcohol and substance abuse programs. Other states are seeing a reduction in recidivism by investing in these programs.

SENATOR STOLTZE asked whether persons are in prison for substance abuse or for their actions while under the influence. He maintained they were in prison for aberrant actions.

COMMISSIONER DAVIDSON said that is correct.

SENATOR KELLY said some are also there for pre-trial.

COMMISSIONER DAVIDSON stated that access to health care means improved health outcomes and increased productivity and independence. The number of uninsured Alaskans would be reduced by half. More Alaskans would receive preventative and primary care, including behavioral health services and help in managing costly chronic diseases. Alaska's statewide mortality rate would drop. There would be health care access for survivors of

domestic violence and sexual assault. Access to health care is already showing a positive difference for the homeless populations in other states.

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COMMISSIONER DAVIDSON explained how higher federal contributions would occur under Medicaid expansion. She showed that FMAP was 100 percent in 2014 and declined to 90 percent by 2020. The department projects that in 2016, new federal revenues will total \$145 million and increase to about \$224.5 million in 2021. There will be over \$1 billion in new federal revenue to Alaska over the next six years. In 2016, every day of delay would cost the state \$398,452 in lost federal revenue.

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COMMISSIONER DAVIDSON highlighted state expenditure in Medicaid expansion. She showed a table of costs, offsets, and savings. Costs begin at \$0 in 2016 and increase to \$19.6 million in 2021. There are also administrative costs increasing from \$0 to \$1.6 million in 2021. These costs include positions to deal with the increased enrollment volume and payments. She identified some of the offsets, such as chronic and acute medical assistance, corrections, and behavioral health grants, totaling \$24.5 million. Increased savings are expected in the out years. The net savings to the state general fund by 2021 would be \$3.29 million.

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CHAIR STEDMAN requested information on the sensitivity of the numerics by row.

COMMISSIONER DAVIDSON said she would be happy to provide that information.

CHAIR STEDMAN asked if the department has that information today.

MR. SHERWOOD pointed out that the bulk of the spending is in the service component. In the early years the federal match is at or near 100 percent so there is not much sensitivity in terms of the impact on state spending. Total spending might be very sensitive, but there is a lot less sensitivity in terms of general fund spending. The administrative costs are relatively stable and are expected to remain so. The two primary areas of sensitivity are the average cost per individual and the total number of individuals.

CHAIR STEDMAN asked how many new employees are needed.

COMMISSIONER DAVIDSON said 26 positions, 23 dedicated to enrollment and 3 to paying providers.

CHAIR STEDMAN asked how efficient the software used for projecting the 26 positions is.

COMMISSIONER DAVIDSON replied that the department is experiencing problems with the conversion of the enrollment system to Aries. The completion date was supposed to be in October of 2014. The department has hired a previous director of Public Assistance to clear backlogs. It is also working with the contractor Deloitte to ensure an enrollment implementation date in July. On the payment side, the department has been undergoing a conversion to MMIS, a Xerox contract. The department has pursued liquidated damages against Xerox in order to recoup expenses. Xerox has indicated that it expects to have everything on track for a July enrollment.

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CHAIR STEDMAN asked for more information about the 26 positions and how soon they would be filled. He assumed they would be using the updated software. He hoped there would be efficiencies in the new system.

COMMISSIONER DAVIDSON agreed.

CHAIR STEDMAN asked how the 26 positions will be phased in.

MR. SHERWOOD said the department would have them all on board right away as soon as they get authority due to the high number of applications in the first few months. They expect 26 positions to work in the new system in July.

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CHAIR STEDMAN asked if there is time to train them all by July 1.

RON KREHER, Acting Director, Division of Public Assistance, Department of Health and Social Services (DHSS), presented information related to the Medicaid Expansion. He shared information related to the hiring of staff. The ideal goal would have been to bring the positions on board several months before the start of the fiscal year. Instead, long-term, non-permanent positions will carry some of the weight leading up to July by

reducing the backlog of work. He said he is confident they will get the staff up and running in time.

CHAIR STEDMAN commented on reducing GF spending and adding personnel.

SENATOR STOLTZE commented on the Affordable Care Act. He said he does not understand the math. He asked if the administration believes Medicaid expansion can proceed with or without legislative approval.

CHAIR STEDMAN said Commissioner Davidson could get back to the committee on that.

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COMMISSIONER DAVIDSON concluded that the Healthy Alaska Plan is good for improving the health of Alaskans and is good for the economy. It will provide a little over \$1 billion in federal revenue and 4,000 new jobs with about \$1.2 billion in new wages and salaries.

She addressed efforts to diversify beyond oil, LNG, and other opportunities, noting those projects take time to develop. Medicaid expansion is also one of the ways to shore up Alaska's economy in the short term by infusing \$145 million everywhere health care is provided in the state. She stated that \$1 billion in federal resources to Alaska's economy at a match rate that is about the same in the out years as what we currently pay for road and airport maintenance is a good investment. The Healthy Alaska Plan would allow the state to increase the health of Alaskans, to mitigate some of the impact to Alaska's economy quickly, as well as to address behavioral health issues of Alaskans.

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CHAIR STEDMAN asked about the impact on rural hospitals.

COMMISSIONER DAVIDSON said where ever Medicaid services are provided, there will be benefits to the communities. She offered to provide the breakdown by community. In smaller communities the benefits are as small as \$2.2 million, but in the larger communities, they are as high as \$4.7 million in federal match.

CHAIR STEDMAN requested a copy of that information.

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SENATOR STOLTZE asked if the \$1.2 billion benefit is for one year.

COMMISSIONER DAVIDSON said the impact to the economy is over six years of expansion. She said she looks forward to further discussions.

CHAIR STEDMAN summarized that the entire state is in this crisis and everyone would be working together.

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There being nothing further to come before the committee, Chair Stedman adjourned the Senate Health and Social Services Standing Committee at 2:55 p.m.