

HOUSE FINANCE COMMITTEE
February 04, 2004
1:38 P.M.

TAPE HFC 04 - 18, Side A
TAPE HFC 04 - 18, Side B

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:38 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Hugh Fate
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Representative Mary Kapsner; Jeff Jesse, Executive Director, Alaska Mental Health Trust Authority; Phil Younker, Sr., Chair, Alaska Mental Health Trust Authority; Steve Planchon, Executive Director, Trust Land Office, Department of Revenue

GENERAL SUBJECT(S):

OVERVIEW: ALASKA MENTAL HEALTH TRUST AUTHORITY

#HB377

HOUSE BILL NO. 377

An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date.

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
		TAPE HFC 04 - 18, SIDE A
000	Co-Chair Harris	Convened the House Finance Committee meeting at 1:38 p.m. He noted that the Alaska Mental Health Trust Authority (AMHTA) would provide a presentation & overview to the Committee.
		ALASKA MENTAL HEALTH TRUST AUTHORITY
154	PHIL YOUNKER, SR., CHAIR, ALASKA MENTAL HEALTH TRUST AUTHORITY	Introduced members Mr. Planchon and Mr. Jesse. He provided Committee members copies of the handouts. (Copies on File) and outlined the intent of the presentation.
300	Mr. Younker	<p>Provided a history of the Trust Formation:</p> <ul style="list-style-type: none"> • Litigation (related to breach of Mental Health Enabling Act trust established by Congress in 1956) ongoing for 13 years • State would have been required to reconstitute the old Trust • Millions of dollars in litigation costs • Millions in lost resource development opportunities • Paralyzed and fractured mental health community
403	Mr. Younker	<p>Listed the key terms of the settlement:</p> <ul style="list-style-type: none"> • Trust Authority free to use Trust resources to act as a catalyst for change • Trust Authority funding recommendations considered in a single appropriation bill • Trust Authority to aid in comprehensive planning for mental health program • Mental Health Trust Lands and associated state lands released for development
527	Mr. Younker	<p>Commented on the Trust's beneficiaries:</p> <ul style="list-style-type: none"> • People with mental illness • People with developmental disabilities • People with alcoholism/other addictions • People with Alzheimer's disease &

		other dementia
702	Mr. Younker	Listed the four boards that advise the Trust: <ul style="list-style-type: none"> • Alaska Mental Health Board • Advisory Board on Alcoholism & Drug Abuse • Governor's Council on Disabilities & Special Education • Alaska Commission on Aging
750	Mr. Younker	Continued, noting that the 4 Advisory Boards have been engaged in a collaborative effort with the Division of Behavioral Health to oversee a federal grant for planning and implementation of a service delivery. Alaska has the highest incidence of brain injuries than any other state.
802	STEVE PLANCHON, EXECUTIVE DIRECTOR, TRUST LAND OFFICE, DEPARTMENT OF REVENUE	Pointed out the land and resources used by the Board for profit totaling 994,000 acres: <ul style="list-style-type: none"> • Fee Estate - 547,000 acres • Mineral Estate - 341,000 acres • Coal, Oil & Gas - 106,000 acres
841	Mr. Planchon	Noted that the key role of the Trust is to prudently operate trust lands. He listed the regulations and assets of management strategy. Initially, 85% of the work was self-directed. He pointed out the charts that highlight the cost outcomes.
942	Mr. Planchon	Mr. Planchon referenced the chart showing the spendable income from the Trust Land. Lease rents are included, purchase contract interest and money of that nature. Over the past three years, that money has increased about 24%. Since the beginning of operations in 1994, it has increased about 800%.
1026	Co-Chair Harris	Questioned why the projected income was such a conservative number given the actual income.
1043	Mr. Planchon	Responded that the projections were done in the land office to actually be able to commit money.
1059	Mr. Planchon	Referenced the handout indicating the operating and capital expenditures versus the revenue earned. There are two types of costs incurred. The core operating costs and the supplemental operating costs that comes from the capital budget. That is used to pay for short-term

		projects and are not costs incurring on an on-going basis. The costs are reasonable when compared to the gross revenue, which averages about 14% of gross revenues.
1201	Mr. Planchon	Referenced the gross revenue slide. The spikes are not projectable and result from long-term negotiations and complicated transactions. Only the things that they feel relatively confident about are used. He emphasized that they do not plan based upon the spike.
1256	Co-Chair Harris	What happened with the big spike in FY03.
1320	Mr. Planchon	Responded that spike resulted from timber sales, a couple large real estate transactions and an oil and gas lease sale.
1317	Representative Croft	Clarified that those are not repeatable events and would be in the 1x category.
1334	Mr. Planchon	Stated that the spendable is something that can be predicted. The principle depends on the deals crafted and brought to closure.
1359	Representative Croft	Commented that once there is a timber sale, then the Trust cannot sell that timber for another 100 years.
1413	Mr. Planchon	Stated that the next step is to go to the next level of income.
1426	JEFF JESSE, EXECUTIVE DIRECTOR, ALASKA MENTAL HEALTH TRUST AUTHORITY	Clarified that the one-time land sale revenues go into the Permanent Fund and generate income over time.
1443	Representative Croft	The gross revenue spike does not indicate the distribution between how much is spendable and how much goes into the Trust.
1454	Mr. Planchon	Referenced the spendable income slide and the copy of the annual report.
1518	Mr. Younker	Noted the Trust FY05 slide in the handout. It highlights the income from this past year. The other income is generated would go back to principle. The Permanent Fund payout was 3.5% payout. \$2.3 million dollars was lapsed.
1575	Representative Croft	Asked if the 3.5% was the percent of market value.
1614	Mr. Younker	Responded that they do 3.5% of the present market value. The 5% would not sustain itself. He added that they had started out at 3%, moving to 3.25% and then to 3.5%. Nothing is ever added back

		in for inflation. The payout considers the inflation. The Trust uses about a 60-year market period to determine the 3.5% number. Last year, there was concern that the payout would stay level. The payout is based on a principle reserve account, which is equal to 4-years of the payout. That number was down to less than 2-years resulting from the market conditions. The Trustees inserted a provision that when the fund was less than 2%, the number would be increased to 5%.
1722	Mr. Younker	Continued, the Trustees look for very level sources of income. The budget is based on a 2-year basis. Most of the expenditures are on projects that are from three to five years. When the Trust commits to a beneficiary a project or a program, the Trust must know that source of income will be there for a period of time. In order to do that, they have developed a system of level payout using the principle reserve to guarantee that. The Trust has also taken 50% of the principle reserve and moved it from the Permanent Fund to the Department of Revenue and placed it in an intermediate account to stabilize what is needed in the next 24-months. That will guarantee that the 3.5% will continue to sustain itself.
1849	Representative Croft	Inquired why the Mental Health base budget was declining so much.
1915	Mr. Younker	The Governor and the Legislature created the budget.
1929	Representative Croft	Asked if it could be set at zero.
1940	Mr. Jesse	Explained that it could not happen as it would be illegal and an "act of bad faith" on the part of the State.
2005	Representative Croft	Asked at what point would the State be "running up against the Settlement". He asked what needed to exist before being in breach of the Settlement.
2020	Mr. Jesse	Stated that the Trust attempts to be very honest and upfront with information. The settlement did not delineate any particular level of funding from the State. He stressed that -0- would be beneath the floor legally sanctioned. He did not know the floor. The Courts would step in to direct the State regarding the needs of this population.

2122	Representative Croft	Asked the impact of the proposed budget cuts.
2132	Mr. Jesse	Replied that would be addressed shortly.
2142	Co-Chair Williams	Noted the "other endowments" and asked the difference in the Permanent Fund plan and the Sitka plan with a payout of 6%.
2237	Mr. Younker	Stated that when the model was built, the Trust knew it needed a sustainable source of income that would inflation proof the principle on an on-going basis with a level payout. The principle reserve was used to get the level payout. The market was analyzed for a 60-year period using different levels of payout. Using a lower payout allows the programs to sustain. He pointed out that the Sitka Plan does not have a level payout. The Permanent Fund makes it difficult to manage with the up and down market. By using a lower pay out and guaranteeing that it goes straight through keeps the program alive.
2420	Mr. Younker	Continued, the actual cash and applied inflation should be almost equal. If the plan grew faster, then the Board would not be spending enough. At this time, they are on track.
2455	Mr. Jesse	The big difference between the mental health trust and other funds is that the Trust cannot spend the principle.
2521	Mr. Jesse	Commented that if the Permanent Fund went to a Percent of Market Value (PMV) system, the principle could be spent.
2530	Co-Chair Williams	Commented that inflation proofing is 3% and that this year inflation totals only about 1%.
2545	Mr. Younker	Questioned if it was replaced before the payout.
2607	Co-Chair Williams	Commented that the fund is taking out 5% on earning of 8% per year.
2624	Mr. Jesse	Advised that because the Trust cannot dip into the principle, they are forced to either have greatly fluctuating income every year or to have a level payout. The Trustees decided on the 3% payout because it guaranteed a reserve. Without a reserve, the 1 st year that the fund lost money, there would be zero income. The size needed for a reserve was determined and it was decided that it should be 4x the annual payout.
2702	Mr. Jesse	The payout was started at 3%. In the

		first few years, the returns were very high and the reserve filled quickly. When the payout is raised a quarter percent, then 1% had to be added to the reserve to build it back up to 400% of the amount. When the market "tanked", the Trustees started taking money out of the reserve. He stated that the reserve allowed time for the market to recover.
2831	Mr. Jesse	The sustainable payout was somewhere between 4.5% and 5%.
2843	Co-Chair Williams	Thought that the payout formula was unstable and recommended addressing it differently. He commented on the PMV concept. He thought that reference made by Mr. Jesse was different than that provided by trusted sources.
2940	Representative Hawker	Summarized that the Trust's investment model is a "foundation model" under a perpetual trust, which is a different management than that proposed under the PMV system. He asked if their style of management was given in statute rather than an endowment model.
3045	Mr. Jesse	Responded that the settlement did not lay out the details of how the fund should be managed. It gave the Trustees discretion over the income. The Trustees knew that the trust income would vary greatly from year to year. It was essential that it be managed to guarantee a sustained payout every year. At present time, the fund could lose money every year for 4-years, and the payout would remain the same.
3135	Representative Hawker	Clarified that the mechanism used to accomplish that is a different mechanism from the PMV.
3150	Representative Croft	Commented that the major difference is that the Trust cannot invade their principle. Having that restriction, a set payout has been established at 3.5% - 4%. 5% cannot be set unless comfortable building the principle. He assured that the protection should not be eliminated.
3222	Co-Chair Williams	Asked if incorporating the PMV, money would be taken from the principle of the Permanent Fund.
3244	Representative Croft	Acknowledged that was true.
3248	Vice Chair Meyer	Interjected that it was possible by using the PMV theory, the principle could be tapped. He noted that some years could be adding more to the principle.

3302	Co-Chair Williams	Suggested that could interpret taking out from the principle and then increasing the principle.
3331	Mr. Younker	Responded that there are years when that will happen, however, there are years when the principle shrank.
3352	Mr. Younker	Commented on a scholarship fund payout that he personally holds and how historically the return on that fund has been affected by what is occurring in the market place.
3435	Representative Chenault	Inquired if the principle was inflation proofed.
3456	Mr. Younker	Replied it was inflation proofed at 3.5%.
3507	Representative Chenault	Asked about the high money and if it was placed into the principle or into the reserve.
3516	Mr. Younker	Explained that there are two parts. Principle reserve receives 4 years of the payout. All income goes into that fund until it is full and then it runs over. The principle cannot be touched. The test is to take the fund and applying it from day one and apply inflation to it.
3604	Representative Chenault	Asked about the principle strength versus market performance.
3626	Representative Chenault	He asked if the money came out of the principle reserve.
3648	Mr. Younker	Still have not had a payout of that reserve for a 4-year period. If less than 2-years in the reserve, the Trustees will change the amount to 3.5% and then to 3.75%.
3720	Mr. Younker	Returned discussion to the Trust FY05 page of the handout. He noted that \$11.986 million had been budgeted for the operating programs and \$3.73 million has been budgeted for capital projects. He pointed out that the Mental Health budget has been reduced from \$136.372 million dollars in FY04 to \$125.788 in FY05. That has created more pressure for the Trust to sustain their programs.
3828	Mr. Younker	Addressed the budget shrink and how it affects the programs. A study has been started at this point.
3914	Mr. Younker	Highlighted the New Trust Budget Recommendation Planning Process for FY06/07: <ul style="list-style-type: none"> • Collaborative planning process with four Trust advisory groups, state agencies and major partners.

		<ul style="list-style-type: none"> • Limited number of focus areas targeting system change + partnerships, mini grants and other ongoing projects. • Emphasis on partnering to maximize and coordinate funding goals across systems serving beneficiaries.
4054	Mr. Jesse	Noted that Representative Hawker has requested an accounting of the alcohol tax
4100	Representative Croft	Asked if the alcohol receipts had declined. Mr. Younker explained the difference and that it was still at the full level which is consistent.
4117	Representative Hawker	Noted that he had requested an accounting of the alcohol tax fund. He acknowledged that excess funds had been budgets last year.
4127	Mr. Younker	The new structure will have work groups appointed. About 20% of all expendable income will be used for that project over the next four or five years.
4316	Mr. Younker	Commented on partnerships with people outside the State for leveraging dollars for that particular program. The emphasis is on partnering and the Trustees are excited about the larger programs.
4435	Mr. Jesse	Addressed the impacts of the reductions on the beneficiaries: <ul style="list-style-type: none"> • Tribal substance abuse program cuts 977.3 - 35% of all ADA cuts while Alaska Natives are 20% of the population (and 40% of treatment population) • Rural ASAP programs cut \$980 - 70%-90% no show rates thus far in FY04 for those programs that have tried self-pay • 10% - 25% match on alcohol grants
4548	Mr. Jesse	He stressed that the Trust is no longer budgeting toward missions and measures. They are budgeting to monetary targets to minimize the damage to the programs and beneficiaries, which is a different exercise. He reiterated that currently, they are aiming at numbers without hurting the clientele.
4645	Mr. Jesse	Commented on the administrative infrastructure cuts and the impacts of the reorganization.
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4647	Mr. Jesse	Spoke to the delayed grants and quarterly advances and how that affects programs. As the capacity of agencies is degraded, getting the work done becomes more difficult.
4547	Mr. Jesse	In FY04, the intent was to look at the base budget. He provided information on that budget: <ul style="list-style-type: none"> • \$1.3 million in Developmental Disabilities (DD) grants was reduced • Reduction in legal support for DD in Bethel, Fairbanks & Juneau offices of DLC. • Hope Community Resources - closed apartment for emergency rural housing • Quality Assurance funds (GF/Mental Health) for the DD cuts • Care Coordination grants for seniors reduced by 20%
4328	Representative Joule	Asked why it took so long for information to go public.
4317	Mr. Jesse	Responded that there were not enough employees for moving the information. The planning boards have been speaking with the Governor's boards regarding how the grant funds are awarded. It need to be determined how are emergencies are being addressed. He noted that the contingency funds are being reduced and the Trust's flexibility becomes less and less.
4220	Representative Stoltze	Thought in 1996, the Legislature addressed DD sexual offense. He commented that it is such a "touchy" area for those victims and that it is a different class of sexual offender. He asked for personal time with the Trust members to discuss that issue.
4124	Mr. Jesse	Agreed to that.
4108	Mr. Jesse	Continued discussion on reducing grants to the agencies and the impact of care coordination for seniors. When the systems are withdrawn, it accelerates family burn out and then costs to the State. He addressed cost shifting into the future of the prevention programs. The cumulative effect with the loss of the Longevity Bonus and the other cuts to programs, create more impact to the State over time. Cost shifting to Medicaid is the same as cost shifting into the

		future.
3850	Co-Chair Williams	Reiterated concerns with the Trust's payment of 3.5%. He hoped that the Board would attempt to change the payout system so that the programs can continue.
3731	Mr. Jesse	Noted that the fund currently has a little over \$300 million dollars.
3721	Co-Chair Williams	People are not receiving the services.
3711	Mr. Younker	Stated that part of the growth is principle and cannot be spent.
3617	Co-Chair Williams	Voiced concern, emphasizing that the concern is real. Financial resources must be managed to address these concerns and he hoped that the Board understands that.
3609	Mr. Jesse	Highlighted the FY04 impacts and securing the match in the rural areas. He spoke to self-pay for the ASAP program, which was cut by \$908 thousand dollar. It follows those offenders. He noted that the Administration does not want to fund that program anymore. The Administration wants it to be self-pay. The issue with self-pay is that the people that most need the treatment are the least able to pay. Public dollars will cost more by staying in the system. Right now, there is a 70-90% no show rate.
3344	Mr. Jesse	The self-pay program works best with a class of clients that has the most resources. Eliminating ASAP in the FY05 budget will cost the entire State down the road. The Department does not have a plan at this time.
3300	Mr. Jesse	Highlighted the FY05 budget. <ul style="list-style-type: none"> • Medicaid - Federal control and support concerns • Budget is built on assumptions regarding refinancing, litigation around Medicaid, proshare viability, tribal agenda, catchment area consolidation, Alcohol Safety Action Program (ASAP) program self-pay, restructuring of service waivers and cost containment. • Continued infrastructure cuts and reorganization impacts
3220	Mr. Jesse	Spoke about the Medicaid outcome. The State is becoming more dependent on the Medicaid system. The State is becoming more and more dependant on what the federal government rules what you must

		have for the program. That involves their rules and terms. The President has recommended a 7% reduction to that service.
3011	Mr. Jesse	Commented on the loose to the mental health care. He reiterated that cost shifting is a huge issue.
2936	Mr. Jesse	The Administration has raised its risk tolerance level. The FY05 budget is launching with perhaps 100 different components this year. He predicted that some of those projects are not going to make it.
2828	Mr. Jesse	addressed the increased risk levels: <ul style="list-style-type: none"> • Refinancing • Litigation around Medicaid • Proshare viability • Tribal agenda • Catchment area consolidation • ASAP program self-pay • Restructuring of service waivers • Cost containment
2725	Mr. Jesse	He emphasized that each item raises the risk tolerance.
2610	Mr. Jesse	The choice is to help the Administration make these correct choices so the risk does not fall upon the beneficiaries.
2537	Mr. Jesse	He recommended that the Legislature considering assisting the Administration with making choices, assisting with the establishment of a centralized billing office. The risk of failure falls upon the beneficiaries with a reduction of services.
2448	Mr. Jesse	Applauded Representative Hawker and the work that he has done with the Department of Health & Social Services subcommittee. He projected that they expect the program will get worse before it gets better. He was concerned with the projected FY06 and FY07 budgets.
2403	Representative Joule	Asked about the concerns with the rising Medicaid costs. He asked how that should be addressed at present time.
2325	Mr. Jesse	The Administration is attempting to address those concerns with items such as the waivers and trying to make them more efficient and the tribal agenda. The only way to become less dependant upon the federal government is for the State to pay its own way. That is the basic

		fiscal gap issue.
2237	Representative Croft	Voiced confusion with the tribal status issue and relying upon it so heavily in the budget.
2216	Mr. Jesse	Did not believe so and admitted that he was not an expert on those issues. Some entities are entitled to bill Medicaid at 100%.
2145	Representative Croft	Commented that State funding would be "wiped out".
2134	Mr. Jesse	Responded that this is an issue of choice. The Trustees have not taken a stance on that concern. In many rural communities, there are not enough agencies from which to choose.
2056	Representative Croft	Committed that if they do not get the tribal funding, there is no general fund back-fill.
2046	Mr. Jesse	Correct as they would have already taken the projected savings in the budget. There could be a possibility of supplemental funding.
2031	Representative Hawker	Voiced his appreciation for the professionalism and focus of the Alaska Mental Health Trust Authority providing facts and problems and willingness to "strike a balance".
1942	Co-Chair Harris	Echoed sentiments made by Representative Hawker. He addressed the fiscal revenue shortage that the Legislature is currently working under. He understood that many of the beneficiaries cannot help themselves. He acknowledged that Representative Hawker works hard to address these concerns on the Department of Health & Social Services subcommittee and the Ways and Means Committee.
1834	<u>ADJOURNMENT</u>	The meeting was adjourned at 2:55 P.M.

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