

HOUSE FINANCE COMMITTEE
March 31, 2004
1:47 P.M.

TAPE HFC 04 - 72, Side A
TAPE HFC 04 - 72, Side B
TAPE HFC 04 - 73, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:47 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 Samuels; Sam Korsmo, Alaska Open Imaging Center, Wasilla; Rod Betit, President, Alaska State Hospital & Nursing Home Association; Bob Loeffler, Director, Division of Mining Land and Water, Department of Natural Resources; Nancy Welch, Special Assistant, Department of Natural Resources; Mryl Thompson, Matanuska-Susitna Valley

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 319 An Act relating to the disposal of state land by lottery; and relating to the disposal, including sale or lease, of remote recreational cabin sites.

HB 319 was heard and HELD in Committee for further consideration.

HB 464 An Act extending the termination date of the Board of Certified Real Estate Appraisers.

HB 464 was REPORTED out of Committee with a "do pass" recommendation and with one previously published fiscal impact note.

HB 511 An Act relating to the certificate of need program for health care facilities; and providing for an effective date.

CSHB 511 (HES) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact notes #1 and #2.

#HB464

HOUSE BILL NO. 464

An Act extending the termination date of the Board of Certified Real Estate Appraisers.

Co-Chair Harris MOVED to report HB 464 out of Committee with the accompanying fiscal note and individual recommendations. There being NO OBJECTION, it was so ordered.

Co-Chair Williams informed the committee that the sponsor preferred not to amend the bill at this time.

HB 464 was REPORTED out of Committee with a "do pass" recommendation and with one previously published fiscal impact note.

#HB319

HOUSE BILL NO. 319

An Act relating to the disposal of state land by lottery; and relating to the disposal, including sale or lease, of remote recreational cabin sites.

REPRESENTATIVE HUGH FATE pointed out that there was an amendment to HB 319 regarding the contractual language at the last hearing. The amendment has been replaced by a new work draft.

Representative Fate MOVED to ADOPT Work Draft Version V dated 3-30-04. Co-Chair Harris OBJECTED for purposes of discussion.

Co-Chair Harris asked if Version V incorporates the amendment and whether there are other changes. Representative Fate explained that the language has been changed to reflect the penalty for a lawsuit outside the

parameters of the statute. The penalties have been changed from 150% of the appraised value to 100% of appraised value in the proposed Committee Substitute. He noted that Legal also changed other language in the bill.

JIM POUND, STAFF TO REPRESENTATIVE FATE, observed that members should have the blank CS, Work Draft Version V, and a page explaining the changes between the Resources Committee Substitute and new CS. He explained that the sponsor initially intended to drop all the contractual language in Sections 2 and 3 but had since decided to retain it. The CS brings the legal language up to current standards. It also changes the appraised value, giving latitude to the Department of Natural Resources (DNR) and the Commissioner to determine a penalty not to exceed 100% of the appraised value of the property. This language would go into a purchase agreement between DNR and the buyer, and the intent of keeping it in the bill is to avoid confusion by the buyer on the question of obligation.

Co-Chair Harris withdrew his objection. Work Draft Version V was adopted.

Representative Croft questioned the language at the bottom of page 2 and the top page 3. He asked if Representative Fate reads "an immediate assessment against the owner of a penalty that may equal the current appraised value" as saying that [the penalty] can't exceed. Mr. Pound answered that there is supporting statutory language in Section 3 on page 3, line 9, stating "the amount of the penalty, which may not exceed the appraised value of the land."

Representative Croft felt it was awkward language in Section 2 and asked if Sections 2 and 3 refer to and supplement each other. Mr. Pound affirmed.

Representative Croft asked if the language meant that if there was an effort to develop coal bed methane on cabin land that he had bought, and he objected and filed for relief, the Department could assess him the entire value of his land plus improvements. Mr. Pound replied that is correct, and the language would be put into the contract so that the buyer would be aware of it. Representative Croft asked for clarification that it would result in immediate assessment, so there is no discretion except for the amount of the fine. Mr. Pound replied that is correct.

Representative Stoltze expressed that he still had some concerns about the bill. He asked for clarification of the filing a claim for relief, and if it would take away the right to due process. Mr. Pound was unable to answer.

Representative Stoltze yielded to wait for response to his question.

Co-Chair Harris acknowledged that the State has subsurface rights that are protected. He questioned how the language in Section 2 (on page 2, lines 27 through page 3, line 3) would make private property owners feel comfortable or have any protection to enjoy their property if a developer [wanted the subsurface minerals] and the state offered leases to the developer. Co-Chair Harris said he was concerned about it because the coal bed methane development in the Mat-Su Valley is occurring near a fairly populated area and is a private property issue.

Representative Fate replied that this bill gives the Commissioner the responsibility of delineating areas for nomination that are within limits. The areas that are off limits include lands with high mineral potential, or areas that have been, or are earmarked to be, withdrawn. He thought that the prospect of mineral development happening is limited. The language on page 2, lines 29-30, provides for redress for any physical damage on the property. He asked how to address the intangibles of drilling or noise pollution. He noted that people have sued on those bases, and the plaintiffs have usually lost the cases but it has cost the defendants a lot of money. He said that the bill doesn't curtail, but it does limit, that possibility.

Representative Fate continued, pointing out that if it is a site on a lake, it doesn't exclude the Commissioner from deciding to develop it in the buffer area of 660 feet over which the State has jurisdiction. The bill includes safeguards on the existing and prospective uses of the land.

Representative Stoltze stated that the property rights issue has been top priority this session, and he lauded the efforts of Representative Fate to try to make more land available.

Representative Croft understood that noise would be excluded, and he asked if the owner could complain about groundwater contamination or the subsurface water on his site without incurring the penalty. Representative Fate was unable to respond. Representative Croft said he would ask Legal.

Representative Croft withdrew his objection to the Work Draft Version V.

BOB LOEFFLER, DIRECTOR, DIVISION OF MINING LAND AND WATER, DEPARTMENT OF NATURAL RESOURCES, stated he would do an overview of the current land disposal program and the remote recreation cabin program. He explained that land disposal began with the passage of SB 283 in 2000, which passed with some new funding. The department was given specific performance measures to put all the inventory of land

disposal parcels on the market until they sell; to start a new subdivision program of at least 100 lots a year; and start the remote recreation cabin program in FY 02. In the first year, there were 2400 re-offered parcels, with an additional 1900 in the second year.

Representative Croft asked if "subdivision" means platted lots that are next to each other. Mr. Loeffler affirmed, and said that the parcels have been surveyed. In response to a question by Representative Croft, he explained "re-offered" means a parcel that came back to DNR. In the 1980s during the huge land sale program, most parcels never sold and there was a 50-60% default rate on the programs.

Mr. Loeffler continued, explaining that the performance goal was 250 offerings each year. The Department is drawing down the inventory of parcels available, and not replenishing them with new subdivisions as fast as it is selling the parcels.

Mr. Loeffler referred to a chart, "Economics of Land Disposal." The first remote subdivision under SB 283 is completed this year, and the first recreational cabin program was in FY 02; the parcels were staked but only now are being purchased. The chart shows 2000 re-offers at \$13-43 dollars an acre, and it makes a lot of money for the Department. The DNR does a limited title search. A pre-surveyed parcel in a new subdivision costs \$750 an acre minimum, not including roads, which takes two years with most of the time and cost in the survey. Remotes cost a lot less, at \$250-350/acre, because the applicant pays for the survey and appraisal. Mr. Loeffler said that it can be done in a year but it typically takes longer, with staking during the first year, surveying during the second year, and appraisal during the third year. It takes two additional years before DNR receives real income from it.

Representative Croft asked if the Department does a regional best interest finding for remote parcels. Mr. Loeffler replied that DNR does sub-regions of an area, with a batch of 30-60 parcels in one area. The same is true for subdivisions.

Mr. Loeffler discussed a chart titled "Re-Offer" that shows 2816 parcels, totaling 21,839 acres available today. He noted there are program innovations including acceptance of credit cards, personal checks, cash, and payments by mail, in person, or over the Internet.

Mr. Loeffler showed charts of re-offered parcels around Fairbanks, Mat-Su and Southcentral with detail around Talkeetna.

Mr. Loeffler explained that the supply is land-classified settlements. On the Mat-Su map, the demand area includes swamp. In some areas of the state with a lot of demand, DNR has a lot of potential supply. In general, DNR is the fourth best place to look for land after the Mental Health Trust, the University, and Municipal Entitlements have rejected the land and it becomes classified settlement. In Fairbanks there is a lot of supply, but not at much in other areas.

Mr. Loeffler referred to the subdivision or "Pre-Survey Program." In SB 283, the DNR was required to do over 100 per year. The increment in this year's budget is an increase to 300 lots per year, which would help replenish the supply. He explained that costs average \$3400 for a 3-acre parcel, but range to an unusual 40-acre parcel costing \$201 thousand. The size range is from 3 to 40 acres with the average at 7 acres. The platting board requirements now include roads. The Department ensures that the value of the land with roads will more than pay back the cost of the roads. This year the DNR expects a 10-12% internal rate of return, after not selling all the parcels and with some defaults. The subdivision challenge is to find good quality, profitable land with roads that meets platting board requirements. The cost of \$750 per acre is for the title search, platting board approval, and public assistance and contract administration.

Mr. Loeffler discussed SB 283 and the "Remote Recreational Cabin Program." The Department offers over 250 parcels a year. He pointed out that there is a significant reduction between the authorizations that people take and the actual parcels leased. He explained that this is due to people realizing, once they're on the land, that it is more difficult than they had expected, and not following through. The average acreage is 13.6, and the average value over the first two years is estimated at \$620 per acre after taking out survey costs, which the applicant pays.

Mr. Loeffler described the program innovations that include putting the cost up front with a key parcel appraisal. The Department does 30-40 parcels in an area to come up with a hypothetical parcel to show the public the costs, and the additional costs for lake frontage. The DNR requires a quarterly deposit for an appraisal survey, and contracts out in batches, with the result of getting the work done, which people don't do themselves. He concluded that this works well, but the challenges are to increase the follow-through rate and getting untaken parcels to market.

Mr. Loeffler illustrated the staking patterns in the Yentna Remote, which tend to be in family groups, the access points of airstrips or trails, and around water frontage. The Department must reserve easements along public waters and trails.

Mr. Loeffler concluded that the Department's challenge is to "ratchet up" the program.

Representative Fate asked Mr. Loeffler to describe the procedure of staking a remote cabin site. Mr. Loeffler answered that the Department opens a particular area, and the public can stake anywhere within it, subject to the guidelines.

Representative Fate noted a difference in the value per parcel between his historical data and that of the Department. He said that the \$627 figure, with a multiplier of 1.14, brought the level up to \$750-900 in today's value. He also asked if the average price today is \$1400 per acre.

MS. NANCY WELCH, SPECIAL ASSISTANT, DEPARTMENT OF NATURAL RESOURCES, replied that the Department projected \$900 per acre in the fiscal note. She clarified that Mr. Loeffler has been giving historical data and some of the costs do not necessarily compare to the fiscal note because it is based on individual processing. The Personal Services cost would be about \$245 thousand to do 150 parcels under the proposed program in HB 319 [Ms. Welch referred to the fiscal note dated 3-15-04].

Representative Fate asked if the fee simple program has the same surface right restrictions and problems that have been brought up. Ms. Welch said that the buyer would have the same rights of ownership as in any other DNR land sale program.

Ms. Welch commented that the Department is working through the coal bed methane issue in the Mat-Su area and it may be premature to comment on it. It has held public meetings and it is working on standards to make coal bed methane compatible with existing uses.

Representative Foster noted that during the mid-1980s and early 1990s offerings north of Nome were cancelled, and he wondered if there would be offerings on the Seward Peninsula in the next five to ten years. Mr. Loeffler replied that if it's classified settlement, the Department is anxious to go there. Ms. Welch advised that a lot of those lands still have the municipal entitlement provision that the Department must resolve first before it can sell lands in the Seward Peninsula area.

Co-Chair Williams asked what bill would do to the existing land disposal program. Ms. Welch replied that Commissioner Irwin has two areas of concern with the bill. The first is fairness to all Alaskans, and the bill implies a first right of refusal to some who nominate the parcels. It is not genuinely offering it to every Alaskan. The second concern is that all the efficiencies gained in the past three or

five years, particularly with the inception of the Land Disposal Fund, would be lost because of HB 319. A significant figure in the fiscal note is the cost of individual processing because the DNR couldn't do batch processing. The fiscal note also reflects a change in the type of staff, because technicians cannot do decision-making for the State on best interest findings. There are also technical issues, including limitations in the bill on spacing requirements and size, resulting in a different staking pattern. She said that the revenue stream for a disposal like Yentna would be significantly lower, and the staking pattern would be significantly different.

Ms. Welch concluded that this bill amends the Department's existing program because it is in the same statute.

Ms. Welch explained that DNR hadn't done an analysis of Work Draft Version V, Section 2 but she guessed if it went through the judicial system, the court would make the decision. If it went through administratively, it could take the form of an appeal or a complaint. The Department would have to write regulations.

Representative Croft referred back to Ms. Welch's interchange with Representative Fate that concluded there would be the same problems of any other surface owner. He asked if this penalty language is in the statutes. Ms. Welch replied negative, this is new generic, reservation to the State, language. Offering remote recreation land does not remove the conflict between surface and subsurface uses.

Representative Croft asked if Sections 2 and 3 apply to all of the State land sales, not just remote cabin sites. Ms. Welch noted the language on page 2, lines 2-5 and said that these provisions apply to all of the DNR land sales. Representative Croft asked what is left out. Ms. Welch replied that conveyances to municipalities under Title 29 are omitted.

Representative Croft asked how this program used to work and how it would work under this bill. Ms. Welch said she had not done an analysis. Co-Chair Williams asked her to do an analysis for the next hearing on the bill.

TAPE HFC 04 - 72, Side B

Representative Fate commented that the rest of the disposal program by lottery or subdivision is a completely different concept than when this bill was formulated four years ago, to allow people to choose areas which are open. The lottery is not successful with more than 40% and the rest is turned over for resale. There are about 2200 parcels available for people wanting land. The fiscal note is based on the lowest

per acre cost to show that the state, and the people, will be benefactors.

MRYL THOMPSON, REPRESENTING SELF, MATANUSKA-SUSITNA VALLEY, stated that he is a land developer, but he hasn't been able to develop his properties during last 8 months because all of it has been leased by the coal bed methane (CBM) industry. He reviewed the remote land bill, which "floored" him when he saw the huge exemption for the gas extraction industry. He expressed that Work Draft Version V is even worse than the previous version. He said that he has not even considered buying another piece of land, especially leased land. He thought that because of the CBM issues, people who just eight months ago would have had no problem buying remote land or a cabin now wouldn't even consider it. He noted that studies out of Colorado showed land values dropped by 20% with extraction taking place. A decrease in value would make these parcels less attractive. He felt that it is not right or fair to say that the owner has no right to complain on land that he bought.

Mr. Thompson expressed that Sections 2 And 3 are "totally egregious," and he asked, if the system isn't really broken, why do we need to fix it with this bill.

HB 319 WAS HEARD AND HELD in Committee for further consideration.

#HB511
HOUSE BILL NO. 511

An Act relating to the certificate of need program for health care facilities; and providing for an effective date.

Representative Stoltze MOVED to ADOPT Amendment #1. Co-Chair Williams OBJECTED.

Representative Stoltze explained that the area he represents is the most rapidly growing in the State, and he wanted to ensure that there is a full discussion of the amendment.

Amendment #1 reads:

Page 3, Line 21:

Delete:
"independent diagnostic testing facility"

REPRESENTATIVE RALPH SAMUELS explained that the intent of the bill is to require all groups to do the Certificate of Need (CON.) He said that he is opposed to the amendment because CON is the law, and everyone should follow the same criteria.

SAM KORSMO, ALASKA OPEN IMAGING CENTER, WASILLA, read from prepared script as follows:

"The department claims that there is not a level playing field between the hospitals and the independent facilities and that 'Providence had to go through the CON process to get approval for a P.E.T. scanner.' This is in fact incorrect. Providence never actually completed their CON application but instead purchased their P.E.T. equipment through their independent subsidiary Providence Imaging Center, which is operating today.

In another example, when Providence Imaging Center applied for an additional MRI unit at a total cost of \$2.5 million, the department reported in their 2003 annual report on CON activity that 'The MRI will be located adjacent to the inpatient elevators, operating rooms and Heart Center. It was determined that a CON is not required because the facility is not a health care facility as defined by certificate of need regulations.'(Note: This MRI would be located within the hospital itself.)"

Mr. Korsmo asked, if the CON has been effective, where is the evidence of lower costs by the Department. The costs at Alaska Open Imaging Center are 25-35% lower than at the major hospitals. Dr. Michael Morrissey of the Lister Hill Center for Health Policy, University of Alabama at Birmingham showed that the states with CONs had hospital costs over 20% higher than those without CONs. Mr. Korsmo voiced opposition to the bill and urged further work until the questions are answered.

ROD BETIT, PRESIDENT, ALASKA STATE HOSPITAL & NURSING HOME ASSOCIATION, spoke from talking points (COPY ON FILE.)

"Mr. Chairman, my name is Rod Betit, and I am President of the Alaska Hospital & Nursing Home Association representing 10 free standing hospitals, 15 combined hospitals and nursing homes, and 4 free standing hospitals.

Let me say that this issue potentially impacts all of our members, not just one or two as has been implied in some earlier testimony.

All 29 facility CEOs and their Boards stand united behind CSHB 511 as passed out of House HESS.

As further evidence of the level of concern outside of Anchorage and Fairbanks, I have copies of letters to Chairman Williams from Ketchikan General Hospital, Valdez Regional Health Authority, Sitka Community Hospital, Wrangell Medical Center, Petersburg Medical Center, and

South Peninsula Hospital expressing their support for HB 511.

As committee members know, a number of these hospitals are already struggling and any further dilution of a finite number of medical procedures provided in a community.

We are talking about fairness in HB 511, not whether we should have CON

CON is in place and is an important tool for the Department to manage the health care infrastructure in communities across Alaska. We support CON because of the finite amount of care a community requires, and the adverse impact that over investment in facilities and equipment can have on overall access and cost for the full range of medical services a community expects.

Some would have you believe that your consideration of HB 511 is about free market principles and imaging centers being squeezed out of the market. That simply is not the case.

Our member hospitals and nursing homes have had to submit justification through a CON application each time they have wanted to add equipment, space or new services that exceed \$1 million, including adding, expanding or upgrading imaging centers.

In contrast, Alaska Open Imaging has not had to meet this same requirement As a result they have opened facilities in Wasilla, Anchorage and Soldotna without any review by the Department of Health & Social Services.

You have to wonder why there is such strong disagreement over requiring imaging centers to submit to the same review and approval as hospitals must go through. Could it be there are plans to open centers in other communities and the project sponsors do not want the need for these projects reviewed by the Department?

In our view, it is only fair that all new independent imaging center projects be required to undergo the same review as currently required of hospital based projects. HB 511 makes this small but critically important change to CON law.

Hospitals must provide imaging services even if an independent center comes on line.

Providing imaging services is not an either/or decision

for hospitals. Imaging services must be provided to support their emergency departments and surgery services, not to mention a whole host of diagnostic needs for inpatient purposes. Some of this is provided free of charge due to lack of ability to pay.

Competition for this finite amount of imaging service seriously impacts a community hospital's ability to accomplish this portion of their mission.

- **Is CON an effective review mechanism?**

Yes. Since 1996 there have been 36 CON applications; 61% were approved as requested, 11% were denied, 11% were partially approved, 6% were withdrawn, and 14% were given special conditions that had to be met. (Taken from March 15, 2004 letter from Janet Clark, Assistant Commissioner to Representative Peggy Wilson]

- **Is the CON process being circumvented?**

Yes. "Most ambulatory surgery centers are able to lease equipment or space in a building and avoid CON. Only 6 CON applications for freestanding ambulatory surgery centers have been received since the inception of the CON program 27 years ago. Fifty percent of these were approved. Independent diagnostic testing facilities are not required to go through the CON process, so no applications have even been received from them". Janet Clark letter dated March 15, 2004]

It is vital these loopholes be fixed in the interest of health care providers and consumers alike.

- **Are hospitals being protected in some way by CON?**

Absolutely not. Since 1996 a number of freestanding facilities in Anchorage, Wasilla and Kenai have been built without a CON that would have required a CON if built by a hospital. For example, Alaska Open Imaging has opened facilities in Wasilla, Anchorage and Soldotna without a CON and purchased a PET scanner. Providence had to go through the CON process to get approval for a PET scanner. Anchorage Fracture Clinic purchased an MRI, and several Ambulatory Surgical Clinics in Anchorage were able to develop projects without a CON that hospitals would have to go through the CON process to build or buy the equipment. A private group of physicians built a cardiac cath lab without a CON. Also, if the Department's goal is to protect hospitals from competition, why do hospitals

appeal our decisions? [Janet Clark letter dated March 15, 2004].

Clearly it is time to correct these inequities in the CON law and HB 511 does that. We request the Committee move HB 511 out of the Finance Committee without amendment. Thank you for the opportunity to comment."

Mr. Betit concluded that the issue is straightforward, and the answer is clear that everyone should abide by the same requirements.

Representative Stoltze wondered why staff from Valley Hospital or other hospitals hadn't contacted him. Co-Chair Williams pointed out that Mr. George Larson of Valley Hospital had planned to testify at the last hearing but he had been overlooked, and Mr. Larson was unable to testify today. Mr. Betit offered that Mr. Larson's testimony would have been in support of the bill.

Representative Hawker stated that he chaired the Department of Health & Social Services budget subcommittee, which held discussions on the exceptional relief program for endangered hospitals. He asked if these hospitals are truly in danger of not remaining economically viable. Mr. Betit replied that it is no exaggeration, and he noted that one hospital will not make it beyond four months. Others have serious problems that the communities can no longer cover with local contributions, and will form partnerships to stay in business. He said that it is an ongoing problem meeting their daily expenses. Exceptional relief was the long-term mechanism to keep the hospitals going.

Representative Hawker asked if this bill would alleviate some of the current difficulties. Mr. Betit replied that HB 511 would bring peace of mind but not any immediate relief. Small facilities that try to provide the expected level of services that communities demand can easily go under financially.

Co-Chair Harris asked why Amendment #1 singles out and deletes the independent diagnostic testing facility from the definition of healthcare facilities. Representative Stoltze replied that these facilities in his district are meeting previously unmet demands, with better and more responsive service than the larger and more bureaucratic hospitals.

Co-Chair Harris asked if the hospitals don't provide adequate services and if there is a waiting list. Representative Stoltze answered that he's not an expert on healthcare, but he felt that specializing connotes doing a better job, and these facilities also don't carry the administrative overhead of hospitals.

In response to a question by Co-Chair Harris, Mr. Korsmo stated that he represents the independent diagnostic testing facilities and he supports Amendment #1. He explained that the testing facilities resulted from a change in Medicare around 1998, and have never been an issue until now. He thought that it is a problem of bureaucracy and the cost of larger medical institutions. He stated that doctors go to the testing facilities because they provide the service, technology and innovation to do the job.

Co-Chair Harris questioned if it would drive up the costs that hospitals must charge for their services if these independent facilities were not covered under CON procedure. Mr. Korsmo expressed that Medicare/Medicaid is on a collision course, and the third party payments are hurting the system. He pointed out that the testing facilities haven't heard the cost analysis of CON, when the Medicaid expenditures have almost tripled in eight years.

Mr. Betit commented that hospitals would have to keep their revenue at a level to cover costs, and if the hospitals don't get it from this legislation, charges would have to increase in another area. Services that aren't profitable are threatened and might not be offered in the community, forcing individuals to go elsewhere. The Department has preliminary information on the substantial cost savings through CON. There is no data on imaging because these facilities have not been required to submit a CON. If the treatment centers submit creditable data as requested, Mr. Betit said that the Department would approve them.

In response to a question by Representative Croft, Mr. Korsmo responded that neither the Alaska Open Imaging Center nor Providence Imaging Center fall under the CON process. He maintained that the point is how the Department of Health and Social Services would know the level of need, and asked the definitions that would be used in order to be fair.

Representative Stoltze pointed out that the treatment centers pay property taxes and income taxes.

Co-Chair Harris noted that city and state hospitals do not pay income tax, but other regional and Native hospitals pay taxes. He questioned the incentive to build a private hospital that would have to pay taxes and compete with existing state or local institutions.

Mr. Korsmo recalled a physician who lost all his money trying to build a private hospital across from Providence Hospital. He did not think that there was a need to compete in Anchorage or Fairbanks where there are large existing institutions.

Co-Chair Harris noted that there has been interest in building in Valdez. He observed that CONs are not required if the cost is under \$1 million.

A roll call vote was taken on the motion.

IN FAVOR: Moses, Stoltze, Foster
OPPOSED: Meyer, Chenault, Croft, Fate, Hawker, Joule,
Williams, Harris

The MOTION FAILED (3-8). Amendment #1 was not adopted.

Representative Stoltze MOVED to ADOPT Amendment 2:

Amendment #2 reads:

Page 4, following line 16:

Insert a new bill section to read:

***Sec.7.** The uncodified law of the State of Alaska is amended to read:

APPLICABILITY. To the extent that secs. 3 and 4 of this Act relate to residential psychiatric treatment centers, as defined in sec. 5 of this Act, secs. 3 and 4 of this Act apply to a residential psychiatric treatment center that has not been substantially initiated before the effective date of this Act through either an investment commitment of at least 50 percent of the construction costs or acquisition of a building permit for that facility.

Renumber the following bill section accordingly.

SARA NIELSEN, STAFF TO REPRESENTATIVE SAMUELS, observed that the amendment would address residential psychiatric treatment centers. It would affect the Department's process in bringing the children back to Alaska.

Representative Stoltze asked that Ms. Clarke address how the amendment would affect other facilities.

JANET CLARKE, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, clarified that the amendment has an immediate effective date. The provision would not be retroactive, so that new facilities would be covered while existing facilities would not.

Representative Fate questioned how a solid commitment to implement could be obtained from Amendment #2. Ms. Clarke agreed that the language seems vague.

TAPE HFC 04 - 73, Side A

Ms. Clarke stressed that Amendment #2 would be hard to enforce.

Representative Stoltze WITHDREW Amendment #2.

Co-Chair Harris questioned if there were currently any residential psychiatric treatment facilities being planned.

Ms. Clarke observed that recently there were two letters of intent submitted for facilities that were less than \$1 million and clearly not covered by the CON. She has not seen anything in writing regarding the building of a larger facility.

In response to a question by Co-Chair Harris, Ms. Clarke observed that the House HESS Committee had discussed increasing the threshold to \$2.5 million, which would include equipment. She explained that the Department opposed the proposal because of concerns on the number of Medicaid beds that could be built at that level. She felt that costs would increase in those areas.

Ms. Clarke observed that the CON program over 28 years has avoided construction of 518 nursing home beds, 468 acute hospital beds, 9 ambulatory surgery suites, 144 substance abuse beds and 60 psychiatric beds, and 30 rehab beds. It has also avoided nearly \$200 million in construction costs and millions in annual operating costs. She stated that the extra 518 nursing home beds would have cost \$45.8 million in 2003.

Representative Hawker MOVED to report CSHB 511 (HES) out of Committee with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 511 (HES) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact notes #1 and #2.

#

ADJOURNMENT

The meeting was adjourned at 3:30 P.M.