

ALASKA STATE LEGISLATURE
SENATE HEALTH, EDUCATION AND SOCIAL SERVICES STANDING COMMITTEE

February 12, 2003

1:33 p.m.

MEMBERS PRESENT

Senator Fred Dyson, Chair
Senator Lyda Green
Senator Gary Wilken
Senator Bettye Davis
Senator Gretchen Guess

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

Confirmation Hearing:

Commissioner, Department of Health and Social Services - Joel Gilbertson

CONFIRMATION ADVANCED

SENATE BILL NO. 25

"An Act relating to the teachers' housing loan program in the Alaska Housing Finance Corporation; and providing for an effective date."

HEARD AND HELD

PREVIOUS ACTION

SB 25 - No previous action to record.

WITNESS REGISTER

Commissioner-designee Joel Gilbertson
Department of Health &
Social Services
PO Box 110601
Juneau, AK 99801-0601

POSITION STATEMENT: Gave a short overview of his department.

Ms. Sheila Peterson

Staff to Senator Wilken
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Staff to sponsor of SB 25.

Mr. Dan Fauske, Executive Director
Alaska Housing Finance Corporation (AHFC)
Department of Revenue
PO Box 101020
Anchorage, AK 99510-1020

POSITION STATEMENT: Commented on SB 25.

Mr. Paul Kapansky, Mortgage Operations Director
Alaska Housing Finance Corporation (AHFC)
Department of Revenue
PO Box 101020
Anchorage, AK 99510-1020

POSITION STATEMENT: Commented on SB 25.

ACTION NARRATIVE

TAPE 03-1, SIDE A

CHAIR FRED DYSON called the Senate Health, Education and Social Services Standing Committee meeting to order at 1:33 p.m. All members were present. As the first order of business, he asked Commissioner-DISIGNEE Joel Gilbertson to join the committee.

COMMISSIONER-DISIGNEE JOEL GILBERTSON, Department of Health and Social Services (DHSS), said his department is very diverse and has to work within a budget. His primary goal is to meet the mission of the department, which is to protect and promote the well-being and health of all Alaskans within the budget.

He said the department would focus on important issues such as the Division of Family and Youth Services moving through a program improvement plan. He is working with the Region 10 office and the Health and Social Service Agency in Washington D.C. to develop that program. This will entail substantive changes to improve child protection services in the state to guarantee that all reports of harm are investigated while working toward permanency and protecting the rights of families.

COMMISSIONER-DISIGNEE GILBERTSON said that child services are a top priority for the Governor and that he is in the final stages of interviewing for a new director for DFYS and plans to work

with the federal government to implement the improved plan quickly.

During an audit done last year, the State of Alaska was found to be out of compliance with a number of federal standards. Therefore, the department will be working with the Medicaid Program to address the financial concerns to make sure that care is being delivered in an efficient manner throughout the state. Fraud and abuse standards are in place to make sure there is program integrity.

Welfare reform is continuing with the caseload down 40 percent. Cash payments and cash assistance is down by 50 percent since welfare reform was initiated. He will make sure that childcare assistance, work training and diversion programs are in place to help people learn to help themselves. He will be working with the federal government this year on reauthorization of the welfare package and reviewing the new work standards that will be in place.

COMMISSIONER-DESIGNEE GILBERTSON said there are some great challenges and he is looking forward to working on them with the Legislature.

SENATOR LYDA GREEN said the Governor made a comment about the lack of in-house auditors and asked him to address that since he said he wanted to move toward permanency in his department.

COMMISSIONER GILBERTSON replied one of the first activities the Governor directed all departments to do was a department wide audit of all operations. He was able to assemble a team of nine auditors for the department's 2,600 employees. They were not all trained as auditors, but he had to work with them and is grateful for their service. Good auditing systems are needed in all departments to insure that the resources are going out to deliver the services.

SENATOR GRETCHEN GUESS agreed with him on audit mechanisms and encouraged the administration to have program auditors as well as financial auditors, because they have different skills. She asked if it is more efficient for every department to have auditors or to have a group of auditors that goes out to the departments.

COMMISSIONER GILBERTSON replied he didn't have the answer right now. Audit funds are being reassigned between departments, but

there are three individuals in the Division of Administrative Services and one or two others throughout the department.

There is a need for additional auditors statewide. There are benefits from having individuals who are trained within each of the departments for that department's book of business, but there are also advantages to having centralized auditors. It's more efficient and independent. The administration wants to work towards having the most effective audit teams.

SENATOR GUESS followed up saying that as an auditor, she found audit skills and experiences picked up in one area could be taken to another project.

SENATOR WILKEN said for the last four years the Legislature has worked on missions and measures and asked if he had any assessments of the quality of the definition of his mission and the standards against which his department will be measured.

COMMISSIONER-DESIGNEE GILBERTSON replied he is at the early stage of reviewing missions and measures and the department is focusing on not having misalignment of program activities.

1:50 p.m.

SENATOR GUESS asked what he thinks the state's role is in the increase in health care rates in both the state and private sectors. She also asked him to comment on the problem of the uninsured and how the Legislature can grapple with both issues.

COMMISSIONER-DESIGNEE GILBERTSON responded that Alaska is not alone in the national trend towards rising health care costs. There are tremendous increases in health care costs all across the sector. Our society has expectations on what health care services people should receive, the quality of health care that should be available in this country and the technology that should be available. The associated costs are tied into risk pools and having ways to community-rate health care insurance products. This has hurt Alaska because the relatively small population has not allowed some of the insurance models to come in. The bottom line is that health care costs are higher in the State of Alaska.

The state is a purchaser in the health care marketplace and its costs are increasing annually. There has to be work on cost

containment. There have been discussions on risk pooling, which would be difficult, but he thinks it could be accomplished.

He said there is a national debate about how to address the problem of the uninsured. The administration is focusing on whether care is being delivered, not if someone is insured or not. Billions of dollars have been invested in community health centers to try to make sure health service networks are out there for individuals who lack community based insurance options and to make sure federal funding is a revenue stream that will support the states. There are over 44 million uninsured Americans right now and to address the solution, Alaska will have to become involved on a national level.

SENATOR GUESS asked whether the administration plans to continue to fund Denali Kid Care at current levels.

COMMISSIONER-DESIGNEE GILBERTSON answered that the administration is engaged in budget discussions right now and he is looking at ways programs will be impacted the least. First, he will make sure that levels of service are maintained, which means eligibility levels for the Medicaid Program in Denali Kid Care. Once those options are exhausted, the department will have to review the services at the state level.

SENATOR GUESS asked if he could discuss how he would prioritize alcohol treatment.

COMMISSIONER-DESIGNEE GILBERTSON responded there is a tremendous problem with substance abuse in Alaska and the Governor is aware of it. While in Washington D.C., he focused on inhalant and alcohol abuse for juveniles in rural Alaska. Currently the department is discussing what to do with the revenues from the alcohol tax. It is a priority to have alcohol treatment options available for individuals that are court ordered to undergo alcohol and substance abuse treatment and who are in the DFYS system where the state is incurring additional expense in trying to stabilize families. Another priority is to have alcohol treatment programs in rural areas where they are totally lacking now.

He said that child protection is one of the department's objectives along with making sure alcohol funds are invested in ways that support other program activities within the department.

SENATOR GUESS requested that the administration make those funds a priority for pregnant women and related an instance she knew of in Anchorage where a pregnant woman had to wait six weeks for alcohol treatment. She agreed with his priorities and noted that Fetal Alcohol Syndrome/Fetal Alcohol Effects (FASFAE) has been federally funded for most of the five-year term. She asked him to comment on that funding.

COMMISSIONER-DESIGNEE GILBERTSON replied FASFAE is a nationwide problem, but Alaska and South Dakota have the highest incidence. Senator Stevens arranged funding for a five year FASFAE program and it is now in the fourth year. The department is entering into the application stage of that work and he informed them that a lot of the funding in the early years was used for research - finding out some of the social conditions, demographics and health indicators that should be targeted to prevent the next generation of individuals from fetal alcohol exposure. As they gather the data and continue to go through program design and operations, there needs to be a transition to using a greater number of resources for prevention efforts and interventions. He said it has been a good and well directed effort so far. Research has shown a tremendous link between females who are sexually assaulted when underage and those who have children born with fetal alcohol syndrome. "We're at the stage right now where there can be true implementation of trying to look at some of the behavioral risks."

CHAIR DYSON said he appreciated Commissioner-designee Gilbertson taking on the job and that he brought some amazing credentials to it. He asked if he had seen the audits from DFYS and Legislative Budget and Audit (LB&A) that show areas of concern. Last year the Legislature passed legislation requiring that each department's budget be prioritized and asked if that is going to be a problem for him.

COMMISSIONER-DESIGNEE GILBERTSON said if the department is asked to do that it will, but it already is doing that in the process of submitting a budget the Governor supports and will defend.

CHAIR DYSON stated that at some point he would ask if juvenile justice should continue as a part of the Department of Health and Social Services as opposed to the Department of Corrections. He then asked if it is his or this administration's view that everyone should have health insurance.

COMMISSIONER-DESIGNEE GILBERTSON replied the Governor is focused on what is realistic and achievable and that isn't achievable in

the next 2 - 4 years. The administration is committed to working with the private sector, insurance companies and risk pools in the state to make sure they maximize opportunities for individuals to purchase an insurance product. They want to work with welfare roles to get people transitioned into employment where there is an opportunity to have health insurance. There are a lot of things they can do, but they can't start with an unrealistic goal.

CHAIR DYSON asked if the ultimate goal is for everyone to have health insurance.

COMMISSIONER-DESIGNEE GILBERTSON replied, "I think a good goal is to establish a marketplace where everyone has an opportunity to purchase into an insurance product...if they want."

CHAIR DYSON asked if it's okay for people to actually pay their own bills.

COMMISSIONER-DESIGNEE GILBERTSON replied, "I believe individuals who have access to insurance product and have the ability to purchase an insurance product should not be reverting to a public insurance product."

CHAIR DYSON restated his question, "What about people who just choose to pay their bills and not have insurance?"

COMMISSIONER-DESIGNEE GILBERTSON replied, "If they are capable, cash payers are allowed in the system. I don't think this Governor will say you are not allowed to be a cash payer in the health insurance marketplace."

CHAIR DYSON asked about the current policy of most health service providers to discriminate on a price basis against those who do pay their own bills as opposed to a third party payer.

COMMISSIONER-DESIGNEE GILBERTSON replied that is a true statement and that has been occurring in the health system for 40 - 50 years of cost shifting. Health insurance companies negotiate below usual and customary charges and the provider diverts charges. The Medicaid Program does that on a national level by doing fee schedules that are below the usual and customary charges. "That cost shifting does occur and it does impact individuals who pay cash."

CHAIR DYSON said, "I think it's profoundly un-American, but very pervasive."

SENATOR GREEN asked if Medicaid does the same thing.

COMMISSIONER-DESIGNEE GILBERTSON replied that they do, but their schedule is above the Medicare fee schedule.

CHAIR DYSON noted that he works for the National Association of Social Workers.

COMMISSIONER-DESIGNEE GILBERTSON said that he too worked for them and when he was in law school he worked in the general counsel's office on legal issues for social workers.

CHAIR DYSON stated:

We have gone in the last five years from almost no programs related to fetal alcohol syndrome to some experts think that we are doing better than any other state in terms of responding to the problem, not preventing it. I would encourage you - some of the people - and Diane DeSanto [and Diane Casto] - have done an extraordinary job there and do all we can to continue that momentum.

SENATOR GUESS said she would like to know his and the administration's opinion on moving domestic violence and sexual assault out of the Department of Public Safety into HESS.

Under full disclosure, I sit on the board of Standing Together Against Rape (STAR) and the sexual assault community is very concerned about moving and hope that you discuss it with the community before the administration moves forward.

CHAIR DYSON noted that under full disclosure he has a foster child that has fetal alcohol issues, but his concerns are broader than that.

SENATOR BETTYE DAVIS said she appreciates the fact that he took the time to speak to her in her office and she is looking forward to working with him. She is pleased to find that he knows a little more about the state than she anticipated. She counseled him to let people know that he has visited rural Alaska and some of the hubs and let people know of his accomplishments and things he wants to accomplish. She asked if he had an opportunity to look at the Children's Cabinet that was

instituted by the last Governor and if he has any plans on how he would work with other departments.

COMMISSIONER-DESIGNEE GILBERTSON responded that he is familiar with the Children's Cabinet and he is now working with the Governor on structuring children's services in the State of Alaska as part of their conversations on missions and measures and looking at alignment of programs. Three working groups are already formed and there will be more. "Children's services will be seen as a top priority of this administration."

SENATOR GREEN made a motion to forward Mr. Gilbertson's name to the full body for consideration. There were no objections and it was so ordered.

SB 25-AHFC LOANS TO EDUCATORS

CHAIR FRED DYSON announced SB 25 to be up for consideration.

SENATOR GARY WILKEN, sponsor of SB 25, introduced Sheila Peterson, his staff who was working on this issue. He said it's a simple bill and puts a loan program in place that allows Alaska Housing Finance Corporation (AHFC) to loan 100 percent of value.

It requires no down payment and can only be used for owner-occupied housing. This will supply Alaska school districts a tool to attract and keep qualified public school teachers. Recruitment and retention of a qualified workforce is paramount to the operation of a successful K-12 educational program.

In addition, SB 25 addresses one of the concerns highlighted in the October 2001 Committee Report on the Statewide Teacher Shortage by the House Special Committee on Education. It states that education professionals testified that the number one reason for the statewide teacher shortage is because housing is too expensive or non-existent. There is a \$0 fiscal note. For backup he referred the committee to their copy of "Teacher Housing - Current Issues and Challenges" issued last year by AHFC and the statements of support from different areas of the state.

He said it is helpful to see what other states are doing. California gives \$15,000 to \$30,000 grants to attract and retain teachers and Santa Fe, New Mexico, has a loan program like this one. The Alaska Bankers Association also supports SB 25.

SENATOR GRETCHEN GUESS asked if speech therapists are included.

SENATOR GARY WILKEN said he would find out, but he doesn't want this bill to turn into a Christmas tree bill. Other occupations are worthy, but it would "sink under its own weight" if they are all added. He wants to stick with the realm of education.

SENATOR GUESS said she is talking about other occupations that fall in the counseling realm, which isn't defined in the bill.

SENATOR LYDA GREEN asked if the bill the Legislature passed a couple of years ago that reduced the interest rate by 1 percent for teachers in small communities had any effect.

TAPE 03-01, SIDE B

SENATOR WILKEN said he remembers that to be negotiated for rural Alaska where you could have up to a 4-plex, one of which had to be owner occupied. He doesn't remember if it had a teacher qualification.

MR. DAN FAUSKE, Executive Director, Alaska Housing Finance Corporation, said there is a provision under SB 181 that covers that.

MR. PAUL KAPANSKY, Mortgage Operations Director, explained that SB 181 became effective October 3 and it isn't limited to 1 - 4 units, but one of the provisions is that every unit has to be occupied by a teacher year-round. The units could not be subleased. There has been no activity under that program to date.

CHAIR DYSON asked if lending institutions want to take the risk for a 100 percent loan-to-value ratio.

MR. FAUSKE said there are similar provisions under federal law as well and the risk exposure is increased, but is somewhat offset by the fact that mortgage insurance is required for anything over an 80 to 85 percent loan-to-value ratio. He said they are attempting to increase their exposure in rural areas and thinks there would be some movement.

CHAIR DYSON asked if the mortgage industry put a high rate for mortgage insurance on 100 percent loan-to-value loans.

MR. KAPANSKY responded it's common practice in the mortgage insurance industry to insure loans up to 100 percent, so it's not unique to Alaska. His department requires mortgage insurance on all loans that are 80 to 85 percent loan-to-value. Now the maximum loan they can make is 95 percent loan-to-value. "If you go to 100 percent, the incremental cost of the mortgage insurance from covering a loan at 95 percent loan-to-value to 100 percent loan-to-value would not be very significant."

CHAIR DYSON said this legislation does not require the teacher who is getting the loan to actually occupy the house. He asked whether the loans are for single family only.

MR. KAPANSKY replied yes.

CHAIR DYSON asked Senator Wilken if he intends this for single-family units.

SENATOR WILKEN answered yes, with owner occupied housing. "If it was a duplex, when I read that sentence, the owner would have to live in both."

SENATOR GUESS suggested having the legal department look at the language to make sure it couldn't be interpreted any other way. She asked if he intends this to apply to first time homeowners or could they upgrade and could a teacher buy a home and then quit.

SENATOR WILKEN answered that if you're a teacher and buy a home, you're somewhat stable. He doubts that one would quit being a teacher just to have this kind of loan. He doesn't know how to get away from people manipulating the system. He said he would ask professionals to help with that language.

SENATOR GUESS asked whether this is limited to first time homebuyers and would it apply to people who currently own a home, but need a larger one.

SENATOR WILKEN replied that he doesn't intend it to be a first time teacher home loan program.

MR. FAUSKE pointed out that line 7 of the bill says for purchase only, not refinance.

CHAIR DYSON asked what happens if a person quits mid-term and moves out of town or moves because of health reasons.

MR. FAUSKE answered, under the rural program, if someone violates the covenants that the unit must be occupied by a teacher and is financed with tax-exempt financing, the loan would revert back to taxable status. They wouldn't necessarily be found in default.

2:45 p.m.

SENATOR GREEN asked if the same would apply if the person doesn't move, but just quits teaching.

SENATOR WILKEN responded that the interest would stay the same and the loan would continue at 100 percent.

MR. FAUSKE said that was correct.

SENATOR GREEN asked if the difference between her and Senator Dyson's question is that they move out.

SENATOR WILKEN said yes.

MR. FAUSKE said it would be hard to police the issue.

SENATOR GREEN said she doesn't see any geographic limitation.

SENATOR WILKEN said it is statewide.

SENATOR GREEN asked what the harm is to provide 100 percent loans for any profession in the state.

SENATOR WILKEN responded the harm is that there is a bill at the end of the process that has 30 different professions and he doesn't think the Bankers Association would want that or that it would be good public policy. He said Alaska needs all the help it can get to hire and keep good teachers and that is the purpose for this. If there is a crying need for another profession, that discussion should take place at a different time.

CHAIR DYSON said he thinks this bill is justifiable because teachers very obviously serve the public good. "The entire population and community benefits from having well educated and thoughtful people..."

He thinks that idea might extend to nurses, as well.

SENATOR GREEN asked who is picking up the down payment differential and is it all covered by mortgage insurance.

MR. FAUSKE answered that the 10 percent is reflected in the size of the payment and he envisions this bill helping the young folks who are just out of college and just don't have the down payment.

CHAIR DYSON said he thought about inserting "single-family" after "owner-occupied", but decided not to. Allowing a teacher-family to build a duplex and perhaps make affordable housing available to someone else deepens their involvement in the community and their propensity to stay and adds to their ability to make the payments. He asked Senator Wilken to comment.

SENATOR WILKEN responded that if it's a duplex, it would cost approximately twice as much and he wonders if the exposure would bother Mr. Fauske. Also, if a duplex is good, would a 4-plex be better? He simply envisions a teacher family buying a house.

MR. FAUSKE said that discussion takes them from a single-family owner occupied to an investment grade, especially beyond a duplex. Their underwriting criteria views investments entirely differently. He believes the single-family approach is safe, although he deals with a lot of multifamily loans. Affordability would be a consideration.

SENATOR WILKEN commented that nothing would prevent the Legislature from expanding the coverage to a duplex or bigger.

MR. FAUSKE agreed that could be done.

SENATOR GREEN said she thinks that this bill could pertain to a 4-plex, since it doesn't preclude it so the drafters should check that out.

CHAIR DYSON said they would work on a committee substitute that would include wording making this program available to other schools that are doing state school testing. He said there is significant interest in reviving Covenant High School and other private schools and they may not fit into the present definition of public school.

SENATOR WILKEN added that the balance in his mind is does it expand the exposure for abuse versus the good it's doing. He noted that this was originally Representative Rokeberg's idea last year.

CHAIR DYSON held SB 25 for further discussion and adjourned the meeting at 2:53 p.m.