

MINUTES
SENATE FINANCE COMMITTEE
February 16, 2005
9:05 a.m.

CALL TO ORDER

Co-Chair Green convened the meeting at approximately [9:05:14 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Donny Olson
Senator Lyman Hoffman

Also Attending: JOEL GILBERTSON, Commissioner, Department of Health and Social Services; CHRIS CHRISTENSEN, Deputy Administrative Director, Alaska Court System; DAVID MARQUEZ, Acting Deputy Attorney General, Civil Division, Department of Law; DEAN GUANELI, Chief Assistant Attorney General, Legal Services Section-Juneau, Criminal Division, Department of Law; SUSAN TAYLOR, Director, Division of Administrative Services, Department of Revenue; PHIL REEVES, Assistant Attorney General, Oil, Gas and Mining Section, Civil Division, Department of Law; HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority, Department of Revenue; JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services; BILL HOGAN, Director, Division of Behavioral Health, Department of Health and Social Services; RICHARD MANDSAGER, Director, Division of Public Health, Department of Health and Social Services;

Attending via Teleconference: From offnet locations: JOHANNA BALES, Program Manager for Tobacco taxes, and Excise Audit Manager, Tax Division, Department of Revenue; NICO BUS, Acting Director, Division of Support Services, Department of Natural Resources; MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources; DICK LEFEBVRE, Deputy Commissioner, Department of Natural Resources; BILL HOGAN, Director, Division of Behavioral Health, Department of Health and Social Services; From Anchorage: STEVE PORTER, Deputy Commissioner, Department of Revenue; From Fairbanks: ROD COMMBELLICK, Associate Director for Operations, Division of Geological and Geophysical Surveys, Department of

Natural Resources

SUMMARY INFORMATION

SJR 6-FEDERAL MEDICAL ASSISTANCE REDUCTION

The Committee heard from the Department of Health and Social Services. The bill was held in Committee.

SB 98-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK

The Committee heard presentations on the requests of the Alaska Court System, the Department of Law, the Department of Natural Resources, the Department of Revenue, and the Department of Health and Social Services. The bill was held in Committee.

SB 97-SUPPLEMENTAL APPROPRIATIONS/CBR

This bill was scheduled but not heard.

#SJR6

SENATE JOINT RESOLUTION NO. 6

Relating to a reduction in the Federal Medical Assistance Percentage for Alaskans, and urging the United States Congress to take action to prevent the reduction.

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken stated this resolution, "addresses a proposed reduction to the federal share of Alaska's Medicaid program. If the announced reduction takes place as scheduled on October first of 2005, the estimated loss to the State in FY 06 is approximately \$53 million. This resolution encourages that decision to not take place."

[9:06:26 AM](#)

JOEL GILBERTSON, Commissioner, Department of Health and Social Services, testified that this resolution addresses the fact that the federal match rate for the Medicaid program is due for a "sizable reduction" as of October 2005. The Medicaid match rate, also referred to as FMAP, Federal Medical Assistance Percentage, for each state is calculated based on the per-capital income of that state with wealthier states required to contribute a larger portion to its Medicaid costs. A limit of 50 percent was

established. For several years, this rate applied to Alaska and the State paid 50 percent of its Medicaid costs.

Mr. Gilbertson informed that in 1997 then U.S. Senator Frank Murkowski enabled the passage of a temporary adjustment to the match rate the state of Alaska from 50 percent to 59.8 percent. This generated approximately \$100 in additional federal funding for the State between the federal fiscal years 1998 and 2000. The adjustment expired after three years at which time Senator Murkowski was successful in securing a five-year extension, which generated an additional \$250 million for the State. The second extension is due to expire in October 2005 and the match rate would revert to 50 percent if no action were taken.

Mr. Gilbertson stressed the adjusted match rates are not intended to benefit the state of Alaska without reason, but rather to offset the higher cost to deliver health care in Alaska in comparison to other states. Although per capita income is incrementally higher in Alaska, health care delivery costs are significantly higher as well. The federal government in the cost of living adjustments paid to federal employees has acknowledged this. Congress twice supported higher federal contributions for Medicaid in Alaska.

Mr. Gilbertson spoke to the fiscal impact to the State if the adjustment were not extended. The federal contribution match rate would be reduced to 50 percent. The seven percent reduction would calculate to \$53 million for FY 05, which the State would be required to replace with general funds. He emphasized that the rate reduction in FY 06 would only affect three-quarters of the state fiscal year. By FY 07, the revenue reduction would equal almost \$73 million. Over ten fiscal years, the total impact to the State would be \$914 million.

Mr. Gilbertson stated that this resolution requests the match rate hold harmless the state of Alaska. He informed, "It is almost twice the size of the second most affected state, which is Wyoming, which sees a three-percentage point drop." The underlying formula that determines the federal share is fundamentally flawed and does not reflect the cost of health care. This resolution addresses this discrepancy.

Co-Chair Wilken noted the \$53 million reduction is not reflected in the FY 06 operating budget. If Congress failed to provide an extension, a supplemental appropriation would be required.

Co-Chair Green ascertained that the State's revenue for FY 06 would be reduced \$53 million.

Senator Hoffman understood the State's position on this matter. He employs the same arguments to stress the high cost of delivering services to rural Alaska. He asked the likelihood that the extension would be granted.

Mr. Gilbertson replied that the chances are dependent upon various factors, including other legislation. He worked for former U.S. Senator Frank Murkowski at the time of the current extension and reported that the process was challenging. Achieving this extension would also be a challenge, although possible. The Alaska delegation is aware of the importance of this funding and U.S. Senator Lisa Murkowski has introduced legislation to address the matter.

Senator Bunde commented to the issue of reduced government spending.

Co-Chair Wilken indicated that the matter of whether the fiscal note for this resolution should be zero or reflect a loss of \$53 million. He requested the resolution be held in Committee until the matter was resolved.

Co-Chair Green ordered the bill HELD in Committee.

AT EASE [9:15:22 AM](#) / [9:16:59 AM](#)

#SB98
[9:17:01 AM](#)

Co-Chair Wilken chaired the remainder of the meeting.

SENATE BILL NO. 98

"An Act making supplemental appropriations, capital appropriations, other appropriations, and reappropriations; amending appropriations; making appropriations to capitalize funds; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

The Committee continued hearing presentations from departments on the budget requests of both bills. The Committee referenced a spreadsheet prepared by the Office of Management and Budget dated February 7, 2005, outlining each request [copy on file].

Alaska Court System

Item: 62
Section: 16

Request Delivery Unit (RDU): Trial Courts
Supplemental Need: Therapeutic court funding coming from NCADD \$18,900, Technical Improvement grant from Alaska Legal Services \$18,100, Youth for Justice grant \$7,500 and Color of Justice grant \$5,000.
\$49,500 Statutory Designated Program Receipts

CHRIS CHRISTENSEN, Deputy Administrative Director, Alaska Court System, testified that the requests would provide receipt authority for four grants of non-federal funds. The timing is such that approval could not be addressed through the normal budgeting process.

Mr. Christensen spoke to the Youth for Justice grant sponsored by the Constitutional Rights Foundation that would provide travel funds to allow teachers to attend the 2005 Educating on Law and Democracy Conference in Fairbanks. The Foundation trains teachers how to teach civic courses to students.

Mr. Christensen next addressed the travel funds provided through the Color of Justice grant. These funds would be utilized to allow Alaskan Native students to attend a Color of Justice program in Anchorage in 2005 to learn of career opportunities in the justice system. The National Association of Women Judges sponsors this program with the intent to encourage minority students to pursue careers in the justice field. The program targets students in the seventh through the twelfth grades.

Mr. Christensen stated the technical improvement grant is a pass-through from the Alaska Legal Services and would provide for the installation of six computers at superior court locations in Fairbanks, Palmer, Kenai, Ketchikan, Juneau and Kodiak. People involved in family law cases, such as divorce and child custody who do not have legal representation, could access the Family Law Self Help Center to obtain forms and other assistance as necessary.

Mr. Christensen concluded with the Juneau Wellness Project grant that is also a pass through of funding from the Juneau affiliate of the National Council on Alcoholism and Drug Dependence in support of the Juneau Wellness Court. A wellness court similar to the Anchorage Wellness Court is being established in Juneau to address misdemeanor offenses involving alcohol.

Department of Law

Item: 40
Section: 10(b)
RDU: 1st Judicial District

Supplemental Need: Contractual costs for a prosecutor to represent the Department of Law in the Therapeutic Courts program
\$21,400 SDPR

DAVID MARQUEZ, Acting Deputy Attorney General, Civil Division, Department of Law, read a statement into the record as follows.

The Juneau affiliate of the National Council on Alcoholism and Drug Dependence has applied for and received a grant from the United States Department of Transportation, State Community and [indiscernible] to develop a wellness court in Juneau. These therapeutic and wellness courts are designed to reduce recidivism rate of drunk drivers and other alcohol related offenders. The program features a diversion in process, treatment and monitoring through close case management. Wellness courts have proven effective in reducing alcohol related fatalities and injuries. The mutual goal of the Highway Safety Program of the federal government and the NCADD. Reductions are alcohol-related injury [indiscernible] mission and would result in the further benefit of reducing costs to the criminal justice system. This request is for \$21,312.50 in statutory designated program receipts from this grant and would fund the services of approximately [indiscernible] contractor to represent the Department of Law in the program.

Item: 39

Section: 10(a)

RDU: Criminal Appeals/Special Litigation Component

Supplemental Need: Outside counsel for appeal costs in the Murtaugh case related to defense of victim's rights; FY 06 lapse date.

\$50,000 general funds

Mr. Marquez read a statement into the record as follows.

This is a class action lawsuit brought by several members of the [indiscernible] of Anchorage challenging the constitutionality of the statutory rights of victims in Alaska with regard to disclosure and notice when contacted by defense attorneys and their investigators. The plaintiffs argue the victims rights statutes violate the equal protection and due process rights of defendants and defense council. It had a trial in Superior Court completed this past summer a decision is expected very soon. They will result in an appeal we're sure no matter who wins. The legislature appropriated \$175,000 for the Criminal Division [to employ] outside counsel for this

case as well other matters. The original appropriation is now exhausted. We are requesting \$50,000 be added to the original appropriation with a lapse extension to FY 06 or another appropriation be made to achieve the same end.

Senator Hoffman asked if the requested amount is anticipated to be the total needed for this case in the future.

DEAN GUANELI, Chief Assistant Attorney General, Legal Services Section-Juneau, Criminal Division, Department of Law, testified this request is to fund the total amount billed to date. It has yet to be determined whether the Department of Law or outside council would handle the appeals process. The trial went longer than anticipated.

Senator Hoffman noted this appropriation would lapse to FY 06, and asked whether additional funding would be required for FY 06.

Mr. Guaneli replied that additional funds could be required.

Senator Olson asked the cost in the event the State did not prevail in this case and if another request were filed the following year.

Mr. Guaneli responded that the costs in question are related to the appeal to the Supreme Court, which would be "significantly less."

Department of Revenue

Item: 42
Section: 12
RDU: Tax Division
Supplemental Need: Increased tobacco tax enforcement costs
\$395,500 general funds

SUSAN TAYLOR, Director, Division of Administrative Services, Department of Revenue, outlined her testimony into the record as follows.

Background

- Legislature included fiscal note funding for the Governor's initial Tobacco tax, licensing and penalties bill that was included during the regular legislative session in the amount of \$828,100 to implement the provisions in the new law. However, the bill failed to pass the legislature thereby voiding that fiscal note appropriation.
- The Governor called the legislature into special session and during the special session the tobacco tax, licensing

and penalties bill did pass with some changes made to the Governor's original bill. However, a fiscal note did not pass during the special session.

- This request would fund the department's existing tobacco tax enforcement program and reconcile the legislature's actions.
- Based on past experience in Alaska and in other states, the department is concerned that if it does not have an effective cigarette tax stamp enforcement program, cigarette bootlegging will flourish in Alaska.
- When the state of Michigan raised its tax rate, revenues actually decreased due to lack of enforcement.
- When the state of Hawaii enacted cigarette tax stamp legislation it hired 11 new enforcement officers. After one year of active enforcement, Hawaii's cigarette tax revenue increased nearly 50 percent from the previous year.

The Department is asking for this funding to be annualized in its FY 06 budget request.

Senator Hoffman understood it was expected that revenues would decrease because the higher tax would cause people to quit smoking.

Ms. Taylor affirmed the intent was that cigarette consumption would decline as a result of the higher tax; however, it was anticipated that the increased tax would generate more revenue.

Senator Hoffman asked the amount the additional tax would generate.

Ms. Taylor listed the initial estimates of \$6.3 million increase in FY 05, \$20.8 million in FY 06, \$27.4 million in FY 07, and \$33.8 million in FY 08 and thereafter.

Senator Hoffman noted these were the amounts that the legislature "approved". He asked the revenue amounts if enforcement legislation were not adopted.

Ms. Taylor deferred to the next witness.

JOHANNA BALES, Program Manager for Tobacco taxes, and Excise Audit Manager, Tax Division, Department of Revenue, testified via teleconference from an offnet location to the anticipated 12 to 13 percent consumption decrease as a result the tobacco tax increase implemented in 1997. She stressed that the anticipated revenues decreased 22 percent, which could not be justified solely from people quitting smoking. Instead it was determined that the additional nine percent decline was the result of bootlegging of

cigarettes. She expected the same would occur with the recent tax increase if enforcement measures were not taken. This occurred in other states that implemented tobacco tax increases, such as New Jersey, which realized a 14 percent higher decrease than projected due to bootlegging activities. An enforcement program is necessary to prevent these declines.

Senator Hoffman asked if all six of the proposed new positions are expected to be temporary or ongoing.

Ms. Bales expected funding of the positions to be ongoing.

Co-Chair Green asked whether collection enforcement for other types of taxes is funded from the revenue of those taxes, in the form of statutory designated program receipts. She asked if this could be done with the tobacco tax program.

Ms. Taylor responded that the director of the Tax Division has advocated for this. Currently, tax receipts are not budgeted for receipt supported services. Ms. Taylor expressed willingness to make necessary changes to accomplish this.

Co-Chair Wilken cautioned against the possible diversion of tobacco funds from the school fund.

Ms. Taylor informed that a portion of the tobacco tax receipts are designated to the school fund, a practice implanted in the territorial days. A statutory change would be required to utilize the revenues differently.

Co-Chair Wilken assured that the matter would be addressed.

Co-Chair Green compared this situation to funding litigation efforts to increase royalties from oil development, as both are attempts to increase revenue.

Senator Stedman questioned the "timing of the cash flows" with regard to the supplemental appropriations. It "seemed to be more beneficial" to appropriate funds in the FY 06 budget as much as possible.

Ms. Taylor responded that the Department is currently expending funds over the amount authorized for tobacco tax enforcement for FY 05. Staff has been hired, additional stamps have been purchased, and a reimbursable services agreement has been entered into with the Department of Public Safety. Therefore, the requested funds must be appropriated for FY 05 expenditure. In addition, funds must be "annualized or appropriated" in the FY 06 budget.

Senator Stedman asked the amount of the requested funding already expended, and the amount anticipated would be expended before the end of the current fiscal year. He also asked the plan if this supplemental appropriation were not approved.

Ms. Taylor replied that the Department has spent \$83,600 to date and "projects" spending an additional \$341,700 in FY 05. This amount is higher than the requested \$395,000 with the Department intending to "manage that spending down". If the legislature did not approve the supplemental funding request or the FY 06 funding request, the Department would be required to reevaluate its actions. She remarked, "We would be in a difficult spot" given the lateness of the fiscal year. She continued, "The earlier you can plan to manage down a shortfall the better it is."

[9:39:39 AM](#)

The Committee next addressed the supplemental appropriation requests related to the proposed natural gas pipeline.

STEVE PORTER, Deputy Commissioner, Department of Revenue and Member, and member of the State's Stranded Gas negotiating team, testified via teleconference from Anchorage into the record as follows.

First I want to thank you for your previous investment and support of the State's team in the development of a gas pipeline. Negotiating a contract that will result in bringing the State of Alaska's stranded gas to market is every bit as large a project as anyone estimated it to be. Perhaps no estimate fully appreciated the scope of what success requires. The tasks are huge and multi-layered, and the numbers are profoundly large. The total sales value of just the proven North Slope natural gas reserves would be \$210 billion at a price of \$6/mmcfg.

We have a prepared presentation to support the budget request being discussed today. However we first want to tell you what progress has been made with the money you have appropriated to the project thus far. SB241 appropriated \$1.7 million, and that funding was very timely. Subsequent to that appropriation, SB283 appropriated another \$10 million.

With that funding we began our research regarding the many ways we could enhance the prospect of bringing Alaska North Slope gas to market. The primary areas of research centered around sharing risk through various financial structures and

different levels and types of ownership participation. Our effort at expanding and identifying the additional options available to us was quite successful. We called this portion of our research "Defining the Boundaries". From that Defining the Boundaries research we identified a number of opportunities for sharing risk and increasing the overall chances of moving an Alaska North Slope Gas pipeline to a successful conclusion. Based on the issues identified we conducted research on the following areas during what we called the Risk Assessment and Analysis Phases.

Gas price. We obtained gas price forecasts, created our own forecast and modeled the range of impacts that could occur based on those forecasts. Because of the substantial volatility of future gas prices we needed to know the risks of what occurs in a low price scenario and the potential benefits we would receive from gas ownership in a high price scenario. And we needed to determine what we thought the expected future price of gas was going to be. We also realized that whatever price we projected we would be wrong. So our negotiation strategy should take that into consideration.

Risk Analysis - (shipper risk)

Taking a risk position in ownership of the gas. The shipper risk needs to be well understood by the state. There is a substantial amount of risk in converting our rights to gas in value to gas in kind and having the responsibility of marketing that gas. Recognizing there are significant potential financial impacts, both positive and negative, from taking a shipper risk position, we have focused a portion of our research on that risk.

Risk Analysis - (Pipeline ownership)

Taking a risk position in ownership of the gas pipeline is substantially different from risk in shipping the gas. They are two independent issues. We can take an ownership and marketing position of our gas (take in kind) without taking an ownership position in the pipeline. The opposite is also true. We can take an ownership position in the pipeline without taking a risk position on the gas (take in value). We have conducted a substantial amount of research regarding owning the pipeline. There are both political and economic reasons for doing so. But there is the risk of owning some part of the pipeline. That risk is compounded by the uncertainty of ownership potentially for an extended period of time during which any number of market changes can be expected to occur. We also conducted research on the impacts of taking a risk position in both pipeline ownership and as an owner and

marketer of gas.

Cost Overrun Risk

There are several issues that could result in an increased risk of cost overrun, e.g., cost of steel (volatility of the price of steel), labor costs (labor negotiations and strikes), time delays due to regulatory, environmental, or logistics problems, etc. The state must have a reasonable understanding of each of these issues to understand the risk it would take if it decided to take an ownership position in the pipeline. It must also understand the potential for cost overruns as it examines its position on tariff structure.

Tariff structure and the FERC process

As you are aware, we were quite successful in our presentation of our positions and concerns to the FERC. They were very responsive to our proposals. We need to spend time understanding the recently published FERC regulations and then apply them to what we should negotiate in any stranded gas contract.

Tariff issues are still an important element of each of the Stranded Gas Contract negotiations and will require additional contractual support in determining the proper negotiating position the State needs to take in each of these negotiations.

Alaska State Gas Entity

If the state takes an ownership position in the pipeline, it will also become a co-owner of a pipeline company with the applicant. We need to determine the form of ownership in addition to the amount of ownership. Should Alaskans be given an opportunity to participate in the pipeline? What form of ownership should that take? We have conducted research on these issues and will need to continue to fund additional research as the form and amount of ownership becomes clearer.

Pipeline Funding

If we determine that we want to take an ownership position in the pipeline, we need to develop a plan for funding that participation. How do the federal loan guarantees affect our financing plan? Can we maintain our tax exempt status? All these questions and more need to be answered in a success case scenario.

Socio-economic Report

We budgeted \$250 thousand for the socio-economic analysis being conducted on behalf of the municipalities for the

ExxonMobil/ConocoPhillips/BP proposal. That report has been completed and we have extended the contract for an additional \$50 thousand to support and coordinate the municipalities' participation in the public review process. We have not requested the contractor to complete a socio-economic analysis of the TransCanada proposal because TransCanada has not yet approved it as a reimbursable item.

Alberta Government

We have met with and will continue to meet with the various Canadian government entities to see if there are ways we can jointly support positions or actions that will have a positive effect on the success of getting a pipeline built.

Canada Pipeline Issues

There has been quite a bit of information in the public media regarding the conflict in Canada over ownership and rights to build the Canadian portion of an Alaska North Slope Gas pipeline. The issues surrounding Canadian ownership fall into the following categories: 1) the conflict over who has the ability/right to build the pipeline, 2) if the state has the right to participate as an owner of the pipeline - what form of ownership should that take, 3) legal and regulatory risks of building the pipeline, e.g.,. aboriginal land claims etc. Those are all issues the state will need to understand as we move the Canadian portion of the project.

Understand the applicant's perspective on economics

This is probably one of the most important pieces of our research. We have heard the legislature and public say "We want to provide the applicant with sufficient incentive to move the project forward, but no more." To come close to meeting that standard we need sufficient knowledge of the economic capabilities of the applicant, where their margins are, and what the applicant has accepted as economic in other parts of the world. What is their cost of capital? How much risk do they perceive and how much can they absorb? What will the credit rating agencies say about any investment they make?

What alternative investments will they be required to forego if they make a commitment to participate in this project? And we need to be able to apply that information to a mega project that is so large that there are no comparable projects anywhere else in the world. This is a large undertaking and requires a substantial amount of analysis. Most of this work has been done because we needed this perspective to be able to put a proposal on the table in the producer negotiations.

Contractor support for negotiations

There are three forms of support that we have used thus far in the negotiations: 1) negotiations support - 1) we have contracted for and continue to use the expertise of Dr. Pedro Van Meurs and his team to support us in the actual negotiations. 2) Expert analysis and modeling. We have and will continue to use analytical experts as we fine-tune our negotiating position in each of the contract negotiations. And 3) We are now at a stage where each side's lawyers are regular participants in the negotiations. We expect each of these forms of negotiations support to continue. We would expect the legal support to increase and our request for additional funding recognizes that need.

Alternative proposal analysis

While we are negotiating with the applicants under the SGDA, we also have a responsibility as the sovereign of encouraging and supporting any other proposal that may bring Alaska North Slope Gas to market. That encouragement and support generally has taken the form of economic evaluation and analysis and feedback to the parties to help them move their projects forward. A good example of this support is the Alaska Gasline Port Authority proposal. We have volunteered to review their project proposal and give them feedback on the overall economics of their proposal as well as express any concerns we have with the overall viability of their project.

In addition we are supporting the work of the Alaska Natural Gas Development Authority in their evaluation of the economic viability of bringing Alaska North Slope Gas to tidewater and developing an LNG project. They are also doing the leg work necessary to make sure a spur gas pipeline to Cook Inlet will be permitted and ready for any alternative that successfully brings Alaska North Slope Gas to market.

Reimbursement

One of the goals of the State was to make sure we received the maximum amount we could from project applicants under the reimbursement provisions of the SGDA. We billed and received in reimbursement from ExxonMobil/ConocoPhillips/BP the maximum amount available under the Act of \$1.5 million. The state continues to be reimbursed also by Transcanada, and DNR is tracking that reimbursement.

Now that we have generally discussed what the previous appropriations have been used for, I would like to take a couple of minutes to explain where we are conceptually. We have talked about understanding risks, understanding the applicants' economic perspective, understanding the volatility

of price and cost elements. Think of this timeframe as getting the State to the point of being able to put a proposal on the table with the project applicants. And we have placed a proposal on the table in the Exxon/ConocoPhillips/BP negotiations and received a counter proposal from them. We are also developing a proposal with TransCanada. Each of these negotiations will require a substantial amount of work to bring a SGDA contract to the legislature.

In the near term the current activities in support these negotiations will include substantial legal support in negotiating the fiscal contracts and other associated contracts and exhibits necessary to bring a contract proposal to the legislature. In addition each variation of fiscal term negotiations may require additional analytical support from our contractors.

Once we have a contract to present to the legislature we need to prepare a Commissioner's finding that the contract is in the fiscal interests of the State. All of the reports we have generated will be used to support the finding of the Commissioner of Revenue. This finding will go out for 30 days of public comment period along with the proposed contract. The Commissioner will then respond to those comments and bring the final fiscal finding and contract to you for ratification. The process may well entail going back to the applicant for a refinement of the agreement. The request we have placed before you today will provide the funding for us to accomplish this process.

If we are successful, we also must consider what happens next. If we decide to take an ownership interest in the pipeline, we could almost immediately find ourselves in a partnership relationship with an applicant attempting to build a pipeline. In order to be effective in that new entity the state representatives need to be ready to make financial and other decisions necessary to move the project forward timely. That is why we have requested funding to begin to develop the State's organization that will need to be in place almost immediately upon ratification of any contract.

As a closing point that needs to be made, we hope everyone understands that capital funding of state gas line participation cannot be determined at this time. When a determination is made regarding the type and level of participation that the state will take in a gas pipeline, we will come back to the legislature with a financing structure and a corresponding appropriation request. Depending on the

level of state participation that request could be substantial.

Thank you for your continued support of the State's participation in the Stranded Gas negotiations.

Co-Chair Wilken noted the requests for supplemental appropriations related to the development of a natural gas pipeline total approximately \$18 million.

Department of Law

Item: 25

Section: 7(b)

RDU: Civil Division, Oil, Gas and Mining

Supplemental Need: Legal costs for work related to the state gas pipeline and to bringing North Slope natural gas to market, and other oil and gas projects for FY 05 and FY 06
\$9,000,000 general funds

PHILLIP REEVES, Assistant Attorney General, Oil, Gas and Mining Section, Civil Division, Department of Law, read the following statement into the record.

The Department of Law is dependent on a substantial amount of assistance from outside legal council in the on-going stranded gas negotiations.

As the senators are aware, the State is currently involved in two, parallel negotiations under the Stranded Gas Act (AS 43.82)

Both of those negotiations contemplate a possible State ownership interest in the pipeline project. We are thus drafting and negotiating terms of the several legal agreements that would be required for the State to participate as a partner in the pipeline project.

The individual agreements will include at least:

- The Stranded Gas Agreement
- A Business Entity Agreement
- A Project Financing Agreement
- A Construction Agreement
- An Operating Agreement, and
- A Gas Balancing Agreement

The Stranded Gas Agreement(s) and the Business Entity Agreement(s) [and Project Financing Agreement(s)] (currently

anticipated to form and LLC owned jointly by the Stranded Gas sponsor company and the State] are the current focus of intensive contract development work and negotiations at this time.

Necessity for "Fast-Track" Supplemental Funding

The Department of Law has already expended essentially its entire Oil and Gas contract services appropriation for fiscal year 2004 - 2005, due to the unanticipated additional work arising from:

- Participation in two simultaneous Stranded Gas negotiations; and
- Consideration of State partnership in the NS gas pipeline project, which necessitates development of the Business Entity and Financing Agreements.

The early expenditure of the contract services appropriation work on the NS gas pipeline has also depleted contract funds that were earmarked for use on other, non-gas pipeline projects. Those contract services funds: utilized on oil royalty reopeners, TAPS oil pipeline matters, and in-state gas pipeline matters, also need to be supplemented in this fiscal year.

The Department of Law is therefore asking for a supplemental appropriation of \$9,000,000 for legal services on work relating primarily to the NS gas pipeline project. (Intended to cover needs through the end of the next fiscal year.)

Senator Hoffman asked how much of \$9 million requested would be utilized for FY 05 expenditures.

Mr. Reeves replied that the amounts are not delineated because the projects are ongoing. A significant amount is necessary immediately, as the Department has exhausted available funding. The intent is to submit a proposal to the legislature during the current session and therefore more funds would be expended in FY 05.

Co-Chair Wilken asked the consequences if the \$27 million requested for pipeline-related supplemental and FY 06 expenditure were appropriated to the Legislative Budget and Audit Committee for distribution.

Ms. Taylor replied that the Department of Revenue would not oppose receiving funding through the Legislative Budget and Audit Committee. However, the programs operate with limited staff and the

process of receiving allocations from the Legislative Budget and Audit Committee would create an administrative burden. The Department has developed a comprehensive tracking method to account all expenditures. She advocated against Co-Chair Wilken's suggestion and recommended instead that the funding be appropriated directly to the departments. She suggested a management reporting system could be implemented to keep the legislature apprised of all expenditures.

[10:00:17 AM](#)

Department of Natural Resources

Item: 26

Section: 7(c)(1)

RDU: Capital

Supplemental Need: Gas pipeline risk analysis and royalty issues

\$2,500,000 general funds

NICO BUS, Acting Director, Division of Support Services, Department of Natural Resources, testified via teleconference from an offnet location that \$1 million of this request would be utilized for risk analysis. The Department would contract for assistance with commercial marketing and mitigation of the ownership risk. The remaining \$1.5 million would be expended to address royalty issues.

MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources, testified via teleconference from an offnet location that many of the negotiations relate to the State's ownership and physical possession of the natural gas up to the point of actual marketing of the gas. This mitigates risk to the producers and owners of the pipeline. Under those structures, the State is a "commercial entity" unlike any previous practice in Alaska. It is important to fully understand the risks involved and to develop a commercial structure. The State would be responsible for the gas and must consider the conversion of uncertain royalty rates as a net profit share and determine the capacity of the pipeline, the amount of gas that must be contracted and marketed. This requires the State to change the lease contracts procedures.

Item: 27

Section: 7(c)(2)

RDU: Capital

Supplemental Need: Gas pipeline corridor geologic hazards and resource evaluation

\$2,000,000 general funds

Mr. Bus explained this is a \$6 million general fund request to allow the Department to assess the geological hazards, mineral potential and construction needs for a natural gas pipeline corridor from Delta Junction to the Canadian border. The information garnered from this study would aid in the design and construction of the pipeline and would be useful for future development, such as the proposed Alaska Railroad extension and other public and private development. The study would include a peer-reviewed report that would evaluate an approximate ten-mile wide corridor.

Co-Chair Wilken noted the amount requested for this purpose is \$2 million appropriated in FY 05, and \$2 million appropriated each in FY 07 and FY 08.

Mr. Bus confirmed.

ROD COMMBELLICK, Associate Director for Operations, Division of Geological and Geophysical Surveys, Department of Natural Resources, testified via teleconference from Fairbanks, that this funding would allow the Division to conduct an airborne geological study to collect data to use to compile detailed maps and identify potential engineering problems related to the construction of a natural gas pipeline. He understood that the proposed corridor has not been finalized as the location of a natural gas pipeline; however other developments would occur along the 200-mile corridor, including the Pogo Mine and missile defense activities. Currently geophysical knowledge of the corridor is limited and the information garnered from the study would become public knowledge for multiple uses. The intent is to conduct the study in conjunction with the proposed natural gas pipeline, in the event the pipeline is constructed along this route. The project is anticipated to take approximately three years to complete.

Senator Hoffman asked the percentage of the affected lands are in private ownership and what notification would be given to those landowners of the possibility of the establishment of a 10-mile wide corridor.

Mr. Commbellick replied the corridor crosses primarily state and privately owned land. As with all geological mapping and field studies, the Department would make proper contacts with landowners with the exception of the land located near the missile defense systems. Those lands would not be mapped in detail.

Item: 28
Section: 7(c)(3)
RDU: Capital

Supplemental Need: Gas pipeline Bullen Point Road right-of-way
permitting
\$3,200,000 general funds

DICK LEFEBVRE, Deputy Commissioner, Department of Natural Resources, testified via teleconference from an offnet location about the request for proposals (rfp) the Department has issued to secure professional services to undertake a study to identify a corridor or corridors between Prudhoe Bay and Point Thomson. The intent is to undertake environmental studies and engineering work necessary for a possible construction of a road and permitting for a right-of-way for a pipeline.

Item: 29
Section: 7(c)(4)
RDU: Capital
Supplemental Need: Division of Oil and Gas increased workload
for gas pipeline
\$2,700,000 general funds

Mr. Myers noted earlier reference to increased risk analysis, which involved outside consulting assistance. The Department anticipated additional risk analysis would occur as the State develops a commercial structure. In reviewing the workload involving the proposed natural gas pipeline, it was determined that approximately 25 percent of the Division staff time was dedicated to this purpose. The percentage of time is expected to increase in the future and therefore the Division requests funding for additional positions to address gas line issues.

Mr. Myers explained this funding request also involves regulatory issues. The Department and the Alaska Oil and Gas Conservation Commission (AOGCC) have regulatory responsibilities associated with gas and oil development at Prudhoe Bay and Point Thomson. Extensive reservoir engineering analysis and detailed economic analysis on the physical and economic waste related to timing of production is required. The Division must also ensure that the project has the maximum amount of gas available.

Mr. Myers noted a legislative resolution pertaining to potential gas hydrates. This supplemental appropriation requests funding to add positions that would work with federal agencies to promote this development. He detailed the geo-technical work necessary in the proposed pipeline corridor as well as the Foothills region. These efforts would benefit other development in these areas as well.

Co-Chair Wilken clarified the request would be utilized to implement 13 new positions plus provide funding for the increased

workload of existing staff.

Mr. Myers affirmed and added this would be utilized in conjunction with the funding requested in Item #26 to employ outside support.

Item: 30
Section: 7(c)(5)
RDU: Capital
Supplemental Need: Commissioner's Office increased workload
for gas pipeline
\$200,000 general funds

Mr. Bus remarked that existing staff has been "working day and night" with the deputy commissioner unable to accomplish all the work necessary. This funding would be utilized to create two project assistant positions dedicated to the pipeline negotiations. One position would focus on planning and the other logistical support during negotiations.

Co-Chair Green asked if any portion of the requested \$200,000 for FY 05 has been expended to date and whether the additional staff has been hired.

Mr. Bus corrected the funds are requested for expenditure in FY 05 and FY 06 and would not lapse prior to the end of FY 06. None of the funds have been expended and no new positions have been filled.

Mr. Bus commented to the productive working relationship between the Department and the Legislative Budget and Audit Committee. However, appropriations made to the Committee for distribution to the Department would cause delays during the legislative interim.

Co-Chair Green asked if the proposed new positions would be temporary.

Mr. Bus replied that the positions would not be guaranteed beyond FY 06, but would be assured until then if this request were granted. At the end of FY 06, the Department would re-determine the need.

Senator Hoffman asked if the positions would be contracted.

Mr. Bus responded that the staff would be appointed to serve at pleasure of the Governor for the period of time the funding is available and the projects are necessary.

Department of Revenue

Item: 31
Section: 7(d)
RDU: Capital
Supplemental Need: Commissioner's Office - Work related to the State gas pipeline and to bringing North Slope natural gas to market
\$5,300,000 general funds

Co-Chair Wilken asked this request differs from that contained in item #30.

Ms. Taylor spoke to the need for an Alaska natural gas entity. Several natural gas pipeline project proposals include State participation. This entity would "Shepard the State's interest." The funding request includes \$1.5 million for that effort and \$3.8 million for contractual services, as detailed by Mr. Porter.

Item: 32
Section: 7(e)
RDU: Capital
Supplemental Need: Alaska Natural Gas Development Authority increased workload for gas pipeline
\$2,170,000 general funds

HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority, Department of Revenue, testified that \$2 million of the requested amount would be utilized for "continuing contractor work related broadly to the issues of in-state gas use. Specifically, this pertains to the "spur line connecting Glennallen to Palmer." Currently, five Alaskan contractors are preparing applications for the right-of-way segment of this project. The applications would be submitted by April 1, 2005 and the "process can work through the summer and into the fall" with completion of the right-of-way scheduled for September 1. These efforts would secure an option to transport natural gas "into Cook Inlet". He detailed the processes involved and created from this project.

Senator Bunde surmised that these efforts would not duplicate other work done by the State.

Mr. Heinze responded that the Authority is not included in the Stranded Gas Act; although as a State entity, it receives the benefit of the knowledge obtained from other State efforts and shares it's knowledge with the legislature and other parties. The emphasis of the Authority is "how to do things", such as delivering energy to rural communities. The Authority is not charged with conducting studies, but rather with implementing practical solutions.

Senator Stedman understood that the contract negotiations are "fluid, dynamic and difficult to budget in advance"; however, he questioned appropriating funding for FY 05 that would be expended in FY 06.

Co-Chair Wilken agreed.

[10:22:39 AM](#)

Co-Chair Wilken noted written public testimony on supplemental budget items has been received and would be included in the record.

[10:23:06 AM](#)

Department of Health and Social Services

Item: 34

Section: 9(a)

RDU: Alaskan Pioneer Homes: Pioneer Homes

Supplemental Need: Replacing unrealizable federal Medicaid funds with receipt supported services. Lower receipts is due to the voluntary nature of residents signing up for Medicaid
-\$1,200,000 federal funds

\$1,200,000 Receipt Supported Services funds

\$0 Total Funds

JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services, testified to the efforts begun in FY 05 to enroll the Alaska Pioneers' Homes as Medicaid providers to offset some general fund expenditures. Resident participation is voluntary and fewer residents opted to apply for Medicaid assistance during this first year. This item does not involve general funds, rather would utilize receipts paid by residents to receive care.

Ms. Clarke noted the Department of Health and Social Services budget subcommittee would address the issue of voluntary enrollment for Medicaid assistance. Other nursing homes require residents apply for all eligible assistance before receiving subsidies. This would be considered for the Pioneers' Homes as well.

Ms. Clarke relayed that the residents of the Sitka Pioneers' Home have enjoyed the intergenerational interaction with the Mt. Edgecumbe students living at the Pioneers' Home. She informed that children attending the Sitka Fine Arts Festival also stayed at the Home.

Co-Chair Wilken commented that the language governing the Medicaid eligibility for nursing home residents is cumbersome.

Ms. Clarke spoke to the next three items relating to Medicaid supplemental requests. The previous two fiscal years, the Department has presented "significant cost contained and refinancing opportunities and very aggressive ways to try and contain Medicaid." In FY 04 the Department reduced general fund expenditures by "\$129". In FY 05, the presented budget would have reduced almost \$67 million general funds. However, the Department has been unable to fulfill the entire cost containment goal; instead approximately \$47 million has been realized.

Item: 35

Section: 9(b)

RDU: Behavioral Health: Behavioral Health Medicaid Svc

Supplemental Need: Medicaid caseload growth above FY 05 budget projections. At current expenditure rate, the existing appropriation will be gone in April or May.

\$2,653,700 general funds

\$3,517,700 federal funds

\$6,171,400 Total Funds

Ms. Clarke informed that this program has experienced an annual average rate of growth of 14 percent in the last "couple of years", in particular out of state care for children in residential psychiatric treatment centers. The Department is attempting to control this growth rate through the Bring the Kids Home Initiative. All components of the initiative have been implemented to date and therefore the entire anticipated savings have not been realized. A "gate keeping" component would be implemented on March 1, 2005 to ensure that those children sent to facilities out of state require this treatment. In previous years, the majority of the children covered by this funding program were in State custody; however, currently most children involved are not, although eligible for Medicaid assistance.

BILL HOGAN, Director, Division of Behavioral Health, Department of Health and Social Services, testified via teleconference from an offnet location, an implemented care coordination mechanism was implemented as a result of SB 157 that passed in 2003. However, this allowed for only one position, which focused on children who have been receiving treatment out of state for 300 days or more. As a result of renegotiating the "first health contract" two additional care coordinator positions would be added beginning in March 2005. The additional staffing would allow for review of the out of state placement of 60 days or longer. Also, funding provided by the Alaska Mental Health Trust Authority would facilitate

enhanced "gate keeping or diversion mechanism." Not only must the Department proactively monitor the length of stay of children already placed out of state, but also must better ensure that all in-state options are reviewed before a child is transferred out of state.

Senator Olson asked if all the children are leaving the State for psychiatric reasons.

Mr. Hogan affirmed, explaining that these patients have serious emotional disturbance as well as function difficulties.

Senator Olson asked if any of the children have physical issues as well.

Mr. Hogan replied that some have accompanying physical disorders as well as the psychiatric illnesses. He gave an example of the physical problems related to eating disorders.

Senator Olson asked if psychologists or "mid-level providers" would treat the children remaining in Alaska.

Mr. Hogan answered that several types of providers would treat the patients; some would enter group homes or small in-treatment facilities if unable to return home. All patients would receive ongoing psychology treatment plus family and other counseling. Also patients would receive support, some of which would be provided by mid-level providers.

Senator Olson understood the challenges the Fairbanks hospital has had in securing a full-time psychiatrist. He asked if it would be difficult to hire a psychiatrist for this program as well.

Mr. Hogan agreed it is difficult to attract psychiatrists to Alaska. The Department is using a telemedicine approach to evaluate and monitor patients and is expanding the in-state capacity in conjunction with the University of Alaska. There is a need to develop staff in entry-level positions through psychiatrists.

Senator Olson asked if the Division anticipated spending the entire \$2.6 million requested for behavioral health programs in FY 05.

Ms. Clarke informed that the \$72.6 has been expended as of January 2005, and projections indicate that a total of \$124.5 million would be expended in the fiscal year.

Co-Chair Green expressed concern that a "gate keeping" mechanism is not in place given that legislation passed several years prior

provided for these measures. The intent was that a gate keeping mechanism would be enacted before the program was expanded to include Medicaid. She noted the number of cases in which Medicaid funds paid for treatment for children not in State-custody and therefore the Department had not oversight authority in the determination of appropriate treatment. Most of these cases involve the Denali KidCare Program. She remarked that in creating the Denali KidCare Program, the State has allowed patients to "skirt the process". The gate keeping issue must be addressed.

Co-Chair Green asked if the program is cross-referenced with the Department of Education and Early Development since the states in which the children are receiving treatment bill Alaska for the education costs.

Ms. Clarke replied that for those children in State custody, the departments have a contractual agreement for education costs. These costs have remained steady. The increases are the result of treatment for those children not in State custody. She was unaware how the educational costs were paid for those children.

Co-Chair Green recalled an increment in a supplemental appropriation request of a previous fiscal year requesting a \$700,000 chargeback for educational programs for children in State custody receiving treatment out of state.

Ms. Clarke remembered that pertained to children in State custody.

Mr. Hogan furthered that not all Alaskan children receiving treatment out-of-state have an individual education plan. For those that do, the Department of Education and Early Development, through deductions from the child's resident local school district, must provide the out of state education costs. The Department of Education and Early Development is not responsible for the education expenses for those receiving education through their treatment program, he would verify that Medicaid covers those costs.

Senator Hoffman was alarmed at the increase of this program, noting the average annual increase of nine percent. He asked the percentage of children receiving treatment outside of Alaska who are Alaskan Natives. Average increase annual is 9 percent.

Mr. Hogan replied that an average of 40 percent of the children receiving out of state treatment through this program are Alaskan Native.

Senator Stedman commented that 40 percent is substantially higher

than the general population. He spoke to the difficulty in planning budget cycles given the substantial growth in this program and others. He asked if the growth in this program represent an "unraveling" of the State's social structure, or repercussions of actions of past generations becoming more apparent.

Mr. Hogan replied that the growth in the community programs has been approximately three and one-half to four percent annually. The growth of the acute inpatient treatment services has been less than three percent annually, although a larger increase has occurred in the current fiscal year. The substantial growth "distorting all of our numbers" is the out of state residential psychiatric treatment. In some years, the growth of this program has been 30 percent, although it has stabilized somewhat.

Mr. Hogan spoke to increased pressures on children and families. The Division attempts to intervene in situations early, but is not always successful and subsequently, some children require longer and more intensive treatment for recovery.

Senator Stedman asked how the legislature is to obtain cost containment if large supplemental appropriations are requested after the initial budget has been determined. The supplemental appropriation for this program differs from the funding requests for a natural gas pipeline project, which would accelerate a large capital project. This situation appears to demonstrate an "erosion of our ability to control appropriations."

Co-Chair Wilken suggested Senator Stedman ponder this as it is true. The Committee continually struggles with the task of developing an appropriate budget and addressing supplemental funding requests.

Senator Olson asked the involvement of the federal Indian Health Services agency to assist with payment for these services for the Native patients.

Mr. Hogan replied that the Division cooperates with Native "partners" to develop local treatment options.

Senator Olson asked how the State is reimbursed for services provided to patients otherwise eligible for federally paid services.

Mr. Hogan explained the payment process for behavioral health services provided to a Medicaid eligible person who is Native. It preferable, both culturally and financially, that Alaska Natives are served by Native Health organizations.

Ms. Clarke furthered that one strategy is to develop programs with entities classified as "638" to allow the State to be reimbursed 100 percent. However, the out of state facilities are not classified as 638, and therefore the State is unable to claim reimbursement.

Senator Hoffman asked if the goal is to provide treatment for Native children locally. He noted the 35 to 40 beds available in the Yukon-Kuskokwim region and asked if this is the same number of children currently receiving treatment out of state.

Ms. Clarke did not have details of the residency of these children.

Mr. Hogan totaled approximately 350 children receive out of state residential treatment at any given date. Approximately 150 of those children are Alaskan Native.

Senator Hoffman questioned the attainment of providing local treatment if the local residency of patients is unknown.

Mr. Hogan indicated he would provide this information.

Co-Chair Wilken also requested an estimate of the number of children who are expected to return to Alaska and the level of care that would be required for them.

Item: 36

Section: 9(c)

RDU: Health Care Services: Women's and Adolescents Services
Supplemental Need: Feds reduced FFY 05 funding in the Breast and Cervical Cancer screening program. The fund source change will allow services to 1600 enrolled women that otherwise would not be served due to federal funding reductions. Funds will be required by late March or early April to continue the program.

\$500,000 general funds

-500,000 federal funds

\$0 Total Funds

Ms. Clarke corrected that the backup material stated that the Department did not know of the loss of the federal funds until receipt of the grant notification in September 2004; however some managers were aware in June 2004 that the funds would be reduced. This request would allow the Department to continue to serve the number of women planned. Without funds 1600 women would not get served. She referenced the back up documentation detailing the history of this program.

DR. RICHARD MANDSAGER, Director, Division of Public Health, Department of Health and Social Services, added that enrollment has accelerated across the State beyond what was anticipated if the program were fully funded. If not funded, enrollment would stop to allow current patients to receive services and existing funds would not fully fund services for current patients.

Co-Chair Wilken clarified this request represents a "backfill" of federal funds for FY 05 and again for FY 06.

Dr. Mandsager affirmed.

Co-Chair Wilken commented this should receive further review. The legislature would be faced with making decisions regarding funding programs that have been historically federally funded as the federal funding is eliminated or reduced. The State must determine whether to continue these programs utilizing State funding. These decisions would impact future legislatures.

Senator Bunde asked the fiscal consequences to the State for providing Medicaid-funded treatment for cancers not detected as a result of the elimination of the screening program.

Dr. Mandsager replied that it is impossible to identify a direct cause and effect. However, the Medicaid cost of treatment for those with breast or cervical cancer has decreased \$2,300 per case during the same time period that the number of women receiving screening has increased. He predicted that if the State did not invest in screening, it would pay for increased treatment costs later. This is a policy call that the State must make. The Division has determined that if this funding were not provided by either the federal government or the State, screening would be limited to women aged 50 to 64, which is the ages recommended by the Centers for Disease Control. The current program provides screening for women aged 18 to 64.

Senator Olson asked if detected malignancy has increased significantly as a result of the screening program and the incidences of false positive and negative test results.

Dr. Mandsager responded that the rate of cancer diagnosis has remained constant; however, the implementation of this program has occurred incrementally and has yet to reach rural areas. If the funding requested for FY 06 were appropriated, the program would be expanded to the entire State.

Senator Olson asked if other types of cancer screening activities

occur through the Medicaid program.

Dr. Mandsager would provide this information.

[10:59:55 AM](#)

Co-Chair Wilken directed attention to charts indicating the increases of the following programs of 184 percent over the past nine years [copy on file.]

Item: 37

Section: 9(d)

RDU: Health Care Services: Medicaid Services

Supplemental Need: Unable to implement cost containment measures as quickly or to the extent planned: e.g., Prescription Drug List delay, Transportation, Rate Setting, Cost Avoidance of Medicare Covered Drugs. At current expenditure rate, the existing appropriation will be gone in April or May

\$13,821,400 general funds

\$16,888,300 federal funds

\$30,709,700 Total Funds

Ms. Clarke explained this request is directly related to those expenses the Department had expected to reduce in FY 05, but was unable to accomplish. The Department had expected to save a total of \$41.5 mill, but was only able to realize \$11 million in savings. She noted the Department had anticipated saving \$11 million in Medicaid-related transportation costs. The projected amount could not be achieved, although some savings would be realized. She noted that additional savings would be realized in FY 06. The Department had also anticipated savings through the preferred drug list, but based on feedback from providers and patients, the entire list has not been implemented. Additional efforts would be made through this program to increase savings.

Item: 38

Section: 9(e)

RDU: Senior/Disabilities Svcs: Senior/Disabilities Medicaid Svc

Supplemental Need: Unable to implement cost containment measures as quickly or to the extent planned: e.g., Contract Waiver Assessments, Medicaid Waivers, Reducing Respite Utilization, Nursing Homes Preadmission Care Plans, \$7,084,400 general funds and \$7,606,300 federal funds = \$16,690,700. Formula growth over budgeted amount will cost \$15,487,800 general funds and \$20,930,200 federal funds = \$36,418,100. Primary growth is in Personal Care Attendant Services. At

current expenditure rate, the existing appropriation will be gone in March.

\$22,572,200 general funds

\$30,536,600 federal funds

\$53,108,800 Total Funds

Ms. Clarke noted this is the largest Medicaid supplemental item. The Department was unable to realize \$7.1 million of projected cost containment in two areas. This item also represents program growth above projected rates, particularly in the Personal Care Attendant Services program. Other unrealized savings relates to the nursing home preadmission care plans. The Department is developing detailed information, including programs implemented in other states, which would be shared with the budget subcommittee.

Co-Chair Wilken remarked this is a significant issue that would be addressed further.

Senator Bunde recalled an attempt to change the Personal Care Attendant Services program, specifically the payment to relatives of patients for care provided to those patients. He asked if this was accomplished.

Co-Chair Wilken directed attention to back up documentation [copy on file.]

Co-Chair Wilken noted expenses for this program are consumer directed, and the growth began in the years 2001 and 2002, as it became more widely known.

Senator Bunde remarked that the State is paying people to perform family "duties".

Co-Chair Wilken understood the program expense would be \$70 million for FY 05.

Ms. Clarke reiterated this program is growing the fastest of all Medicaid programs. The Department requires policy direction from the legislature on how to control these costs.

Co-Chair Wilken would discuss the matter directly with Ms. Clarke with the Committee's permission.

Senator Olson stressed his is a strong proponent of the breast and cervical cancer screening program.

Co-Chair Wilken ordered the bill HELD in Committee.

ADJOURNMENT

Co-Chair Wilken adjourned the meeting at 11:07 AM