

HOUSE FINANCE COMMITTEE  
January 24, 2012  
1:37 p.m.

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CALL TO ORDER

Co-Chair Thomas called the House Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Co-Chair  
Representative Anna Fairclough, Vice-Chair  
Representative Mia Costello  
Representative Mike Doogan  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Reggie Joule  
Representative Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

William Streur, Commissioner, Department of Health and Social Services; Nancy Rolfzen, Assistant Commissioner, Finance Management Services, Department of Health and Social Services; Laura Baker, Deputy Director, Finance and Management Services, Department of Health and Social Services; Representative Wes Keller; Representative Sharon Cissna.

SUMMARY

BUDGET OVERVIEW:

Department of Health and Social Services

^BUDGET OVERVIEW: DEPARTMENT OF HEALTH AND SOCIAL SERVICES

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WILLIAM STREUR, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES (DHSS), presented a PowerPoint presentation titled "Department of Health and Social Services FY 2013 Budget Overview." He relayed that throughout the subcommittee process budget detail for the DHSS divisions would be provided. He introduced department staff.

Commissioner Streur pointed to the department's organizational chart on slide 2. Kimberly Poppe-Smart was the deputy commissioner for Medicaid and Health Care Policy, which included Health Care Services, Alaska Pioneer Homes, Senior and Disabilities Services, and Behavioral Health. Ree Sailors was the deputy commissioner for Family, Community and Integrated Services, which included Children's Services, Juvenile Justice, and Public Assistance. Additionally, there were a variety of boards and workgroups that supported the department.

Commissioner Streur discussed the department's mission to promote and protect the health and well-being of Alaskans (slide 3). The department was currently revisiting its mission to determine what needed to change and how DHSS could be more reflective. The department's core values included collaboration and partnerships with tribal partners, the provider network, and families; accountability to the legislature, governor, Alaskans, and recipients; respect of working relationships with all individuals; empowerment of recipients to care for themselves, and; safety.

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Commissioner Streur highlighted DHSS priorities that had been defined to fit within the department's mission (slide 4):

- Integrated Health and Wellness
- Health Care Access and Delivery
- Sustainable Long-Term Care Delivery System
- Safe and Responsible Families and Communities

Commissioner Streur discussed major accomplishments under the category of Integrated Health and Wellness on slide 5. The Adult Preventative Dental Care program had been implemented five years earlier and had served 14,821 people to date. The program continued to grow and had helped improve recipients' lifestyles by expanding the range of foods they could eat and the jobs they had access to.

Co-Chair Thomas commented on dental care in the state's prison system.

Commissioner Streur continued to discuss DHSS accomplishments on slide 5. The distribution of H1N1 pandemic influenza vaccinations to providers had been very effective and Alaskans Taking on Childhood Obesity (ATCO) was a significant program. He emphasized that the current generation of youth was predicted to be the first group that would not live as long as its parents had.

Co-Chair Thomas remarked that two dentists in Haines had proposed adding a \$0.05 tax on soft drinks to help with dental programs and to fight obesity.

Representative Gara wondered whether DHSS was working with the Department of Education and Early Development (DEED) to help introduce healthier options for school lunch menus.

Commissioner Streur replied in the affirmative. The departments were steering away from the single targeted approach used in the past and were looking at multiple items together including, the kinds of meals that were served in schools, recess, exercise, and more.

Representative Gara wondered what the department was doing to change the quality of foods served in the state's schools.

Commissioner Streur responded that DHSS provided input to the schools. The department had expressed concern that the school system's plan to reduce salt by 40 percent in the lunch programs would take ten years; however, the process took time and changes needed to be made gradually in order to encourage students to continue to eat the food. He had been frustrated with the slow process, but he understood the reasoning behind it and would continue to work on shortening the implementation time if possible.

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Representative Costello referenced the successful school system in Sweden that provided children with 15 minutes of recess for every 45 minutes of instruction. She wondered whether the department would communicate recommendations to DEED for fitness programs in schools.

Commissioner Streur responded in the affirmative. A portion of the obesity program focused on fitness in schools. He stressed that the new participation was surprisingly positive. He emphasized that beginning at an early age was instrumental in success; DHSS would be at Susitna Elementary in February to introduce the program.

Representative Joule discussed the abundance of fish and other local foods that had to undergo a regulatory process through the United States Department of Agriculture. Work was underway at the Department of Environmental Conservation to clear the way for use of local foods, which would also help to stimulate the economy in areas of Alaska. Communication between the multiple departments involved was important in order for progress to be made.

Representative Neuman asked what influence DHSS had to encourage other departments to purchase local products. He pointed out that produce purchased from out-of-state (for the correctional system, schools, and other) lacked nutritional value; other items such as fish, milk, and cheese also came from out-of-state.

Commissioner Streur replied that DHSS had little influence on the matter. The department was able to provide input and advice, but he believed DHSS could improve its communication with other departments on the issue. The department had significant expertise and was becoming more involved in environmental areas such as mining; however, it was not as involved in food.

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Commissioner Streur continued with health care access and delivery accomplishments (slide 6). He was optimistic about past and present work conducted by the Medicaid Task Force. He hoped to have four patient-centered medical home pilot programs underway with the potential for more depending on their success. He pointed to the medical home concept

national trends that indicated Alaska's Medicaid recipients could benefit from the program. An increasing amount of funding available to governments was spent on health care; the overall cost of health care in the U.S. had set a new record of over \$3 trillion in the past year.

Commissioner Streur discussed the effective use of generic and formula drugs and noted that the state had three different schemes related to the issue (slide 6). There was a very generous formulary in the state and DHSS worked well with the provider system to ensure that the right drugs were available to individuals at the appropriate time. The department was working to change the decline in the effective use of generic prescription drugs, given that it would immediately help to reduce health care costs in the state. The involvement of physicians and other primary care and specialty providers would help ensure that effectiveness for efficiency would not be sacrificed. He briefly addressed the Community First Choice program available under the Division of Senior and Disability Services.

Representative Doogan wondered what the phrase "effective use of generic and formula drugs" meant in practice. He asked how generic drugs were guaranteed to perform as well as name brand drugs.

Commissioner Streur answered that DHSS was not responsible for determining the effectiveness of generic drugs; the decision was made by the Federal Drug Administration (FDA). The department did look at generic drugs to determine whether they were a suitable substitute. He explained that the state's pharmacists and physicians looked at situations in which some generic drugs contained fillers that did not work well for some people. Prescriptions were normally filled with a generic drug unless a provider instructed that the prescription should be "dispensed as written."

Representative Doogan felt that the answer was not satisfactory. He referred to a personal experience in which generic drugs prescribed by a physician had not been successful. He wondered how the department ensured that money given to pharmacies to prescribe medications resulted in successful treatment.

Commissioner Streur responded that the determination was made by physicians and not the pharmacies; drugs used were

approved by the FDA. He furthered that the same drug did not always work for different people. He recognized that although he had experienced success with generic prescriptions that others may not have the same experience. The process was still a practice of medicine and was not completely refined. He expounded that it was up to the physician and provider to ensure that an ineffective drug was changed. He offered to arrange a meeting with the department's pharmacist to discuss the issue further.

Representative Doogan looked forward to the meeting.

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Representative Guttenberg was familiar with problems related to generic drugs. He had been told that formularies throughout the state had trouble getting custom prescriptions covered by insurance. He asked whether the commissioner was aware of the problem and if it had been remedied.

Commissioner Streur responded in the affirmative. He had managed a health plan in the past and the formularies had been more restrictive; it had been based on where the best rebates, discounts, and demand for a particular drug. Currently there were an increasing number of unique prescriptions and pharmacies would not stock them if they only came up once per month. He communicated that new drugs were slow to end up in formularies because they were more expensive, on-patent, and generally 60 percent to 80 percent more expensive than a generic or older drug; because health plans did not want to pay for the more expensive prescriptions they did not put them on the formulary. Pharmacies were supposed to have suitable substitutes, but frequently this did not happen. The department was not involved in health insurance outside of Medicaid and had a generous formulary that had been thoroughly vetted. The department had a pharmacy and therapeutics committee that met on a regular basis to review and update the formulary with new and unique drugs as needed.

Representative Gara asked whether the policy was to prescribe a generic drug unless a physician specified a name brand. He understood that name brand prescriptions were needed in some cases and also wanted the department to

be able to save as much money as was reasonable. Commissioner Streur responded in the affirmative.

Representative Gara wondered whether there was a way to monitor when a name brand drug was prescribed inappropriately. He discussed the influence that major companies could have over physicians and their decision to prescribe name brand medications.

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Commissioner Streur replied in the affirmative. The department looked at prescribing patterns on a monthly basis. Additionally, there was a drug utilization review committee that looked at outliers.

Representative Gara asked for clarification that the outliers referenced were the physicians. Commissioner Streur responded in the affirmative.

Co-Chair Thomas referred past testimony of Dr. Doolittle from the Alaska Psychiatric Institute who had been concerned that generic psychiatric drugs were not appropriate for patients due to the length of time they took to be effective. He hoped DHSS would not use generic drugs to treat psychiatric needs.

Commissioner Streur was aware of the concern related to antipsychotic and psychotropic drugs. The topic had been discussed by the Medicaid Task Force. He relayed that much of Dr. Doolittle's testimony had been correct, but much better drugs were beginning to be available in the area due to continued improvements.

Co-Chair Thomas believed that once a prescription was working for a psychiatric patient it was important to not change the medication.

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Commissioner Streur highlighted that there were many people involved in the sustainable long-term care delivery system (slide 7). The nation's senior population had grown by 14 percent in the past 10 years; whereas, Alaska's senior population had grown by 70 percent. The veteran and senior wait list continued to grow for the state's pioneer homes. The state maintained status quo, but it may look at an

improved way to provide pioneer home care and ensure that the resource was available to seniors. He communicated that 30,000 recipients had been served through senior and disabilities services programs and that the number would continue to grow. He addressed partnering with Native organizations for nursing home care. There was a new 18-bed nursing home facility in Kotzebue; efforts were also underway in Bethel, Nome, and other locations in the future. He emphasized that success would not occur without the partnerships with Native and tribal health providers.

Representative Guttenberg had heard that in the past, prescription drug costs increased for veterans when they were admitted to the state's pioneer homes. He understood that "pooling" was one of the best ways to decrease costs, which was utilized by both Native organizations and pioneers homes. He wondered whether it was possible to create pools for seniors and state employees to reduce prescription costs.

Commissioner Streur deferred the question to the Department of Administration. He added that an effort was underway; there was a large population that included Medicaid, retirees, workman's compensation, and correctional facilities recipients. He explained that the number was substantial and questioned the state's ability to leverage its buying power, capabilities, and services for recipients.

Representative Edgmon thanked DHSS for providing resources to the assisted living facility in Dillingham. He had been reminded at a recent leadership seminar that the challenge related to the Alaska's growing senior population would continue to increase. He hoped the issues were prioritized in the DHSS ten-year plan.

Co-Chair Thomas discussed that Haines had saved general fund allocations to pay for an assisted living complex. The city was working on a 12 to 14 bed veterans home that would be located next to the assisted living facility. Saint Vincent de Paul had been instrumental in helping to assemble the program. Prior to the creation of the assisted living facility people had to leave Haines to live at a pioneers home in another location.

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Representative Joule pointed to private care facilities that had been established to meet the growing need; he had been surprised at the large number of available facilities in Anchorage.

Commissioner Streur addressed safe and responsible families and communities (slide 8). The establishment of systems to ensure the safety and protection of the state's children was critical. He discussed the continued support of the Child Advocacy Centers and the importance of the relationship between the centers and the Office of Children's Services. He mentioned the Child Welfare system and Family to Family program. A Families First Initiative had been started with a core group of 46 families under the Division of Public Assistance to provide a "one-stop shop" for available services. He emphasized that public assistance was not helpful if a child did not have access to food or health care. He was working to establish a families-first focus within the department; he believed that although the road forward would be challenging, it would be more effective and cost efficient in the future. There were currently 133 children in out-of-state care and the Bring the Kids Home program worked to enable them to return safely to their communities. He expressed his hope to be able to change the program to "Keep the Kids Home."

Commissioner Streur continued to discuss additional safe and responsible families and communities programs (slide 9). He discussed juvenile justice and the Alaska Native Recidivism Committee; there were a disproportionate number of Native youths in the juvenile justice system compared to the overall population. The department worked to ensure that there was a full array of behavioral health services for juveniles within detention and treatment facilities.

Commissioner Streur pointed to heating assistance grants on slide 9. The department was working to catch up on the grants due to a computer system problem that had been resolved; there had been zero individuals on the waiting list for the past 45 days. During the 2010 to 2011 heating season there had been over 14,500 people served, which equated to \$15 million in payouts; 5,816 households had been approved for the current year, which totaled approximately \$6 million in grants. He emphasized that the program provided significant assistance.

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Representative Joule explained that a situation in Noatak had been averted when community members had taken snow machines to pick up fuel for the community in temperatures of 40 to 50 degrees below zero. He was concerned that the Low Income Home Energy Assistance Program (LIHEAP) was cash only; the program would have been no help if Noatak had completely run out of fuel because there would have been no fuel to purchase. He hoped a solution could be reached through work with a tribe or organization in order to assure people that the payments were there.

Commissioner Streur moved on to home and community-based senior disability services (slide 9). He shared that the committee would hear a significant amount of information on the program at a later time.

Representative Doogan wondered about solutions for handling kid-on-kid sexual assault. He thanked the division directors for taking his concerns seriously the prior year and looked forward to hearing their reports. Commissioner Streur appreciated the remarks.

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Commissioner Streur explained that Medicaid was the department's greatest challenge (slide 10). A chart on the slide illustrated that the current Medicaid costs were approximately \$1.5 billion and \$5 billion in 2030. According to the Pew Research Center "boomers started turning 65 last year and every day for the next 18 years about 10,000 per day nationally will hit that age." He relayed that historically age had been associated with retirement and the Medicare rolls. He read a statement from an economist:

At the consumer level it may squeeze out other discretionary spending. At the government level, rising Medicaid and Medicare spending will inevitably put pressure on other government spending priorities. At the business level, could curtail investment or more likely suppress wages. Medical payments now account for about 16 percent of total consumer spending. More than food or clothing combined, which makes up about 11 percent, or housing, which makes up about 15 percent. The rising costs of health care

means it will consume and even bigger share of the world's largest economy as the population ages.

Commissioner Streur noted that medical payments had increased and currently accounted for 18 percent of consumer spending. He stressed that finding a solution to improve quality and access while reducing Medicaid costs was a challenge and could involve risk. He explained that the department would work to "bend the curve" or slow down the inflation rate, but costs would not be reduced.

Representative Guttenberg was troubled by the chart that depicted the rising costs of Medicaid (slide 10). He wondered whether the projected number of participants in the program would show the same curve upwards and cost per participant.

Commissioner Streur replied that the Medicaid chart showed the same population. There was a small amount of incremental growth built into the chart; for example, Medicaid expansion was due to occur through the Affordable Care Act on January 1, 2014 when an additional 30,000 to 35,000 individuals would become eligible for Medicaid. Medicaid coverage for individuals would move from 100 percent of poverty level to 138 percent of poverty level; currently the coverage reached a limited number of people and included very few males and non-family households. He projected that Alaska's Medicaid costs would grow upwards of 30 percent.

Representative Guttenberg asked for verification that the chart showed the same number of participants in each age group and that the cost of delivery was ever increasing. Commissioner Streur answered in the affirmative.

Representative Guttenberg thought it would be helpful to determine how to deliver the same high-level of care at an affordable rate. He hoped to hear about positive measures taken related to the issue. Commissioner Streur agreed.

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Representative Doogan wondered whether DHSS had experienced cost-shifting from the federal government to the state. He pointed to the start of a cost-shifting trend that had impacted other agencies.

Commissioner Streur responded that cost-shifting had not been very prevalent in Alaska. The majority of shifts had been in funding formularies and had been subtle. He expressed concern that the federal government would pay for the cost of care for additional patients under the expansion of Medicaid, but not for the development of infrastructure (e.g. staff, computer systems, etc.) that would be required with the 30 percent growth. The state would be largely responsible for at least 50 percent of the cost. The federal government would pay for 100 percent the cost of care through 2016, 95 percent in 2017, and 90 percent in 2019.

Commissioner Streur focused on strategies that dealt with department challenges (slide 11). He believed in the integration of services and that all participants needed to be involved in the development of solutions. He stressed the importance of maximizing resources for effective service delivery. The third strategy involved the promotion of rural infrastructure development and standardization of regional structure. Care delivered in a rural community was approximately half the cost of transporting a patient to an urban location. He emphasized that all partners including tribal organizations, physicians, nurses, and other needed to be involved in a full continuum of care from the "womb to tomb."

Commissioner Streur continued to list strategies for department challenges (slide 11). Fourth, DHSS needed to promote accountability at all levels of the organization including work with recipients of services, pharmacies, providers, legislators, and other. The fifth strategy aimed at leveraging technology in strategic ways to accomplish the department's goals. There were federal funding opportunities that offered technology opportunities for the state; the department continued to develop the Medicaid Management Information System. Additionally, he hoped to establish a master client index that would allow the department to provide enhanced coordinated care to its recipients.

Commissioner Streur continued to discuss strategies for challenges faced by the department (slide 12). He communicated that the promotion and response to overall health and wellness of Alaskans continued to evolve. The budget included items for the Kenaitze Indian Tribe in Kenai and the Copper River Native Association to develop

resources in their communities; the items represented opportunities, given that the federal government would pay for 20 years of approximately 100 health care providers for the Kenai tribe and 60 health care providers in Copper Center. He explained that the state was responsible for paying for the each building. He added that there needed to be a focus on prevention as well. Other strategies included system development improvements across the board, partnerships with all groups involved related to ideas and solutions moving forward, and recruitment and retention of qualified employees, which had been the department's biggest challenge.

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Commissioner Streur relayed that the department needed to continue to address key performance indicators given that its report card was not very good (slides 13 and 14). The department was focused on reducing items such as suicide, tuberculosis, and overweight and obesity problems. The department was working to fight the prevalence of teenage tobacco use that was on the rise. He mentioned the DHSS vaccination program.

Representative Gara discussed that the federal health care legislation had a provision that enabled parents to include their children on their health insurance until the age of 26; Alaska had been the only state to opt out of the provision that had also extended the program to retired state employees. He pointed to the department's goal to provide insurance to at least 95 percent of children and wondered whether the department would support belatedly joining the program if it was possible.

Commissioner Streur responded that the current coverage allowed for by the department's indicator included children from the age of zero through 18. He relayed that the decision to support or oppose the federal health program fell under the purview of the Department of Administration.

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Representative Guttenberg asked whether Commissioner Streur was aware that there was no child-only insurance available. Commissioner Streur replied in the negative. Representative Guttenberg would follow up on the question at a later time.

Commissioner Streur communicated that continuous health insurance coverage was an issue (slide 14). He pointed to the Denali KidCare expansion scheduled to occur in the upcoming year; enrollment had increased and another bonus had been received due to performance in the area. He believed that state and federal efforts towards Medicaid expansion would provide coverage for more individuals. He discussed that the vaccination program had suffered in the past year when the federal government had reduced funding. The FY 13 budget included an increment of \$700,000 that would implement parts of the vaccination program. He believed the Senate had introduced a bill that would fully fund the program; he noted it would be money well spent.

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Co-Chair Thomas wondered what would happen to federally funded state programs if the federal government made funding commitments that it retracted at a later date. He referred to earlier testimony about the 20 year commitment the federal government had made to the Kenaitze Indian Tribe and Copper River Native Association. He made a remark about the belief that funds should be backfilled for every American Recovery and Reinvestment Act (ARRA) program the state had spent money on. He asked the department to follow up on the questions later.

Commissioner Streur shared that the target to reduce the rate of alcohol-induced deaths had not been met (slide 15). Alcohol continued to be the single greatest epidemic in the state; there was a direct or notably indirect correlation between alcohol and many of the current social issues.

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Representative Joule questioned why more recent data than 2002 and 2003 had not been used in relation to Fetal Alcohol Spectrum Disorder (FASD) statistics (slide 14).

Commissioner Streur replied that it frequently took seven to ten years to obtain reliable data on the prevalence of FASD. He expressed concern that the trend may not have been reversed and that efforts to fight the issue needed to be doubled; more and more children had been diagnosed in Alaska.

Commissioner Streur touched on efforts to address substance abuse in Alaska (slide 15) and to reduce the rate of uninsured Alaskans (slide 16). He believed the licensed health care provider objective needed to be broadened because much of the focus had been on physicians; there were many other providers who were able to fill the gaps in care.

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Representative Neuman asked whether there had been a notable change in health care providers, given the increased funding dedicated to the area. He wondered whether study targets had been met.

Commissioner Streur believed that it had improved, but the information was largely anecdotal. He would meet with WWAMI [Washington, Wyoming, Alaska, Montana, Idaho Medical program] and others to obtain more information.

Co-Chair Stoltze noted the aging of Alaskan physicians and asked whether there were concerns with the age demographics. Commissioner Streur responded in the affirmative. There was a significant aging of the psychiatrist and primary-care and internal medicine physician population.

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Commissioner Streur discussed the target to reduce the medication error rate in pioneer homes had been successful (slide 17). There had been significant progress made in pioneer home facilities. Substantial progress had also been made towards the reduction in the number of falls that resulted in major injury; DHSS continued to pursue the 0 percent target rate.

Vice-chair Fairclough pointed to a Canadian study that had provided increased dosages of vitamin D to assisted living residents to improve bone health and decrease injuries from falls; the program had led to a mandated dosage of vitamin D for long-term care residents. She wondered whether the state was considering a similar program.

Commissioner Streur replied that there had been continued discussion on the issue between the Division of Public Health director and Representative Paul Seaton.

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Commissioner Streur communicated that the target to reduce incidents of domestic violence had not been met, but efforts to decrease the rate of child abuse had been successful (slide 18).

Representative Gara queried what the department could do to reduce the rate of child abuse and neglect. Commissioner Streur emphasized that DHSS needed to continue to work with families, to intervene with families earlier, and to identify potential for abuse.

Representative Gara queried whether DHSS had a funding increment to prioritize substance abuse treatment to aid in the reduction of child abuse. Commissioner Streur did not know whether DHSS had additional increments, but it was constantly evaluating existing increments given that a significant amount of money was spent on treatment for a limited number of people. The department needed to continue to evaluate whether the treatment was as effective as possible and whether recipients needed to be prioritized.

Representative Joule observed that the overview included approximately 16 targets that had not been met. He believed the responsibility of fixing people had fallen to the government and wondered whether individuals needed to accept more personal responsibility in order for a shift to take place. He recognized the challenges and believed a change in the way business was done was necessary.

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Vice-chair Fairclough clarified that the committee was discussing a key performance indicator that showed the rate of domestic violence was up 25 percent over the previous year and 10,657 incidents had been reported (slide 18). She informed the committee that several pilot prevention programs were in their second year related to domestic violence; as pilot programs were established in communities it was anticipated that the incident rates would rise. She believed that while the increase was awful, there was also an indication of an opportunity to heal. She guessed that there would be five years of increase before prevention tactics started to become evident. She hoped that an increase would be seen in pilot communities such as

Dillingham and Bethel, but that only slight increases would be observed in other communities. She added that currently people may be reporting more often than in the past.

Representative Neuman emphasized that approximately 22 percent of child abuse cases were reported. He believed the number could be multiplied three or four times and included 30,000 to 40,000 Alaskans. He stressed that the reporting rate needed to be improved.

Representative Doogan asked for detail on what comprised an alcohol induced death (slide 15).

Commissioner Streur explained that an alcohol induced death related to various items including, motor vehicle accidents, accidental shootings, snow mobile accidents, and many others; the term included situations in which alcohol was the cause or a contributing factor of a death.

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Co-Chair Stoltze referred to the Karluk Manor in Anchorage and wondered whether the state would be implicated in an alcohol induced death if it occurred at the facility. Commissioner Streur responded in the affirmative.

Co-Chair Thomas remarked that some recent cases had involved diabetics who drank too much and went into a diabetic coma.

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NANCY ROLFZEN, ASSISTANT COMMISSIONER, FINANCE MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, offered to provide a written summary on FY 12 budget updates (slides 19 and 20) in the next several days.

LAURA BAKER, DEPUTY DIRECTOR, FINANCE AND MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, directed attention to a chart showing a ten-year operating budget expenditure comparison by various categories including, formula, grants, program services, administration, and facilities (slide 21). The total budget had increased from \$1.5 billion in FY 03 to \$2.6 billion in FY 13. The actual percentage in the categories had stayed fairly steady, with the exception of the formula that had increased due to national trends and the expanding senior

population. The pie chart on slide 22 represented the total FY 13 funds and illustrated that formula programs made up the majority of the budget at 72 percent. Some of the other segments had gone down slightly, but remained relatively consistent with past years. She added as formula programs and Medicaid increased other programs began to shrink. Slide 23 showed the FY 13 operating budget general fund request, which was consistent with the prior slide.

Co-Chair Stoltze surmised that the only way to contain DHSS budget costs was to restrain entitlement formula increases. He wondered whether there was any other way to curtail the budget's rate of growth.

Commissioner Streur believed there were several ways to address the problem including, reducing eligibility.

Co-Chair Stoltze clarified that reducing eligibility would involve a change to the entitlement formula. Commissioner Streur agreed. Other ways to slow the rate of growth included a reduction of services or reduction of payment for services.

Co-Chair Stoltze noted that all of the solutions listed involved restructuring of the existing entitlement. He asked whether all other measures would be dealt with as policy measures.

Commissioner Streur responded that a reduction in services involved making certain the continued services were appropriate for individuals. He elaborated that the reduction would involve more gatekeeping or some form of managed care. He believed that the patient centered medical home was a gentle form of managed care; patients were managed and cared for by a primary care provider. He added that there were substantial savings without changing the formulary.

Co-Chair Stoltze did not believe many formulas would be decreased.

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Vice-chair Fairclough discussed grants that allowed volunteer hospices and other to divert people from accessing Medicaid services. She elaborated that volunteer hospices would not have to provide funds to the Medicaid

system if they were given a grant. Currently under some grants people were required to be Medicare providers and to bill for services in order to qualify. Volunteer hospices chose not to bill and to focus on their primary mission to be with people who may be facing devastating illness. She thought it was interesting that there were grants that only allowed Medicaid service billers to qualify because it increased the state's responsibility for Medicaid costs. She stressed that there were ways to help people remain in their homes without asking for matching Medicaid.

Ms. Baker pointed to a bar graph that showed how formula and non-formula programs had progressed over a ten-year period (slide 24). Formula programs had been steady between FY 08 through FY 10 and had been influenced by public assistance back to work programs. Currently and into the future there was a trend of fund source issues and an increased number of public assistance caseloads. She mentioned anomalies in Medicaid and the growth factor. Slide 25 showed that Medicaid represented 80 percent of the total DHSS formula programs; public assistance made up 18 percent and children's services (foster care and subsidized adoption programs) represented 2 percent.

Commissioner Streur added that in 2014 Medicaid would increase substantially due to an additional 30,000 recipients. The effect was unknown because DHSS did not know how many people in the 100 percent to 138 percent of poverty level were currently on grant programs or receiving health care services from other areas that would become Medicaid eligible and drive the percentage up significantly.

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Co-Chair Thomas referenced a recent national seminar where other states had discussed lowering budgets by lowering the poverty level in their programs.

Representative Gara discussed a bar chart that showed a 77 percent spending increase over a ten-year period (slide 24) year over year. He believed the increase was primarily due to inflation and population growth.

Commissioner Streur responded in the negative. He explained that on a per enrollee basis the cost was going up substantially. The average annual Medicaid expenditure two

years earlier had been \$9,300 per person (the annual benefit for a family of four had been \$37,200); whereas, statewide the average commercial insurance cost was \$5,300 per person. The number continued to climb annually and was significant on a per basis adjusted for population and inflation.

Representative Gara wondered why Alaska's medical costs were so expensive and continued to rise.

Commissioner Streur replied that the Health Care Commission had been looking at reasons for the cost of health care in Alaska for the prior six months and had been highly controversial. He did not believe there had been any conclusions on why costs in Alaska were higher; the issue needed continued discussion and development. He opined that providers needed to be included in discussions because state government would not be able to enforce solutions.

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Ms. Baker pointed to slide 26, which compared the FY 13 proposed budget with FY 12. The budget included approximately \$1.3 billion in general funds (unrestricted and designated), \$1.2 billion in federal funds, and \$101 million in other funds. Slide 27 showed priority areas for the FY 13 budget. The general fund increment for the year was \$65,208,400; of the total amount the Medicaid program growth was \$46 million. The non-Medicaid priorities included \$4 million for integrated health and wellness, \$265,000 for health care access and delivery, \$1,042,000 for sustainable long-term care delivery, and \$13,852,800 for safe and responsible families and communities.

Ms. Baker pointed out that Medicaid growth would be included in various areas (shown at the top of slide 28). She highlighted various areas of growth (the list was not all inclusive):

- Integrated health and wellness Medicaid growth totaled \$53.3 million
- Maintaining local control of essential public health services by stabilizing funding to public health nursing grantees totaled \$1.1 million
- Immunization for children and seniors totaled \$700,000

- Substance abuse treatment for un-resourced individuals totaled \$450,000
- Family Wellness Warriors Initiative, multidisciplinary rural community pilot project and trauma informed training as parts of the Governor's focus on domestic violence totaled \$1.8 million
- Behavioral health follow-up survey totaled \$75,000
- Disability justice focus group recommendation for pre-development for sleep off alternatives in targeted communities totaled \$100,000
- Tele-health strategic capacity expansion totaled \$100,000 and would allow a provider network for a demonstration project related to home-based treatment

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Representative Doogan wondered what had caused the increase in Medicaid in FY 13 (slide 28). Ms. Baker would follow up on the question later in the presentation.

Ms. Baker highlighted health care access and delivery items on slide 29:

- Increased support for the Supporting Health-care Access through Loan Repayment (SHARP) program
- Continuation funding for the Comprehensive Integrated Mental Health Plan

Ms. Baker addressed the sustainable long-term care delivery system on slide 30:

- Rate setting and acuity measurement home health rate setting totaled \$640,000 and applied to behavioral health outpatient rate setting, home and community based services, and tribal, dental, and behavioral health settlement calculations
- Medicaid growth

- Adult protective services and provider quality assurance split between long-term care and vulnerable Alaskans. Funding would also help DHSS comply with the centers for Medicaid and Medicare services requirements and safety

Ms. Baker directed attention to slide 31 related to safe and responsible families and communities:

- Additional funds for juvenile justice added two positions in each location to increase safety and to cover grave shifts at McLaughlin and Johnson Youth Centers
- Increasing Adult Public Assistance funding due a 4 percent increase in recipients and an anticipated annual enrollment growth of 5 percent
- Medicaid growth
- Support for school based suicide prevention in the amount of \$450,000; grants would be provided to school districts to implement evidence and research training intervention
- Bring the Kids Home efforts and Keeping Kids here included funding from a variety of areas within the Behavioral Health Division

Ms. Baker discussed Medicaid services beneficiaries and expenditures on slide 32. Medicaid contingency language addressed that the replacement of the enhanced Federal Medicaid Assistance Program (FMAP) rate and the state's match rate would be dependent on federal action. The program's overall growth increment was 6 to 7 percent and state spending increases would be approximately 8 percent. She highlighted the behavioral health Medicaid expected growth increases in the amount of \$27.6 million or a 13.6 percent cost from FY 12; both enrollment and utilization contributed to the increase.

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Ms. Baker continued with slide 32. There was a projected growth of 17.2 percent in adult preventative dental. The health care services growth was \$53.3 million or 5.9

percent due to enrollment growth in utilization and rate increases.

Representative Neuman asked what caused the dip and increase in beneficiaries and expenditures on slide 32.

Commissioner Streur explained that the increases and decreases were largely related to the economy. The department's numbers had followed the recession by a couple of years and had been increasing. The average number of beneficiaries was increasing substantially and the number of people remaining in the system had gone up significantly; the average monthly enrollment had increased 20 percent over two years and overall enrollment had increased by 13 percent.

Representative Neuman commented on the correlation between the increases and the state's economy.

Representative Gara questioned the correlation between the increases and the economy because the state's unemployment figures had remained similar to what they had been in past years.

Commissioner Streur responded that the number was more closely related to the value of the employment rather than employment in general; there could be more residents with lower paying jobs currently. A higher number of people were becoming Medicaid eligible; he did not know whether the increase was partially due to a loss of health care coverage by employed individuals. He noted that the reason was probably something the department should look at.

Co-Chair Thomas thought it would be helpful to have a meeting dedicated to the Medicaid discussion.

Ms. Baker relayed that the senior and disabilities services Medicaid growth was \$46 million, which represented a projected growth of 9 percent related to enrollment, utilization, and rate increase. Slide 33 showed how direct service expenditures spread across each Medicaid program and division for FY 11.

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Ms. Rolfzen discussed public assistance programs on slides 34 through 36. The dips in 2007 and 2008 and increases in

2009 through 2011 reflected on slide 32 were also present on slides 34 through 36. The Alaska Temporary Assistance and Native Family Assistance programs served about 4,600 families in 2008 and 5,700 by 2011; the program had experienced a 12.6 percent growth between FY 10 and FY 11 (slide 34). The Adult Public Assistance program and Food Stamp caseload came close to equalization between lower earlier years and increases in FY 10 and FY 11. She noted that the Food Stamp program had been renamed to the Supplemental Nutritional Assistance Program.

Ms. Rolfzen pointed slide 37 related to the capital budget requests:

- \$10 million for phase 1 of the Bethel Youth Facility expansion.
- \$4 million for phase 2 of the International Classification of Disease for Version 10 (ICD-10) mandated updates
- \$450,000 for the purchase of code blue emergency equipment
- \$475,000 for equipment grants to agencies for services to Mental Health Trust beneficiaries
- \$425,000 for the use of aging and disability centers to guide individuals to more appropriate care settings
- \$750,000 for housing modifications that allow individuals with disabilities to remain in their homes

Representative Doogan asked for detail on the International Classification of Disease Version 10 phase 2 updates (slide 37). Commissioner Streur explained that ICD-10 was the international code book for billing health care services; version 10 included a voluminous number of codes to allow for accurate billing.

Representative Doogan wondered why the updates would cost \$900,000. Commissioner Streur responded that the request included an upgrade to the appropriate computer systems statewide; 90 percent of the costs were federally funded.

Representative Doogan opined that the state was spending a significant amount of money on all of the items the federal government wanted.

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Ms. Baker moved to slide 38 related to the DHSS ten-year operating budget plan. Funds for FY 13 totaled \$2.6 billion and total projected funds for FY 22 were \$6.6 billion; using the base-line only the budget would increase to approximately \$4 billion. She pointed to several factors that were not currently known including, the full implication of the federal health care initiative, tighter federal and state budgets, and broad economic problems (e.g. financial markets, energy costs, mortgage defaults, and medical inflation). Other operating budget factors included Medicaid population and medical inflation, public assistance inflation, and population growth in age groups in the 20 to 34 years and 65 years and above.

Ms. Baker concluded the presentation with the DHSS ten-year capital project plan on slide 39:

- Juvenile Justice facilities multi-year plan (e.g. a design and construction of an expansion in Fairbanks and the Bethel Youth Facility phase 2)
- Public Assistance Eligibility Information System (in FY 14, FY 17, and FY 19)
- Alaska Pioneer Homes and Juvenile Justice annual long-term plans

Representative Neuman remarked that most helpful way to reduce the costs for DHSS was to create more family sustaining jobs.

Co-Chair Stoltze was looking forward to the presentation on the Alaska Mental Health Trust Authority. He discussed the trust's responsibility to beneficiaries and opportunities in natural gas development and mining that helped to fill the gap of some of the needs. He stressed the importance of providing resources for beneficiaries with Downs Syndrome, autism, and Fetal Alcohol Syndrome. He emphasized putting Alaskans to work.

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Co-Chair Thomas believed that people providing counseling in his district were opposed to resource development jobs. He asked the department to send out an explanation of the acronyms on pages 19 and 20. He expressed that at the current rate of growth was not sustainable and would create a deficit.

Representative Doogan noted that he had studied the growth rates in the budget for the past ten years. He relayed that the budget had grown 10 percent per year and that it was currently double what it had been ten years earlier. He recognized that the department was not responsible, but he was concerned that "what goes up must come down." He discussed the importance of keeping the budget down.

Co-Chair Thomas agreed. He noted that the various federal funds the state was responsible for replacing were adding up.

#

ADJOURNMENT

The meeting was adjourned at 3:32 PM.