

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

Anchorage, Alaska

June 27, 2012

10:34 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Bill Thomas (via teleconference)
Representative Mike Doogan
Representative Scott Kawasaki (alternate) (via teleconference)

Senator Lyman Hoffman (via teleconference)
Senator Hollis French
Senator Linda Menard
Senator Kevin Meyer (alternate) (via teleconference)

MEMBERS ABSENT

Senator Bert Stedman, Vice Chair
Senator Thomas Wagoner

Representative Mark Neuman
Representative Kurt Olson
Representative Bill Stoltze (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
REVISED PROGRAM - LEGISLATIVE (RPLs)
EXECUTIVE SESSION
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAVID TEAL, Legislative Fiscal Analyst
Legislative Finance Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information on the four RPLs (Revised Program - Legislative) to the Joint Committee on Legislative Budget and Audit.

JEFF JESSEE, Chief Executive Officer
Alaska Mental Health Trust Authority
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Answered questions during discussion of RPL 06-3-0099.

SARAH WOODS, Deputy Director
Finance and Management Services
Department of Health and Social Services
Juneau, Alaska

POSITION STATEMENT: Testified during discussion of RPL 06-3-0099.

GREG JONES, Executive Director
Alaska Mental Health Lands Trust Office (TLO)
Anchorage, Alaska

POSITION STATEMENT: Testified during discussion of RPL 10-3-5000.

KRISTIN CURTIS
Legislative Auditor
Legislative Audit Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information on the audit request.

PAULYN SWANSON, Staff
Representative Mike Hawker
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified during discussion of the office space for Legislative Audit Division.

ACTION NARRATIVE

[10:34:56 AM](#)

CHAIR MIKE HAWKER called the Legislative Budget and Audit Committee meeting to order at 10:34 a.m. Representatives Hawker, Doogan, Kawasaki (via teleconference), and Thomas (via teleconference) and Senators Meyer (via teleconference), Menard, Hoffman (via teleconference), and French were present at the call to order.

Approval of Minutes

[10:36:24 AM](#)

CHAIR HAWKER announced that the first order of business would be the approval of the minutes.

[10:36:44 AM](#)

REPRESENTATIVE DOOGAN made a motion to approve the minutes of April 25, 2012. There being no objection, the minutes from the meeting of April 25, 2012 were approved.

Revised Program - Legislative (RPLs)

[10:37:11 AM](#)

CHAIR HAWKER announced that the next order of business would be the consideration of four RPLs.

[10:37:47 AM](#)

DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, introduced RPL 05-3-0002 from the Department of Education and Early Development (EED). This was a request for \$80,000 of Statutory Designated Program Receipt (SDPR) from the Rasmussen Foundation for the Harper Arts Touring grant program. He relayed that at the October 14, 2011 meeting, the committee approved RPL 05-2-0070 for \$65,000 in SDPR for this grant program in FY 2012. He explained that the Rasmussen Foundation had notified EED in early April 2012 of an interest in renewing the contract for this program. He noted that the current RPL request was for FY 2013.

[10:40:32 AM](#)

MR. TEAL directed attention to RPL 06-3-0099 from the Department of Health and Social Services (DHSS). This was a request for \$33,600 of Mental Health Trust Authority Authorized Receipts (MHTAAR). He noted that, at the December 5, 2011 committee meeting, the committee approved RPL 06-2-0348 for \$100,000 from MHTAAR for this same purpose, the Patient Centered Medical Home Model project. He pointed out that this prior approval had been included in an approved \$500,000 for FY 2012. The current requested RPL for \$33,600 was for funds not used in the prior approval, as it was not possible to know in advance how much of the original FY 2012 authority would be available for carryover

into FY 2013. Hence, this would appear as a new request for FY 2013. He stated that this RPL was for development of a model for a care delivery system, and the cost for the actual service was not part of this RPL. He offered his belief that the cost using the new model was "presumed to be lower than under the existing model."

[10:41:42 AM](#)

CHAIR HAWKER stated that this would require a presentation to both the Senate Finance Committee and the House Finance Committee to justify the additional investment to implement the new model.

MR. TEAL expressed his agreement. He clarified that this RPL request was simply for a contract to develop a model of a care delivery system.

[10:42:12 AM](#)

REPRESENTATIVE DOOGAN asked if the total spent for the proposed study was in addition to the previous appropriation.

MR. TEAL explained that \$100,000 was authorized in FY 2012, and then an additional \$500,000 was authorized for FY 2013. He reported that this proposed RPL requested use of the remaining \$33,600 of the \$100,000 authorized in FY 2012, as there had not been a request to carry it forward, in addition to the already approved \$500,000 for FY 2013.

[10:43:43 AM](#)

JEFF JESSEE, Chief Executive Officer, Alaska Mental Health Trust Authority, Department of Revenue, stated that it was a necessity to control Medicaid costs over the long term, as the current system was unsustainable. He reported that the Alaska Mental Health Trust Authority was working with DHSS to develop a model of care to control these costs. He reported that, as care for complex medical conditions was not coordinated, the costs kept escalating. He explained the Medical Home concept as a central place for patients to have a primary care relationship, with referrals and other care management decisions made at this location. He noted that this has been an effective cost containment mechanism in other areas, particularly for patients with high end costs and complex medical needs. He established the need to develop a model for Alaska, and to engage the tribal partners for developing these systems. He pointed out that the

tribal health system generated a 100 percent federal match. He clarified that \$500,000 of MHTAAR funding had been authorized for FY13 and that DHSS would match an additional \$200,000 with federal funds. He explained that the proposed RPL was for an unspent \$33,600 from the previous FY 2012 funding, and would be added to the FY 2013 funding. He agreed with Chair Hawker that the model of care would then be explained to the House Health and Social Services Standing Committee, the Senate Finance Committee, and the House Finance Committee.

[10:46:24 AM](#)

SENATOR MENARD asked to clarify that \$750,000 was necessary to develop this health care model. She asked what other states had successfully implemented this model.

MR. JESSEE explained that this model development was not using any state general funds, as all the funding was federal or MHTAAR funds. He observed that this was evidence-based practice, and the model was searching for other states which had successfully implemented this model.

[10:48:04 AM](#)

SARAH WOODS, Deputy Director, Finance and Management Services, Department of Health and Social Services, expressed agreement with Mr. Jesse.

[10:48:21 AM](#)

REPRESENTATIVE DOOGAN asked to clarify that \$700,000 would be spent on a study to determine how to spend more money on a program that was currently enacted in several other states.

[10:49:02 AM](#)

CHAIR HAWKER established that the current RPL request was for \$33,600 which had been previously appropriated for FY 2012 and FY 2013. He confirmed that the larger decision to conduct the activity had already been agreed upon by the legislature, and approved for in the FY 2013 budget. He clarified that the Legislative Budget and Audit Committee was not determining whether or not to fund the program.

[10:49:47 AM](#)

MR. JESSEE stated that this is not just a study, but it was the development for a model that would adapt to work in Alaska for the reduction of expenditures. He reported that the system of medical care was different in every state, whether it was different partners or different funding mechanisms, and that the difference with Alaska was the tribal health system. He pointed out that Medicaid dollars were often spent in an uncoordinated, fragmented way to the various providers. He declared that a coordination of care would result in better care, better management of chronic conditions, and lower costs.

[10:51:25 AM](#)

REPRESENTATIVE DOOGAN, drawing from his 6 years in the Alaska State Legislature, recalled although he had been told innumerable times that more spending would save money in the long term, he had never seen that happen.

MR. JESSEE, in response, directed attention to the Bring the Kids Home program. He relayed that the legislature had invested additional dollars into community-based care, which resulted in a 50 percent savings to out-of-state Medicaid costs for residential psychiatric treatment. He said that the overall expenditures for a better level of care had gone down. He directed attention to the Alaska Psychiatric Institute as another example to cost savings. He relayed that the original plan for replacement had been to build a 165-bed hospital at a cost over \$45 million, with additional tens of millions of dollars for operation of the facility. However, work with the community and DHSS developed a single point of entry at Providence Hospital with additional evaluation and treatment beds, and then a 72-bed hospital was built with considerably lower operational costs than if there were not the investment in those other services. He agreed that costs had not been reduced in every case, but that these and other examples had lowered costs. He pointed out that "with greater need does come greater cost." He highlighted that there was a focus on data outcomes, and he stated that The Trust had delivered on its "promise to use public resources in a smarter, more effective, and in some cases, a less costly way."

[10:54:13 AM](#)

REPRESENTATIVE DOOGAN expressed his appreciation for the zeal.

[10:56:14 AM](#)

MR. TEAL directed attention to RPL 10-3-5000 from the Department of Natural Resources (DNR). This was a request for \$360,300 of MHTAAR operating funds, which included \$160,300 for a long-term non-permanent Trust Resource Manager position and \$200,000 for term contracts. He explained that this request was in addition to a FY 2013 increment of \$261,300 to expand the capabilities of The Trust Land Office, in its search for the acquisition of properties that benefit trust beneficiaries.

[10:57:22 AM](#)

MR. JESSEE explained that this long-term non-permanent position had not been requested from the legislature earlier, as there was not yet Office of Management & Budget (OMB) approval for that position. He said that the position became necessary because of serious illness to a senior resource manager made it necessary to hire someone to work with this manager and eventually take over. He stated that the \$200,000 in contracts was for funding that had been approved during the previous legislative session. He offered an overview of The Trust Land Office (TLO) and said that the TLO had already converted the "low hanging fruit", such as timber and resource extraction, into revenue for the Mental Health Trust. Therefore, the TLO income generation has now decreased over the last few years, which is of concern and resulted in the TLO analyzing and determining what can be done to enhance the ability of The Trust Land Office to generate more income for The Trust and develop more of its land. In the past, TLO work was "reactive" whereas now TLO recognizes the need to be creative and "proactive" with the development of its land. He noted that the increment which had been funded during the legislative session was for core operating costs of the TLO to deal with the existing portfolio and its issues. The additional request for \$200,000 for term contracts was for legal assistance and project management. He characterized it as a business opportunity with a limited window of opportunity in terms of timing. He said that state agencies are not usually well equipped to "respond with great alacrity when those types of business opportunities arise or are created." In fact, prior TLO work through the attorney general's office was not acted upon quickly enough to generate an effective business opportunity; therefore, [it resulted in] this request for a term contract for legal services. A similar situation exists with the contract for project management services.

[11:03:16 AM](#)

SENATOR FRENCH projected that the request for \$160,300 would "go away" in a few years when the resource manager position was filled by the incoming manager. He asked if the \$200,000 for term contracts was going to be an annual request.

MR. JESSEE agreed that there would be some level of an ongoing request. He reported that the trustees did not want to request an upfront multi-year allocation; instead, preferring to evaluate the need each year.

SENATOR FRENCH asked why this was not requested during the regular session budget process.

MR. JESSEE replied that, although the process to analyze the income generation of the TLO had been ongoing, it had not fit into the legislative timing process. He explained that the committee process, which the trustees had undertaken, was not concluded until April. He stated that future requests would be made through the regular legislative budget process.

SENATOR FRENCH, noting that the request was for legal services and reflecting that there were more attorneys than work, asked if they were "driving a hard bargain for your hourly rates."

MR. JESSEE declared that the costs would be closely monitored, although it was still unclear as to the actual need. He opined that the contracts might never be used. He further declared a need to fill these positions with people skilled in developmental opportunities, with the knowledge creating deals in the private sector. He noted that it was a challenge for a state agency to operate similar to an aggressive, private sector developer.

[11:07:03 AM](#)

CHAIR HAWKER clarified that the request had been previously vetted by the Mental Health Trust Board of Directors and the request was for Mental Health Trust Authority funds not for any general or federal funds.

MR. JESSEE offered his belief that the decision making for this request had been difficult as the money would not be available, in the short term, to directly support the beneficiaries through the mental health program. He charged that the trustees were holding TLO accountable for results to justify this investment.

[11:08:15 AM](#)

REPRESENTATIVE DOOGAN asked to clarify that there was a decline in revenue from the land trust.

MR. JESSEE clarified that there was a decline to income, as well as to the principal.

[11:08:53 AM](#)

GREG JONES, Executive Director, Alaska Mental Health Lands Trust Office (TLO), in response, said that earlier timber sales were now completed, and that the remaining land was sensitive for logging. He declared that the revenue from the initial land sales and land leases had decreased significantly, with no commercial land leases in the last eight years. He reported that the TLO was now more aggressive for marketing natural resources, specifically oil and gas, coal, and hard rock minerals. Furthermore, TLO is now analyzing the development of real estate for income as well as investment into income properties. He pointed out that TLO revenue from both principal and income had increased in the last year. He declared that the current types of transactions were now much more complex than previous types, and that the request for contracts would enable more expertise for these transactions.

[11:11:33 AM](#)

REPRESENTATIVE DOOGAN asked for the cost breakdown to the funding for the long term non-permanent position.

MR. JONES explained that the current employee was ill, and the position would be filled with a permanent position. The request for the long-term non-permanent position was for the current employee to work part-time and to transition the new employee into that role. He explained that about two-thirds of the request was for salary, with the remaining one-third for the "load to carry the salary." He further explained that, should the current employee return, the position would be funded into a permanent position through the Office of Budget and Management (OMB).

[11:14:03 AM](#)

MR. TEAL directed attention to RPL 10-3-5001 from the Department of Natural Resources (DNR). This is a request for \$85,000 of Statutory Designated Program Receipt (SDPR) to implement a Canada thistle management program in the Anchorage area. He

clarified that DNR needed authorization to receive this money from the National Fish and Wildlife Foundation to implement this Canada thistle management program. Originally, this had been submitted as an FY 2012 RPL, but had been modified to FY 2013 with the cooperation of DNR and OMB.

[11:15:52 AM](#)

CHAIR HAWKER clarified that this would be approved as RPL 10-3-5001.

[11:16:33 AM](#)

REPRESENTATIVE DOOGAN made a motion to approve the following RPLs: RPL 05-3-0002 for \$80,000 of Statutory Designated Program Receipts to the Department of Education and Early Development; RPL 06-3-0099 for \$33,600 of Mental Health Trust Authority Authorized Receipts to the Department of Health and Social Services; RPL 10-3-5000 for \$360,3000 of Mental Health Trust Authority Authorized Receipts to the Department of Natural Resources; and RPL 10-3-5001 for \$85,000 of Statutory Designated Program Receipts to the Department of Natural Resources.

[11:18:31 AM](#)

There being no objection, the RPLs were all approved.

Executive Session

[11:18:47 AM](#)

REPRESENTATIVE DOOGAN made a motion under Uniform Rule 22 to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 11:19 a.m.

[11:40:15 AM](#)

CHAIR HAWKER brought the committee back to order at 11:40 a.m.

CHAIR HAWKER announced that there was not a quorum, but that the committee would continue with the next request until a quorum could be established.

Other Committee Business

[11:40:38 AM](#)

KRISTIN CURTIS, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, explained that legislative procurement procedures required that any contract entered into by the Division of Legislative Audit that exceeded \$25,000 must be approved the Legislative Budget and Audit Committee. She requested approval to solicit and award a contract for technical assistance for (1) the evaluation of KABATA's public-private partnership draft agreement and (2) for the reasonableness of KABATA's economic assumptions that support their financial projections and usage assumptions. She explained that there was the potential to have one contractor with the expertise to perform both of these tasks, which would necessitate the approval for a contract greater than \$25,000.

[11:42:43 AM](#)

SENATOR MENARD, noting her great interest in this project, asked for a list of steps to ensure that the audit was completed as quickly as possible.

MS. CURTIS said that the division approaches "all audits to complete it as timely as possible." She reported that the field work had been completed and the project would be put down until technical assistance could be completed, at which point it would be finalized. She offered her belief that the preliminary audit would be completed by December 2012.

[11:43:42 AM](#)

SENATOR MENARD urged that the audit be completed before the beginning of the next legislative session. She stated, "KABATA provides regular reports and information relating to products, is readily available from the authority, in fact it's all on-line." She opined that all the information requested by the Legislative Audit Division from KABATA had been fulfilled.

MS. CURTIS replied that the Legislative Audit Division was still waiting for certain information.

SENATOR MENARD repeated her desire to have the audit completed prior to the next legislative session.

[11:44:47 AM](#)

CHAIR HAWKER announced that the Legislative Budget and Audit Committee had re-established a quorum.

[11:45:20 AM](#)

REPRESENTATIVE DOOGAN made a motion for the preliminary audit reports for the RCA - Annual Report Review and the Statewide Suicide Prevention Council Sunset Review to be released to the appropriate agencies for response. There being no objection, it was so ordered.

[11:45:59 AM](#)

REPRESENTATIVE DOOGAN moved to authorize the Legislative Auditor to solicit and award a contract for technical assistance on the KABATA Audit in an amount not to exceed \$50,000. There being no objection, it was so ordered.

[11:46:36 AM](#)

CHAIR HAWKER announced that the final order of business would be a status update on the development of the office space for the Legislative Audit Division.

[11:47:04 AM](#)

PAULYN SWANSON, Staff, Representative Mike Hawker, Alaska State Legislature, reported that, as she was the aide to the Legislative Budget and Audit Committee and as the committee had oversight responsibility for the Legislative Audit Division, she had been working with Legislative Council, which was in charge of facilities management and maintenance, on the remodel project. She offered her belief that the church remodel for the Legislative Finance Division was moving along, which would allow the Legislative Audit Division to expand into the much needed space.

[11:48:02 AM](#)

MS. CURTIS allowed that it was an unusual position to promote funding to expand the services of the division. She noted that her division had not invested in the facility in 20 years, and had suffered from turnovers to personnel. She opined that expansion and improvement of the working environment would benefit the turnover rate.

[11:49:40 AM](#)

CHAIR HAWKER relayed that it was a long process and a significant commitment to move forward for permanent levels of improvement.

[11:50:40 AM](#)

SENATOR MENARD reported that there had been a slight "hiccup" on construction of the sprinkler system in the church building remodel for Legislative Finance Division.

[11:51:15 AM](#)

MS. SWANSON relayed that she was awaiting the next meeting of Legislative Council, and would be prepared to move forward for an RSA (reimbursable services agreement) with the Division of General Services, Department of Administration, to manage the project for a 2 percent fee, based on the project cost. She shared that the initial RSA for design and architectural engineering would be brought forward at the next Legislative Council meeting.

[11:52:18 AM](#)

SENATOR MENARD shared that September 1 was the tentative date to coordinate this meeting.

MS. SWANSON reported that the following the design work another RSA with a construction bid would be brought to Legislative Council for approval.

[11:54:46 AM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 11:54 a.m.