

HOUSE FINANCE COMMITTEE
January 22, 2014
8:34 a.m.

[8:34:00 AM](#)

CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 8:34 a.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Pete Higgins, District 5; William Streur, Commissioner, Department of Health and Social Services; Sana Efird, Assistant Commissioner, Finance and Management Services, Department of Health and Social Services.

SUMMARY

FY 15 GOVERNOR'S BUDGET OVERVIEWS:
Department of Health and Social Services

^FY 15 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF HEALTH AND SOCIAL SERVICES

[8:34:12 AM](#)

Co-Chair Austerman explained that the Department of Health and Social Services (DHSS) would testify on the interim subcommittee processes. He noted that Vice-Chair Neuman would chair the DHSS meetings. He stated that he would attend upcoming leadership meetings and turn the gavel over to Vice-Chair Neuman. He invited Representative Pete Higgins to the committee table for the discussion.

[8:36:42 AM](#)

Vice-Chair Neuman noted that Commissioner Streur would provide a basic overview during the committee hearing. He noted that a five-year budget was a primary topic of the subcommittee's summer meetings. He wished for further discussion with the department regarding the future and Alaska.

[8:37:54 AM](#)

WILLIAM STREUR, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, introduced himself and his staff. He commented that the summer's meetings were productive and allowed for better understanding for the department and legislators. He stated that interim progress would continue this session due to the urgency of the situation.

Commissioner Streur introduced the PowerPoint presentation "FY 15 Departmental Overview (copy on file)."

[8:40:22 AM](#)

Commissioner Streur began with slide 1: "Alaska Department of Health and Social Services Organization Chart." He introduced the staff listed on the slide and in the room. He noted that many staff changes occurred during the interim.

Commissioner Streur continued with slide 2: "Summary of Summer Meetings."

- Opportunity for Division-level deep dive into the budget
- Process evolved from meeting to meeting
- Concluded with a better understanding of the budgetary development challenges

[8:43:01 AM](#)

Vice-Chair Neuman stated that the subcommittee requested that interim meetings be held in the Office of Children's Services (OCS) for the summer meetings in an effort to meet many of the employees and evaluate their very difficult work. He stated that the discussions and meetings were favorable as they had the responsibility of making budget cuts that affect real people.

[8:44:29 AM](#)

Commissioner Streur continued with slide 4: "Financial Report." He noted that the annual report was commonly distributed to legislative offices. He encouraged the members to read through the report and bring pertinent questions to the department. He noted that the first chart discussed the budget allocation by type. The general fund was 3 percent while the other funds were an additional 3 percent. He stated that further detail would be provided later in the presentation.

Vice-Chair Neuman asked about projections or patterns involving federal contributions.

Commissioner Streur responded that the federal contributions were status-quo. He expected reductions following sequestration. He pointed out some small budget increases. He noted that sequestration had its expected effects. He noted that Alaska's budget would continue to move in a conservative manner regardless of the federal contributions. The state must weigh all availability of federal dollars against state dollars.

Vice-Chair Neuman assumed that a five-year budget would show zero growth on federal levels.

Commissioner Streur agreed with the assumption, but noted that for every dollar of federal money, the state must contribute one dollar. He did not expect growth in state revenue.

[8:48:09 AM](#)

Commissioner Streur suggested that efficiency was the key.

Representative Gara asked about the term sequestration. He asked if the newly passed federal budget was now relevant.

He wondered if the numbers put forth by the department reflected the new budget or the sequestered budget numbers.

Commissioner Streur replied that the new budget numbers were reflected. He clarified that certain public assistance program funding was subject to change. He explained that the federal government allocated an amount of money, but the allocation process was incomplete. The departments within the federal government could further portion the allocations.

[8:49:29 AM](#)

Representative Gara discussed Medicaid expansion and noted that for every nine dollars received from the federal government the state must contribute one dollar.

Commissioner Streur replied that his figures were not quite as favorable as those cited by Representative Gara.

Commissioner Streur continued with slide 6: "Health and Wellness Across the Lifespan." He introduced results-based budgeting as a budget based on outcome. He prioritized a different view of the budget for the department. He commented on his private sector work for the Sisters of St. Joseph. He recalled a quote from that experience, "to do good we have to do well." He noted that with state government, to "do well we have to do good." Further funding relied on good performance. Every dollar received must show a proven return. He noted that the three priorities were:

1. Health and Wellness Across the Lifespan
 - a. Core Service; Protect and Promote the Health of Alaskans
 - b. Core Service; Provide Quality of Life in a Safe Living Environment for Alaskans
2. Health Care Access Delivery and Value
 - a. Core Service; Manage Health Care Coverage for Alaskans in Need
 - b. Core Service; Facilitate Access to Affordable Health Care for Alaskans
3. Safe and Responsible individuals, Families and Communities
 - a. Core Service; Strengthen Alaska Families
 - b. Core Service; Protect Vulnerable Alaskans

c. Core Service; Promote Personal Responsibility and Accountable Decisions by Alaskans

Vice-Chair Neuman asked about slide 5. He asked which division had the largest potential for growth.

Commissioner Streur replied that expanded growth was expected in the Alaska Pioneer Homes and with Medicaid services. He stated that the Affordable Care Act changed the processes of health care with legislation. Changes within the state Medicaid system would also take time to alter. He pointed out that the greatest need for health care was in the last seven years of a person's life.

[8:56:07 AM](#)

Vice-Chair Neuman expressed concern about expected growth in the department's divisions.

Representative Wilson asked the connection between DHSS and Department of Education and Early Development (DEED). She noted that the interim DEED task force encountered much talk about social issues encountered by the schools. She advocated for greater cross-over between departments.

Commissioner Streur replied that DHSS did not collaborate enough with other departments. He explained that OCS involvement in the school, with teachers should be a normal activity. He noted that the identification of children that might encounter the juvenile justice system was also crucial.

[8:58:01 AM](#)

Representative Gara thanked the chair and commissioner for their significant contributions to improving these crucial state systems. He asked about Medicaid and mentioned anecdotal stories about use of emergency medical care for relatively small medical issues. He asked about an alternative method of addressing the use of high-utilizers of emergency room medical care. He proposed Medicaid adjustments enforcing recipients to seek medical care from an urgent care clinic in the name of cost-savings.

Commissioner Streur agreed that some Medicaid recipients used the emergency room as their primary care provider. He noted that a program addressing these high-utilizers was in

place. He advocated for engaging Medicaid recipients in their care. He suggested that health care was a three-legged stool; payer, patient and provider.

[9:00:53 AM](#)

Representative Costello thanked the commissioner for his time. She followed up on Representative Wilson's question and addressed the needs of school nurses who tended up to 70 children's medical needs every day. School nurses were often the primary care providers for children. She wondered if the cost of school nurses could be taken by DHSS instead of DEED.

Commissioner Streur replied that neither department had developed a method of billing Medicaid for recipients in the school systems.

[9:02:16 AM](#)

Commissioner Streur explained slide 7: "Total Budget by Priority." He pointed out that 53 percent was spent on priority number one; "Health and Wellness Across Lifespan." He opined that priorities must shift. A change in health care delivery required an adjustment toward prevention. He hoped for a shift toward priority number three; "Safe and Responsible Individuals, Families and Communities."

[9:03:55 AM](#)

Commissioner Streur discussed slide 8: "Primary Service Population." The graph depicted the age distribution among focused dollars. The greatest spending occurred in early and late periods of a recipient's life. He explained that the aging population utilized more services.

Vice-Chair Neuman clarified that a compilation of figures showed that some Alaskans were served multiple times. He asked for an example of a service displayed in the graph.

Commissioner Streur replied that services included well-baby visits, immunizations and high-risk babies.

Vice-Chair Neuman asked which recipient received multiple services most often.

Commissioner Streur replied that children were seen most frequently.

[9:06:26 AM](#)

Vice-Chair Neuman stressed the need for prevention, especially where children were concerned.

Representative Holmes asked about a non-duplicated numbers of state recipient services.

Commissioner Streur replied that the actual client index was a work in progress. He hoped to have the information to the committee in the near future.

[9:07:53 AM](#)

Commissioner Streur discussed slide 9: "Division Spending by Priority Including Medicaid." The slide divided the department's priorities by division. Each division's report reflected a plan to address the three priorities. The evolution of the practice would provide the outputs and outcomes of the exercise.

Commissioner Streur discussed slide 10: "Highlights of FY 15 Budget." He stated that the FY 14 management plan budget was \$2,665.9 million while the FY 15 request was \$2,669.5 million. He pointed out that the totals were very close when comparing the management plan versus the Governor's request.

Vice-Chair Neuman noted that a struggle was ahead due to competing needs among state departments. He realized that budget cuts touched people's lives.

[9:10:33 AM](#)

Representative Gara recalled the governor stating that salary increases would be covered within the new budget. He expressed concerns that increased salaries would lead to program cuts.

Commissioner Streur replied that he could not guarantee the protection of any program. He stressed that all programs were vulnerable. He noted that his priority programs were the highlight of his solutions.

[9:13:13 AM](#)

Representative Wilson asked about the \$8.4 million increase. She asked if the increase was due to backfilling or new programs.

Commissioner Streur replied that increased Medicaid costs would require increased contributions of \$8.4 million. The state must contribute approximately 40 percent of the offset to the federal contribution. The issue was not a decrease in federal funding but the increased costs in Medicaid.

Representative Wilson asked if there was an increase in the number of Medicaid recipients. She wondered if the entire system was growing because of costs.

Commissioner Streur replied yes. He noted that the Medicaid budget report showed an increase in recipients.

Representative Guttenberg joined the meeting.

[9:14:55 AM](#)

Vice-Chair Neuman discussed a summary of contributions from the Office of Management and Budget (OMB). The proposed 10-year plan listed the FY 15 state portion of the federal Medicaid program as approximately \$700 million. The figure was projected to increase in an annual rate of over 7.2 percent. By 2014, the fund was projected to require a \$1.3 billion contribution from the state's general fund. He asked how general fund spending could be capped at \$5.6 billion and account for a \$600 million projected increase.

Commissioner Streur disagreed with the cited numbers. He thought that the 7.2 percent average was excessive. He wished for an opportunity to share his department's five-year plan, which differed from the projections delivered by OMB. He stated that the 7.2 percent projected by OMB differed from the approximately 4 percent projection offered by DHSS.

[9:17:25 AM](#)

Vice-Chair Neuman stressed that DHSS operating budget proposals were of great importance. He explained his tactic of reaching out to the Health Commission and the Mental

Health Trust Authority to collaborate toward a solution. He stated that his goal was to reduce the cost of healthcare in Alaska overall. He hoped to assist industry, businesses and individuals in the state at the same time.

9:20:02 AM

Commissioner Streur discussed slide 11: "Highlights of FY 15 Budget." He explained that he had included the slide to display his proposed changes. He pointed out that the budget in FY 15 was similar to that of FY 05. He suggested that the information presented "low-hanging fruit" to flatten the curve. He understood that the state must find a way to do more with less. He felt that he had submitted lean budgets during his time as commissioner.

Representative Costello asked about potential savings if clients eligible for Indian Health Service (IHS) reimbursement of 100 percent were served by IHS rather than by the state.

Commissioner Streur responded \$200 billion in savings was possible with the proposed change.

Vice-Chair Neuman stated that \$200 billion was a lot of money.

Commissioner Streur stated that approximately 40 percent of health care delivered to Alaska Natives was delivered within the Native Health System. He cited negotiations with Clinical Nurse Specialists (CNS) for additional services at 100 percent. He discussed the expense of medevac services in Alaska and his request for CNS coverage at 100 percent. He noted that most medevac services were from the Bush and most of the village members were Native Alaskans. He pointed out that some complex medical services would not be eligible for a move to IHS.

Vice-Chair Neuman planned to discuss the matter further during upcoming subcommittee meetings. He understood that the commissioner was working with the Tanana Chiefs to enable greater efficiency within their system.

Representative Guttenberg asked how DHSS increases compared to other department increases.

9:24:50 AM

Commissioner Streur responded that his department and the Department of Transportation and Public Facilities (DOT/PF) were similar because of their federal funding. He noted that DOT/PF had a larger percentage of federal money, while DHSS was split evenly between state and federal funding.

Representative Guttenberg asked about internal management of the department. He wondered about efficiencies within the departments.

Representative Gara understood that IHS was allotted a fixed amount of funding. An exhaustible amount of money was not available for every qualified patient. He asked how the shift could occur to IHS for 100 percent reimbursement.

Commissioner Streur replied that Medicaid was an entitlement program, while the money from IHS was funded with approximately \$600 million of additional Medicaid funding. He stated that the more Native Alaskans enrolled in Medicaid, the more funding was received by the state and state savings of general fund dollars. He explained that if a tribal member received services in a non-native facility, the state paid 50 percent of the Medicaid bill. If services were received in a tribal facility, the state received 100 percent reimbursement from the federal government for the same service.

Representative Gara asked if the resources would eventually expire.

Commissioner Streur replied that the funding would not expire.

[9:28:00 AM](#)

Representative Munoz thanked the chair and commissioner for their work during the interim. She asked about the variety of medical service costs in Alaska. She wondered if Medicaid had a published rate of services or were they subject to the wide range of costs within the state. She asked if the state would benefit from a published rate of services.

Commissioner Streur replied that the rate paid by the state for physician services was a certain percentage above Medicare. Alaska utilized its own rate. He stated that

payment for physician services was largely based on a percentage above Medicare. He furthered that the average Medicaid reimbursement across the nation was approximately 67 percent of Medicare, while Alaska paid approximately 140 percent. Most providers participated because of the desirable rate.

Representative Munoz asked if opportunities for savings existed in the area of provider payment and reimbursement.

Commissioner Streur replied that the issue would be addressed in future years. He mentioned other areas with opportunities for savings including a transition of patient care to primary care providers. He suggested that prevention occurred best in the hands of the primary care provider.

SANA EFIRD, ASSISTANT COMMISSIONER, FINANCE AND MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, addressed slides 13 and 14; graphs prepared by the Legislative Finance Division (LFD). Slide 13 showed the department's total general fund growth over the past 10 years. She detailed that growth decreased in 2009 and 2010 due to enhanced Federal Medical Assistance Percentage (FMAP). The general fund then increased when the FMAP rebalanced to 50 percent.

Vice-Chair Neuman highlighted the department's total FY 14 general fund budget equated to approximately \$4 thousand per resident worker. He stated that nearly \$7 billion was spent in Alaska on healthcare annually. He mentioned that pharmaceuticals in Alaska cost \$1 million per week.

Representative Guttenberg asked how the graph would be altered with the inclusion of seasonal workers in Alaska.

Ms. Efird deferred the question to LFD. She moved on to slide 14: "Highlights of FY 15 Budget. The top color in the bar graph represented federal funds. The next portion represented other funds, designated general funds and unrestricted general funds.

Commissioner Streur turned to slide 15 titled: "Departmental Updates."

- MMIS System Upgrade
- ARIES EIS System Upgrade

- Sequestration
- Affordable Care Act

Commissioner Streur planned to have a representative from Xerox explain the Medicaid Management Information System (MMIS) system upgrade, but the weather delayed the proposed testifier in Ketchikan. He stated that much of the system representative's testimony would prove relevant to the topic.

Commissioner Streur assumed full responsibility for the difficulties with the MMIS system upgrade. He explained that he signed an original contract in 2007 with Alaska Communication System (ACS), and then Xerox purchased ACS. He acknowledged that the system had challenges and the department was doing everything possible to mitigate the damage. Many advances to providers were honored by the state to offset cash flow issues. Certain groups and residential facilities have been hit harder than others. Dental providers had experienced the greatest financial loss during the transition. He stated that Oregon made no payments for approximately 7 months. Idaho suffered a similar fate and Maine was delayed in their payments for nearly one year.

[9:37:15 AM](#)

Commissioner Streur continued to discuss the department's efforts to mitigate problems with the MMIS system. He stated that utilizing preferred providers would ease the challenges. Some providers were at 50 percent of what they had billed. He noted that providers were reluctant to take advances with worries about tracking claims. He understood the sentiment and would have avoided taking an advance when working in the private sector.

REPRESENTATIVE PETE HIGGINS, stated the Health and Social Services (HSS) committee would meet with the commissioner and Xerox in another open hearing with providers testifying on the subject. He trusted the commissioner that all issues would be resolved in the future. He expressed disappointment in the upgrade, and understood that the commissioner was doing all that he could to remedy the situation. He opined that transparency was of the utmost importance.

Vice-Chair Neuman asked how health care providers should respond to the delays. He noted that provider payments were increasing.

Commissioner Streur replied that providers should continue billing for services. The department would inform providers about all changes. Prior to the system change, the state generated a weekly payment of approximately \$27 million per week. He cited the average payment in October 2013, after the system upgrade of \$14 million per week; nearly a 50 percent decrease. The amount continued to rise to the current \$33 million. He stated that hospital payments were simpler, as a hospital could better absorb the payment delays.

Representative Gara stated that a physician contacted him about the delayed Medicaid reimbursements. He asked if he should work directly with the department on the issue.

Commissioner Streur replied that contact with he or other members of the department was the proper process. He stated that Deputy Commissioner Christensen and Director Brodie were good department contacts. He stressed that advances were available and no clinic or provider should question their business viability.

[9:43:51 AM](#)

Representative Higgins asked about claim filing delays. He suggested refiling outstanding claims, but the advice from the department was to abstain from refiling claims.

Commissioner Streur did not believe that reposting a claim was a good solution. He stated that timely filing would not be an issue with regards to the Medicaid claiming process.

Vice-Chair Neuman thought that the department made the required updates for needed efficiency. The implementation of the system was faulty, but Xerox was the real culprit. He stated that the director of the division was responsible for provider related questions, while the fault was with Xerox. He opined that the division's director ought to be available to her staff rather than addressing health care providers.

[9:47:30 AM](#)

Commissioner Streur took responsibility for the system's problems. He stated that even with delays, the Soft Service Portal was operational. He noted that the public assistance programs were listed in the new system. The Medicaid Management Information System was new, but other states were using it successfully.

[9:49:45 AM](#)

Commissioner Streur stated that sequestration would be addressed further in future meetings. He detailed the various expenses including Meals on Wheels, which cut 364 meals per week.

Representative Guttenberg asked if a comparable shift of costs was seen through the Meals on Wheels program. He asked if the issue was traceable.

Commissioner Streur replied that his examples were anecdotal. He provided an example where a Meals on Wheels driver found an elderly woman who had fallen and was in great distress.

[9:53:01 AM](#)

Vice-Chair Neuman noted that combined Meals on Wheels programs increased efficiency. Kitchen improvements with capital budget funding also added to the process and program.

Commissioner Streur noted that sequestration cuts were active, and approximately 80 percent of the cuts delivered under sequestration were eliminated in the budget cycle.

[9:54:34 AM](#)

Commissioner Streur discussed the Affordable Care Act. He pointed out that Alaska declined the expansion of Medicaid. He stated that 3000 people selected Market Place plans and 83 percent of those qualify for federal subsidy. He stated that the high percentage would require further discussion.

Vice-Chair Neuman planned to delve into the topic with further future discussion. He noted that a new advisor on health policy was hired by the governor. He hoped to hear from the administration and their advisors about the subject.

Representative Holmes asked about new Medicaid enrollment resulting from the Affordable Care Act.

Commissioner Streur replied that the 1100 new enrollments were routed in a flat file from the Federal Exchange. The Medicaid portion of the Federal Exchange had not yet been automated and some data was missing as a result.

[9:57:30 AM](#)

Representative Gara agreed that the state contribution to the Affordable Care Act was debatable. He stated that Alaskans without Medicaid or private subsidies would suffer. He asked the cost savings for families entering the Federal Exchange rather than Medicaid.

Vice-Chair Neuman asked if questions regarding the Affordable Care Act could be tabled to a later date.

[9:59:44 AM](#)

Commissioner Streur pointed out that between 100 and 133 percent of the poverty level were eligible for the Federal Exchange. The people between 133 and 175 percent of poverty level would not be eligible for Medicaid.

Vice-Chair Neuman concluded that the subcommittee allowed the department to transfer funds within the department to cover unanticipated shortfalls. Deficit and sequestration effects were unknown.

Representative Wilson asked about the connection between the different departments and their budgets. She opined that a cut in one department could affect another. She advocated for greater communication among departments to allow for increased efficiency.

Commissioner Streur agreed that other departments could collaborate, but he stated that he was unable to do more.

Representative Wilson understood the dilemma. She hoped for alignment of budgets; for a solution of department integration.

[10:05:25 AM](#)

Vice-Chair Neuman suggested that an expansion of broadband would benefit all agencies and their budgets. He asked the Alaska Mental Health Trust to research the necessary broadband capacity for Alaskans in both the private and the public sector. He wondered if private industry might be interested in investing money for the installation of the necessary broadband and an amortization of their investment.

[10:08:38 AM](#)

Representative Wilson wondered why services such as broadband were not shared among state departments. She wondered what the savings of such collaboration might lead to.

Vice-Chair Neuman shared a story about foster children and the administrative needs of the department. He stressed that the inefficiencies of employee turn-over within the department was another important issue.

#

ADJOURNMENT

[10:11:00 AM](#)

The meeting was adjourned at 10:11 a.m.