

ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE STATE AFFAIRS STANDING COMMITTEE
SENATE LABOR AND COMMERCE STANDING COMMITTEE
Anchorage, Alaska
October 17, 2013
9:20 a.m.

MEMBERS PRESENT

SENATE STATE AFFAIRS

Senator Fred Dyson, Chair
Senator Cathy Giessel, Vice Chair

SENATE LABOR AND COMMERCE

Senator Mike Dunleavy, Chair
Senator Donald Olson

MEMBERS ABSENT

SENATE STATE AFFAIRS

Senator John Coghill
Senator Bert Stedman
Senator Bill Wielechowski

SENATE LABOR AND COMMERCE

Senator Peter Micciche, Vice Chair
Senator Bert Stedman
Senator Johnny Ellis

COMMITTEE CALENDAR

Presentation: State of Alaska Employee Health Plans

- HEARD

Presentation: Universal Space Standards

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

MIKE BARNHILL, Deputy Commissioner
Department of Administration (DOA)
Juneau, Alaska

POSITION STATEMENT: Delivered a presentation on State of Alaska Employee Health Plans.

CURTIS THAYER, Deputy Commissioner
Department of Administration (DOA)
Anchorage, Alaska

POSITION STATEMENT: Delivered an overview of universal space standards (USS).

ACTION NARRATIVE

[9:20:17 AM](#)

CHAIR FRED DYSON called the joint meeting of the Senate State Affairs Standing Committee and the Senate Labor and Commerce Standing Committee to order at 9:20 a.m. Present at the call to order were Senators Dunleavy, Giessel, Olson, and Dyson.

State of Alaska Employee Health Plans

[9:21:07 AM](#)

CHAIR DYSON announced the first order of business to come before the committees is a presentation on the State of Alaska employee health plans. He asked Ms. Keller to introduce herself.

VALETTE KELLER, Program Coordinator* Division of General Services* Department of Administration (DOA), introduced herself.

[9:21:21 AM](#)

MIKE BARNHILL, Deputy Commissioner, Department of Administration (DOA), delivered a presentation on active employee health plans. He stated that DOA is currently transitioning from HealthSmart to AETNA as the third-party administrator of health insurance claims for both active and retired employees. This will go into full effect on January 1, 2014. He discussed the statutory requirement and skyrocketing cost of providing health care, and expressed concern that the trajectory of cost growth is unsustainable.

MR. BARNHILL explained that the State of Alaska delivers health care to 16,500-17,000 active fulltime employees through five

different plans. He reported that the AlaskaCare Health Plan is administered by the Department of Administration; it delivers health care to approximately 6,600 employees and their dependents for a total covered life population of about 17,000 people.

He reviewed the following table:

AlaskaCare Health Plan	Union Health Plans
Employees: 6,600	Employees: 9,900
Exempt/PX (Court and Leg) 2,511	General Gov't (ASEA) 7,760
Supervisory 2,282	Labor, Trades & Crafts 1,558
Correctional Officers 881	Public Safety (PSEA) 497
Inland Boatmen's Union 561	Masters, Mates & Pilots 93
Confidential Employees 180	
Marine Engineer 92	
AVTEC 36	
Mr. Edgecumbe Teachers 28	

[9:27:10 AM](#)

CHAIR DYSON asked if the state contributions to the union health plans are in addition to dues.

MR. BARNHILL answered yes.

CHAIR DYSON inquired about the state contribution.

MR. BARNHILL explained that the State of Alaska negotiates a calculation for computing how much it will contribute for each employee in all the plans. Historically, the calculation has been tied to the cost of the premium for the AlaskaCare economy plan and the preventive dental plan. That combined amount generally is the state's monthly contribution for every employee in the Union Health Plans, but it has been affected by collective bargaining. For example, the ASEA collective bargaining agreement at one time added the cost of a leave day to the calculation, but DOA negotiated that out in the last negotiating cycle.

The Union Health Plans deliver care to approximately 9,900 employees and their dependents for a total covered population of about 30,000.

[9:29:03 AM](#)

MR. BARNHILL said the AlaskaCare Plan Design offers three tiers of health insurance: economy, standard, and premium. Each tier has a different cost structure; this refers to the deductible

and the maximum out of pocket that an employee has to pay. Generally, the higher the deductible the lower the premium will be. Coinsurance is the amount the health plan will pay for an allowable cost once the deductible is satisfied. He reviewed the following table:

Active Plan			
	Economy	Standard	Premium
Deductible	\$500 person \$1,000 family	\$300 person \$600 family	\$300 person \$600 family
Coinsurance	70%	80%	90%
Out of Pocket Max/Year After Deductible	\$2,000/person	\$1,200/person	\$350/person
Premium/Mo	\$1,335	\$1,482	\$2,028
Out of Pocket Max	\$0	\$147	\$693
Lifetime Maximum	Unlimited		
Preventive Care	Covered 100% with in-network providers		
Dependents	Covered up to age 26		

MR. BARNHILL said that the current monthly premium for the Economy Plan is \$1,335. That figure is used to compute the benefit credit that's contributed for medical coverage to all State of Alaska employees. When the benefit credit is applied to the premium, zero is deducted from the pay check of an employee who elected the economy plan. Other features of the plan are unlimited lifetime maximum, preventive care that is covered at 100 percent, and coverage for dependents to age 26. The last two, relatively new, features comply with provisions of The Affordable Care Act. Preventive Care isn't required immediately but DOA elected to do so.

He explained that AlaskaCare is a grandfather plan under the Affordable Care Act and relatively little change can be made to its structure without risk of losing that status. Because all plans will eventually become non-grandfather plans, DOA opted to step towards that incrementally by immediately covering preventive.

MR. BARNHILL described the Economy Plan as fairly rich compared to similar plans nationally, and warned that the \$500 deductible is becoming rare.

[9:33:49 AM](#)

MR. BARNHILL reviewed the Standard and Premium plans. The deductibles were raised to \$300 on July 1, but won't go into full effect until January 1, 2014 when the plans transition from a fiscal year to a calendar year. The Standard Plan has 80

percent coinsurance, and the annual out-of-pocket maximum is \$1,200 per person after the deductible is met. The monthly premium is \$1,482, and when the \$1,335 benefit credit is applied the monthly out of pocket expense to the employee \$147. The Lifetime Maximum, Preventive Care, and Dependent coverage are the same as for the Economy Plan.

He cautioned that this is a highly superficial snapshot of the AlaskaCare Plan that shows just some of its elements. He offered to provide a complete comparison if any member was interested in the full details.

MR. BARNHILL reviewed the AlaskaCare Premium Plan. The coinsurance is 90 percent, the annual out-of-pocket maximum is \$350 per person after the deductible is met, the monthly premium is \$2,028, and the monthly out-of-pocket expense to the employee is \$693. He highlighted that these plans, the Premium in particular, are becoming extinct in both the public and private sphere as employers shift costs to employees. He opined that Alaska is behind that curve, because it's been blessed with bountiful oil revenues.

SENATOR GIESSEL asked about in-network providers versus PPOs.

MR. BARNHILL explained that in the Lower 48 there are more providers, more competition, and more willingness to enter into PPO agreements. In Alaska there are fewer providers and they're more resistant to entering into PPO agreements, so there has been less opportunity historically in Alaska to engage in that fundamental agreement to send volume in exchange for preferential pricing.

[9:40:33 AM](#)

SENATOR OLSON asked if the state pays travel costs associated with out-of-state medical care.

MR. BARNHILL replied the AlaskaCare Plan pays for travel for certain surgical procedures, but not for diagnostic procedures.

SENATOR OLSON asked for the justification.

MR. BARNHILL explained that the rationale is availability. Historically, some surgical procedures aren't available in Alaska, but most diagnostic procedures are performed here. He acknowledged the concern that some diagnostic procedures performed in-state cost multiples of the cost to perform the

same procedure out-of-state. He cited the cost of a colonoscopy as an example.

[9:42:49 AM](#)

SENATOR OLSON asked if DOA is projecting an increase or decrease in travel costs in five years for people going out-of-state for less expensive procedures.

MR. BARNHILL predicted that there would be a marginal increase. He added that the hope is that the Alaska market will become more competitive over time, so that the prices in Anchorage and Seattle become roughly comparable.

CHAIR DYSON asked him to discuss medevac costs.

MR. BARNHILL explained that emergency care is covered under the provisions of all State of Alaska employee policies. The costs are extraordinarily high and can be in the high tens of thousands of dollars.

CHAIR DYSON asked how coinsurance works.

MR. DARNHILL explained that coinsurance is the amount the plan will pay, after the deductible is satisfied, on the allowable cost of the care provided. For example, if the coinsurance is 80 percent and \$1,000 in allowable cost remains after the deductible is satisfied, the plan pays \$800 and the employee pays \$200. Once the employee reaches the annual out-of-pocket maximum for the year, the plan pays any remaining costs for that plan year.

CHAIR DYSON commented that he always thought that coinsurance meant that a person had double coverage.

MR. BARNHILL clarified that is coordination of insurance and there are provisions for determining which insurance company pays for what.

CHAIR DYSON assumed that coordination of insurance would apply to people covered under VA health care and the Indian Health Service.

MR. BARNHILL agreed that a variety of plans are available and coordination provisions cover all of that.

CHAIR DYSON asked which insurance would be prime if someone is covered under three federal plans.

MR. BARNHILL said he didn't know, but his understanding is that the Indian Health Service would be the payer of last resort.

[9:47:13 AM](#)

SENATOR DUNLEAVY asked if providers prefer people to travel out of state for a colonoscopy.

MR. BARNHILL answered no, the AlaskaCare Plan doesn't cover that and he didn't recall the specifics of the ASEA Health Trust Plan.

SENATOR DUNLEAVY said he asked because there are costs in addition to the flight.

MR. BARNHILL stated that the language in the AlaskaCare Plan says the coverage for the surgical procedure, the flights and per diem are to be equal to or less than the cost of the procedure within Alaska. He said it's difficult to administer because it's difficult to know in advance what the cost of the procedure will be.

[9:48:51 AM](#)

MR. BARNHILL reviewed the following ASEA Health Trust Plans, which cover about 8,000 State of Alaska employees:

Active Plan	Plan A E'ee + Family	Plan B E'ee Only	Plan C Supplemental	Plan D Low Option
Deductible	\$250/person \$500 family	\$250/person	None	\$5,000/person \$10,000/family
Coinsurance	80% 60% non-PPO	80% 60% non-PPO	20%	100% 80% non-PPO
Out of Pocket Max/Year	\$1,000/person after deduct \$2,000 non-PPO	\$1,000/person after deductible \$2,000 non-PPO	None	None
Premium/Mo	\$1,530	\$1,425	\$1,360	\$1,365
E'ee Out of Pocket/Mo	\$195	\$90	\$25	\$30
Lifetime Max	Unlimited	Unlimited	\$10,000/year	Unlimited
Preventive Care	Covered at 100% with no deductible at in-network providers and 80% non-PPO			
Dependents	Covered up to age 26			

Plan A is a family coverage plan that is similar to the AlaskaCare Standard Plan. The deductible is \$250/person and

\$500/family, and the coinsurance is 80 percent for PPOs (preferred provider organizations) and 60 percent for non-PPOs. He explained that when the state enters into a preferred provider organizational agreement with a provider, it agrees to deliver volume in exchange for a discount. The state secures volume by telling employees that they will be reimbursed 80 percent if they stay in-network and only 60 percent if they go out-of-network. AlaskaCare has that but only for hospitals in Anchorage. The employee monthly out of pocket deduction is \$195 versus the AlaskaCare Standard Plan out of pocket deduction of \$147.

Plan B offers coverage for employees only, and that isn't available in AlaskaCare. He said the existence of this plan creates some hiccups in personnel administration. A single employee who is in the general governmental unit has \$90 deducted from their paycheck. When they are promoted to a supervisory position they move into a supervisory unit under AlaskaCare. The AlaskaCare Standard Plan is the most similar to Plan B but an employee who selects that plan will see their monthly deduction increase from \$90 to \$147. That lack of alignment between the plans affects employees' willingness to be promoted from the GGU to the supervisory unit.

He noted that the ASEA Health Trust doesn't publish the monthly premiums. He calculated these estimates by adding the \$90 out of pocket deduction and the \$1,335 benefit credit that the State of Alaska pays for each ASEA Health Trust employee.

MR. BARNHILL said there is some concern about the sustainability of Plan B going forward because it may be taxed as a Cadillac plan under the Affordable Care Act. The definition of a Cadillac plan is one where the premiums in 2018 cost in excess of \$10,200 for a self-only plan. \$1,425 times 12 exceeds that threshold. The Cadillac tax is 40 percent of the excess over the \$10,200 and it's billed to the employer, so all plans are trying to avoid it.

Plan C is a supplemental plan that is designed for those who have other insurance coverage. It only provides 20 percent coinsurance and is capped at \$10,000 per year.

Plan D is called a high deductible health plan, with one important exception. The deductible is \$5,000/person and \$10,000/family with 100 percent coverage thereafter.

CHAIR DYSON asked if Plan D is associated with a health savings account.

MR. BARNHILL said no, and that's why relatively few people elect Plan D. He explained that high deductible health plans started when employers said they couldn't sustain health insurance costs that were increasing at 7-9 percent a year. The solution was to shift the cost to the employee, which creates moral problems with employees. Over time, these high deductible plans have been married with health savings accounts where the employer contributes some amount up front into a savings account that the employee can use to defray the costs that are subject to the deductible.

He highlighted that public plans began to adopt high deductible health plans, and they were rebranded Consumer Driven Health Plans (CDHPs). The employer contributes about 50 percent of the deductible. He noted that the State of Indiana has had considerable success with this.

CHAIR DYSON noted that they're pretax dollars.

MR. BARNHILL said the advantage of these accounts is that they roll forward, they're portable, and the employee can contribute a certain amount. Another phenomenon with CDHPs is that employees become more engaged in how much their health care is costing, and that helps control price growth.

[9:58:11 AM](#)

CHAIR DYSON asked if the state is trying to make information about costs and services available to employees online.

MR. BARNHILL said yes; it's a movement nationally to increase price transparency. The Centers for Medicaid and Medicare Services (CMS) recently disclosed pricing at hospitals nationwide, which helps create price competition.

CHAIR DYSON asked if the cost information includes what the discount is for those that have volume discounts.

MR. BARNHILL replied he didn't know if the commercially available tools show the charged cost or the incurred cost.

CHAIR DYSON said it's ultimately an important question because the discounts for volume are large. He questioned whether they were as high as 30 percent.

MR. BARNHILL said the discount can range from 6 percent to 50 percent, so it is an important question.

SENATOR OLSON asked how the retiree plan compares to the active plans.

[10:02:48 AM](#)

MR. BARNHILL said the AlaskaCare Retiree Plan covers all public employee retirees. In addition to State of Alaska employees it includes the 159 municipal entities that are members of PERS and all 60 Teacher Retirement System (TRS) school districts. About 41,000 retirees and a total population of 65,000 are covered. It is somewhat different from the active plan; the deductible is \$150, it does not cover dependents to age 26, and it does not cover preventive care. There has been pushback on those two omissions but DOA is reluctant to add coverage without an offset to the cost structure. This will be discussed more fully this fall.

He suggested that a theme in the Affordable Care Act is that individuals should pay some reasonable amount towards health care, and Alaska is behind the curve. When people have skin in the game, they pay closer attention to health costs and that helps to control prices.

[10:06:32 AM](#)

CHAIR DYSON asked if any state insurance or bargaining units allow employees to opt out.

MR. BARNHILL said not AlaskaCare; by statute the state has to provide health insurance to all full time and part time employees. He offered his belief that no ASEA employees are allowed to completely opt out. In the past some school districts have allowed employees to opt out if they can demonstrate they have other coverage.

[10:08:37 AM](#)

CHAIR DUNLEAVY referenced the benefit credit illustration on slide 5, and asked what incentive the union health care plans have to contain premium costs outside of relating the dollar amount of the state benefit credit.

MR. BARNHILL discussed slide 5, which shows historically what has happened to the benefit credit. In FY01 the state contribution per employee per month was \$515 and in FY14 the benefit credit is \$1,389. The 7-9 percent increase that the state pays per year is cause for concern because it's

unsustainable, he said. He acknowledged that for the ASEA Health Trust Plan there is no incentive to restrain the growth of the benefit credit. Their incentive is to maximize the growth of the credit in order to keep the plan fully funded and with healthy reserves. Any more than that would go to improving benefits and reducing deductibles. The state and the union want all employees to have high quality health care, but how the costs are structured creates some perverse results. That is something that needs to be adjusted, he said.

[10:11:47 AM](#)

MR. BARNHILL directed attention to slide 9 to discuss utilization of services. The chart shows that one percent of any group of members in a plan will incur [29.3] percent of the plan costs and five percent will incur 50-60 percent of the plan costs. He opined that this is the biggest issue facing the country today, and the Affordable Care Act does not directly change this.

This year the country will expend \$2.9 trillion in health care costs, and Alaska residents will spend \$8.4 billion. Nationally costs have been increasing 4-5 percent and the Centers for Medicare and Medicaid Services predict that cost growth will rise to 6 percent with the Affordable Care Act. He reiterated that five percent of the people in the country are incurring 50 percent of the costs. That is roughly \$100,000 per year per claimant in that category.

SENATOR DUNLEAVY asked if the costs associated with that group are behavior driven.

MR. BARNHILL agreed that some are behavior driven, but most are not. Some are genetic predispositions and some are just bad luck. For example, AlaskaCare currently has a spike in end stage renal disease claims; one member in the plan last year incurred \$2 million in claims.

[10:15:06 AM](#)

MR. BARNHILL reviewed a chart of unit cost of services for Washington state versus Anchorage, and the percentage that were Medicare.

Procedure	WA; %Medicare	Anchorage; %Medicare
Total Hip Arthroplasty	\$5,409; 305.2%	\$12,155; 685.9%
Fragment Kidney Stone	\$2,120; 183.6%	\$8,200; 710.1%
Sinus Endoscopy/Surgery	\$871; 235.4%	\$2,620; 708.1%
Inject Spine L/S (CD)	\$683; 312.4%	\$1,260; 576.3%

Umbil Hernia Reduce>5yr	\$1,229; 232.1%	\$3,385; 639.4%
-------------------------	-----------------	-----------------

He directed attention to AlaskaCare goals going forward:

Provide high-quality health care at a reasonable and fiscally sustainable cost.

- Contract with high value-add vendor partners.
 - On January 1, 2014 AlaskaCare will transition to its new health care partners. AETNA has a large Lower 48 discount provider network that provides substantially more value that will help the retiree health plan. ModaHealth is a large dental network that has a substantial presence in Alaska.
- Increase member engagement.
 - The State of Indiana provides a model for a consumer-driven health plan (CDHP).
- Support evidence-based medicine and promote data-driven decision making.
 - A recent study suggests that a large percentage of health care lacks a rational evidence basis.
 - AETNA has a library of evidence-based clinical policy bulletins for deciding whether care is evidence-based or not. National studies show that some providers will provide care that is contraindicated. The goal is to ensure that AlaskaCare members are not exposed to that kind of care delivery.
- Collaborate with providers to transform the Alaska health care market.
- Look for opportunities to scale.

[10:17:40 AM](#)

CHAIR DYSON commented on physician allegations that carriers sometimes won't pay for a prescription or medical care when it might be the best alternative.

MR. BARNHILL clarified that he wasn't suggesting that large, disruptive changes would be made on January 1, but things like better pharmacy management should be explored. He noted that in the next five years there will be a large influx of new FDA approved specialty drugs that are very expensive, and the state wants to get a handle on those.

[10:19:59 AM](#)

SENATOR OLSON asked for an example of contraindicated treatment that actually did harm.

MR. BARNHILL offered to provide the national study that he referenced.

MR. BARNHILL continued to discuss the AlaskaCare goals going forward.

- Collaborate with providers to transform the Alaska health care market.
 - Improve access to contracting physicians and providers.
 - Improve predictability and performance of contracts.
 - Address egregious charges and rates for targeted high volume procedures.
 - Identify and engage delivery system partners committed to designing transformative solutions.
 - Encourage delivery system investment in integrated care delivery. The patient centered medical home (PCMH) is a coordinated care model as opposed to silo care. The PCMH model also has integrated pricing. The accountable care organization (ACO) is another cost management model that's being explored.

CHAIR DUNLEAVY referenced the statement that volume reduces costs, and asked if he anticipates that entities such as boroughs and municipalities will want to be part of this concept.

[10:23:26 AM](#)

MR. BARNHILL replied scale is extremely important and fragmented volume impacts everything. The AlaskaCare Active Plan has about 17,000 covered lives and the four union health plans have 30,000 some covered lives. Both pay a third-party administrator and receive pricing scales adjusted to their volume. He said he'd argue that pricing would be less for 47,000 covered lives.

He noted that other state plans and retirement plans have achieved economies of scale by covering state, hospital, and school district employees. The benefits they're paying are fractions of what Alaska is paying. A recent Kaiser Family Foundation survey found that the lowest cost health plan under the exchanges is in Pennsylvania; for a 27-year-old who gets equivalent to the AlaskaCare Standard Plan, the cost per month is \$134. Those plans are affordable because there's scale and competition in those markets. Alaska doesn't have scale and competition; the State of Alaska is paying a benefit credit of \$1,389/month, which is extraordinary on a nationwide spectrum.

MR. BARNHILL said opportunities to scale would decrease fragmentation in health care delivery, provide an opportunity to save costs, and eliminate the somewhat counterproductive equation where one plan offers a certain type of coverage that another doesn't. For example, the ASEA Health Trust Plan provides \$5,000 worth of hearing aid coverage over three years, whereas the AlaskaCare Plan provides \$800 worth of hearing aid coverage over a three year period.

By comparison, the State of Texas has a statute that requires that everyone have access to the same health plan. That means that the president of a state university has the exact same access to a health care plan as a janitor in a state hospital. He suggested that it's an interesting policy question whether access to health care should be a product of relative advantage at the bargaining table or a matter of equal access to all public employees. He expressed concern that in Alaska access to health care is in some respects a function of bargaining leverage.

[10:29:43 AM](#)

MR. BARNHILL reviewed the things the State of Alaska is watching regarding the delivery of health care.

- Onsite clinics. The State of Montana and HCCMCA are exploring this option.
- Centers of Excellence. This is a product of the volume for discount medical equation with a quality component built in.
- Narrow networks. This is difficult to achieve in Alaska because of the relatively few providers.
- Reference pricing. This is also known as B schedule pricing and is similar to what Medicaid and Medicare does. It's a way of doing cost management. He noted that the California public employee system is exploring this cost management tool.
- Private exchanges. Insurance carriers and actuarial firms are developing private exchanges and encouraging private firms and corporations to outsource all health care administration to them as a third party entity. Walgreens and IBM have recently done this, and these will probably be very popular in the future. Whether they will come into public places is unclear.

- Consumerism and transparency tools. There are a variety of tools on the market for increasing price transparency for members so that they're informed consumers.
- Impact of public plans on health care market. The state is spending a great deal of time on this with the important goal of delivering high quality health care to all employees at a reasonable and sustainable cost.

[10:34:33 AM](#)

SENATOR GIESSEL commented that it's frustrating to be discussing how to pay for health care when it's the lifestyle choices that people have made that account for more than 70 percent of chronic disease problems. It's also frustrating that since about 2009 there has been a Health Care Commission whose main charge is to come up with a health care plan for the state and they don't seem to be making any headway. She said it would be interesting to hear what the Health Care Commission is doing, but she didn't know if there was a solution to the disparity of costs between the Pacific Northwest and Alaska because the Alaska market is small and has little competition.

MR. BARNHILL agreed that solving the health care problems probably isn't feasible, but it is feasible to work on them responsibly. He highlighted that the state has done a number of things in the last few years to address lifestyle choices such as the new wellness program and preventive care. He acknowledged that these may or may not pay off.

CHAIR DYSON asked if there is an estimate of potential savings if all public employees are covered under the same plan.

MR. BARNHILL said no, but there would certainly be savings in administration and the volume discount savings are a product of negotiating ability.

CHAIR DYSON asked if there are examples nationally of private employers consolidating their unions to get volume discounts.

MR. BARNHILL said he didn't have that information, but private employers have indicated they are going to address rising costs by going to a private exchange, shifting the cost to employees, or stop providing health insurance altogether. He noted that the National Council of State Legislatures (NCSL) has a health care webpage that provides a description of the public plans in all 50 states.

[10:40:07 AM](#)

CHAIR DUNLEAVY commented that if it's not possible to get control over the root drivers of cost, the only viable solution is to shift cost. He asked where the resistance will come from this year and next, if the state goes through the process of shifting costs.

MR. BARNHILL replied everyone that has a share in the payment of medical costs has an interest in this. He clarified that he isn't suggesting that cost shifting is the sole solution, but the state is going to explore some modest cost shifting as well as cost controls. State and local governments in Alaska pay more than 30 percent of health care. That's almost double the national average and it's not sustainable. He concluded that as employees are given more skin in the game they're going to help control prices, and that's a good dynamic.

CHAIR DYSON thanked Mr. Barnhill for the valuable, clear and concise presentation.

[10:45:25 AM](#)

CHAIR DYSON called an at-ease.

Universal Space Standards

CHAIR DYSON reconvened the meeting and welcomed Mr. Thayer.

[10:53:29 AM](#)

CURTIS THAYER, Deputy Commissioner, Department of Administration (DOA), stated that the presentation will cover the work that's been done over the last 10 months to implement universal space standards (USS) in executive branch offices. Following the presentation there will be a tour of renovations in the Robert B. Atwood Building.

MR. THAYER explained that DOA manages 17 buildings in the Public Building Fund (PBF). This is about 1.6 million square feet of office space with an annual cost to the state of approximately \$21 million. The DOA also administers 255 leases with about 4 million square feet of office space and an annual cost of \$50 million. Combined this is about \$70 million annually, and the state decided to look for cost savings.

MR. THAYER reviewed the real estate portfolio under the Department of Administration, Division of General Services (DGS) management. He highlighted that the Linny Pacillo Parking Garage and Office with 369,000 square feet, the Robert B. Atwood Building with 338,000 square feet, the State Office Building &

Parking Structure in Juneau with 287,850 square feet, and the Geological Materials Center Building with 100,908 square feet are the four largest buildings in the portfolio.

MR. THAYER said the cost of lease space has been driving the conversation in recent times. In FY01 DOA managed about 1 million square feet of office lease with a total annual cost of \$21 million. In FY13 the total square footage had grown to 1.4 million, but the total annual lease cost is almost double at \$36.7 million.

MR. THAYER compared the cost per square foot for private lease versus state lease. In Juneau, the most expensive private lease is \$2.86 per square foot versus the state office building which is \$2.06 per square foot. In Anchorage, the most expensive private lease is \$3.75 per square foot versus the state owned Atwood Building that costs \$1.56 per square foot. In Nome, the most expensive private lease is \$3.00 per square foot versus the Nome State Office Building which costs \$2.50 per square foot. In Fairbanks, the most expensive private lease is \$2.63 per square foot versus the state lease which is \$2.39 per square foot.

He said the state government is too large to collapse the private leases into the state owned buildings, but the comparison does give perspective for securing new leases and additions to leases in the private market. He noted that in the past agencies have asked for additional space, and there has never been a rationale applied to determine need or what how the space will be used. He said the 10-month review has uncovered things that required corrective action.

[10:59:07 AM](#)

CHAIR DYSON asked if there are bargains in the private sector, because there's a perception that there is a surplus of class A office space available.

MR. THAYER acknowledged that there are bargains, but most new state leases are for 20 years. State leases are very lucrative and landlords generally work to maintain the relationship.

MR. THAYER reviewed the advantages of the new space standards. He said that lease cost savings usually result in operating budget savings. There is enhanced collaboration between teams and better access to natural light. The new standards provide equitable treatment of space, including the reduction of private offices, and the new open concept improves air quality and ventilation and more balanced heating and cooling. Private

conversation spaces and functional break rooms have been increased. Finally, the new system furniture is ergonomically correct to enhance employee health and fitness.

[11:02:49 AM](#)

SENATOR GIESSEL asked how private conversations of a very sensitive nature will be accommodated.

MR. THAYER explained that part of the analysis is a meeting with the commissioner's office to find out about special needs within the department, because it's not a "one size fits all" approach. For example, there are no plans currently to have universal space standards for the Department of Public Safety.

MR. THAYER discussed the measures DOA has taken to communicate with stakeholders. In 2011 the state hired the architectural and interior design firm ECI/Hyer to look at space standards, and in 2012 the Governor's Office issued a policy to agencies on new universal space standards. DOA developed an outreach to agency leadership, administrative services directors, procurement staff, and employees on the new standards. There have been site visits with agency leadership and staff at the Douglas Island building, the Nome State Office Building, The Atwood Building, the State Library, Archives and Museum (SLAM), and the State Office Building in Juneau. There have been workshops for procurement and facilities staff, and tours of redesigned spaces that are open to anybody in state government.

[11:08:16 AM](#)

CHAIR DYSON asked if representatives from the bargaining units are included in the process.

MR. THAYER answered yes.

MR. THAYER reviewed some of the questions that have come up about the new space standards.

- Noise and privacy. There is a learning curve for all employees, but employees are encouraged to communicate respectfully, use private booths for personal phone calls, and use headphones when needed.
- Confidential information. The clean desk policy envisions that employees lock up all confidential information when they're not at their desk and log off their computer. Additionally, agencies group people according to the work they do.

- Configuring the workstation. There are several options for agencies to pick from. The option to personalize the workstation is up to the department.

CHAIR DYSON suggested he conserve time by hitting the high points and answering questions.

[11:12:26 AM](#)

MR. THAYER stated that DOA looked at six ways to fund the project: departmental operating funds; cost amortization within the monthly lease payment; savings realized in the reduction of leased space; state line of credit at 3 percent over a 10 year term; major building renovation capital funding; and federal funds.

MR. THAYER explained that the potential impact of USS is reviewed through a rigorous analysis and managed on a case-by-case basis. DOA works with affected agencies on a fiscal analysis that looks for a return on the investment in 10 years or 20 years. The analysis includes looking at the mission of the agency, public interface, needs of the employees, parking capacity, and current lease terms. If there is no return on the investment, status quo is maintained or partial implementation is considered.

He provided an example where DOA/DGS estimates a 10 year overall savings of \$50 million within 10 years and projected 20 year savings in excess of \$156 million with the implementation of USS. Cost savings will come from more efficient heating, cooling and ventilation and reductions in personal appliances. He noted a survey of the Atwood Building showed almost 200 refrigerators not in break rooms, 67 microwaves, 3 toasters, and 2 George Foreman Grills plugged in at personal workstations.

MR. THAYER reviewed current implementations at the Atwood Building. The 4th floor started and finished with 97 workstations, but the two private offices were removed. Before the remodel there were 75 personal appliances and after there are 8 appliances in the café. The employees have access to natural light and a fully equipped café. The project fund source was primarily federal.

CHAIR DYSON said he assumes that all commissioners are being moved to interior offices.

MR. THAYER replied there are exceptions.

SENATOR OLSON questioned the federal funding.

MR. THAYER explained that this was the Office of Child Services and they applied for and received a federal grant to pay for the remodel.

SENATOR OLSON asked the total cost of the 4th floor remodel.

MR. THAYER answered that the average cost of a cubicle is about \$5,500, so the total is about \$300,000. He noted that before USS was adopted, the state spent up to \$14,000 per cubicle.

He displayed before and after photos of the Atwood 4th floor and reviewed the remodel of the 18th floor. Workstations from three floors and a private lease were consolidated to this floor. There were 23 workstations and 19 private offices before and 43 workstations and 8 private offices after. The new space has two conference rooms, one file room, centralized mail room, and employee telephone booths. All 37 personal appliances were removed. The project funding source was primarily agency funds and they're saving \$67,000 per year.

The 7th floor of the State Office Building in Juneau was also remodeled. They eliminated 4 of the 5 private offices, increased the size of the conference room, made natural light available to all 31 staff members, and made the customer service area more inviting.

[11:21:38 AM](#)

MR. THAYER said plans for implementation in the near term include the Atwood Building, Douglas Island Building, Nome State Office Building, State Library, Archives and Museum, and the 8th floor of the State Office Building in Juneau. Plans for implementation over the long term include other Public Building Fund buildings, state-owned office buildings, facilities with expiring leases, building remodels, and agency needs. The general timeline for USS implementation is in excess of 10 years.

MR. THAYER explained that there would not be a tour of the Linny Pacillo Parking Garage today because the floor was being poured. The cost to build out this 15,000 square foot space is about \$290,000 as opposed to more than \$600,000 in the private sector. The Permanent Fund Dividend Corporation and Child Support Services will occupy the space, and the Department of Motor Vehicles is next door. The public will be able to park in the garage and do business with three state agencies, which will be

very convenient. Employee training spaces that are currently at Ship Creek will be moved to the space that the PFD Corporation and CSS vacate in the Atwood Building.

MR. THAYER discussed the scheduled update to the Nome State Office Building. Construction is scheduled to start January 2014 and should be complete in April 2015. The project budget is \$11.6 million, and it is fully funded by the legislature. The remodel will add two new agencies to the building for a total of eight, a café, two conference rooms, and an ADA public restroom. He noted that due to the preference of a member of the legislature, the building will be green in color.

[11:26:47 AM](#)

MR. THAYER reported that the legislature fully funded the \$18.2 million Douglas Island Building update. Construction will start in April 2014 and is expected to be complete in August 2015. Two agencies occupied the building before and the remodel will make room for a third agency. New amenities include two cafes, three larger conference rooms and increased parking.

MR. THAYER explained that the state purchased the 101,000 square foot Sam's Club building in July 2013 and it will become the new Geologic Materials Center. The legislature fully funded the \$24.5 million project, construction will start next month and occupancy is projected in July 2014.

MR. THAYER highlighted that the "Space Standards" webpage, www.doa.alaska.gov/dgs, is available for employees and others to review. It contains the Space Standards Quick Guide, Space Standards Manual, Space Standards Analysis Report, and Space Standards Frequently Asked Questions. He concluded the presentation and gave directions for the tour.

[11:31:21 AM](#)

There being no further business to come before the committees, the joint meeting of the Senate State Affairs Committee and the Senate Labor and Commerce Committee adjourned at 11:31 a.m.