

HOUSE FINANCE COMMITTEE
January 26, 2015
1:29 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:29 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Valerie Davidson, Commissioner, Department of Health and Social Services; Sana Efird, Assistant Commissioner, Finance and Management Services, Department of Health and Social Services; Amanda Ryder, Budget Analyst, Legislative Finance Division; Jon Sherwood, Deputy Commissioner, Department of Health and Social Services; Margaret Brodie, Director, Health Care Services, Department of Health and Social Services; Representative Liz Vazquez.

SUMMARY

FY 16 BUDGET OVERVIEW: DEPARTMENT OF DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Co-Chair Neuman passed the gavel to Vice-Chair Saddler.

Vice-Chair Saddler welcomed the department.

^FY 16 BUDGET OVERVIEW: DEPARTMENT OF DEPARTMENT OF HEALTH AND SOCIAL SERVICES

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VALERIE DAVIDSON, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES (DHSS), introduced herself and provided information on her personal and professional background. She had attended Head Start as a child and spoke in favor of the program. She had attended the University of Alaska in Fairbanks and Juneau. She highlighted her past work as a teacher. She had begun her career at the Yukon Kuskokwim Health Corporation. She shared that for the past eight years she worked for the Alaska Native Tribal Health Consortium (ANTHC) based in Anchorage. Additionally, she had served as chair of the National Tribal Technical Advisory Group to the Centers for Medicare and Medicaid Services. She believed there were tremendous opportunities for partnerships in Alaska and for leveraging both human and financial resources.

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Commissioner Davidson provided a PowerPoint presentation titled "Department of Health and Social Services House Finance: FY2016 Department Overview." She moved to an organization chart on slide 2. She introduced department staff. She pointed out that the Office of Behavioral Health had been moved from the Medicaid and Health Care Policy section to the Family, Community and Integrated Services section. Additionally, Public Assistance had moved from Family, Community and Integrated Services to Medicaid and Health Care Policy. She believed the Offices of Children's Services, Juvenile Justice, and Behavioral Health were more closely aligned when working towards the state's effort to stop some of the cycles that were a part of daily life in Alaska.

Vice-Chair Saddler asked committee members to keep questions at a minimum during the presentation.

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SANA EFIRD, ASSISTANT COMMISSIONER, FINANCE AND MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, turned

to slide 3 that contained the department's total FY 14 funds. She detailed that unrestricted and federal funds accounted for approximately the same portion of the department's funding [49 percent and 45 percent respectively]. Additional funding sources included designated general funds and other funds. The graph to the right provided a breakout of the funding sources by dollar amount. Slide 4 included a breakout of actual funding by division in percentages and dollar amounts.

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Co-Chair Neuman discussed the growth rate in the state's aging population and how it impacted the state's Pioneer Homes. He remarked that medical costs continued to increase. He wondered if the presentation included growth projections and how the department planned to deal with the growth. Ms. Efird replied that the department was looking at the Pioneer Homes. She detailed that the homes provided three levels of care including low, medium, and high-need. She elaborated that the number of high-level needs had increased. She could not speak to the specific plan, but the department was looking at ways to deal with changes.

Co-Chair Neuman spoke to juvenile justice. He noted that in recent history there had been an effort to move civil justice work over to tribal organizations to increase local control. He wondered if there was an opportunity to work with tribal organizations to take over facilities such as the juvenile justice center in Bethel.

Commissioner Davidson believed the department was open to any possibility in order to provide care as close to home as possible and in the most culturally appropriate way. She believed doing so provided better outcomes for children and families. The department was looking at ways to do things differently in order to achieve the goal.

Co-Chair Neuman believed if tribal organizations such as the Yukon Kuskokwim Health Corporation could take over some programs it would be possible to develop a long-term budget plan. He observed that the organizations could take advantage of increased federal funds that were currently not accessible to the state.

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Vice-Chair Saddler remarked that the angel was in the details. He noted that the committee would discuss the issue in depth with the Division of Juvenile Justice during an upcoming DHSS Finance Subcommittee meeting.

Commissioner Davidson communicated that the presentation would address the department's priority of leveraging the opportunities with tribal partners potentially in tribal health or tribal social services and welfare programs. She believed the opportunities existed, the time was right, and that people were ready for the change.

Ms. Efird addressed the DHSS FY 15 management plan on slide 5. The chart included all funds for a total of \$2.7 billion. She relayed that Medicaid accounted for the largest percentage of the pie chart at \$1.7 billion (62 percent of the DHSS budget). She elaborated that the budget also included 11 percent in other formula funds, 7 percent in non-formula grants and benefits, and 20 percent in non-formula other line items (including personal services, travel, commodities, and supplies). She discussed formula funded programs on slide 6, which accounted for the largest portion of the department's budget. She read the definition of a formula program:

A program with specific eligibility standards which guarantees a specific level of benefits for any recipient who qualifies. The eligibility standards and benefits must be based in statute and/or regulations.

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Ms. Efird read a list of the department's formula programs on slide 7:

Public Assistance

- Adult Temporary Assistance Program
- Adult Public Assistance
- Child Care Benefits
- General Relief Assistance
- Tribal Assistance Programs
- Senior Benefits Payment Program
- PFD Hold Harmless
- Energy Assistance Program

Medicaid Services

- Behavioral Health Medicaid Services
- Children's Medicaid Services
- Adult Preventive Dental Medicaid Services
- Health Care Medicaid Services
- Senior/Disabilities Medicaid Services

Representative Wilson asked where the legislature could make changes in the formula programs. She wondered which programs were federally mandated at a certain poverty level. She wondered if the legislature had the ability to determine how much over the poverty level something would be. She wondered where it was possible for the legislature to make changes and where it was not.

Ms. Efird replied that the department would address the information for each of the formula programs. She continued reading from slide 7:

Children's Services

- Subsidized Adoptions/Guardianship
- Foster Care Special Need
- Foster Care Augmented Rate
- Foster Care Base Rate

Ms. Efird moved to slide 8 titled "Service Population." The slide depicted the magnitude of the DHSS programs and who they impacted in the Alaska population. She detailed that over the past several years the department had worked on performance measures, and results-based budgeting and accountability. Subsequently, three priorities had been identified including: 1) health and wellness across the lifespan; 2) health care access delivery and value; and 3) safe and responsible individuals, families, and communities. She elaborated that each of the priorities contained core services; division presentations would provide more detailed core services and priorities. She pointed to a chart showing a continuum of ages of individuals served by the department beginning with prenatal through death.

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Vice-Chair Saddler asked Ms. Efird to clarify that there was a timeline of the human lifespan and not a direct correlation between the chart and core services offered.

Ms. Efird replied that the chart demonstrated that all of the DHSS priorities spanned throughout the life of an individual. She relayed that each division planned to indicate the time in an individual's life that it targeted.

Vice-Chair Saddler agreed that the information would be helpful. He noted that Representative Gara had joined the committee earlier.

Ms. Efird moved to slide 9 pertaining to the department's total FY 15 budget of \$2,692,324,500. The slide showed that the department aligned its current budget with each of the three priorities down to the seven core services, by division, and finally with a breakout of the divisions' budgets. The intention of the slide was to show the process the department had undergone over the past couple of years. She used the Alaska Pioneer Homes as an example; the division's total budget rolled up into the core services, which correlated across the seven core services and up to the priorities.

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Ms. Efird further explained that slide 9 intended to depict the department's priorities and where it was spending its money. Performance measures had been developed and divisions were reporting to the department on data collected in order to obtain a baseline for the success of division programs.

Representative Wilson wondered about current mandates from the Alaska Constitution and federal government related to existing programs. She surmised that some programs could be done by the private sector if the state was not mandated to provide them. Ms. Efird agreed that looking at the financial situation was the appropriate next step. She believed the question was related to formula programs that were currently under the department's purview.

Representative Gara referred to the governor's formula that outlined how cuts would be made to agency budgets. One of the components looked at whether an agency's budget had grown. He remarked that over the past four to five years the number of youths in foster care had increased from 1,700 to over 2,300, which accounted for a budget increase. He detailed that the former governor and DHSS commissioner had determined that hiring support staff for the Office of

Children's Services (OCS); the recommendation had been for 50, but only 15 had been implemented. He noted that the decision to add new staff had been based off of the 1,700 children in foster care, but the number had risen. He understood deep cuts in areas where people could handle them and stand up for themselves; however, he asked whether the state was sensitive to young children who could not handle less infrastructure.

Commissioner Davidson answered that currently the department did not have all of the budget details from the Office of Management and Budget. She relayed that one of her priorities was addressing child welfare issues. She relayed that unfortunately there were currently 2,400 children in out of home placements throughout the state. She noted that the state was effectively the parents of the children. She believed it was important to take measures in order to do things differently in order to protect children. She reiterated her commitment to working on child welfare matters.

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Vice-Chair Saddler relayed that there would be results-based budget training in the committee room the upcoming Friday and Saturday.

Co-Chair Neuman wondered if there had been an increase in funding for foster care in recent years. Ms. Efird replied in the affirmative. She detailed that the increases had been based on some litigation for increases in base-rate foster care payments. There had also been an increase due to additional positions added in the prior year. Additionally, there was an increase in the work in progress budget asking for additional program receipts to accommodate the increase in the number of children in out of home placement with the collection of child-support payments that passed through the department.

Co-Chair Neuman stressed the importance of caring for foster children. He stated that the legislature had been working to do what it could related to funding.

Ms. Efird relayed that Commissioner Davidson would address the department's divisions and their individual missions.

Commissioner Davidson communicated that the department contained eight divisions (slide 10). She shared that Vickie Wilson was the acting director of the Alaska Pioneer Homes division. She introduced Gina Delrosario the director of the Juneau Pioneer Home. The Pioneer Homes had 649 positions, which represented approximately 2 percent of the department's operating budget. The homes were responsible for providing the highest quality of life in a safe home environment for older Alaskans and veterans. She relayed that further detail would be provided by the divisions [in finance subcommittee meetings]. She addressed the Division of Behavioral Health and introduced the director Al Wall. The division housed 374 positions and accounted for 5 percent of the department's operating budget; its mission was to manage an integrated and comprehensive behavioral health system based on sound policy, effective practices, and partnerships.

Commissioner Davidson moved to slide 11 and addressed OCS and the Health Care Services Division:

Office of Children's Services
Christy Lawton (Director)

- 509 Positions
- \$143,709.6 - FY2015 Management Plan
- 5.34 percent of DHSS FY2015 Operating Budget
- Prevent and respond to child maltreatment in order to ensure safe children and strong families.

Health Care Services
Margaret Brodie (Director)

- 131 Positions
- \$24,391.6 - FY2015 Management Plan
- 0.91 percent of DHSS FY2015 Operating Budget
- Manage health care coverage for Alaskans in need.

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Commissioner Davidson addressed the Divisions of Juvenile Justice and Public Assistance on slide 12:

Division of Juvenile Justice
Karen Forrest (Director)

- 503 Positions
- \$58,824.7 - FY2015 Management Plan

- 2.18 percent of DHSS FY2015 Operating Budget
- Hold juvenile offenders accountable for their behavior, promote the safety and restoration of victims and communities, and assist offenders and their families in developing skills to prevent crime.

Division of Public Assistance
 Ron Kreher (Acting Director)

- 566 Positions
- \$331,226.7 - FY2015 Management Plan
- 12.30 percent of DHSS FY2015 Operating Budget
- Provide self-sufficiency and provide for basic living expenses to Alaskans in need.

Commissioner Davidson highlighted the Division of Public Health and the Division of Senior and Disabilities Services on slide 13:

Division of Public Health
 Dr. Jay Butler (CMO/Director)

- 488 Positions
- \$138,502.8 - FY2015 Management Plan
- 5.14 percent of DHSS FY2015 Operating Budget
- Protect and promote the health of Alaskans.

Senior and Disabilities Services
 Duane Mayes (Director)

- 171 Positions
- \$63,385.8 - FY2015 Management Plan
- 2.35 percent of DHSS FY2015 Operating Budget
- Promote the independence of Alaskan seniors and persons with physical and developmental disabilities.

Commissioner Davidson introduced additional department staff.

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AMANDA RYDER, BUDGET ANALYST, LEGISLATIVE FINANCE DIVISION, relayed that many of the graphs in the presentation were built on the prior year because information for the current year was forthcoming. She addressed slide 14 that showed the DHSS total agency operations non-formula and formula

budget (unrestricted and designated general funds only). The blue line represented the percentage of the DHSS budget compared to all department budgets. She highlighted that in the FY 06 management plan the DHSS general funds accounted for 22 percent of agency operations; the number had grown to approximately 26 percent. She explained that Medicaid was a huge driver of the budget and had grown at approximately 150 percent since FY 06. She noted that the data was based on FY 06 to FY 15 management plans.

Representative Edgmon recalled an increase of 2,000 state employees from FY 06 to FY 15. He wondered how many of the new employees were attributed to DHSS. Ms. Ryder relayed her intent to address the question on a subsequent slide.

Co-Chair Neuman wondered how much of the growth was due to federal government requirements. Ms. Ryder replied that she did not have an exact amount; however, Medicaid accounted for a significant portion.

Co-Chair Neuman remarked that the state's current contribution to Medicaid was about \$700 million. He stated that the rate had been growing at approximately 9 percent in the past 10 years. He attributed a significant portion of the growth to Medicaid. Ms. Ryder agreed. She elaborated that as the division graphs were looked at during the upcoming month it would be possible to look more carefully at what was federally required and what had grown over the past 10 years by state choice. She acknowledged that due to the large size of the department it was difficult to delve into all of the changes during an overview. She added that Medicaid was the primary reason for growth in the department.

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Representative Gara referred to testimony by former Commissioner Bill Streur related to the growth in Medicaid. The chart had showed that an increased number of people were on Medicaid, Alaska's cost of medical services ranked first or second in the nation, and the increase in medical costs in Alaska ranked first or second in the nation. He wondered if the department had been able to do anything to address the state's annual rise in medical costs.

Ms. Ryder deferred the question to the department. She knew DHSS had been working hard to reduce healthcare costs.

Ms. Efird pointed to the steep cost increases due to Medicaid [beginning with the FY 12 management plan] on slide 14. She communicated that the chart showed a decrease in cost [in FY 10 and FY 11] due to the department's receipt of an enhanced federal participation rate and American Recovery and Reinvestment Act (ARRA) funding. She elaborated that DHSS had been working to stem the unsustainable increase in Medicaid growth through various initiatives. She relayed that some benefit had resulted through the use of generic prescription drugs and an effort to reduce the number of "super utilizers" of emergency room services. She believed the committee would hear further detail about the successes and failures during division presentations.

Representative Gara noted that a medical cost increase would occur when providers caught up on their billing. He noted that the issue had been lingering for three years and did not represent a new administration problem.

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Amanda Ryder advanced to slide 15 that showed the DHSS budget from FY 06 to FY 15 by line item. She reported that grants and benefits accounted for the largest piece of the department's budget; the majority of which was Medicaid. She detailed that the department had approximately \$2.1 billion in grants; about \$87 million of the figure was behavioral health, \$77 million went to OCS (for items like payment to foster care parents), and \$1.6 billion was associated with Medicaid. She added that the Division of Public Assistance also provided numerous grants and various programs, which accounted for approximately \$239 million of the budget.

Ms. Ryder addressed salary adjustment increases and personal services costs on slide 16. She reported that the total cost of personal services had increased by approximately \$121 million or 52 percent between FY 06 and FY 15. She pointed to the bar chart on slide 16 and relayed that the lower light purple portion of the bar represented personal services less the salary adjustments. She relayed that salary adjustments were included in the budget on an annual basis, which included contractual increases and health insurance increases. Around 2008 the adjustments had been for retirement when the percentage had increased from

11.5 or 12.5 percent up to 22 percent. She noted that the Legislative Finance Division (LFD) did not budget by line items for all funds; it could not extract general funds; however, it could make an estimate based on percentage. She estimated that approximately \$22 million of the \$121 million increase was associated with health insurance increases. She detailed that the cost had increased by about \$6,500 per employee since FY 06. She estimated that increased retirement accounted for approximately \$36 million. The last bar of the chart represented how much of the increase was due to contractual, health insurance, and retirement increases. She noted that most of the increase was attributable to the three items.

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Ms. Ryder noted that DHSS had gained new positions over the years. She turned to slide 17 related to the department's budgeted positions. The slide depicted the governor's request from the prior year, but did not include approximately 10 positions added by the legislature to OCS (10 positions had been added, but the legislature had funded about 14 positions). The department housed approximately 3,500 employees; there had been a net increase of 135 positions, but permanent positions had increased by 278. She noted the department had not wanted to increase the number of permanent full-time employees; therefore, there had been an aligning within the department to swap with permanent part-time and temporary positions.

Representative Munoz asked how many of the department's 3,400 positions were dedicated to Medicaid services and how many may be needed for Medicaid expansion. Ms. Efirid responded that she could follow up with the detail. She communicated that there were a number of divisions within the department that involved Medicare. She elaborated that the Division of Public Assistance housed eligibility technicians, whereas the processing of claims was handled by the Division of Health Care Services. Other divisions that contained pieces of Medicaid included the Divisions of Behavioral Health, Senior and Disability Services, and some children services that had been picked up by Behavioral Health.

Commissioner Davidson elaborated that she planned to address administrative costs and the number of expected positions pertaining to Medicaid.

Vice-Chair Saddler asked the department to provide the answer at a later time. He noted his preference to finish the department's presentation.

Representative Wilson wondered how to determine how many people were involved in providing DHSS services in some way including those funded by grants. She gave an example of grantees providing work for the department. She stated that for every 200 Alaskans there was 1 person in DHSS. She surmised that the statement was only part of the story due to the numerous grants. She added that the department could get back to her with an answer.

Co-Chair Neuman relayed that someone was looking at the grants and behavioral health issue discussed by Representative Wilson. He asked about the department's vacancy rate. Ms. Efird replied that the vacancy rate was approximately 8 to 10 percent.

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Co-Chair Neuman followed up and asked how the vacancy rate compared to other departments. He wondered if the number was high or low. He thought the Division of Juvenile Justice had a low turnover rate with an average length of employment of 18 years, whereas OCS had a high turnover rate. He reasoned that there were inefficiencies when employees were lost after they had been trained. He wondered what could be done to rectify the problem.

Ms. Efird answered that she did not know how the DHSS vacancy rate compared to the rate in other departments. She would look into providing the information. She noted that there were specific positions that were difficult to recruit for throughout all the divisions such as information technology programmers. Frontline social workers for OCS in rural areas were also difficult to recruit. However, there were other divisions with very long-term employees such as the Division of Juvenile Justice and the Pioneer Homes. She elaborated that the department was looking at ways to do recruitment that focused on the needs of what each division specifically needed to target for the positions. The goal was to match a person to a position and to provide the individual with a true picture of what the position entailed in an effort to maintain an employee for a longer period of time.

Co-Chair Neuman believed the issue was important in relation to the budget. He asked for information pertaining to the department's outreach and training programs, particularly for OCS. He wondered about cost-benefits associated with the efforts. He remarked that many times the state could not find people to fill the vacant positions.

Representative Gara referred to reports from OCS that the division only expected social workers to stay in the position for two years. He elaborated that a portion of the two-year period was spent on training and then employees left due to burnout. He remarked that the social worker caseloads at OCS were 50 to 100 percent higher than the national standard. He reasoned that the problem would persist as long as the caseloads remained high. He discussed that the turnover was costly to the state. He did not believe a two-year retention average was satisfactory.

Commissioner Davidson recognized the challenge. The department understood that children needed stable environments. She agreed that a high turnover existed, but she believed improvement would come through better recruiting and better support of people in the very tough jobs. One way the department could make a difference was by leveraging the partnerships between state, federal, tribal entities to do what was right for children. She opined that one of the ways to address turnover was by accessing partnerships. She stressed that the work was hard enough without "beating each other up." She discussed the importance of being in the same room to address how to best serve children. She spoke to the importance of the state's acknowledgement of its part of the problem. She stressed the importance of owning up to the problems in order to help the state's children.

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Ms. Ryder turned to slide 18 that included the total Medicaid formula appropriations from FY 06 to FY 15. The chart included the management plan and supplementals for each year. The budget had increased from \$381 million in FY 06 to \$695 million in FY 15. She discussed the intent to discuss the issue further at a later time.

Vice-Chair Saddler pointed to a supplemental decrement in FY 09 and asked for detail. Ms. Ryder replied that during FY 09 there had been an enhanced Federal Medical Assistance Percentage (FMAP) rate that had increased from 50 percent up to 60 percent. She elaborated that the federal government had paid for a significantly larger portion of the budget, which had saved the state in general funds. She relayed that when the enhanced FMAP had ended, the general funds had to increase to continue paying the state's share of Medicaid.

Vice-Chair Saddler wondered if federal assistance had been offered in FY 13 as well [supplemental funding was also shown as a decrement in FY 13 on the slide]. Ms. Ryder replied that there had been savings that occurred, which had resulted in a negative \$25 million supplemental. She added that the unusual occurrence had been a pleasant surprise.

Representative Guttenberg addressed reasons listed for the Medicaid general fund growth rate (slide 18). He asked for an explanation of items listed including FairShare, ProShare, FMAP changes, and Rate Rebasing.

Ms. Ryder deferred the question to the department.

JON SHERWOOD, DEPUTY COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, explained that FairShare and ProShare were financing endeavors the department undertook in the early 2000s. He elaborated that FairShare was associated with payments to tribal providers and ProShare was related to payments to government and private nonprofit providers. He elaborated that the items had to do with the upper payment limit; Medicaid was limited to what it could pay providers (for some services) by the amount of money Medicare would have paid the provider for providing comparable services. He detailed that the state had taken advantage of the opportunity to raise its payments to providers to the upper limit; in return providers had been asked to assume a number of responsibilities or to return funds to the general fund. He relayed that a similar activity had taken place in the late 1990s and early 2000s nationwide. He explained that after a period of time the federal government had decided that Alaska's program did not meet criteria allowed under federal law; therefore, the state had to make adjustments to its federal reimbursement to reflect disallowances for the FairShare and ProShare

programs. The chart reflected adjustments that had been made. The state had to fund the adjustments when federal funding had been reduced.

Vice-Chair Saddler surmised that the state had been creative [in the financing endeavors] and had to subsequently pay funding back. Mr. Sherwood agreed, but used the word "aggressive" in place of creative.

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Representative Guttenberg asked for verification that the costs were not above the rate increases, but were a reflection of creative negotiation for rates that the federal government did not agree with. He wondered if the reason was related to the escalating costs of delivering services in the state.

Mr. Sherwood replied that the department had been creative or aggressive at a time when it had been facing growth in the program and revenue shortfalls. He believed the federal government had decided that the methodology and upper payment limits used by the state were not appropriate. He expounded that the issue did not involve a disagreement about what the cost of healthcare was; it was more about what kinds of activities providers were performing in return for the enhanced rate. He detailed that the state had increased the rate above what it would normally pay and had required something in exchange. He believed the federal government's concern had to do with what had been exchanged; the federal government felt that the state had been using the rates to artificially inflate the federal match.

Representative Guttenberg asked for verification that the department had negotiated a larger package that the federal government had rejected. Mr. Sherwood replied in the affirmative. For example, one facility made payments with the funding that was normally funded by grant-based services.

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Vice-Chair Saddler asked if the situation provided a lesson for the state as it tried to share expenses with tribal partners and other organizations. He wondered if the experience should be cautionary.

Mr. Sherwood replied that it was a lesson that the state should make sure its federal partners understood clearly what the state was doing prior to demanding on the revenue the state was expecting from the activities.

Commissioner Davidson remarked that it had been a classic example of people believing there was an agreement, but it had not been sufficiently flushed out. She discussed the importance of paying attention to the details in order to avoid making the same mistake twice.

Representative Guttenberg disputed the use of the term mistake. He applauded the department for trying to do bundling or rate negotiations in an attempt to drive down costs. He remarked that the federal government disapproved with the state's actions in that regard, but it was how most entities in the medical world operated. He wondered if other states had taken the same action and gotten away with it. He observed that Alaska's medical costs were skyrocketing well beyond those in other states.

Commissioner Davidson replied that the department was looking at the opportunity for Medicaid expansion to serve as a catalyst for meaningful Medicaid reform. She believed it was important to look at lessons learned by other states to maximize efficiency when delivering services.

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Ms. Ryder addressed a graph on slide 19 that illustrated general funds in each appropriation in DHSS; Medicaid services was the largest by far and dwarfed all other appropriations. Additionally, the growth for Medicaid was much higher than growth of any other appropriations. She turned to slide 20 that included a multi-year appropriation summary for FY 16 (non-formula only). The slide depicted where large growth had occurred and included both unrestricted and designated general funds. She pointed out that behavioral health was the highest expenditure on the chart; however, public health showed a substantial increase and had surpassed behavioral health costs. The public health increase was primarily due to the implementation of the Vaccine Assessment Program, which was paid for by the assessors. She advised committee members to not be alarmed by the increase given that most of the cost was not unrestricted general funds. She relayed that the costs

would be covered in further detail by each division [at a later date].

Representative Edgmon referred to an increase of 135 DHSS employees from FY 06 to FY 15 (slide 17). He moved to slide 18 and noted the precipitous uptick in Medicaid appropriations. He inferred that an increase in employees over a 10-year period had been arguably restrained. He noted that the increase had occurred gradually over time. He gave the legislature credit for keeping the increase at bay. He believed the graph on slide 18 was a better representation of the overall uptick in the healthcare sector in Alaska. He thought the issue would be a relevant topic to address during Medicaid expansion discussions.

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Vice-Chair Saddler agreed that the legislature had done a good job.

Representative Edgmon noted that the legislature had applied some discipline going forward in terms of budgetary requirements for DHSS.

Ms. Ryder agreed that the positions did not look like the graph on slide 18 pertaining to Medicaid. She stated that the graph on slide 14 looked very similar to the Medicaid graph (slide 18); an indication that Medicaid was the primary driver of the budget increase. However, there were many pieces at play, which meant it was important to address each individual appropriation.

Vice-Chair Saddler referenced Representative Wilson's question about how many new positions there were in grantee agencies. He asked for clarification pertaining to the cost increase for public health on slide 20. He wondered if the increase was related to federal funding for vaccine programs.

Ms. Ryder replied that the public health increase was related to the Vaccine Assessment Program. She elaborated that various providers were paying an assessment to purchase vaccines. The program had previously been federally funded, but those funds were no longer available. She relayed that legislation passed the prior year provided a vaccine program for the state and the funding mechanism for the program.

Vice-Chair Saddler asked if the state retrieved any of the revenue stream after providing the funds to grantees for the vaccinations. Ms. Ryder replied that the program was funded by the assessments. She explained that people did pay for the vaccines. She relayed that an unrestricted general fund revenue chart would look vastly different from the total general fund chart.

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Representative Gara pointed to slide 18. He referred to a \$313 million increase in Medicaid general funds from FY 06 to FY 15. He recalled that former DHSS Commissioner Joel Gilbertson under former Governor Frank Murkowski had tried to use grant money instead of traditional funds, which had become the FairShare and ProShare that the federal government had put a stop to three years later. He believed at that point the state had to begin covering the cost with general funds.

Ms. Ryder answered that she did not know the details about the budget in question; however, the FairShare/ProShare had begun occurring long before Commissioner Gilbertson was appointed. She noted that litigation had resulted and the federal government had ended up denying the funds, which accounted for the large supplemental budgets in the impacted years; there had also been large ratifications prior to that point. She estimated that FairShare/ProShare had begun around FY 00.

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Commissioner Davidson continued with the presentation on slide 21 titled "Department Updates":

- Alaska's Resource for Integrated Eligibility Systems (ARIES)
- Medicaid Management Information System (MMIS)
- Medicaid Expansion
- Medicaid Reform

Commissioner Davidson referred to the department's three primary priorities including health and wellness across the lifespan; healthcare access, delivery, and value; and safe and responsible individual families and communities. She remarked on the broadness of the priorities and addressed

where the department would begin focusing its efforts. The first primary focus was to ensure that Alaskans had access to healthcare, which included Medicaid expansion. She communicated that the administration believed that Medicaid expansion could be a catalyst for meaningful Medicaid reform. She detailed that the department's state plan amendment that would be submitted to the Centers for Medicare and Medicaid Services specified that the state would participate as long as FMAP remained equal to or greater than 90 percent. She explained that if the federal government chose to decrease funding below 90 percent the state plan amendment authorization would terminate. She relayed that an in-depth conversation about the proposed expansion would occur on February 16.

Commissioner Davidson stated that in the past there had been "dueling banjos" reports. She explained that the Urban Institute Report commissioned by the Alaska Native Tribal Health Consortium (ANTHC) had come out in February 2013 and the Lewin Group report commissioned by the prior administration had come out in November 2013. She noted that while there were some differences between the reports, the results of both studies indicated that Medicaid expansion was a good investment for Alaska. She noted that the reports were dated; therefore, the current administration would make public a new report in the near future. She detailed that the new report was authored by Evergreen Economics; the company had been analyzing Medicaid data for DHSS for almost a decade. She discussed that the results were pretty consistent; there were approximately 42,000 potentially newly eligible individuals. She detailed that almost 44 percent of the individuals were employed; 30 percent were recently employed. The data indicated that individuals in the 30 percent category were either recently laid off or seasonal employees.

Vice-Chair Saddler asked for a cost estimate of the Evergreen Economics report.

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Ms. Efird would follow up with the information.

Representative Gara asked for clarification on the numbers provided related to Medicaid eligibility. He thought that

under Medicaid expansion eligible individuals would be 100 percent employed.

Commissioner Davidson replied that under the Medicaid expansion people were eligible for coverage if they had incomes up to 138 percent of the federal poverty level. She detailed that an individual could have a full-time job and make about \$9.50 or \$9.60 an hour. She elaborated that under the expansion population 43 percent of the individuals in the eligible category were at those income levels.

Representative Gara thought that individuals making the current level in the 80 percent range were also employed. He thought 100 percent of the individuals who would benefit from Medicaid expansion were employed.

Vice-Chair Saddler asked members to hold Medicaid expansion questions for a later time.

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Commissioner Davidson replied that there were gaps in coverage under existing Medicaid programs; the expansion would eliminate the gaps. She added that 54 percent of the eligible population were male and 20 percent of the group were between the ages of 19 to 34, which resulted in significantly lower per enrollee spending than any other age and gender. She expounded that no Medicaid program had ever reached full enrollment and the department did not expect enrollment in Alaska to reach full enrollment. The department expected approximately 20,000 people to enroll in the first year and about 27,000 to enroll by 2021. She noted that many individuals were eligible for Medicaid, but did not sign up. She communicated that the department expected administrative costs to be fully offset by savings; the costs were developed by department staff conducting the work. Some administrative costs were anticipated because increased eligibility requirements and the processing of payments would increase the need for additional eligibility determinations and claims processing.

Commissioner Davidson believed the expansion savings in the first year (FY 16) would be conservative; however, there were savings within the department's control. She used the state funded medical assistance program as an example;

Medicaid timely filing rules were allowed for one year after service was provided; therefore, it was not prudent to identify all of the savings associated with what the general fund paid for in the first year. The department expected some grant reductions due to the expansion; however, prior to cutting programs, it was necessary to get the expansion funds in the door. She discussed the annual Department of Corrections (DOC) hospital contract payments that were funded with general funds. She detailed that the state was not taking all of the savings in the first year, given the time it would take for the change to take place. She expected savings to offset administrative costs in the first several years. The department expected that the federal match would be approximately \$204 million by 2021; the state's share would be under \$20 million. She discussed that as the state moved forward during a time when the budget was contracting, it was necessary to be mindful of economic impact in the state. She referred to a host of opportunities for the state to diversify its revenues (e.g. through liquid natural gas and other). She was excited about the opportunities; however, many of the projects would not bring in revenue for quite some time. She relayed that the economic impact from Medicaid expansion could be approximately \$1.5 billion in the first seven years. She stated that the economic benefit would positively impact all areas of the state. She relayed that the issue would be discussed in further depth at a later date.

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Commissioner Davidson continued to discuss slide 22. She remarked that DHSS currently had some significant systems challenges. She communicated that in order for the state to take advantage of Medicaid expansion and to continue its current Medicaid program the department needed to improve the enrollment of individuals and the payment of providers. She detailed that the department had been undergoing systems conversions related to eligibility and payments for quite some time. She addressed the eligibility system and relayed that there were two phases envisioned for the Alaska's Resource for Integrated Eligibility Services (ARIES) project. The first phase was for the system to do Medicaid determinations under the new federal rule that disregarded asset testing and was based on modified adjusted gross income. She highlighted that it had become easier to qualify for Medicaid because assets were no longer considered.

Commissioner Davidson relayed that the first phase that would do MAGI [modified adjusted gross income] determinations was supposed to go live in October 2013; however, the implementation had been delayed by one year. Phase two of the systems change was aimed at replacing the old Medicaid eligibility System and the Medicaid Payment System (that were both approximately 28 years old). Phase two was also intended to ensure that ARIES was able to do other kinds of public assistance determinations including Temporary Assistance for Needy Families (TANF) and all other Division of Public Assistance determinations. She noted that there was currently a backlog. She relayed that the department had brought back former Director of the Division of Public Assistance Ron Kreher to help work through the backlog.

Commissioner Davidson addressed the payment system and relayed that DHSS was in litigation with Xerox because it needed the company to significantly improve the payment amount and the timeliness of payment. She detailed that the litigation was currently before an administrative law judge as required by contract; the state was seeking \$64 million in liquidated damages. She added that the hearing was scheduled for February 2015. The department had hired a company called Navigant to look at the codes and to provide an assessment.

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Representative Wilson wondered if the state was \$64 million behind in payments to providers. Commissioner Davidson replied that the figure did not necessarily reflect the behind payments. She detailed that the liquidated payments were the workarounds that DHSS healthcare services staff had to do in order to process payments because the Xerox system was unable to process the payments in a timely way.

Representative Wilson wondered how far behind the state was in payments to providers. She was hoping the state was more caught up than it had been the prior year. She wondered how many individuals were waiting to determine if they were eligible.

MARGARET BRODIE, DIRECTOR, HEALTH CARE SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, responded that there were still a very small number of providers that were not able

to be paid. The department had not needed to make advances to providers in several weeks. Additionally, it was on the verge of fixing a problem in order to pay the majority of claims correctly. The backlog included the reprocessing of all claims from inception. She relayed that the department was working to prioritize the claims because it was not possible to process them all at one time. She believed claims would be paid accurately across the board by the end of February. The majority of the claims would be reprocessed by the end of the fiscal year, but some would fall into the upcoming fiscal year.

Vice-Chair Saddler informed members that the committee would have a subcommittee meeting on Medicaid expansion.

Commissioner Davidson communicated the department's recognition of the significant payment problem. The current focus with Xerox was on issues related to getting payments out the door. The work the Medicaid Management Information Service was supposed to do was beyond getting providers paid; those issues had been put on hold until providers were paid. The administration understood that Medicaid in its current form was not sustainable; therefore, it was undertaking an effort to focus on a Medicaid reform package. The department would explore options to maximize 100 percent FMAP (e.g. working with tribal and federal partners). She noted that there were tremendous opportunities to learn lessons from other states. She addressed how the state managed the care of its population; it continued to pay for incidents of care and not necessarily for outcomes. There were opportunities to extend other provider types that currently happen in tribal health through behavioral health aides, community health aides, dental health aide therapists, and nurse practitioners. There were also great tele-health opportunities; the department believed savings would occur if it utilized the services more effectively and efficiently. She believed there would be savings opportunities in tele-health throughout the state.

Commissioner Davidson moved to slide 23 and addressed child welfare, the department's second area of primary focus. There were currently over 2,400 children in out-of-home placements. She stressed the importance of maximizing the state's relationships in order to improve outcomes for children. She addressed tribal and federal partnerships on slide 24, the department's third primary area of focus. She

communicated that given where the state had been with its tribal and federal partnerships she thought focus was necessary in order to do partnerships well. She furthered that there were many barriers that could impede collective efforts in the area of tribal and federal partnerships. She emphasized that the state, tribes, and the federal government could not do the work alone. She stated that even two of the three groups working together was not sufficient. She spoke to the importance of leveraging the partnerships.

Commissioner Davidson addressed the fourth area of primary focus: "Improving the health status of Alaskans" (slide 25). She relayed that more detail would be provided later on by the Division of Public Health. She detailed that Dr. Butler would present on recreational marijuana and the impacts on health the following day in the Senate State Affairs Committee. She communicated that the department was responsible for informing the public about health impacts of marijuana. She pointed to five recommendations from Governor Bill Walker's 2014 DHSS transition report on slide 26.

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Commissioner Davidson thanked members for the opportunity to address the committee.

Representative Guttenberg pointed to item 4 on slide 26 "health care cost and affordability." He commented that Alaska's healthcare costs were rising faster than those in other states. He wondered if there was an ongoing effort to determine healthcare cost drivers in the state.

Commissioner Davidson replied that the efforts were underway. She elaborated that it was also one of the key opportunities in Medicaid reform. She believed opportunities existed in how the state paid for healthcare services. She thought the state was the largest buyer of healthcare services in Alaska including healthcare purchased for state employees, retirees, and Medicaid beneficiaries. The department believed there were opportunities to work together more efficiently to reduce costs.

Co-Chair Neuman recalled his prior work with the DHSS finance subcommittee. He spoke about a trip the

subcommittee took to Fairbanks the prior year to meet with department staff. He discussed work done by OCS caseworkers and how many rural areas had no cell phone coverage or internet. He remarked on the cumbersome and time consuming paperwork caseworkers were required to complete. He recalled reading that 800 state jobs would be lost due to budget reductions in the current year. He commented on the impact the lost jobs would have on the economy in communities. He discussed thousands of jobs that would be lost due to the budget deficit. He discussed the continued growth in healthcare. He surmised that the job loss would impact families and would increase domestic violence, substance abuse, child abuse, and sexual assault. He stressed that the abuses hurt society more than anything. He spoke about legislation he had worked on in the past related to "Jessica's law." He stated that in the past the annual cost to Alaska for the abuses was \$45 million. He added that the current cost far exceeded the amount. He discussed working to ensure that jobs remained in communities. He wondered how the department would deal with the issues. He asked for a copy of a plan the department was working to devise.

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Commissioner Davidson addressed that slow internet was a challenge because it inhibited work of the staff. She detailed that the DHSS information technology staff had been working with the Department of Administration on increasing throughput to increase internet speeds. The department recognized that people could not work and fill out online forms if they could not be done in a timely way. She agreed that job loss would occur because the state could not continue to afford the level of government it had grown accustomed to. She remarked that DHSS was not immune to budget cuts that would occur. She concurred that terrible things did happen in families and communities when people were under tremendous financial pressure. She stressed that the challenges would be bigger if the state did not do Medicaid expansion. She appreciated that Medicaid expansion required behavioral health parity, meaning that it would pay for behavioral health services for alcohol treatment and other substance abuse treatment. She emphasized that treatment was one of the only ways to stop the cycle. She elaborated that a significant number of juvenile justice and corrections cases were alcohol and drug related. She noted that the Division of Juvenile

Justice would report to the committee on its work to address recidivism by providing treatment services to youths in a way that disrupted the cycle. She relayed that a significant percentage of people Alaska's jails were either awaiting sentencing or trial for drug related charges. She stressed the importance of behavioral health programs; it was necessary to change the way people thought about substance abuse. She emphasized that children should not grow up believing substance abuse was normal. She added that the efforts would take time.

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Representative Pruitt thanked the commissioner for taking on her role in the department. He addressed slide 25 and an upcoming presentation related to marijuana. He wondered if the administration would take a larger role in helping to determine the direction the state would head pertaining to marijuana. He wondered when to expect it. He wanted to see the direction from the administration.

Commissioner Davidson did not want to get ahead of what the governor planned pertaining to recreational marijuana use. She noted that DHSS had a tremendous opportunity to educate the public via a public health message or other. The department was currently addressing whether it made sense for the state to have a public health website communicating information about the drug to young people such as impacts and dangers. She stated that unfortunately the state did not currently have a public health message posted online pertaining to marijuana.

Representative Pruitt surmised that something should be expected from the governor. Commissioner Davidson replied that she would follow up on the question at a later time.

Representative Pruitt requested specifics on what Medicaid reform meant. He wanted to know what statutes needed to be changed and what role the legislature could play in getting to the reform discussion. He wondered if the state would be changing some of the services it offered under Medicaid. He noted that every state had different levels of services provided. He opined that services provided in Alaska tended to be fairly good. He believed the only way to address the issue was through statutory changes. He wondered if the administration would look for leadership on the topic from

the legislature. He requested that the administration indicate where it would like to see support come from.

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Representative Gara discussed that a healthcare policy task force been established eight years earlier. He remarked that for years the legislature had not received any information on the reports. He relayed that Co-Chair Neuman had suggested going through the reports the prior year. He spoke to one of the recommendations related to transparent healthcare pricing. He noted that the strategy had been successful in other locations. He requested that the legislature keep working with the task force. He spoke to the importance of listening to ideas from the task force that would cut medical costs. He stressed that one of the largest cost drivers facing state government was the rise in medical costs. He discussed the state's payment responsibility.

Vice-Chair Saddler recognized Representative Liz Vazquez's presence in the room. He asked what kind of reductions the department was likely to look for in the upcoming fiscal year.

Commissioner Davidson replied that DHSS had been asked to cut 5 percent from its budget. She did not have further detail at present.

Commissioner Davidson made clarifying comments related to Medicaid reform. She relayed that the state was early in the process related to the reform and was committed to implementing reform responsibly. She detailed that the administration wanted to be sure to explore opportunities other states were looking at. The administration was open to ideas that would allow services to be provided more efficiently and that would act as a safety net for the state's most vulnerable population. She relayed that Dr. Butler would begin chairing the Alaska Health Care Commission. She shared that she had been a member on the commission for many years. She underscored that the entity had been tasked by the legislature to develop a healthcare policy and plan for the state. She had been frustrated in the past that the commission had been told that it could not talk about the federal Affordable Care Act or Medicaid expansion. She believed that ignoring the largest change that had happened in healthcare law was not the best way to

look at developing a sound and prudent health plan for Alaska. She noted that looking at the items did not mean the state would be required to adopt all of changes. She believed it was important to have the ability to have conversations out in the open.

Vice-Chair Saddler remarked that the ball was in the department's court. He relayed that the first subcommittee meeting would be at 9:00 am on January 28. He passed the gavel to Co-Chair Neuman.

Co-Chair Neuman lauded the department for its hard workers. He discussed the schedule for the following day.

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ADJOURNMENT

3:36:55 PM

The meeting was adjourned at 3:36 p.m.