

HOUSE FINANCE COMMITTEE
FOURTH SPECIAL SESSION
November 9, 2017
1:05 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:05 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Les Gara, Vice-Chair
Representative Jason Grenn
Representative David Guttenberg
Representative Scott Kawasaki
Representative Dan Ortiz
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Kelly Cunningham, Analyst, Legislative Finance Division; Representative Paul Seaton, Presenter; Representative Louise Stutes; Representative Sam Kito III; Representative Geran Tarr; Representative Dan Saddler.

SUMMARY

PRESENTATION: ALASKA'S FISCAL FUTURE BY DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION

PRESENTATION: POTENTIAL SAVING FROM REDUCING HEALTHCARE INFLATION BY REPRESENTATIVE PAUL SEATON

Co-Chair Foster reviewed the meeting agenda.

^PRESENTATION: ALASKA'S FISCAL FUTURE BY DAVID TEAL,
DIRECTOR, LEGISLATIVE FINANCE DIVISION

1:06:39 PM

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced his PowerPoint Presentation: "Alaska's Fiscal Future" (copy on file). He indicated that the model he was presenting was not strictly related to SB 26 which was not on the [special session] call. He clarified that it would demonstrate the impacts of the legislation on the call. The model was designed to indicate the amount needed in tax revenue.

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Mr. Teal began with slide 2: "What has changed since last year?":

A lot has changed since you saw the fiscal model near the end of last session,

1. DOR updated the revenue forecast (beginning of special session),
2. Followed soon after by OMB's update of its 10-year expenditure plan, and
3. Last week, the Permanent Fund released their revised its earnings projections.

Since revenue, expenditures and earnings are three major drivers in the fiscal model, you may wonder how the revisions affect the projections.

Because it doesn't do much good to look at projections unless you know what you want the output to show, I want to spend a moment discussing what to look for in any scenario. Essentially, that is just a way of asking what conditions make a plan a success.

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Mr. Teal discussed slide 3: "Defining Success (Governor's Goals)."

Defining success is an individual choice, but it is useful to review the Governor's goals:

1. Deficits don't have to be eliminated immediately, but they must fade away before the projection period ends
2. No unplanned draws from the ERA (another way of saying the CBR [Constitutional Budget Reserve] is not depleted, since we assume that deficits are filled from the ERA when the CBR is depleted)
3. PF stays ahead of inflation
4. PFDs of at least \$1,000

Setting individual goals will help determine whether a plan works and, more importantly, indicate how a plan can be modified to make it work better.

Co-Chair Foster relayed that Representative Louise Stutes had joined the meeting.

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Representative Thompson spoke to bullet 3 (slide 3) and noted that the legislature had not inflation-proofed the corpus of the Permanent Fund (PF) for two years and was now considering putting only 25 percent rather than 50 percent of royalties into the corpus of the account. He wondered what Mr. Teal's thoughts were regarding the approach.

Mr. Teal agreed and stated that inflation-proofing was defined as moving money from the earnings reserve account (ERA) into the corpus. For some people that was important, as the corpus could not be spent and therefore its value was protected. Others believed that it was not recommended to move money to an account where it became untouchable. He believed it was not a clear case. He opined that the PF should be inflation-proofed to some degree. Whether or not all the money needed to be placed in the corpus was another question.

Mr. Teal continued to slide 4: "Fiscal Model Output: Comparing Revenue and Expenditures in FY 18 and FY 19 Versions." He read from prepared notes:

Revenue is from the DOR October 2017 forecast,

1. and is generally slightly lower than the 4 percent decline scenario we used last year.

a. Listened to discussion in SFC and elsewhere and concluded that several legislators believe the fall forecast shows an increase in revenue.

b. That is true; the DOR presentation to this committee on October 30 showed a cumulative increase of nearly \$1 billion in revenue from FY 19 thru FY 27 (compared to the 4 percent decline scenario)

i. But nearly half of that gain was in FY 27, which was not in the projection period of last year's model.

ii. The FY 19 thru FY 26 revenue gain in DOR's slide was \$529 million.

iii. but the DOR spring forecast *excluded* about \$65 million annually from insurance premium taxes. DOR corrected that in the fall forecast. \$65 million times 8 years is \$520 million. i.e.: the gain in the revenue forecast is attributable to a technical correction, not to an increase in oil revenue.

iv. The model included the premium revenue last year (and continues to show it).

2. Bottom line: the model-to-model cumulative *decrease* from the spring forecast is about \$54 million. That amount is only about \$7 million annually, which isn't going to be visible in the model.

3. Note the change in revenue: down in early years, and then switches to positives in the out years.

Expenditures

1. Slide 4 also shows that projected expenditures are up a cumulative \$934 million from the spring model run.
2. Revenue and Expenditures combine to make up the deficit; you can see how the deficit increased by nearly \$1 billion between model versions. More in early years, less as tax credits are paid off. (note that positive numbers indicate a larger deficit)
3. The conclusion is that the fiscal situation has deteriorated under the new revenue forecast and spending plan. Although the situation makes it more difficult to meet fiscal goals than it was last year, the change is not large enough to affect policy direction. Many people comparing model output from last year to this year would not notice a difference in the graphs.

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Mr. Teal continued, stating that the third revision involved PF Earnings:

Commissioner Fisher explained to you that Callan [investment advisors to the state] had recommended that the PF use a lower rate of return than the 6.95 percent used last year. We since received the Sept 30 projections from the PF, which uses an anticipated return of 6.5 percent. As with the DOR revenue forecast and the OMB spending plan, the model uses the PF earnings projection as the base case.

You may be tempted to overstate the impact of this change--0.5 percent on \$60 billion means reduced earnings of \$300 million. But FY 17 was a very good year for the PF and the model now incorporates the higher fund balances that resulted from those strong returns.

Beginning with a balance of \$52.8 billion at the end of FY 16, a 6.95 percent rate of return less dividends would have left a FY17 balance of \$55.6 billion.

However, the reported balance at the end of FY 17 is \$59.8 [billion], an increase of \$4.2 billion over the expected amount. A 6.5 percent return on that extra balance generates \$270 million. So earnings are down \$30 million annually rather than \$300 million.

And remember, the rate of return affects the balance—and the payout—in the long term, but the payout is 5 percent of the balance, and is a moving average that takes a while to phase in. The updated model shows payouts to government that are identical in FY 19, grow to be \$26 million higher in FY 23, then begin to fade and go negative after FY 26 as the effect of the reduced earnings rate overpowers the effect of the higher beginning balance.

So, the impact of the changes in PF projections is very small during the projection period. It is up a cumulative \$116 million, which effectively offsets the \$54 million decline in revenue.

The biggest impact of the lower projected earnings rate is that it is more difficult for the PF to keep pace with inflation if you choose a 5 percent payout rate. That may or may not be one of the goals you set for yourself.

Co-Chair Foster acknowledged Representative Sam Kito III in the audience^{[BW1][DP2]}.

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Representative Ortiz asked about the downgrade from 6.9 percent to 6.5 percent and whether it reflected a considerable correction in the market.

Mr. Teal responded that Alaska Permanent Fund Corporation (APFC) was not setting variable rates. The corporation was saying that the balance would average out to a steady 6.5 percent average, or half a point lower than the previous year's projections.

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Representative Wilson asked if the fact that assets had been liquified would mean that companies would see a percentage drop since they had not invested.

Mr. Teal responded that if it were not invested, those companies would not earn the 6.5 percent. It was complicated. He mentioned an article by Brad Keithley [Oil and Gas consultant and journalist] which talked about the increase in statutory earnings. He agreed that if money is pulled out of the market to make payouts, then there would be a lower return. Angela Rodell [CEO, Alaska Permanent Fund Corporation] had testified before the committee that APFC could handle the payout without any reduction in return.

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Representative Wilson remembered asking the question to APFC when they had appeared before the committee. She expressed concern about the draw and whether the drop in percentage would have occurred had the money not been withdrawn or whether it was due to a change in the market.

Mr. Teal replied that Callan's response had to do with a 10-year expectation. He suggested that it did not have much to do with the potential double draw of the previous year.

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Co-Chair Seaton thought an explanation of the article by Mr. Keithley would be helpful. He asked Mr. Teal to explain it briefly.

Mr. Teal replied that the article reported that statutory net earnings were up by a \$1.5 billion in the current year and would be up in future years. He noted that there was some confusion as to why revenue would be much higher if the earnings rate were reduced. He explained that Mr. Keithley was examining statutory net earnings which are an accounting construct and regarded only the realized earnings and not the total earnings. The large gain was due to the APFC's sale of investments in anticipation of the double draw. Although the double draw did not occur, the markets were up and the sale produced gains, which appeared as realized earnings.

Mr. Teal clarified that realized earnings were only important when considering the statutory formula for paying dividends. Fifty percent of statutory net earnings go to dividends. The formula would say that dividends were going

up, which would be true but in a percent of market value (POMV) payout with a split going towards dividends, statutory earnings are no longer relevant. It would mean dividends did not go up. He remarked that there was discussion of the state being able to afford higher dividends, but this did not take into account the sizeable deficit in the state treasury. The largest impact of the PF expected earnings reduction was its ability to keep pace with inflation. He illustrated that 6.5 percent minus 2.25 percent, which is the rate of inflation, gave real earning of 4.25 percent. There was a current payout of 4.7 percent, which meant that the state was trying to pay out 4.7 percent when the state was only earning 4.25 percent, making it difficult to keep ahead of inflation.

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Mr. Teal explained slide 5: "No POMV Payout":

Shows a "no POMV payout" scenario. Can also refer to the scenario as "status quo" or "no plan". Whatever you choose to call it, it is worth spending a few minutes explaining some underlying assumptions:

1. Expenditures

- a. OMB Expenditure Plan is reflected in the lines in upper left graph (with w/o dividends).
- b. The FY 19 holes are already built into the OMB plan, so no correction is necessary.
- c. The model adds \$50 million per year for supplementals, which are excluded from the OMB plan.
- d. The plan is aimed at maintaining the FY18 level of service, so
 - i. agency operations grow with inflation, assumed to be 2.25 percent annually, and
 - ii. debt, retirement, and other statewide items are based on best available information, including a \$35 million reduction in retirement assistance for FY 19.

- e. Note growth--dotted line (w/o dividends) goes from \$4.4 billion to \$5.6 billion
- f. Capital was steady at \$180 million last year, now starts at \$225 million plus inflation
- g. O&G credits are up about \$100 million per year in early years, but are gone after FY 25--see the slight dip
- h. Cumulative increase in expenditures from prior model is over \$900 million (thru FY 26) or about \$120 million per year

Revenue numbers are straight from the DOR October forecast, and the PF projections--both the rate of 6.5 percent and the increased balance--are also reflected in the base scenario. As you know, you can change expenditure growth and many other assumptions if you choose to do so.

The no payout scenario shows results very similar to those of last year:

1. CBR depleted in FY 19
2. Continued deficits, often in excess of \$3 billion annually
3. We assume that deficits are filled with unplanned draws from the ERA,
4. Unplanned draws deplete the ERA
5. high dividends and unplanned draws of \$2.8 billion to \$3 billion reduce the value of the PF--not just real value, PF as a whole shows a declining balance (of course, all ERA)
6. The important point here is: When the ERA is gone (about ten years from now), dividends and/or government no longer get the money they were accustomed to.

Co-Chair Foster acknowledged Representative Geran Tarr in the audience.

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Co-Chair Seaton spoke to goals. He wanted to ensure that the system worked in a real-world scenario, and asked Mr. Teal to apply a stress test to the model.

Mr. Teal replied that it was not exactly a stress test. He relayed that 2008 and 2009 had been bad years for investors. He explained that when running models, the most recent ten years of earnings could be used which allowed for some volatility in the earnings. Due to the two bad years of 2008 and 2009, the ERA would come close to vanishing. He continued that no ERA meant no payout and no dividend. He surmised some who would say a dividend payout must occur and that begged the question of how the state would fund government without a CBR or an ERA, meaning the state would be forced to take huge cuts in a fiscal year. In a no-POMV payout scenario, [He pointed to the lower left-hand corner of the chart where it read "Continued deficits"] the CBR would be depleted in FY 19, and there would be continued deficits from \$2.7 billion to \$2.8 billion reaching \$3 billion annually, leading to unplanned ERA draws. Mr. Teal pointed to red bars in the slide and indicated that the state would continue to pay statutory dividends. High dividends combined with unstructured draws cause the actual balance of the PFD to decline. His comments pertained only to the ERA, as the value of the corpus cannot decline. The ERA would lose not just real value [adjusted for inflation] but actual value.

Co-Chair Foster recognized Representative Dan Saddler in the audience.

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Mr. Teal emphasized that when the ERA was gone - around 2028 - then the dividends and/or government would no longer get the money they were accustomed to getting. He addressed slide 6: "POMV Payout":

Slide 6 shows a projection under the Senate version of SB26--planned payout of 5.25 percent in FY 19 and FY 20, and 5 percent thereafter, with 25 percent of the payout going to dividends. I want to avoid calling the scenario the Senate plan--it uses the new OMB 10-year expenditure plan instead of reflecting the Senate's intended spending path.

1. Deficits are filled by FY 27 (Goal 1 met)

2. Although the life of the CBR is extended, it is depleted by FY 23
3. So we have some unplanned draws from the ERA (Goal 2 not met)
4. PF does not keep pace with inflation—no surprise, if inflation takes away 2.25 points of your 6.5 percent earnings, the real return is about 4.25 percent. A 5 percent nominal payout (4.7 percent effective payout) is not sustainable. (Goal 3 not met)
5. PFDs are \$1000 and growing with payout (Goal 4 met)

I am not saying the Senate plan fails to work. Although this output shows unplanned draws from the ERA and a PF that fails to keep pace with inflation, remember that this is not the Senate plan; it is simply the Senate version of SB26. The revenue limit is disabled—it restricts the payout even when there is a deficit, which simply replaces planned draws with unplanned draws. That doesn't make any sense.

Note that the ERA grows despite the unplanned draws and that the unplanned draws end as deficits begin to shrink (and turn into a surplus in FY 27). That indicates that the scenario is close to meeting all four goals. For example, reducing expenditure growth to half the rate of inflation produces a scenario that meets all four of the Governor's goals.

That is the end of the slide deck. Altogether, the three updates make it more difficult to find a solution to our fiscal problem:

1. Revenue is down
2. Expenditures are up
3. PF Earnings are down (but that does not translate to lower payouts for dividends and government during the projection period thanks to a higher starting balance).

A tougher situation is not good news, but I think you can see that updates to the three primary drivers have not changed the story the model tells.

That statement applies to the House and Governor's proposals as well. Higher expenditures—including dividends—in the House proposal require about \$700 million in additional revenue to meet all four goals.

The Governor's new proposal—may want to call it the compromise proposal to differentiate from the Governor's original bill—occupies the middle ground: it uses the same expenditure plan (OMB) and dividends as the Senate version of SB26 (so about \$400 million per year lower expenditures than the House), and uses an employment tax that generates about \$320 million annually to meet the goals.

There may be some disagreement on the assumptions used to generate scenarios, but the mechanics of the model are sound. That said, the model does not persuade people to address the fiscal issue from the revenue side or the expenditures side. It is not intended to do that. Choosing a fiscal path for Alaska is not a merely a calculation issue; it is a highly charged philosophical debate.

From our perspective, there are several competing views on what is right for Alaska. All parties are trying to put Alaska on the right fiscal path; they just disagree on what that path looks like. The differences may not be easy to resolve, but there is a common denominator in all three plans. It is virtually impossible to meet the four goals without using earnings of the PF. Unfortunately, we have now reached the point that a sustainable POMV payout is not sufficient to fill projected deficits without increasing revenue or constraining expenditures.

You are not here to discuss SB26, but the model is ready to help you evaluate the need for, and the impact of, changes to policy or assumptions. Although that often works better in small informal groups, I have the model here and we can run through any changes you wish to see.

Potential scenarios:

1. SB26 at half inflation (311,477)
2. House (House26, OMB+125, HB115) (254, 364)
3. Compromise (SB26 at OMB, with tax (257, 369)

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Co-Chair Seaton referenced a plan that would take half the inflation rate. The scenario meant that every agency would need to make a 1.25 percent cut in services it provided

each year. Every agency would have to cut to make up for inflation. He asked for confirmation.

Mr. Teal replied that it was correct but worse than what he had described. It would be true if everything increased at the rate of inflation. He relayed that when there were Medicaid costs and other healthcare costs increasing, the money that would otherwise go to agencies would be absorbed. He emphasized that as healthcare costs grew, less headroom would be available for agencies. The agencies would not get money at half the rate of inflation but might end up with reductions. The attempt was to bend the expenditure curve downward. Medicaid was a program that ate a large portion of the budget. He thought it would be interesting to look at other healthcare costs, such as municipal employees, state employees, retirees, and school districts. He reported that the Legislative Finance Division (LFD) decided to look at how fast healthcare costs were increasing. He emphasized that the presentation to follow was not proposing a way to reduce healthcare costs, but to look at the growth in them and how important it would be to focus on reducing them.

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Representative Ortiz remarked that the capital budget scenarios were embedded in the current model. He asked for an explanation.

Mr. Teal answered that it was, starting at \$225 million in [FY]19 and growing at 2.5 percent annually from there.

Representative Kawasaki spoke to the capital budget and deferred maintenance. He remarked that during the recent 20-year lookback it had emerged that in the previous 20 years the state had been unable to confront the issue of deferred maintenance. He stated they were talking about having a capital budget that was the smallest it had been in decades. He asked whether Mr. Teal agreed that the budget gap was understated.

Mr. Teal answered that deferred maintenance was a huge problem facing the state that was not going away. He stated addressing it required a long-term approach - it would not be fixed in 5 years to 10 years. He thought it would take \$100 million to \$200 million per year to make a dent in the deferred maintenance backlog. He continued that the problem

was one body was looking at constraining expenditures, whereas the House plan effectively said that it did not like that vision of the future and preferred higher dividends. The difference between the House and Senate versions was about \$175 million per year. Adding another \$125 million to the capital budget equated to an additional \$400 million in expenditures. In order to afford that additional \$400 million in expenditures, additional revenue was required. The solution needed to be additional taxes; it was the House plan and it worked. The surpluses would mean that by the end of the period the PFD kept pace with inflation and there would be no unplanned draws. The governor's plan also worked and used the OMB expenditure plan including the capital budget and would fill the missing \$300 million with employment taxes. He concluded that the problem was that there were multiple paths to success.

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Representative Kawasaki stated his concern was the existing deferred maintenance. There had been capital budgets that had averaged \$500 to \$600 million General Fund and as much as \$2 billion to catch up with things that had been left to deteriorate. He underlined that a capital budget of \$220 million which encumbers the federal match was only "duct tape repair". He expressed concern that the fiscal gap was being greatly understated.

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KELLY CUNNINGHAM, ANALYST, LEGISLATIVE FINANCE DIVISION, shared that LFD had been looking at the increase of employer healthcare contributions for AlaskaCare and GGU [General Government Unit]. She addressed graph 1 titled "Annual Health Insurance Employer Contribution Rates per Employee" dated November 9, 2017 (copy on file). She outlined that four groups had been examined among active employees: active employees whose health insurance is paid for with UGF such as AlaskaCare, University of Alaska, GGU, and the Hay Group study from FY 12 along with studies from the healthcare authority were extrapolated out for school districts.

Representative Guttenberg asked if the division had compared the actual benefits in the programs to determine how comparable the programs were.

Ms. Cunningham replied that they had only looked at what the employer contributions were paying and not what the employee premiums were and did not factor in the plans. What was shown was strictly what was coming out of the treasury.

Representative Guttenberg suggested that the growth rate of all benefits was different. He wondered if an analysis had been done on what the plans included and their respective growth rates. He spoke about individual choices of where to focus the money or benefit.

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Mr. Teal answered that an analysis had partially been done. The healthcare study talked about whether the premium was worth what participants received. The state healthcare plans were what one would expect; higher premiums meant a better plan. He added there were more than 100 healthcare plans for state employees. The school districts' plans were unrelated - some had low premiums and good benefits and others had higher premiums without comparable benefits. He believed the administration would come forward with something in this area. He relayed that LFD had not been looking at the premium versus benefit or at the employee portion. He pointed to graph 1 and noted that the University's growth rate was substantially lower because it shared costs with employees, who paid 18 percent of their premiums. It seemed to work out that when sharing costs with employees, the employees spent less as they were sharing the co-pay. Mr. Teal suggested that if the total expenditure curve were to be made to bend downward, healthcare was an area to do so in. He clarified that the graph was not offering solutions, only demonstrating the need to slow the expenditures.

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Representative Kawasaki mentioned having talked about lowering healthcare costs for ten years and having a wellness plan without much effect. He wondered about the growth curve of private health insurance.

Ms. Cunningham responded that she believed the premiums had gone up 7 percent since the previous year.

Mr. Teal interjected that it was a complicated circumstance. There were federal subsidies of health insurance. He furthered that LFD had not looked at the growth in the private sector healthcare costs but at Medicaid and had been surprised to discover that the growth rate for healthcare costs for employees was 50 percent higher than the growth rate for Medicaid. He concluded that it was cheaper to have employees on Medicaid than on state insurance.

Representative Kawasaki asked if state retirees were included in the red line [on graph 1] showing AlaskaCare.

Ms. Cunningham responded in the negative. The graph only reflected active employees.

Representative Kawasaki asked what private employers were paying and whether their rates were also increasing.

Ms. Cunningham responded that she did not have the answer but would provide the information later.

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Representative Wilson asked whether the green line [University] in the graph was only lower because the employer paid less than the employee.

Ms. Cunningham responded affirmatively but added that the University had simply contained costs better in the preceding ten years. She added that they had started higher and had been covering 85 percent of healthcare costs and were currently covering 82 percent. The University had a tiered system so that employees could enroll or opt out, and spouses and dependents were not necessarily included, making the plan more complicated. Other state plans covered entire families and were managed differently.

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Representative Wilson remarked that Medicaid capped what a provider received but was fairly certain the state did not do so with state insurance. She asked whether this was part of the discrepancy.

Mr. Teal responded that it was certainly an issue. He stated that the state coverage was not without restrictions

but applied what was "usual and customary." The employee would be billed, and the state would not be paying more than what was "usual and customary" rates, which were still approximately three times the allowable amount with Medicaid.

Representative Wilson asked whether the state could not make the same type of agreement with providers since it was self-insured.

Mr. Teal responded that Representative Wilson's statement mirrored what the studies on healthcare had concluded. One study found that about \$60 million per year could be saved in the retiree healthcare drug program alone. Under that plan, retirees would receive the same benefits, the federal receipts would cover the amount, and the state would not be forced to use general funds. Another recommendation was to form a healthcare authority. The plan involved a large group instead of the more than 100 plans currently in place, to allow for more negotiating power. His intent was to say that healthcare costs were increasing beyond the pace of inflation. He suggested finding out what the University was doing would be helpful. He thought there would be a tremendous administrative savings in the multimillions.

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Representative Wilson hoped the University would assist. She spoke of a time when people flew to Seattle, shopped, stayed in a nice hotel, received treatment and still saved money. She suggested that if someone could have surgery in Seattle for \$1,000 compared to \$4,000 in Alaska, someone would be paying for it. She thought it was time for the legislature to take some sort of action. She surmised a healthcare authority could aid in establishing a cap on spending.

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Representative Guttenberg thought there were two ways to reduce costs in the current system. The first was to reduce benefits and the other was to transfer the cost to someone else, such as the example of the university healthcare system described previously. The state had an 80-percentile rule, in which it paid 80 percent of what was "usual and customary." He underlined that there was no accountability

as to how the full amount was billed, and each clinic could charge what it wanted. He noted that the prescription drug managers, which had started out as a good cause, was turning into a profit center. It came down to who the premium was paid to, and everyone along the billing path was taking a cut. The state would become the processor of the paperwork. It was much more complicated than in the chart. He suggested getting control of medical costs. He noted that fewer people had medical insurance and costs were going up. He thought all the committee was talking about was how much the state paid for rather than quality of care.

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Representative Kawasaki referred to graph 1. He asked about negotiations.

Ms. Cunningham stated that the University did not negotiate.

Representative Kawasaki asked about the other groups and whether they did negotiate.

Ms. Cunningham indicated that most of the groups, including AlaskaCare, had said costs should remain flat but had not received information from the GGU. She expected it to come down a little bit.

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Ms. Cunningham moved to slide 2 of her handout. She thought the slide was self-explanatory.

Mr. Teal noted that the state was now spending about \$400 million per year on healthcare costs. The costs would go from \$400 million to \$600 million over the subsequent six years if current trends continued. He reiterated that LFD was not proposing a solution. He noted that it was not a special session topic; however, in the model, if the expenditures could be reduced, the deficit would be reduced, as did the need for taxes. If the deficit could be reduced it would reduce the need for a tax.

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Co-Chair Seaton appreciated the discussion. He noted that in one of the models showed a 2.25 percent inflation rate and asked whether it was reasonable to provide the 2018 level of services. He thought it did not.

Mr. Teal thought the Co-Chair's remark was a good transition to Co-Chair Seaton's presentation.

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RECONVENED

^PRESENTATION: POTENTIAL SAVING FROM REDUCING HEALTHCARE INFLATION BY REPRESENTATIVE PAUL SEATON

[2:39:39 PM](#)

REPRESENTATIVE PAUL SEATON, PRESENTER, introduced the PowerPoint Presentation: "Potential Savings from Reducing Healthcare Inflation" (copy on file). He explained that the presentation was looking at avoidable future costs the state would incur if it did not take certain preventative measures. He reminded the committee of SB 74 [29th Legislative Session] calling for a healthcare authority study. In August 2017, Foster and Associates [Mark A. Foster & Associates (MAFA)] included the following in the study:

"Alaska public employee health plan annual inflation 8 percent to 12 percent 2014 - 2016 continues to exceed U.S. growth rate of 5 percent to 6 percent 2014-2016."

Co-Chair Seaton continued that the healthcare inflation would absorb all the money from a 2.25 inflation adjustment to the state's future budgets. He reported that the Alaska Retirement Management Board (ARMB) 8.8 percent was applied to the FY 17 pre-Medicare [medical claims cost to get the FY 17 medical claims cost] (source: PERS Actuarial Valuation as of June 30, 2016, excerpt on file). He noted that the number was slightly different from the LFD figure because it had focused on the portion paid by the State of Alaska. He remarked that the projection included deflation (e.g. FY 51 showed the number at 4.4 percent). He explained that a similar situation had occurred in FY 04 pertaining to the state retirement system. The actuary had projected

growth of 5.25 percent, with a decline to 2 percent after FY 06 going forward. He detailed that the growth of 5 percent had not been sustainable because at a certain point it would consume the entire budget. In recent years there had been growth of approximately 8 percent, which was consuming the budget; the state had not been able to control the growth. The goal of the current presentation was to consider ways to avoid some of the costs by changing the inflation.

Co-Chair Seaton referenced slide 1 of the presentation showing an epidemiology bulletin from November 2016 related to ricketts and healthcare in Alaska.

[BW5] [2:44:18 PM](#)

Representative Wilson noted that the Healthcare Authority spoke about more power with larger groups. She asked whether creating that group, such a school districts, would involve writing statute.

Co-Chair Seaton responded that the Healthcare Authority made a lot of sense. However, combining the entities would need to involve leaving Medicaid out of it. He did not recommend combining Medicaid. He thought there would be a significant amount of benefits, but it would have to become part of the statute. He thought offering incentives to school districts and other entities was a better approach. If they did not choose a uniformed plan, the entities could pay more. He was concerned that the legislature may not have a mandate to require adherence to a plan.

[2:47:07 PM](#)

Representative Wilson asked if there was a formula where the state contributed a given amount per person for school districts or unions. She wondered if it was a contractual arrangement. She wondered if the costs dramatically exceeded those paid by other states.

Co-Chair Seaton replied that the individual school districts and the other entities made those arrangements, whether through negotiations or other systems. He was not aware of any formula. He indicated that within a school district there was something like a silver, gold, and platinum plan. The legislature would have to look at something that would gain the required efficiencies.

Representative Wilson noted that she hoped the state could afford future costs. She pointed to school districts which were given a grant. She thought most grant money went to teachers and supplies.

[2:49:46 PM](#)

Co-Chair Seaton turned to slide 2: "Blood Levels of Marine Foods Marker and Vitamin D in Prenatal Alaska Native Women." He pointed to the top of the slide that showed the high markers for traditional foods such as marine mammals and fish. The chart below in the 1960s and 1970s the vitamin D blood levels were between 40 and 65 in the Native population pre-childbirth. By the 1980s, changing the diet lead to vitamin D levels becoming very depressed. Rickets rates appeared at 4 to 5 times the national average. He spoke of the skin exposure to the sun and 90 percent of vitamin D being absorbed. He brought the issue up to show that it was a problem in Alaska, the only Arctic state.

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Co-Chair Seaton advanced to slide 3: "Potential Future Cost Savings for Alaska"

Estimated Health Care Cost Savings for Canada of Raising Vitamin D levels above 40 ng/ml:

\$12.5 billion or \$344 per person year

Alaska Population: 741,800

Alaska Potential Cost Savings \$255,179,200

Data source: Estimated economic benefit of increasing 25-hydroxyvitamin D concentrations of Canadians to or above 100 nmol/L. Grant et al. Journal of Dermato-Endocrinology. 2016

Representative Ortiz asked why the costs in Canada were half those of Alaska.

Co-Chair Seaton responded that Canada had a national healthcare system. He noted that primary care was much more available than in Alaska. Canada focused on primary care.

Representative Ortiz asked if primary care was another term for preventative care.

Co-Chair Seaton replied that with a national healthcare system it was easier to get a standard of care.

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Co-Chair Seaton discussed slide 4: "Major Healthcare Cost Drivers." He noted that there was a new study, not included in member packets.

- 57 percent of total healthcare expenditures in North America in 2010 was diabetes-related
- Diabetes cost estimated to grow 34 percent between 2010 and 2030
- A meta-analysis review of 24 randomized control trials showed that vitamin D supplementation can significantly improve glycemic control
- A minimum 4000 IU/daily dose to bring vitamin D levels to >40 ng/ml was recommended to improve glycemic measures in type 2 diabetic patients

[Source] The Effect of Improved Serum 25-Hydroxyvitamin D Status on Glycemic Control in Diabetic Patients: A Meta-Analysis. Mirhosseini et al. Journal of Clinical Endocrinology & Metabolism. September 2017

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Co-Chair Seaton scrolled to the next study which confirmed the benefits of Vitamin D on slide 5: "Type 2 Diabetes Incidence in GrassrootsHealth (N=4,933) and NHANES (N=4,078) Cohorts." The study compared to National Health and Nutrition Examination Survey (NHANES) studies conducted every three years, which included about 4,000 people. The NHANES study showed a vitamin D level of 22 ng/ml and that approximately 9.3 out of 1,000 individuals got diabetes. The GrassrootsHealth study aimed at increasing vitamin D levels to 41 ng/ml. He pointed to a 2.0 unadjusted amount on the left of the graph, which represented the actual number of individuals who had been diagnosed with diabetes. Studies adjusted for "cofounders" such as smoking or a higher body mass index (associated with type 2 diabetes). After adjusting for the cofounders there was a 60 percent reduction in the new cases of type 2 diabetes due to increasing the vitamin D level above 40 ng/ml. He reminded the committee that 57 percent of the total healthcare spending in North America was related to diabetes.

Co-Chair Seaton reviewed the study on slide 6: "Health Care Cost Avoidance - Example: Reduction in Opioid Use." He indicated that when people came in for palliative care they had less than six months to live and were given whatever they needed to relieve pain. He reported that a couple of years back the study had considered a correlation with opioid use. The study had found that people with higher vitamin D levels used less opioids. He provided details on the study. He discussed the negative repercussions of opioid abuse on quality of life.

Co-Chair Seaton clarified he was bringing up the issue because opioid abuse was driving much of the medical, correctional, and other costs in Alaska. He referenced the lack in ways to address opioid addiction. He shared that an additional study would begin shortly and would take two years to complete. He was supportive of educating the public that there may be something they could do on their own to combat opioid consumption. He referenced a handout showing six recent studies [on vitamin D and pain relief] (copy on file). He noted that the last study had to do with chronic back pain. He gave additional detail on the study showing that individuals with chronic back pain had experienced significant decreases in pain when taking vitamin D. He noted that low back pain was a primary disability impacting the workforce.

Co-Chair Seaton moved to slide 7: "What do we know about Vitamin D?":

- D3 is more effective than D2
- Daily is better than weekly or monthly
- Monthly, quarterly, or annually is generally ineffective
- Studies suggest 40 - 60 ng/ml is where disease risk reduction occurs
- Over-the-counter supplements available for less than \$16 per person a year

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Representative Guttenberg thought that after age 55 people were advised to take low-dose aspirin which is covered under healthcare insurance. He asked if vitamin D was covered in a similar manner.

Co-Chair Seaton reported that the Native health system covered vitamin D testing and that the state of Alaska has agreed to pay the cost of testing for vitamin D.

Representative Guttenberg asked whether the vitamin D itself was covered.

Co-Chair Seaton replied that he had just been at a box store that sold vitamin D in 5000IU for a year's supply for \$16.49. He noted that health fairs offered the vitamin D for free. Doctor offices did not supply the vitamin for free.

[3:10:09 PM](#)

Representative Thompson had been talking with a state employee and had found out that their vitamin D was extremely low. They had been issued a prescription by their physician and it had been covered through state insurance.

Representative Seaton posed the question of how to get Alaska to work towards the goal of taking something that would contribute to avoiding costs. He wanted to see Alaskans return to getting vitamins through diet. He recounted his upbringing in southern California when children were sent outside to make sure to get in the sun and play outside. He mentioned campaigns that had led to a rise in consumption of folic acid in pregnant women.

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Representative Wilson asked if it was possible for a representative of Medicaid to present a spreadsheet to have a better understanding why things were so different from the current state insurance system. She asked if anyone knew whether the state received its Medicaid certification of compliance with the federal government. She expressed concern that the state may be in violation.

Co-Chair Seaton thought there had been testimony that the report would be ready at the end of the year. He added that once that was completed the 75 percent reimbursement rate for administration would recommence once certification was complete.

Representative Kawasaki confirmed that he had heard from the Legislative Budget and Audit Committee and confirmed that the report would be coming out in December. He asked if there was a way to distribute vitamin D on a voluntary basis to state-owned facilities such as pioneer homes and jails.

[3:20:17 PM](#)

Co-Chair Seaton responded DOC was currently administering vitamin D to seniors and inmates on a voluntary basis. There was a study that showed that there was a drop in frequency of bone breakage.

Representative Kawasaki thought the state could provide vitamin D to inmates on a voluntary basis.

Co-Chair Seaton answered in the affirmative.

Co-Chair Foster reviewed the meeting calendar.

ADJOURNMENT

[3:25:42 PM](#)

The meeting was adjourned at 3:25 p.m.