

**ALASKA STATE LEGISLATURE  
HOUSE STATE AFFAIRS STANDING COMMITTEE**

January 26, 2017

3:04 p.m.

**MEMBERS PRESENT**

Representative Jonathan Kreiss-Tomkins, Chair  
Representative Gabrielle LeDoux, Vice Chair  
Representative Chris Tuck  
Representative Adam Wool  
Representative Chris Birch  
Representative DeLena Johnson  
Representative Gary Knopp

**MEMBERS ABSENT**

Representative Andy Josephson (alternate)

**COMMITTEE CALENDAR**

HOUSE BILL NO. 16

"An Act relating to training regarding disabilities for police officers, probation officers, parole officers, correctional officers, and village public safety officers; relating to guidelines for drivers when encountering or being stopped by a peace officer; relating to driver's license examinations; and relating to a voluntary disability designation on a state identification card and a driver's license."

- MOVED HB 16 OUT OF COMMITTEE

OVERVIEW: DEPARTMENT OF ADMINISTRATION

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 16

SHORT TITLE: DRIV. LICENSE REQ;DISABILITY:ID &TRAINING

SPONSOR(S): REPRESENTATIVE(S) THOMPSON

01/18/17	(H)	PREFILE RELEASED 1/9/17
01/18/17	(H)	READ THE FIRST TIME - REFERRALS
01/18/17	(H)	STA, FIN
01/24/17	(H)	STA AT 3:00 PM GRUENBERG 120
01/24/17	(H)	Heard & Held

01/24/17 (H) MINUTE(STA)  
01/26/17 (H) STA AT 3:00 PM GRUENBERG 120

**WITNESS REGISTER**

REPRESENTATIVE STEVE THOMPSON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions on HB 16, as prime sponsor.

SHELDON FISHER, Commissioner  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Co-provided an overview of the Department of Administration (DOA).

KEVIN BROOKS, Director  
Division of Shared Services (DSS)  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Co-provided an overview of the Department of Administration (DOA).

EMILY RICCI, Chief Health Policy Administrator  
Division of Retirement and Benefits (DRB)  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Co-provided an overview of the Department of Administration (DOA).

**ACTION NARRATIVE**

[3:04:17 PM](#)

**CHAIR JONATHAN KREISS-TOMKINS** called the House State Affairs Standing Committee meeting to order at 3:04 p.m. Representatives LeDoux, Tuck, Wool, Birch, Knopp, and Kreiss-Tomkins were present at the call to order. Representative Johnson arrived as the meeting was in progress.

**HB 16-DRIV. LICENSE REQ;DISABILITY:ID &TRAINING**

[3:05:12 PM](#)

CHAIR KREISS-TOMKINS announced that the first order of business would be HOUSE BILL NO. 16, "An Act relating to training

regarding disabilities for police officers, probation officers, parole officers, correctional officers, and village public safety officers; relating to guidelines for drivers when encountering or being stopped by a peace officer; relating to driver's license examinations; and relating to a voluntary disability designation on a state identification card and a driver's license."

[3:06:46 PM](#)

REPRESENTATIVE JOHNSON, referring back to Representative Knopp's comment at the House State Affairs Standing Committee meeting of 1/24/17, asked if HB 16 should be amended to change the language of AS 18.65.670, subsection (c), to reflect that the Commissioner of Department of Public Safety (DPS) is mandated to adopt regulations regarding training for village public safety officers (VPSO).

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REPRESENTATIVE STEVE THOMPSON, Alaska State Legislature, as prime sponsor of HB 16, responded that he was satisfied that the Alaska Police Standards Council (APSC) has already mandated the training in its regulations.

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REPRESENTATIVE JOHNSON moved to report HB 16 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 16 was reported out of the House State Affairs Standing Committee.

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The committee took an at-ease from 3:08 p.m. to 3:21 p.m.

**OVERVIEW: DEPARTMENT OF ADMINISTRATION**

[3:21:15 PM](#)

CHAIR KREISS-TOMKINS announced that the final order of business was the overview from the Department of Administration.

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SHELDON FISHER, Commissioner, Department of Administration (DOA), provided an overview of the Department of Administration

(DOA) using a PowerPoint presentation, titled "Department of Administration Overview." He referred to Slide 2, titled "Organization," and stated that DOA is responsible for: the state's information technology (IT) services under Enterprise Technology Services (ETS); accounting and payroll systems under the Division of Finance (DOF); purchasing, leasing, and mail services under the Division of General Services (DGS); human resources and labor contracts under the Division of Personnel and Labor Relations (DPLR); benefits for active and retired employees under the Division of Retirement and Benefits (DRB); and property insurance and workers compensation under the Division of Risk Management (DRM). He pointed out that the green colored boxes on the chart indicate services provided to other departments.

MR. FISHER said that external public services are provided through the Division of Motor Vehicles (DMV), the Office of Public Advocacy (OPA), and the Public Defender Agency (PDA). He added that DOA facilitates and administers a number of boards and commissions.

MR. FISHER stated that his primary task is to build and enable a high-functioning organization. He noted the new directors in DOA: Ajay Desai of DRB; Kevin Brooks of the Division of Shared Services (DSS); and Marla Thompson of DMV. He also mentioned the new Chief Information Officer, Bill Vajda.

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MR. FISHER referred to Slide 3, titled "DOS Budget - UGF," and stated that DOA has about \$90 million in general funds (GF), \$30 million [designated general funds] (DGF), and about \$69 million [undesignated general funds] (UGF). He said that the UGF is dominated by OPA and PDA. He mentioned that OPA participates in legal defense when the public defender has a conflict. It also manages the state's public wards - adults who cannot take care of themselves - through public guardians.

[3:27:33 PM](#)

REPRESENTATIVE LEDOUX asked how many people staff OPA.

MR. FISHER responded OPA has 128 employees.

REPRESENTATIVE LEDOUX asked if all or most of the employees are involved with criminal defense.

MR. FISHER answered no, out of the 128 employees, about 32 lawyers provide criminal or appellant defense functions. The balance of employees comprises public guardians, guardians ad litem (for children), and those involved with Child in Need of Aid (CINA) cases.

REPRESENTATIVE LEDOUX opined that when she first started practicing law in Alaska, the state did not have a very "robust" OPA, and most guardian cases were "farmed out" to private counsel. She asked if anyone has compared the cost of using private counsel versus maintaining an OPA.

MR. FISHER conceded that some of the work is still through contract, but DOA has determined that for the criminal defense work, it is cheaper to hire staff lawyers.

REPRESENTATIVE LEDOUX asked if the cost analysis included the cost of benefits, as well.

MR. FISHER said it did. He went on to say OPA is "stretched" considerably, citing that Alaska has one of the highest ward to guardian ratios in the country. He said, on average, a guardian can spend less than two hours a month with a ward but still must take care of all of his/her needs. He added that DOA has tried to minimize cuts to the OPA budget.

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REPRESENTATIVE LEDOUX asked if the primary responsibility of DOA to a ward [of the state] was managing his/her finances.

MR. FISHER responded that it could be managing finances, ensuring adequate housing, or guaranteeing basic needs are met.

REPRESENTATIVE LEDOUX asked if people pay for the guardianships when they have the means.

MR. FISHER answered that there is a fee for this service, which doesn't cover all of the cost, but that OPA is designed to meet the needs of those people who don't have the means to care for themselves.

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REPRESENTATIVE WOOL asked if the 128 employees in OPA are all or mostly all attorneys.

MR. FISHER responded OPA has 32 practicing lawyers, and the other employees are social workers or trained guardians.

REPRESENTATIVE WOOL asked if the Office of Children's Services (OCS) duplicates any of OPA's functions.

MR. FISHER answered that he does not know if OCS also has guardians ad litem. He opined that the primary guardian ad litem function is through DOA, but conceded OCS may have a role, as well.

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REPRESENTATIVE BIRCH asked if the public defender represents those being prosecuted by the district attorney.

MR. FISHER responded yes, the public defender provides criminal defense for indigent defendants.

REPRESENTATIVE WOOL asked how the budgets are determined for prosecution [within the Department of Law (DOL)] and defense [within DOA]. He asked, "How do you decide who gets a bigger budget?"

MR. FISHER answered that although the budgets have evolved historically, DOA tries to manage a budget that allows it to maintain a caseload that satisfies both constitutional and ethical requirements. He added that the budgets are not necessarily comparable, for example, DOL has access to investigators within the police department or Alaska State Troopers (AST), whereas DOA must pay for investigators within its budget. He added that the budgets of both departments have been cut.

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REPRESENTATIVE KNOPP asked about the process of guardianship - if the need for guardianship is determined through the court system and then the guardian is provided by DOA.

MR. FISHER stated his understanding that determining guardianship is only done through the court system.

REPRESENTATIVE KNOPP asked the extent of services provided by DOA to the individual needing guardianship.

MR. FISHER said that typically the individual needing a guardian has some resources. He explained that the guardianship budget does not include rent money. It includes reimbursement of a guardian who helps the individual administer his/her own resources, because that individual is incapable of managing his/her own life.

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MR. FISHER continued with Slide 3 and said that \$16 million of DGF pays DMV's operating costs and comes out of DMV fees. He went on to say that Alaska Oil and Gas Conservation Commission (AOGCC) receives about \$7.5 million in fees from the [oil and gas] industry. These two amounts make up the bulk of DGF. He cited the other UGF-funded functions shown on Slide 3: the State of Alaska Telecommunications System (SATS) and Alaska Land Mobile Radio System (ALMR) - both used by first responders for emergency communications - and the accounting function for the State of Alaska. Most of DOA's budget, which is in excess of \$300 million, comes from fees other agencies pay for DOA services.

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MR. FISHER referred to Slide 4, titled "Department Priorities," and asserted that DOA is focused on trying to improve the way services are delivered both within the department and throughout the state. He explained that DSS consolidates administrative functions that every department needs and historically have been performed within each department, such as accounting, travel, and facilities. He asserted that consolidation of functions will save money. He said that IT services, which are too specialized to combine under DSS, can be streamlined and improved using the "shared services" principles.

MR. FISHER said DOA recognized a need to modernize the DRB systems and processes, which date back to the '90s, and hired Ajay Desai as the director of DBR to lead that effort.

MR. FISHER said health care reform is a big issue both for the State of Alaska and for the state as a whole. DOA is responsible for administering both the active employee plan and the retiree plan, at a cost of over \$600 million.

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REPRESENTATIVE BIRCH asked if the medical plans delegated by the various unions are periodically audited to find out the extent of the accumulated asset base and expenditure.

MR. FISHER responded yes. He replied that as bargaining agreements are negotiated, DOA now insists on receiving detailed information about the medical plans for DOA actuary review. He mentioned that during the last round of negotiations with the Alaska State Employees Association (ASEA), DOA held ASEA's contribution flat because the ASEA Health Trust had accumulated a "meaningful" reserve. He said that, over time, "they'll need to spend down some of those reserves in order to be able to continue to provide the medical care." He added that medical costs are growing substantially faster than [the rate of] inflation, so even though inflation has been low in Alaska and the rest of the U.S., medical costs are growing between 7 and 9 percent annually. He said, "Keeping a plan flat in a growing cost environment will start to normalize that, and we'll continue to, over time, get them to a place where I think we believe that the reserves are appropriate."

REPRESENTATIVE BIRCH asked to receive a summary of the medical plan information for all the negotiated agreements and the account balances.

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REPRESENTATIVE LEDOUX asserted that medical costs in Alaska seem to be so much higher than in the Lower 48. She asked what DOA is doing to encourage Alaskans to go south for non-emergency operations.

MR. FISHER responded that DOA has a medical travel benefit but added, "It's not one that we are particularly proud of" and it is "fairly clunky." Mr. Fisher speculated that health plan members are not taking the opportunity to leave Alaska to receive non-emergency care as much as possible. He said he expects DOA to initiate a much more robust medical travel benefit that is easier to use. He offered his belief that the new benefit would offer a net saving for the state, due to less expensive procedures out of state.

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CHAIR KREISS-TOMKINS asked what percentage of non-emergency procedures are currently conducted out of state through the

medical travel benefit, and what percentage DOA anticipates with the improved medical travel benefit.

MR. FISHER said that DOA is presently gathering data in order to estimate the value of this new benefit and will provide that information when available.

[3:48:01 PM](#)

MR. FISHER reported that DOA leases about \$50 million of space and is working to optimize use of the space and negotiate better pricing.

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REPRESENTATIVE TUCK asked if the Health Care Authority (HCA) feasibility study is being done in house or through a contract.

MR. FISHER responded that DOA issued a request for proposal (RFP) and is working with a consultant. He anticipates the final product to be a blend of in-house and contract work.

[3:49:42 PM](#)

KEVIN BROOKS, Director, Division of Shared Services (DSS), Department of Administration (DOA), continued the Department of Administration (DOA) overview with Slide 6 of the PowerPoint presentation, titled "Shared Services Overview." He said that currently there are 14 state departments, each with an Administrative Services Division performing various administrative functions throughout the department. He offered that under a "shared services" model, his office's mission is: to identify and centralize the common functions throughout [state] government; to implement redesign and improvement of the processes; and ultimately, to achieve efficiency and cost-savings by performing necessary functions of government with fewer people. He asserted that the new model allows departments to focus on their core missions, while DOA performs the "backroom" business functions.

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REPRESENTATIVE JOHNSON expressed a concern about changes in personnel workloads that reduce positions to less than fulltime and asked how that would be handled by DSS. She added she assumes each position has been "costed out."

MR. BROOKS replied that there are already "fragmented positions" within the departments. He relayed that DSS will staff accordingly to handle the volume of work and bill departments by the number of transactions processed. He mentioned that the work is performed by accounting technicians, and added that the accounting technician position is relatively low in the state structure and experiences a fair amount of turnover.

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REPRESENTATIVE WOOL asked if transferring positions to DOA from other departments represents any downsizing or "real savings."

MR. BROOKS agreed that "it really does [the state] no good to just reshuffle the chairs." He said a 10 percent reduction was levied on every department's budget. From the 90 percent of the budget retained, the departments will pay DSS contractually for services instead of paying employees. He said that DSS's goal is an additional 20 percent reduction and possibly higher as processes are refined. He said DSS is "mapping the process, ... removing steps to the process, and ... creating one [process]" for each department to adopt. He offered his belief that one process, instead of 14 processes, will result in efficiencies and savings.

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REPRESENTATIVE TUCK cited the savings, listed on Slide 6, of 10 percent in fiscal year 2018, 30 percent in FY 19, and 50 percent long-term, and asked how Mr. Brooks arrived at those forecasts.

MR. BROOKS said that DSS contracted with Everett Ross, who facilitated a similar transition in Ohio. He said that DSS is attempting to model Ohio's efforts and utilize industry benchmarks for processing transactions. He attested that the percentages are reflective of similar efforts in other jurisdictions.

REPRESENTATIVE TUCK recommended that DSS be aware of unintended consequences of centralization of functions. He cited an example in which centralization caused more delays and problems, and cautioned against a similar result if DSS does not understand the 14 departments well enough. He urged DSS to ensure actual cost savings and avoid creating inefficiencies.

MR. BROOKS said that before transitioning a department, DSS is spending considerable time with the department to understand

their "book of business." He said DSS will focus on identifying benchmarks, costs, timelines, and outcomes, in order to avoid the unintended consequences Representative Tuck cited.

REPRESENTATIVE TUCK added that he supports the concept described by Mr. Brooks but cautions against unintended consequences.

[4:01:05 PM](#)

REPRESENTATIVE BIRCH referred to a previous comment about the merits of traveling Outside for more competitively priced medical services. He asked if the consolidation effort would afford DSS the opportunity to find competitive private sector resources or opportunities.

MR. BROOKS said DSS's primary focus is using state employees to perform administrative functions instead of out-sourcing or privatizing. He said there are union rules to follow but added there are certain functions that lend themselves to contractual arrangements. He asserted that DSS would take a balanced approach - using state employees when appropriate and a private sector solution when that is a better fit.

REPRESENTATIVE BIRCH cited the motor vehicle operation of DMV as a good example of a balanced operation with good "back up."

[4:03:01 PM](#)

MR. BROOKS referred to Slide 7, titled "SSOA Roadmap - Pilots and initial waves are definitive," and stated that DSS is taking a measured approach in its efforts. He said DSS's first initiative was with "travel and expense," which began as a pilot project in DOA. He went on to say that the initiatives will be implemented in waves - three or four departments at a time. The timeline on Slide 7 shows the six-month plan for implementation of the travel and expense roll-out. He pointed out that the Department of Labor & Workforce Development (DLWD) and Department of Revenue (DOR) are part of the Travel & Expense Wave 1 effort. He described the process: selecting a department; identifying the best practices; improving the process; stabilizing the process; then moving on to three or four additional departments. He stated his belief that in the next five or six months, all departments will have transitioned in regard to travel and expense. He asserted that DSS will use a similar phased approach for the other initiatives.

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REPRESENTATIVE LEDOUX asked, "What sort of best practices are you looking for?"

MR. BROOKS said each department has its own operating procedures. He suggested that developing one standard desk manual would eliminate 14 separate ones. He referred to the Integrated Resource Information System (IRIS), which handles financials and human resources for the state, and said IRIS has changed how all state departments are functioning. He said he supports fully utilizing the IRIS system and automating processes to the extent possible. He maintained that there are a myriad of processes and functions that lend themselves to efficiencies and streamlining.

[4:06:20 PM](#)

CHAIR KREISS-TOMKINS asked for the name of the contractor who overhauled IRIS for the State of Alaska.

MR. FISHER explained that IRIS is an accounting system that replaced the state's out-of-date system. The contractor, Consultants to Government and Industry Technologies and Solutions Inc. (CGI), offered a product that is specifically designed to support state government. He said that IRIS was delivered on time and on budget, and CGI assisted with implementation. He said DOA launched the financial module of the new system 18 months ago and the human resources module a week and a half ago. He reported that the system is performing reasonably well and has met DOA's expectations.

[4:08:18 PM](#)

MR. BROOKS referred to the flowchart on Slide 8, titled "As-Is Process Mapping," which illustrates the current process for travel, from the initial travel order to the final check and reconciliation. He said the DSS project manager interviews staff to map the existing process and to discuss opportunities for efficiencies and improvements. Mr. Brooks then identified the flowchart on Slide 9, titled "To-Be Process Mapping," as the new standard with which departments are trained. He mentioned that DSS will repeat this procedure with "accounts payable" in February or early March.

[4:10:06 PM](#)

MR. FISHER referenced Slide 10, titled "Process Improvement: DMV - Average Wait Time," to explain process improvement using the DMV as an example. He asserted that the improvement in DMV wait times was driven by process improvement, and no capital project or increase in operating expense was involved. He added DSS has used its process improvement expertise to do process improvement projects in the Department of Natural Resources (DNR) and the Department of Transportation & Public Facilities (DOT&PF), with leasing, with facilities, and with a number of other efforts.

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REPRESENTATIVE TUCK offered he is very impressed with DMV's ability to "get people in and out." He asked how much of the reduced wait times were due to reduced volume of business.

MR. FISHER cited the improvement in average wait times, comparing August 2015 with August 2016 - 44 minutes and 16 minutes, respectively. He said DMV processed about 1,000 more transactions in August 2016 than in August 2015; however, the overall annual volume of transactions was down slightly in 2016. He maintained, however, that most of the savings were driven by efficiencies in delivery of service and not reduction in usage.

REPRESENTATIVE TUCK asked if the additional 1,000 transactions in August 2016 included in-person transactions.

CHAIR KREISS-TOMKINS asked if there was a budget reduction for DMV.

MR. FISHER responded that there was no budget reduction, in part because it is funded by DGF. He added, "That's a decision that we kind of need to make together. Do we want to save money or continue to provide the degree of service, or some combination?"

REPRESENTATIVE WOOL commented that in a recent visit to a DMV office he was astonished at how few people there were in the office. He offered possible reasons: people aren't registering cars or getting driver licenses; population fluctuation; more information and transactions online. He suggested that a few more minutes of wait time may be just as acceptable and possibly staff could be reduced.

MR. FISHER reiterated that the most significant change is not due to reduced volume, but to process time. He mentioned that the budget for DMV declined by about \$250,000 from FY 17 to FY 18. He offered that DMV is trying to put more [information and

transactions] online. He said he anticipates that someday the DMV will provide services with self-serve kiosks similar to airports, and that contact with a DMV agent would just be for unusual circumstances.

REPRESENTATIVE TUCK asked if there will be a more detailed presentation for each division later.

CHAIR KREISS-TOMKINS responded yes.

4:18:01 PM

MR. FISHER referred to Slide 12, titled "Recommendations," and explained that the new chief information officer (CIO) is tasked with improving the efficiency of IT service delivery. He said that currently there are 14 separate IT departments researching and selecting the best computers, servers, configuration, and storage technology. He said DOA recognized the opportunity to be more efficient in those efforts. He added that these services are "commodity" services - services all departments need but are not specialized for a particular department. He differentiated commodity services from "line of business" services, of which IRIS is an example - a single product used for the entire state. He stated that for every commodity service DOA delivers, it makes a "buy versus bill" decision. The question is asked: can something be done better and more efficiently internally or by procurement? He noted that DOA has obligations to do a feasibility study under DOA contracts and will fulfill those commitments under the DOA bargaining agreements.

4:20:46 PM

MR. FISHER next referred to Slide 13, titled "Organizational Vision." He stated that the department technology officers (DTO) currently report to either the administrative services director (ASD) or the commissioner of their various departments. He said that in the future, they would report to the CIO "on a solid line basis." He explained that this means the DTOs would be part of the centralized IT organization and receive their performance reviews from the CIO, but would still support the needs of their various departments in a "dotted line" relationship.

4:23:05 PM

REPRESENTATIVE TUCK asked for confirmation that the CIO oversees ETS and, under the new structure, the DTO in DOA and the DTOs from the other departments.

MR. FISHER declared that the organization chart on Slide 13 is official as of today, and DOA has never had a CIO before today.

REPRESENTATIVE TUCK asked for clarification that the new CIO will start out by overseeing ETS, and then eventually the DTOs.

MR. FISHER answered yes, it will happen quickly.

[4:24:53 PM](#)

MR. FISHER referred to the dotted circle around the director of the Office of Management & Budget (OMB), DOA, and the CIO, on the organization chart, and explained that it represented the strategic governance function. He pointed out [Internal Verification & Validation] (IV&V) Function shown under the director of OMB in the chart and identified it as a regular audit function to ensure that DOA is improving the level of service that it is delivering to the other departments. He announced DOA's slogan is "better, faster, cheaper." DOA will be benchmarking the level of service currently delivered, establishing service level agreements with the departments, and auditing for actual improvements. He stated that the audit will be a function of OMB, outside of DOA.

[4:26:23 PM](#)

REPRESENTATIVE GRENN referred to Slide 7 and asked if, after Wave 4, DOA would go back to the Wave 1 departments to re-evaluate and make improvements.

MR. FISHER claimed that at each step of the way, DOA will be learning and making corrections and improvements. He said that OMB, through the IV&V function, will periodically measure the effectiveness of the work, in cost, time, and quality.

[4:27:56 PM](#)

EMILY RICCI, Chief Health Policy Administrator, Division of Retirement and Benefits (DRB), Department of Administration (DOA), continued the Department of Administration (DOA) overview with Slide 15, titled "Cost of State Employee Health Care." She stated that Slide 15 shows the roles of DOA and DRB for the provision of employee health care. The first role, she said, is

paying the employer contribution towards covering employee health care benefits. She added that not all State of Alaska employees are covered by the same health insurance plan. Depending on the plan, employees have access to benefits either through the ASEA Health Trust or the AlaskaCare Employee Plan "AlaskaCare" managed by DOA.

MS. RICCI referred to the column on the right on Slide 15 detailing the AlaskaCare Employee Plan. It is a self-insured plan, which means the State of Alaska pays the claims for the expenses that are incurred. She added that DOA does not actually manage the claims or administer the benefits but contracts out to several different third-party administrators. She said that Aetna Inc. "Aetna" is the third-party administrator for the medical plan, and Moda Health "Moda" is the third-party administrator for the dental plan. She went on to say the AlaskaCare Employee Plan covers about 16,350 individuals, which includes 6,350 employees and 9,800 dependents. The remaining 200 people are those who are no longer with the State of Alaska but accessing benefits through Consolidated Omnibus Budget Reform Act (COBRA). She stated that the cost of AlaskaCare to the State of Alaska is approximately \$137.5 million, which includes \$7.5 million in supplemental funding and \$13.8 million paid by employees.

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REPRESENTATIVE LEDOUX asked what was meant by "supplemental funding."

MS. RICCI responded that in FY 16, DOA received approximately \$7.5 million in supplemental funding to be applied to the Group Health and Life Trust Fund, which pays benefits for the AlaskaCare Employee Plan.

REPRESENTATIVE LEDOUX asked if a certain amount was budgeted, then an additional \$7.5 million was needed.

MS. RICCI referred to Slide 16 and answered that the employee health plan is experiencing a fiscal challenge. She mentioned that the plan experienced some initial savings in 2014, when Aetna became the third-party administrator and had negotiated better discounts with the providers. She added that the reduction in cost didn't last. The cost has been increasing since 2016, due to the factors listed on Slide 16. She said there was a spike in utilization [of health care services] in 2015 following layoff notices, but the level of utilization

never returned to the pre-spike level. She added there has been a reduction of employees, necessitating higher employer contributions to cover the decreased number of employees. She said, also, there has been an emergence of a double digit pharmacy growth, a rate of 14-19 percent, which has occurred across the nation, as well. She said the health care cost grew faster than DRB anticipated. She concluded that the combination of these factors has resulted in the plan expending more on claims than is being brought in as revenues. She said DRB uses a reserve balance to make up the difference, but using the reserve is not be sustainable going forward. She referred to the right column on Slide 16 and noted the four "levers" for addressing the fiscal challenges: increase employee contribution; implement plan design changes; reduce the cost of service; and increase employer contributions.

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REPRESENTATIVE LEDOUX said she understood why the spike occurred but asked why the level of utilization stayed high.

MS. RICCI speculated that stress and uncertainty is contributing to the sustained increase in utilization. The uncertainty, she conjectured, is related to all of the changes - in positions, in salaries, and in health insurance. She offered that people are having medical procedures done now instead of waiting a year or more. She said DRB looked to see if high cost claimants were driving the spike but found, in general, it was overall utilization of lower level services. This supported the theory of people seeking services and appointments that, in the past, they would have delayed.

REPRESENTATIVE LEDOUX asked if Ms. Ricci thought this trend was related to employees' concern for increased deductibles and other increases.

MS. RICCI answered yes, that added to it.

[4:36:06 PM](#)

REPRESENTATIVE BIRCH referred back to Slide 15 and restated the information: the employer cost of health insurance is about \$265 million; of that, the AlaskaCare portion is about \$115 million, and the Union Health Trust portion is about \$150 million. He mentioned the 16,350 lives covered under AlaskaCare and asked how many employees are covered under the Union Health Trusts. He expressed confusion over the number of employees.

He said he has heard the number to be 24,000, with 2,500 employees laid off, but this year's number is only an 80-person variation from last year.

MR. FISHER responded that the 24,000 figure refers to all state workers, including those in the legislature, the administration, the courts, and the university. He stated there are about 11,000 employees, and 6,300 of them are covered under AlaskaCare. He said that state employees "skew old." In the next five years a little over 20 percent of all state employees will be eligible for retirement. He cited that historically about two-thirds of those eligible actually retire. He asserted that the reduction achieved in the state work force has largely been due to attrition; therefore, only 80 people have received pink slips. He said, "The most important thing you can do with your employees is be transparent and honest with them." He offered that many of these employees were told early on that their positions would be eliminated so they could plan for it. He said the 80 pink slips are misleading, as the work force has decreased substantially.

REPRESENTATIVE BIRCH asked about employee participation for AlaskaCare.

MR. FISHER referred to Slide 15 and stated that employees contribute about 10 percent of the health care premium. He said that there is a standard plan and an economy plan. He said historically the economy plan had poorer benefits but did not require employee contribution. For employees who wanted a greater level of benefits, a contribution was required. He said the \$13 million, or 10 percent of the cost of AlaskaCare, represents the contributions under the standard plan. He said that all collective bargaining agreements entered into by the current administration require some contribution from all employees, for both the standard and the economy plan. He said DOA is currently evaluating, internally and with its actuaries, how to develop a more systematic method of determining and calculating the employee contribution. He attested that 20 percent of the cost of the premium is the target for employee contribution.

REPRESENTATIVE BIRCH quoted \$265 million to be the total cost of health care and asked if the premium paid by employees, which is now about \$26 million, will be doubled to about \$50 million.

MR. FISHER reminded the committee that AlaskaCare is managed by DOA, and the Union Health Trusts are managed by the unions. He

added that each one of the Union Health Trusts has its own standards. Some of the Union Health Trusts already require considerably more than 20 percent employee contribution. He added that his comments specifically refer to AlaskaCare.

REPRESENTATIVE BIRCH asked if \$265 million is "all-inclusive," that is, if it includes the employee contribution.

MR. RICCI said, "The employee contribution for AlaskaCare is inclusive of that number." She added that she would check on the employee contributions for the Union Health Trusts.

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CHAIR KREISS-TOMKINS asked if DRB has performed an analysis of the costs of different medical procedures conducted in Alaska compared with the Lower 48, and what the relative savings could be.

MS. RICCI claimed DRB is currently undertaking analysis to identify opportunities, and it is consulting reports from other organizations, such as the Alaska Health Care Commission and the Milliman studies. She asserted the analysis was part of their evaluation of costs and benefits and will help to identify alternatives to improve the medical travel benefit.

CHAIR KREISS-TOMKINS asked if DRB is consulting with Aetna and doing in-house analysis with in-house information.

MS. RICCI said absolutely, analysis can be done through DRB's data warehouse. She claimed DRB staff is currently sorting through data to determine the best value for changing the medical travel benefit.

CHAIR KREISS-TOMKINS asked if DRB will share its findings.

MS. RICCI responded absolutely.

CHAIR KREISS-TOMKINS asked if Ms. Ricci had a timeline for sharing the conclusions from the analysis.

MS. RICCI said no, but offered it would be within the next couple of months. She said DRB's goal is to have the new medical travel benefit implemented in the next three to six months.

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MS. RICCI turned to Slide 17, titled "Health Care Authority Study," and said Senate Bill 74, the Medicaid Reform Bill, which passed in the 29th Alaska State Legislature, directed the commissioner of administration to conduct a study evaluating the feasibility of a health care authority. The study is due June 2017. She explained that since there is no standard definition for "health care authority," there are a range of models across the U.S., from very sophisticated to very narrow. Washington State and Oregon have very sophisticated authorities that manage most of their public employees and Medicaid healthcare spending in an integrated fashion. She mentioned other states having authorities in name only, with just an office similar to the Office of Rate Review in the Alaska Department of Health and Social Services (DHSS).

MS. RICCI went on to say DRB put out an RPF in July and awarded a contract in August to PRM Consulting. The consulting firm will evaluate the feasibility of a health care authority study, in two phases. She said the goal is to see if there are opportunities to create savings through greater efficiencies. PRM Consulting is looking at a wide range of entities receiving state funding, either directly or indirectly, for health care benefits, including all State of Alaska employees, Unions Health Trust employees, retirees, Medicaid recipients, school district employees, employees of political subdivisions, individuals, and small group markets. She explained that phase one will evaluate the opportunity for savings through a consolidated purchasing strategy. That approach, she said, allows entities to retain their autonomy, plan design, and plan administration, while DRB looks for opportunities for savings through leveraging volume. The second phase, she continued, evaluates opportunities for savings through a coordinated plan administration. She queried, "Is there a way that we can better and more efficiently provide health care services across all these different entities?" She added that the report is due in June, but DRB hopes to provide information in advance of that date and anticipates the completion of phase one in February.

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MR. FISHER referred to Slide 20, titled "Recap of Last Year: ASEA, LTC, SU, CEA," to discuss the three [collective bargaining] negotiation principles. He addressed the first principle by saying that cash and benefits need to be fair to both the State of Alaska and the employees. He emphasized the need to treat employees fairly, notwithstanding the fiscal

challenges. He claimed DOA is trying to balance the demands and asserted that employees are "giving more" than they have in the past. The current administration has not negotiated any Cost of Living Allowance (COLA) increases; there is increased contribution by employees to the health benefit; contributions to Union Health Trusts have remained "flat"; and employees have been asked to give a furlough or furlough equivalent.

The second principle, he said, is efficiency. He said DOA has been looking at bargaining agreements to ensure the work rules contribute to an efficient process. He mentioned that bargaining agreements have evolved differently resulting in multiple different state processes. He mentioned that DOA has identified the work rules with the greatest impact and is trying to standardize the rules across bargaining units for more efficient management.

He went on to the third principle, which is to hold employees accountable and recognize and reward the best employees. He mentioned the creation of the Labor Management Committee to look at performance reviews and develop a more effective evaluation process.

[4:53:13 PM](#)

REPRESENTATIVE TUCK confirmed his belief that labor management committees are useful tools to identify efficiencies, foster teamwork, and reduce grievances.

REPRESENTATIVE BIRCH asked how many different labor agreements DOA manages and what the bargaining units are.

MR. FISHER responded that there are 11 different bargaining agreements. The unions are: ASEA; Labor, Trades, and Crafts (LTC); Supervisors Union (SU); Confidential Employees Association (CEA); Marine Engineers Beneficial Association (MEBA); Inlandboatmen's Union of the Pacific (IBU); International Organization of Masters, Mates and Pilots (MM&P); Alaska Vocational Technical Center Teachers' Association (AVTECTA); Alaska Correctional Officers Association (ACOA); Public Safety Employees Association (PSEA); and Teacher Education Association of Mt. Edgecumbe (TEAME).

REPRESENTATIVE BIRCH asked if the union agreements have staged expiration dates and if holidays are coordinated between unions. He also asked if all of the agreements include [salary] step increases.

MR. FISHER offered that each bargaining agreement is a three-year agreement; therefore, each year about one-third of them are negotiated. He said DOA is attempting to better standardize work rules. He added that historically merit step increases were given in addition to the COLA; merit increases reflect increase in skill and proficiency of the employee, and COLA addresses cost of living differences. He expressed his belief that the rate of growth of state salaries is too steep. He offered that doesn't mean employees as a whole are overcompensated, since starting salaries tend to be "below market." He added that the salaries of some of the employee groups, particularly the professionals and the highly skilled, are less than market, according to DOA analysis.

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REPRESENTATIVE BIRCH mentioned the recent discussion in the House Labor and Commerce Standing Committee regarding contracting out positions within DOT&PF and asked if salary studies are performed.

MR. FISHER, in response to Representative Birch, clarified that whenever DOA outsources, it does a feasibility study, not a salary study, to determine the cost of performing a task internally versus externally.

REPRESENTATIVE TUCK used the example of becoming a journeyman electrician to explain that employees, who are not fully qualified when they enter into a position, start out below market value. He added that the reason step increases were negotiated was to increase wages and benefits as skills and abilities increase.

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#### **ADJOURNMENT**

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 5:00 p.m.