

SENATE FINANCE COMMITTEE
January 30, 2018
9:03 a.m.

9:03:04 AM

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Valerie Davidson, Commissioner, Department of Health and Social Services; Shawnda O'Brien, Assistant Commissioner, Finance and Management Services, Department of Health and Social Services.

SUMMARY

SB 144 APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 144 was HEARD and HELD in committee for further consideration.

PRESENTATION DEPARTMENT OF HEALTH AND SOCIAL SERVICES FY 19
OPERATING BUDGET

#sb144

SENATE BILL NO. 144

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations; making appropriations

under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

^PRESENTATION DEPARTMENT OF HEALTH AND SOCIAL SERVICES FY
19 OPERATING BUDGET

9:04:16 AM

VALERIE DAVIDSON, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, introduced her staff.

Commissioner Davidson discussed the presentation "Department of Health and Social Services - Senate Finance - FY2019 Department Overview" (copy on file). She informed that the department would be providing additional information in the upcoming days, as requested by the committee.

Commissioner Davidson looked at slide 2, "Health & Social Services":

The Department of Health and Social Services (DHSS) was originally established in 1919 as the Alaska Territorial Health Department. With the formal proclamation of statehood on January 3, 1959, the department's responsibilities were expanded to include the protection and promotion of public health and welfare. These core duties are reflected in the mission of the department -to promote and protect the health and well-being of Alaskans -and are outlined in Article 7, Sections 4 and 5 of the Constitution of the State of Alaska.

Department Home and Resource Links

<http://dhss.alaska.gov>

Constitutional Authority -Article 7, Sections 4 and 5:

[http://ltgov.alaska.gov/services/alaskas-constitution/Duties of the Department](http://ltgov.alaska.gov/services/alaskas-constitution/Duties%20of%20the%20Department)

<http://www.legis.state.ak.us/basis/statutes.asp#47.05>
FY19 Proposed Department Budget

<https://www.omb.alaska.gov/html/budget-report/fy2019-budget/proposed.html>

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Commissioner Davidson shared that the next four slides were prepared by the Legislative Finance Division (LFD).

SHAWNDA O'BRIEN, ASSISTANT COMMISSIONER, FINANCE AND MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, reviewed slide 3, "Department of Health and Social Services Share of Total Agency Operations," which showed a bar graph. She detailed that the graph showed General Funds (GF) only and included Designated General Funds (DGF) as well as Undesignated General Funds (UGF). The graphed compared figures from FY 19 to FY 09. The figures depicted management plan scenarios, but there were slight differences with the governor's budget adjustment. The FY 18 management plan numbers did not represent any of the supplemental requests that had been submitted in 2018; and the GF balances were lower than the current budget request.

Co-Chair Hoffman asked about the supplemental request for the department.

Ms. O'Brien specified that the department had made a request for \$100 million GF for Medicaid, as well as \$18 million in GF for substance abuse disorder treatment.

Senator Micciche asked if the FY 19 budget included the \$118 million supplemental request.

Ms. O'Brien answered in the affirmative.

Ms. O'Brien spoke to slide 4, "Department of Health and Social Services Line Items," which showed a bar graph depicting the department's budget broken down by line-item authority. The department was largely funded in the grants and benefits line; remaining line items had been consistent over the previous years. She noted that the detail below the graph showed reduction in costs the previous four years, after which there was growth in the grants and benefits line.

Ms. O'Brien reviewed slide 5, "Appropriations with the Department of Health and Social Services," which showed a line graph depicting a breakout of the department's budget by division. She clarified that the slide showed GF spending only, including DGF. There was a large increase in the GF request between FY 18 and FY 19, representative of

\$127 million over the FY 18 governor's budget. The numbers did not include the supplemental request.

[9:10:36 AM](#)

Ms. O'Brien discussed slide 6, "Appropriations with the Department of Health and Social Services," which showed a line graph with the budget broken out by all fund sources. It was the last slide in the presentation prepared by LFD. She pointed out a large increase in the Medicaid Services component between FY 18 and FY 19, not including the Revised Program Legislative Notice (RPL) for \$525 million that had been received in federal authority for Medicaid services.

Co-Chair Hoffman remarked on the substantial increase in Medicaid services between FY 18 and FY 19. He asked if the increase had been anticipated.

Ms. O'Brien answered in the affirmative. She stated the department had anticipated some growth as a result of enrollments. As the department developed and refined its projection tools, it had identified some pending items that would help support better projections for Medicaid in the future.

Co-Chair Hoffman asked what the department anticipated for trend lines in FY 20 and the following years for the same line item.

Ms. O'Brien shared that the department anticipated enrollment growth for Medicaid services to level out. The department was projecting enrollment growth to decrease from 12 percent to 4 percent.

Co-Chair Hoffman referenced slide 5, which showed the Medicaid program in a steady decline. He asked if the department found the new upward trend alarming and wondered if the legislature should anticipate any related legislation. He wondered if Alaska was providing services above and beyond the norm in the Lower 48.

Ms. O'Brien stated that the department reviewed current national legislation and overall spending in GF and total spending in Medicaid. There were ongoing efforts to review claims detail to ensure that the state was maximizing its federal claiming potential. There were specific efforts

from Medicaid expansion legislation that the department incorporated into its ongoing work.

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Co-Chair Hoffman asked if the legislature could anticipate anything from the administration regarding legislation.

Commissioner Davidson stated that the department was not proposing any legislative changes. The department was concerned about the significant growth in Medicaid expansion. In FY 15, Medicaid covered 160,388 Alaskans. In 2019, she expected more than 225,000 unduplicated Alaskans to be enrolled in the program. She thought the growth was attributable to the downturn in the economy. She pointed out that the department's GF spending was lower in FY 19's proposed budget than it was in FY 15. She referenced the work the committee had done via SB 74 [Medicaid reform legislation that passed in 2016], which would be discussed in a presentation to the committee the following day.

Commissioner Davidson continued her remarks. She informed that the department had been very aggressive in its refinancing efforts through the tribal claiming policy. The efforts had allowed DHSS to refinance how the services were provided to Indian Health Service (IHS) beneficiaries who received care through an IHS facility as required by national tribal claiming policy. She shared that the governor had been able to renegotiate the tribal claiming policy. Previously in order for the state to receive 100 percent federal match, services were required to be physically within the four walls of the facility, which created a transportation challenge. The department had requested a revision of the policy, after which travel for IHS beneficiaries was viewed as part of the service. The department also requested that services began in a tribal facility and referred to a non-tribal facility be considered a continuation of service and 100 percent federal reimbursable.

Commissioner Davidson continued that in FY 17 the department had targeted \$32 million in GF savings, and had been able to save \$35 million. In the FY 18 budget, the department had targeted \$42 million in savings and was on track to achieve the savings. There were more than 700 care coordination agreements between tribal and non-tribal providers. One of the benefits of the revised policy was

less duplication of service, and better health-care planning when services were provided in the beneficiaries' home community.

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Senator von Imhof referenced Commissioner Davidson's mention of increased Medicaid enrollment due to a downturn in the economy. She wondered if the uptick in enrollment could be due to aggressive enrollment efforts. She asked how many Medicaid recipients were also covered by IHS insurance. She asked why the department was not utilizing outside data analysis firms that specialized in statewide public healthcare and reporting.

Commissioner Davidson spoke to the number of IHS beneficiaries that were also using Medicaid. She clarified that the coverage offered by IHSS was not an insurance plan. She detailed that about 40 percent of the beneficiaries of Medicaid were also eligible to receive services in an IHS facility. Federal law required IHS facilities (including tribally operated facilities in Alaska) to seek third-party reimbursement including Medicaid because of the fact the facilities were funded at about 50 percent of the level of funding needed to provide basic healthcare for Alaska Natives.

Co-Chair MacKinnon asked how many people qualified for IHS benefits.

Commissioner Davidson stated that Alaska Natives made up about 20 percent of the Alaska population, and 40 percent of the Medicaid beneficiaries were Alaska Native.

Commissioner Davidson stated that of the 225,000 Alaskans that were covered by Medicaid in 2019, 40 percent (about 90,000) were Alaska Native. There were many Alaska Natives that were not eligible for Medicaid due to not meeting the income requirements.

Co-Chair MacKinnon clarified that she was trying to get the total population for IHS recipients in Alaska.

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Senator von Imhof appreciated the explanation. She referenced her earlier question regarding data analysis.

Commissioner Davidson relayed that upcoming slides would address the method by which the department arrived at Medicaid projections. She thought the FY 18 supplemental and increase in FY 19 was due to more finely-honed projections.

Co-Chair MacKinnon thanked Commissioner Davidson and the DHSS team for work done on behalf of the people of the state. She discussed assessing costs during difficult financial circumstances. She discussed the growth in the health industry, and high unemployment rates in the state. She wondered who was propping up the growth in the health service.

Commissioner Davidson agreed that the cost of healthcare had grown throughout the country. She thought that everyone played a part in the cost. She informed that the largest payer of healthcare services was private insurance; including state-covered retirees and active employees, Medicaid, and private insurance. The department had heard from the committee and the public that there was concern about rising medical costs throughout the state, which mirrored what happened in the rest of the country. The administration had convened a group (including membership from the Office of Management and Budget (OMB), the administration, the Department of Commerce, Community and Economic Development, and DHSS) to look at potential cost containment. She recognized that with the state being the largest purchaser of healthcare services, it was important to ensure that state savings on healthcare costs did not unintentionally shift the costs to those with healthcare not paid by the state.

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Co-Chair MacKinnon understood that government entities were paying more than 50 percent of overall premiums that provided insurance.

Commissioner Davidson believed Co-Chair MacKinnon was correct and noted that the Division of Insurance was under the purview of the Department of Commerce, Community and Economic Development. She mentioned the work of the department on stabilizing the marketplace for the individualized marketplace plans. She continued that DHSS anticipated one problem with increased Medicaid enrollment

to be the requirement for the individual mandate. Since the individual mandate was removed, the department expected to see some individuals not wish to continue insurance coverage.

Co-Chair MacKinnon thought growth was still projected in Medicaid numbers, and referenced Commissioner Davidson's statement that the rising costs in Alaska were mirroring those in the rest of the country. She thought Alaska received 30 percent higher reimbursement than any other state.

Commissioner Davidson conveyed that Alaska was experiencing growth in the cost in healthcare just as other states were. The charges in Alaska were generally higher than in other states.

[9:30:40 AM](#)

Co-Chair MacKinnon had heard conversations at the capitol that indicated the administration was ignoring the legislature's intent to try and control costs. She thought there was great consternation around the supplemental budgets being presented to the legislature during the current budget cycle. She thought supplemental budget requests were being used as a way to force the legislature to pay for things that may have been cut from past budgets. She asked how the department would deal with a supplemental budget request that was not funded.

Commissioner Davidson emphasized that she had not been provided with a directive or suggestion that it was okay to not control costs. She shared that efficiencies were an agenda item for every cabinet meeting with the governor. She highlighted that the department had previously been clear with the legislature about anticipating the need for a supplemental the previous year while knowing the budget would not be sufficient to fund the department's federally mandated requirements. The department had not anticipated the size of the FY 18 supplemental. The department believed that the budget request for FY 19 was a true representation of the FY 19 need for Medicaid. She acknowledged that there had been "sticker shock" that reverberated throughout the department, legislature, and administration. She wanted to provide a clear picture of what the FY 19 budget request should be to meet the anticipated need.

[9:33:47 AM](#)

Co-Chair MacKinnon reiterated her question about the department's course of action if the supplemental was not funded.

Commissioner Davidson informed that the FY 18 supplemental request of \$100 million could be reduced by \$7 million that had been included for the Children's Health Insurance Program (CHIP). At the time of the budget proposal, the federal program had not yet been reauthorized. The program had since been reauthorized. She reminded that federal and state statute required the department to pay Medicaid claims. She stated that if the department did not receive the supplemental to pay for FY 18 expenses, it would have to suspend Medicaid claims toward the end of the year and begin to pay the claims with funds from the FY 19 budget.

Co-Chair MacKinnon requested a written update of Medicaid claims and enrollment numbers. She estimated that in Alaska there were approximately 112,000 individuals that could qualify for IHS. She thought it was interesting to point out that IHS was a fixed pot of money provided to Alaska, while Medicaid was an unlimited amount of funding. She was concerned about the state's heavy reliance on federal funding and spoke to the national deficit.

[9:37:59 AM](#)

Senator Micciche considered the proposed budget increase and the department's supplemental budget request. He thought it was necessary to discuss Medicaid eligibility and what was covered. He believed in healthcare accessibility for all Alaskans. He thought the state could not manage the recent growth in Medicaid.

[9:40:40 AM](#)

Commissioner Davidson appreciated Senator Micciche's remarks. She thought the downturn in the economy resulted in more people enrolling in Medicaid than anticipated. She reiterated that in the FY 19 proposed budget, the department's UGF spending for Medicaid was less than that in FY 15. She was happy to work with the legislature to contain the costs of Medicaid.

Senator Micciche thought Alaska always had the highest unemployment rate in the nation, partially due to seasonal employment. He thought it was important to consider the reasons individuals enrolled in Medicaid. He mentioned aggressive enrollment. He did not think the change in spending was reflective of the increase in unemployment.

Co-Chair Hoffman thought the problem in FY 15 was that there was a \$4 billion deficit. He thought the current budget was not sustainable and did not agree with using FY 15 spending levels for comparison. He emphasized the need for budget cuts. The committee had considered reductions in many different programs, including those statutorily required. He was concerned about hard-fought reductions being eroded by expanding budgets. He emphasized that FY 15 spending levels were not acceptable. He thought that if the budget was sustainable the previous year, having \$100 million in growth caused consternation. He asked if there was discussion by the administration to look at the level of services and eligibility and compare it to that of other states.

Co-Chair Hoffman continued his remarks. He discussed a proposed structured draw on the Permanent Fund, and the deficit.

[9:46:58 AM](#)

Vice-Chair Bishop commented that it was known that there was not a \$100 million supplemental since Commissioner Davidson had shown a \$7 million cut. He assumed the \$93 million amount was anticipated to be needed by the department moving forward. He wanted the committee to see where the anticipated \$93 million was going to be expended.

Co-Chair Hoffman thought that the question would be addressed in committee in the subsequent two days.

Commissioner Davidson offered to provide Vice-Chair Bishop with a spending breakdown. She informed that upcoming slides would provide information about the data sources used to calculate Medicaid spending. The department had shared the information with LFD, and LFD had recommended offering a training on the subject.

Commissioner Davidson emphasized that the department shared the concern about the growth in expenditures. She affirmed

that the department was trying to project expenses thoroughly and accurately.

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Co-Chair MacKinnon clarified that she wanted an update on Medicaid claims and enrollment. She asked if Medicaid eligibility was set at 150 percent of the federal poverty level.

Commissioner Davidson informed that Medicaid eligibility depended upon the population and the category of individuals served. She shared that Denali Kid Care had an effective federal poverty level of 208 percent, and the program's federal matching funds were at 88 percent. As part of the Affordable Care Act (ACA), there was a change to how Medicaid eligibility was determined across all the eligibility categories. Eligibility was based upon modified adjusted gross income, with a couple of exceptions. To qualify for CHIP or Denali Kid Care, eligibility was based on 208 percent of the federal poverty level. For pregnant women the eligibility was 205 percent of the federal poverty level, and the federal match was 50 percent. For elders and individuals with disabilities, eligibility was based upon Supplemental Security Income (SSI), and the federal match was 50 percent. She clarified that the categories were defined at a federal level.

Co-Chair MacKinnon asked about the poverty rate and eligibility for persons with disabilities.

Commissioner Davidson stated that individuals with disabilities were qualified through a medical determination rather than income level.

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Senator Micciche asked if there was any income consideration for individuals with disabilities and used the example of a person with a disability that had a steady income.

Commissioner Davidson stated that under federal law, a person that meets the disability requirement will qualify for Medicaid.

Co-Chair Hoffman asked if the disability determination was a national standard.

Commissioner Davidson answered in the affirmative.

Senator von Imhof wondered if the state had adjusted any of the guidelines for eligibility determination.

Commissioner Davidson stated that the only eligibility that had changed was for Denali Kid Care. The federal poverty level standard in Alaska was 200 percent, then dropped to 175 percent at the direction of the legislature. The legislature subsequently increased the level to 200 percent. Because of the way the modified gross income calculation functioned, the effective rate was 208 percent.

Co-Chair Hoffman reminded the committee that two additional days were dedicated to the consideration of Medicaid cost drivers and reform updates. He asked members to hold questions for a later time.

Co-Chair MacKinnon wanted the department to disclose if the state was allowed to quantify the benefits that individuals were receiving.

Commissioner Davidson stated that there were additional ways to qualify for Medicaid that would be covered in subsequent slides.

[9:57:30 AM](#)

Ms. O'Brien spoke to slide 7, "Department of Health and Social Services All Funding Sources," which depicted a bar graph comparing the governor's budget scenarios from FY 15 to FY 19, broken out by fund source. She noted that the largest area of growth in the department's budget was in the federal funds the state received.

Ms. O'Brien referenced slide 8, "Medicaid Budget FY2015 to FY 2019," which showed a bar graph. She drew attention to a black line on the top of each bar that represented DGF and other state funding in the Medicaid program. The majority of the funding was federal funds, shown in grey; and the remaining GF funds were shown in blue.

Ms. O'Brien moved to slide 9, "Medicaid Enrollment and Population Data," which showed a bar graph using population

data from Department of Labor and Workforce Development. The slide showed enrollment data going back to 2000. She drew attention to the green portion of the bar, which represented regular Medicaid enrollment. The yellow portion of the bars showed Medicaid expansion enrollment.

[9:59:27 AM](#)

Commissioner Davidson looked at slide 10, "Medicaid Projections":

The DHSS projection tool relies on multiple resources
- Agency model is based on actuals as reported in IRIS or projected for the current year then adjusted for:

- monthly enrollment trends as reported to the Centers for Medicare and Medicaid Services;
- FMAP blends and participation; and
- Federal and/or State Initiatives

Ms. O'Brien stated that slide 10 and 11 would cover how the department was doing Medicaid projections. Prior to the previous year, the department had used different methodologies with which she was not familiar. She informed that the department used a contractor for trend analysis. The contractor utilized data from the department's system and offered a long-term and short-term forecast. Considerations included spending and spending adjustments from refinancing efforts. The short-term analysis was used in comparison with an analysis completed by the department.

Ms. O'Brien continued, noting that the department considered more finite details within its in-house analysis, such as payments, and FMAP categories. Multiple Medicaid process factors were considered in projections. She used the growth of assisted living homes as an example of a category to consider for projections. Cost drivers were considered and researched to provide more information to include in analysis.

Ms. O'Brien discussed slide 11, "Medicaid Projections":

Development of the agency model relies on the STAMP and the AUTH reports for reasonability:

- Short Term Alaska Medicaid Projection Report (STAMP) by Evergreen Economics, Dr. Ted Helvoigt, Ph.D.

Forecast uses a Top-Down Modeling Approach and incorporates

- IRIS Actual Monthly Expenditures
 - MMIS Monthly Enrollment Data
 - Alaska Dept. of Labor Population data
 - Information on pending agency initiatives or program changes that affect spending
- DHSS AUTH report - straight line averaging of current year direct service expenditures
 - MMIS weekly check runs
 - Reconciled to IRIS

Projection models are then updated to reflect federal and/or state Medicaid Initiatives or program changes. Multiple scenarios are created and evaluated for reasonability testing.

Ms. O'Brien reiterated that the department was in the process of setting up an open discussion, during which interested participants could meet with department staff to learn details about the projection process.

[10:03:31 AM](#)

Co-Chair MacKinnon referenced slide 11 and wondered if Evergreen Economics was the entity that presented the original analysis on Medicaid expansion. She recalled estimates of enrollees and wondered how accurate the company had been in its predictions.

Ms. O'Brien offered to look at the report and consider the accuracy. She qualified that the information the department provided the consultant had heavily influenced the accuracy of the reporting. She mentioned the state's economy as a variable. She had realized over the past year that the department had not been sharing all of the information that would have made the economist's projections as useful as they otherwise could have been. The issue had been addressed internally, and the department had begun sharing more in-depth, detailed information to inform the projections.

Co-Chair MacKinnon recalled a slide that looked at different beneficiaries. She wondered about military personnel qualifying for Medicaid.

[10:05:53 AM](#)

Senator von Imhof looked at slide 11 and referenced 'IRIS Actual Monthly Expenditures' as listed on the slide. She wondered if diagnostic codes were also provided to the contractor.

Ms. O'Brien answered in the affirmative, and confirmed that coding information was provided, as well as adjustments that went into the claims processing. The contractor worked closely with the person responsible for Medicaid reporting. It took about six weeks for the Medicaid report to be prepared and finalized for The Centers for Medicare and Medicaid Services (CMS). The report was approximately 600 pages and was done on a quarterly basis. The staff responsible for reporting gathered information from other staff and used fact-checking to enhance accuracy.

Senator von Imhof wanted to know what the consultant was being paid for the service provided. She wanted to see an executive summary with graphs and analysis. She wondered what the department intended to do to address the findings. She wondered when the Senate might see a report that indicated what the department might do with the results of the findings.

[10:08:43 AM](#)

Ms. O'Brien informed that the next set of slides from slide 12 to slide 23 would show individual breakouts of budget changes from FY 15 to FY 19; including detail about efficiencies, savings and challenges.

Commissioner Davidson displayed slide 12, "Department Summary of Budget Changes from FY2015 to FY2019":

Total Budget Increased \$582,521.6
Decrease UGF (\$91,036.2)
Increase DGF \$24,254.3
Increase Other \$15,096.7
Increase Federal \$634,206.8

- Department-wide Fund Source Change with a net zero change from General Fund and General Fund Match - \$130,519.4
- FY2018 Supplemental Requests

- \$18.0 million UGF Substance Use Disorders Grant Funding
- \$100.0 million UGF Medicaid Services

The slide showed overall changes across the department between FY 15 and FY 19.

Co-Chair Hoffman thought the slide was interesting.

Ms. O'Brien confirmed that the slide compared FY 15 to FY 19. She pointed out that there was detail on the supplemental request on the bottom of the slide. She reiterated that the \$100 million in UGF for Medicaid was anticipated to be reduced for the \$7 million CHIP reauthorization.

Commissioner Davidson clarified that the top of each of the slides showed the budget change from FY 15 to FY 19, and the bullet points below showed the change from FY 18 to FY 19.

Ms. O'Brien turned to slide 13, "Alaska Pioneer Home Budget Changes from FY2015 to FY2019":

Decrease UGF (\$3,208.1)
Increase DGF \$2,047.5
Increase Other \$1,646.6
Increase Federal \$531.3

- Increment for FY2019 \$525.0 Federal Receipts for Veteran's Administration rate increase effective October 1, 2018

Ms. O'Brien stated that the increment of \$525,000 in federal receipt authority was due to an increased rate of per diem in the Veterans Administration.

[10:11:44 AM](#)

Ms. O'Brien spoke to slide 14, "Division of Behavioral Health Budget Changes from FY2015 to FY2019":

Decrease UGF (\$16,996.3)
Increase DGF \$7,140.2
Decrease Other (\$1,118.5)
Increase Federal \$3,875.9

- Alaska Psychiatric Institute currently undergoing renovations to meet the Joint Commission safety requirements.

Ms. O'Brien thought it was important to note that costs in behavioral health had been attributed to the Alaska Psychiatric Institute (API), which comprised 1.95 percent of the department's total budget. The institute had the majority of staffing within the division. In order to achieve safety in the institution, there were high staff levels and significant overtime.

Commissioner Davidson added that when API was first opened in 1963, it had approximately 220 beds and had then increased capacity to 225 by 1965. Nationally there was an effort to deinstitutionalize Americans with disabling conditions and provide more appropriate care. When the state was planning to build a new facility for API, consultants' analysis had indicated that a 124-bed facility was appropriate for the state's population, however only 80 beds were accommodated. She discussed the pressures of API. She thought everyone could agree that when a business model was changed in such a way, there would be challenges. She wanted to underscore that renovation work was putting additional pressure on the institute and had necessitated a loss of 10 beds. The second phase of the renovation would occur in 2018.

Ms. O'Brien reviewed slide 15, "Office of Children's Services Budget Changes from FY2015 to FY2019":

Decrease UGF (\$329.0)
Increase DGF \$2,600.0
Increase Other \$4,338.1
Increase Federal \$15,077.7

- Increment to Front Line Social Workers to fully fund 31 positions added to the FY2018 budget - \$1,440.5 Total (\$481.8 Federal and \$958.7 UGF)
- Increment to Front Line Social Workers for increased federal claiming - \$6,500.0 Federal

Ms. O'Brien informed that the Office of Children's Services (OCS) budget comprised 5.04 percent of the total department budget. The office had a total of 565 positions, and since FY 16 had increased staffing levels by 65 positions. In FY 17, OCS conveyed that child protective services reports

were the highest ever documented. She thought adequate staffing levels had resulted in more children being discharged than taken in as the office dealt with permanency issues.

Vice-Chair Bishop thought numbers related to OCS were disturbing. He thought there was a correlation with a report from the Alaska Criminal Justice Commission that discussed crimes perpetrated against children. He voiced his concern and thought that the Alaskan people needed to do something to fix the problem.

10:16:53 AM

Ms. O'Brien discussed slide 16, "Health Care Services Budget Changes from FY2015 to FY2019":

Decrease UGF (\$1,723.0)
Increase DGF \$216.9
Decrease Other (\$1,570.4)
Increase Federal \$583.3

- Increment in Residential Licensing for increased federal claiming - \$418.5 Federal

Ms. O'Brien detailed that the Health Care Services budget was .67 percent of the department's total budget; and it had 127 positions. Overall, Health Care Services had reduced its staffing level by 7. The request for increased federal claiming for the FY 19 budget was a result of some increased claiming potential in administrative costs.

Ms. O'Brien displayed slide 17, "Juvenile Justice Budget Changes from FY2015 to FY2019":

Decrease UGF (\$455.6)
Increase Other \$27.5
Increase Federal \$3.8

- Funding for the Nome Youth Facility is in the base budget.
- Work underway to implement recommendations of the privatization feasibility study to transition 4 of the 14 secure beds to long term treatment beds.

Ms. O'Brien specified that the Division of Juvenile Justice budget comprised 1.8 percent of the department's budget.

The division had 468 positions, and since FY 15 had reduced staffing levels by 34 positions.

Senator von Imhof observed a pattern in the slides of increasing DGF in each category. She asked about the source of the funds and wondered if it was sustainable.

Ms. O'Brien relayed that DGF was from different sources for each division. The funds could be in the form of program receipts from fees, or from rebates from the federal government. There was a great deal of variance depending upon the collection point of the receipts. She used the example of OCS, which had DGF that was largely made up of receipts from Department of Revenue for child support payments and SSI benefits for children in custody. The fund sources typically had been sustainable, and OCS had been able to collect almost the full \$5.6 million it had in DGF over the course of the previous two years. The child support receipts were not materializing in the current year, and in most years, there was some fluctuation. She understood from DOR with regard to OCS that there were less people working and a smaller Permanent Fund Dividend inhibited the ability to collect the funds.

Senator von Imhof heard that there was a lot of variance, and much depended upon federal programs. She concluded that the department did not know if the DGF was sustainable.

Ms. O'Brien thought the department had a good understanding of expected funds. The details were particular to each division and could involve extenuating circumstances. She commented that OCS was an extreme example. Typically, when there was excess authority the department decremented it out of the budget. When longer-term trends occurred, the department examined whether it was necessary to decrement the funds or do a fund-source change.

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Vice-Chair Bishop thought there was a common theme throughout the presentation - that was related to the economy and the ability to make a living wage. He wondered how many people were working two jobs. He thought it was important to not stifling economic growth in the state.

Senator Micciche thought that there would be federal changes. He thought that the state was setting up an

entitlement and a level of service that it could not provide. He wondered if the department recognized that there would be changes to the Affordable Care Act (ACA). He did not support an aggressive income tax. He wondered how the department planned to react if the federal government changed its level of support for Medicaid.

Commissioner Davidson affirmed that the department had spent time considering all the changes contemplated to the ACA. The department had been in constant contact with the congressional delegation to provide information on the impact of ACA changes on Alaska. She discussed recent changes and had communicated to the delegation about the impact the first seven years of the changes to the state. She emphasized that under all the scenarios, the changes for Alaska and all other Medicaid-participating states would be significant. She stated that the department was monitoring the situation very carefully and thought that there would not be a wholesale repeal of ACA..

Commissioner Davidson thought it seemed like there was federal funding available for other programs. She noted that military spending had increased, which was helpful to the state.

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Senator Micciche reiterated that he did not support an income tax. He mentioned the federal and state deficits. He thought the focus should be on the economy and getting people to their full human potential so that a much smaller proportion of people would need services.

[10:28:08 AM](#)

Senator von Imhof wondered how the commissioner would restructure the department and prioritize programs if there was a significant change in federal funding. She asked what the commissioner and staff were doing to meet the challenge of affordability.

Commissioner Davidson emphasized that Alaska had to meet the requirements of federal law. As the changes to ACA were being contemplated the department had done its best to provide information on potential impacts, such as the number of Alaskans with disabling conditions and the number of children that could potentially lose healthcare. She

continued that the same could be said for many of the state's public assistance programs, most of which were federal programs implemented by the state. There were exceptions under public assistance for which there was no federal requirement. She cited the Senior Benefits Program, which was fully state-funded and would sunset in 2018. She mentioned the Alaska Heating Assistance Program, which had been eliminated in FY 16.

Commissioner Davidson discussed other programs in public assistance such as the Supplemental Nutrition Assistance Program (SNAP), and the Alaska Temporary Assistance Program, federal heating assistance, the Childcare Program Office, and the Women, Infants, and Children (WIC) program. She continued that one of the challenges in the DHSS budget was that the vast majority of the budget was federally mandated formula-based or entitlement programs.

[10:32:10 AM](#)

Ms. O'Brien referenced slide 18, "Division of Public Assistance Budget Changes from FY2015 to FY2019":

Decrease UGF (\$35,700.5)
Increase DGF \$650.0
Increase Other \$154.7
Increase Federal \$3,147.0

- Funding for the Senior Benefits Program was added into the FY2019 budget - \$19,986.1 UGF

Ms. O'Brien informed that the budget for the Public Assistance Program made up 9.19 percent of the department's budget. The program had 556 positions and had reduced by 9 positions since FY 19. The funding for the Senior Benefits Program was added into the FY 19 budget, and the program was due to sunset in 2018.

Ms. O'Brien moved to slide 19, "Division of Public Health Budget Changes from FY2015 to FY2019":

Decrease UGF (\$16,027.9)
Increase DGF \$12,495.1
Increase Other \$659.2
Increase Federal \$646.4

- Decrement to the Tobacco Use Education and Cessation Funding as part of the multi-year plan for sustainability. - \$375.0

Ms. O'Brien relayed that the Division of Public Health budget comprised 3.6 percent of the department's overall budget. The division had 426 positions and had reduced staffing by 65 positions overall.

Ms. O'Brien looked at slide 20, "Division of Senior and Disabilities Services Budget Changes from FY2015 to FY2019":

Decrease UGF (\$5,274.5)
Increase DGF \$0
Increase Other \$516.8
Increase Federal \$3,718.0

- Reorganizational effort to consolidate grant programs into a single component of the budget for administrative efficiencies in managing the grants.

The Division of Senior and Disability Services comprised 1.9 percent of the department's budget. The division had 175 staff total and had increased staffing levels by 2 positions. In the current year's budget, the division had reorganized to reduce administrative costs by reorganizing several grants components into a single component. The change allowed for a more fluid process of issuing grants and increase efficiency.

Commissioner Davidson added that in the budget books it appeared that there were 166 employees in Senior and Disability Services in the category of administration. She clarified that the positions were not actually for administrative support functions. Due to the size of the division, many of the positions were consolidated to a single budget component; which included protective service specialists, health program managers, medical assistants, administrators, and nurses. Of the 166 positions in the administration category, 10 were truly administrative support staff (including the director).

[10:35:05 AM](#)

Ms. O'Brien discussed slide 21, "Department Support Services Budget Changes from FY2015 to FY2019":

Decrease UGF (\$9,036.1)

Increase DGF \$0

Increase Other \$5,486.5

Decrease Federal (\$10,794.2)

- Decrement federal authority in the Performance Bonus component due to funding no longer available. - \$5,300.0 Federal
- Transfer 16 positions to the Office of Information Technology in the Department of Administration.

Ms. O'Brien noted that the Support Services budget included IT, facilities staffing, and capital budgets. She stated that the GF spending in the had been reduced by \$9 million in the previous five years. Department Support Services made up 1.3 percent of the overall departmental budget. There were 222 staff, which had been reduced by 48 positions over the previous several years.

Ms. O'Brien displayed slide 22, "Medicaid Services Budget Changes from FY2015 to FY2019":

Decrease UGF (\$1,867.0)

Decrease DGF (\$895.2)

Increase Other \$4,596.2

Increase Federal \$617,722.3

- FY2018 Supplemental Request
 - \$100,000.0 UGF for increased non Medicaid Expansion enrollment
 - \$525,000.0 Federal to reflect increases for Indian Health Services and Medicaid Expansion growth

Ms. O'Brien anticipated that spending would level off as Medicaid enrollment showed a smaller increase. Current waiver services were an alternative to institutional services, which were mandatory. In FY 17 the department spent \$242 million on waiver services, which made up 12 percent of the overall Medicaid budget.

Commissioner Davidson stated that the department was frequently asked about the category of Medicaid mandatory versus optional services. She clarified that Medicaid was federally authorized and state administered. State Medicaid programs had the option to provide some services for adults. There were no optional services for children, because children must receive all optional services under

the Early Periodic Screening Diagnostic and Treatment Program. The department had 24 optional services available for Alaskans, provided because they were a more cost-effective way to deliver another kind of service that might be considered mandatory. Podiatry services were not covered, but the state was required to pay the Medicare cost-share for the service for individuals dually enrolled in Medicaid and Medicare. She informed that one of the top four optional services the state paid for were prescription drugs.

Co-Chair MacKinnon asked how many opioids were included in pharmaceutical benefits.

Commissioner Davidson offered to provide the information at a later time. She stated that the department had looked at the number of opioids being prescribed when associated legislation was introduced. Providers had new parameters imposed on the prescription of opioids.

[10:40:52 AM](#)

Co-Chair MacKinnon was aware of the new parameters mentioned by the commissioner. She asked for input on pharmacy prescriptions filled by Medicaid - she wondered if there was another way to help intervene in the opioid crisis in the state. She wondered about individuals on Medicaid that were suffering from addiction and receiving opioids paid for by Medicaid.

Commissioner Davidson stated that one of the biggest increases in spending on prescription drugs was for things such as Hepatitis-C medication. She confirmed that previously the cost for treating Hepatitis-C was in the \$60,000 to \$80,000 range; there was a new drug on the market that would cost in the \$20,000 range. As expensive prescriptions became available as generic drugs, there would be lowered costs.

Commissioner Davidson listed the other optional service of behavioral health, which included mental health and substance abuse treatment services. Personal care service was also an optional treatment. Providing care in a patient's home was much less costly than providing care as a mandatory service in a skilled nursing facility.

Senator Micciche asked if there was a reason why the Alaska Mental Health Trust Authority (AMHTA) was not picking up the \$18 million increment in UGF budget for substance abuse treatment.

Ms. O'Brien relayed that the department had not discussed the matter with AMHTA. The trust prepared its budget in advance that of the department, and the process was established. Conversations with the trust had not happened at the time the supplemental budget request was being prepared.

Co-Chair Hoffman thought Senator Micciche was the chair of the Senate Finance Subcommittee for DHSS.

Co-Chair MacKinnon pointed out that the state could not tell AMHTA how to spend its money. Rather, there was a specific list of options.

[10:44:53 AM](#)

Ms. O'Brien turned to slide 23, "Department Capital Budget Requests":

- Office of Children's Services Safety and Support Enhancements: \$1,239.4 Total (\$350.8 Federal/\$888.6 UGF)
 - Mental Health Essential Program Equipment: \$500.0 Total (\$250.0 MHTAAR/\$250.0 AHFC Dividends)
 - Mental Health Home Modification and Upgrades to Maintain Housing: \$1,050.0 Total (\$750.0 AHFC Dividends/\$300.0 MHTAAR)
- The Governor's "Alaska Economic Recovery Plan"
- Emergency Medical Services Match for Code Blue Project: \$1,000.0 UGF
 - Pioneer Home Renovations and Repairs: \$2,000.0 UGF

Ms. O'Brien relayed that most of the department's capital budget requests were for OCS. The funds would be used to increase safety in some field offices where safety was a significant issue. The office had seen an increase in situations where staff had been threatened. She discussed the request for program equipment. She stated that the request was common to most years. She discussed the modifications and upgrades to help individuals maintain housing. She discussed the Code Blue Project, which supported community purchases, and essential medical

services. She specified that the 'Pioneer Home Renovations' listed on the slide were for the Anchorage Pioneer Home and the Ketchikan Pioneer Home and would provide additional capacity for individuals with Alzheimer's disease and related dementia.

[10:47:31 AM](#)

Commissioner Davidson spoke to slide 24, "Questions for the Department":

- Major Cost Drivers
- Cost to Advertise various social programs (State or Federal Funds)
- How does Alaska's social service programs compare to other states?
- Money spent per recipient, per capita on social service programs.
- Breakout by community
- Number of programs across the department that seem like there is duplication in programs.
- How many programs can one person qualify for at any given time?
- CHIP Program update.
- Update on Efficiency/Cost reduction plans presented to legislators in 2016 session.

Commissioner Davidson reiterated that the biggest cost drivers in the department's budget were formula programs the state was required to comply with such as Medicaid, OCS, and the Division of Public Assistance. She addressed the question about the cost of advertising for various social programs and if certain ads had led to increased enrollment. She informed that the advertising for the department were largely paid for with federal funds, and often were a requirement of the department's federal partners. She used examples of programs the federal government paid for advertising including WIC and the Play every Day Program.

[10:49:30 AM](#)

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[10:50:28 AM](#)

RECONVENED

Commissioner Davidson continued to speak to slide 24 and using state funding for advertising. She discussed the legalization of marijuana, and the concerns about informing youth about the effect of the drug on young brains. The department did some advertisements that made sure young people would understand the effects marijuana had on young brains and provided notice to the public about legalities.

Commissioner Davidson addressed how Alaska's social services programs compared to other states. She noted the difficulty in comparing other states, which provided many services through counties. She stated that the state's federal programs abided by federal guidelines. Some were adjusted for the higher cost of living in the state. She mentioned the Heating Assistance Program, which was unique to Alaska and had since been discontinued.

Commissioner Davidson addressed the fourth bullet on the slide and discussed how much money was being spent on social service programs per capita. She was unsure of the question that had been asked of the department.

[10:53:04 AM](#)

Co-Chair MacKinnon referenced an earlier conversation in which she asked for data divided by program. She stated that the information would help to manage where state assets were being deployed. She asked to see a list quantifying funds spent on DHSS services broken down by Senate district or region. She wondered about the possibility of providing a family a statement of benefits that enumerated the cost of benefits being received.

Commissioner Davidson referenced a one-page document entitled "Public Assistance Programs," (copy on file) detailing how a person may qualify for different programs.

Co-Chair MacKinnon wanted to know where assets were being deployed. She recognized that there were regional differences in unemployment and poverty. She thought there were families that might necessitate care coordination due to the number of services received. She discussed the poverty level and thought the state could not continue to provide the same level of services. She referenced the Dillingham area, and discussed seasonal employment. She wanted to quantify the level of services.

Commissioner Davidson appreciated the clarification.

[10:57:45 AM](#)

Co-Chair Hoffman reminded that the committee meetings for the following two days would address Medicaid cost drivers and reform updates. He requested that members put any additional comments in writing to provide the department by the end of the business day. He asked if the members wanted to make any final comments.

Senator Micciche remarked that DHSS played a very important role. He discussed the total funding for the department divided by the number of recipients. He discussed employment rates in the state and wondered if it was time for a work or training requirement to help people reach their potential. He thought the state had increased the availability of benefits to the degree that it was easier for people to not pursue dreams. He thought the department had to be an active partner in reducing costs.

[11:00:59 AM](#)

Commissioner Davidson shared the committee's concern about growth in DHSS programs. She stated that the department appreciated the value of services it provided to Alaskans. The department viewed its services as a way to help people back on their feet. She continued that the department was required by federal law to have a number of work, employment, and training opportunities available; and could provide some examples to the committee. She discussed ways in which DHSS served individuals that needed assistance to become self-sufficient.

Co-Chair Hoffman stated that the committee had been doing things a little differently the past two years and would be considering the four major cost drivers of the state. He recalled that the Department of Transportation and Public Facilities had presented to the committee; and the University and the Department of Education and Early Development had yet to present. He stated that the Senate Finance Subcommittee for DHSS was chaired by Senator Micciche and included members Senator Coghill, Senator Giessel, Senator Kelly, and Senator Olson. There would be a review of subcommittee recommendations before the full committee. He reiterated that the following two days would

include presentations on Medicaid cost drivers and reform updates.

SB 144 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

11:03:26 AM

The meeting was adjourned at 11:03 a.m.

