

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

January 27, 2022

11:34 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION(S): FISCAL POLICY IMPACTS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JARED KOSIN, President/CEO
AK State Hospital and Nursing Home Association
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Medicaid Spending & the Impact on Health Care."

MICHELE GIRAULT, Chief Director
Hope Community Resources;
Board President
Key Coalition of Alaska
Anchorage, Alaska

POSITION STATEMENT: Provided invited testimony about fiscal impacts to the healthcare industry.

LISA PARADY, PhD, Executive Director
Alaska Council of School Administrators

Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "The Proposed Fiscal Plan and Public Education Funding."

BRIDGETT WEISS, PhD, Superintendent
Juneau School District;
President Elect
Alaska Council of School Administrators
Juneau, Alaska

POSITION STATEMENT: Provided invited testimony on fiscal impacts on Alaska's Schools.

LON GARRISON, Executive Director
Association of Alaska School Boards
Juneau, Alaska

POSITION STATEMENT: Provided invited testimony about the fiscal impacts of education funding.

ACTION NARRATIVE

[11:34:38 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:35 a.m. Representatives Wool, Josephson, Schrage, Story, and Spohnholz were present at the call to order. Representatives Eastman and Prax arrived as the meeting was in progress.

PRESENTATION(S): Fiscal Policy Impacts

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CHAIR SPOHNHOLZ announced that the only order of business would be a presentation on Fiscal Policy Impacts.

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JARED KOSIN, President/CEO, Alaska State Hospital and Nursing Home Association, provided a PowerPoint presentation, titled "Medicaid Spending & the Impact on Health Care" [hard copy included in the committee packet]. Alaska State Hospital and Nursing Home Association's (ASHNHA's) mission is advancing the shared interests of Alaska's hospitals, nursing homes, and healthcare partners, to build an innovative, sustainable system of care for all Alaskans. For over 60 years, ASHNHA members have worked together to improve health care in Alaska. The fiscal year 2023 (FY 23) 10-year plan will flat fund Medicaid

and will project annual growth at 1 percent after year two. The Medicaid Enrollment and Spending in Alaska forecast (MESA Report) covers 20-year cycles, was updated in 2021, and is projected to increase by 3.8 percent per recipient per year for Medicaid. The 2022 report downgraded that rate to 2 percent. Historical performance of average annual growth between 2016-2019 saw general fund appropriation at a 2.1 percent rate. The average annual growth rate for 2020-2023 was 0.7 percent. The pandemic caused Medicaid utilization and healthcare service utilization to drop significantly.

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MR. KOSIN demonstrated that the payer mix shows volumes by payer type and is relevant because it shows that Medicaid is a significant wedge at almost 30 percent of the total volume. Payer mix varies by service type, for example 90 percent of services of a nursing home come from Medicaid and any change in fiscal policy regarding Medicaid would significantly impact nursing home operations. More than 50 percent of the payer mix is made up of government programs that often pay less than cost and start operations in a deficit which results in increased costs of care.

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MR. KOSIN described the healthcare system continuum and that the most expensive part of the continuum is the hospital inpatient environment and the least expensive is at the community care or primary care level. Capacity deficiencies drive and trap patient care at the highest cost point. For example, if you don't have access to primary care and need to go to the hospital for services, it will cost way more than it should to get care. Bed availability in nursing homes is extremely low, if a patient goes to the hospital and there isn't space in a nursing home, the patient incurs uncompensated care because the patient doesn't meet the criteria for staying in the hospital, but also can't be safely discharged. The State of Alaska General Relief Assisted Living Home Program helps Alaskans who lack resources to meet an emergent need and are not eligible for assistance from other programs such as Medicaid. The waitlist system prioritizes those discharged from hospital or long-term care facility. The current General Relief Assisted Living home rate is \$70 per day and has been at that rate since July 1, 2002. Medicaid pays \$170.27 per day and the rate was last updated on July 1, 2021. Because of long wait times for placement in assisted living facilities, some patients are in the hospital

for over 100 days and can't be discharged because they are waiting to qualify for Medicaid and no assisted living facility will take them due to the low general relief rate. This problem is widespread. People with behavioral issues get stuck in the hospital because facilities can't accept them due to the low rate. It takes anywhere from 45 days to 4 months to qualify for Medicaid, and in the meantime, patients are incurring high costs by staying in the hospital, the most expensive environment of care.

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MR. KOSIN said that simply put, a unit of service multiplied by a rate of payment equals the Medicaid expenditure. Aggressive targets can be hit, some critical steps must be taken including planning, projecting, and time. Mr. Kosin, in response to Representative Wool, said that the General Relief rate has been an ongoing issue for years because it is in the general fund. Money saved by avoiding uncompensated care will more than cover the cost of increasing the General Relief rate. The amount of time it takes to qualify and process general relief has also been a contributing factor. Matching Medicaid at \$170 would make an enormous difference. The General Relief Assisted Living Home rate is a line item in the Health and Social Services budget.

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MICHELE GIRAULT, Chief Director/Board President, Hope Community Resources/Key Coalition of Alaska, referenced the Joint Legislative Education Funding Task Force Report to the Governor and Legislature [included in the committee packet]. Hope Community Resources has been a provider of community support in Alaska for 53 years. Key Coalition of Alaska is comprised of stakeholders representing people experiencing disabilities, families, advocates, and a range of providers who provide services from infant learning programs, child and adolescent programs, and adult services. Fiscal constraints are pushing community provider systems to the brink of collapse. Rates for home and community-based services including personal care services are governed by regulation 7AAC145520 which says that rates should have been established every four years using provider cost data collected for rebasing purposes. Although providers have submitted cost surveys during this time, no rate rebasing has occurred in 2014 and 2018. A fee for service system dependent on Medicaid for reimbursement created litany of

federal mandates, regulatory expectations, and changes adding unfunded administrative burden on providers.

MS. GERAULT said requirements under the Affordable Care Act, expectations to move to an electronic health record required under the American Recovery and Reinvestment Act, self-audits required under Medicaid reform SB 74, Center for Medicare and Medicaid Services requirements, electronic visit verification, accreditation requirements, increased training requirements, requirements for note review, et cetera have required providers to allocate additional funds and human resources for compliance without any rate adjustment. She said 33-66 percent of services to some of the most vulnerable people in Alaska are not offered due to lack of staffing because of the "great resignation." A lack of rate adjustment has demanded providers create their own cost containment measures including reducing sick leave, cutting positions, closing assisted living homes, and refinancing properties, yet there were still multiple-year operating losses. We share a vision of a flexible system where each person directs their own support based on their strengths and abilities towards a meaningful life in their home, job, and community. The vision includes supported families, professional staff, and services available throughout the state now and into the future. The health system is in crisis due to staff retention.

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MS. GIRAULT, in response to Representative Josephson, referred to a document, entitled "Medicaid Waiver Home and Community Based Services Rate Study Background and Recommendations Effective Health Design" [included in committee packet] that outlines the rate adjustment expectations. She confirmed for Representative Prax that the Key Coalition has a wide range of partnerships. She noted for Representative Story that the aforementioned report did an analysis on other states that may help to guide the committee to address the fiscal reality along with the needs of the community-based system.

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LISA PARADY, PhD, Executive Director, Alaska Council of School Administrators (ACSA), provided a PowerPoint presentation, titled "The Proposed Fiscal Plan and Public Education Funding." She noted that ACSA's unifying purpose is to support educational leaders by providing a collective voice that champions possibilities for all students' purposeful advocacy for public education. While student achievement is the number one

priority, adequate funding remains the most critical need. The base student allocation (BSA) in 2020 dollars hasn't changed since FY 19. There has been a downward trend in the BSA all while fixed costs like electricity, insurance, et cetera, are increasing. The value of the BSA has decreased despite any increases in recent years. Flat funding for education is a cut to the budget of every public school in Alaska because it does not account for inflation. The blue line in the graph on slide 5 which was created by the legislative finance office, shows the significant erosion of the inflation adjusted value of the BSA. The BSA has been cut by 16 percent from FY 07 to FY 22. Nationally, inflation has increased by 7 percent in the last year. Alaska consumer price index increased by 7.2 percent last year.

DR. PARADY said that school districts must fund the increasing cost of health care, utilities, shipping costs, and supplies. The budget has not met the need for nurses, substitute teachers, counselors, and special education teachers. The urgency of increasing the BSA is prudent due to the impacts of the pandemic which has exacerbated already existing issues in the operating budget. Early notification and stable funding are crucial for sound financial management as well as recruitment and retention of quality educators. Unpredictable funding leads to district uncertainty, which leads to district instability and further, will negatively impacts instruction. Implementation of a long-term, multi-revenue fiscal plan remains imperative to maximize the ability of districts to meet student needs. Diversified revenue streams are critical in the current fiscal climate to address any deficit and ensure the ability to fund service increases associated with economic development, inflation, deferred maintenance, and capital construction requirements. Reliable and predictable funding will lead to district certainty and district stability and will increase student achievement.

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DR. PARADY said timely reliable predictable revenue for schools is a critical need. The ACSA is also focused on student achievement, the social emotional needs of students, access to early childhood education, and retaining and attracting qualified educators. Currently, Alaska's benefits, retirement, and salary are not competitive with the Lower 48 which has made it difficult to recruit and retain teachers. The ability of Alaska schools to attract teachers is eroded by flat funding BSA.

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BRIDGETT WEISS, PhD, Superintendent, Juneau School District; President Elect, Alaska Council of School Administrators, pointed out the compounding impacts that occur alongside inflation includes contract negotiation. Property liability, auto insurance, and workers compensation insurance has doubled from \$500,000 to \$1 million in the last year for the Juneau School District. Those increased fixed costs were absorbed into required expenses in the budget. Next year, property insurance alone will increase another \$452,000. The deductible for property insurance and increased from \$100,000 to \$500,000 in the past five years. Utilities are increasing. There are shortages in the highest need positions, especially counselors. There is not enough funding to fill essential positions for programs that need the most help to close the achievement gap for Alaska Native, low-income, and English learning students. Grant services are limited in scope and are not sustainable.

Dr. WEISS relayed that with the deferment of maintenance efforts, facilities across the state will experience rising costs in future maintenance as problems are exacerbated due to the lack of funding to solve issues as they are needed. For example, at Riverbend Elementary in Juneau there was a significant flood, a water table issue which increased moisture levels in the building causing damage to carpets, and significant leaks in the roof led to unusable classrooms. In response to Representative Wool, she answered that the Juneau School District is recouping students who had been utilizing remote learning resources during the pandemic. Because the BSA formula doesn't fully count remote students, districts receive less funds to serve them. She gave an example that a ream of paper cost \$2.97 in 2011 and now costs \$13.69.

12:53:03 PM

LON GARRISON, Executive Director, Association of Alaska School Boards, read from the following prepared remarks [original punctuation provided]:

Good afternoon, Madam Chair and members of the House Ways & Means Special Committee. My name is Lon Garrison, and I serve as the Executive Director of the Association of Alaska School Boards. Thank you for the opportunity to testify today. My testimony today is supported by 2 resolutions of the AASB membership. These resolutions address the need for long-term,

sustainable and predictable education funding. These resolutions are titled: Resolution 2.1 - SUSTAINED, RELIABLE AND ADEQUATE STATE FISCAL PLAN AND EDUCATIONAL FUNDING FOR ALASKA'S STUDENTS THROUGH A NON-VOLATILE FUNDING SOURCE and Resolution 2.2 - URGING EARLY, ADEQUATE, EQUITABLE, AND PREDICTABLE FUNDING OF PUBLIC EDUCATION. I will speak to you today regarding Governor Dunleavy's recently proposed 10-year funding plan for education and its impact on school governance. The Governor's plan maintains K-12 education funding annually at \$1.215 billion through FY24 and then 1.5% growth for FY25 and beyond. This would mean that the BSA must remain at the current \$5,930 per student for the next two years with very little change thereafter. Locally elected school boards have been delegated the authority to implement a system of public education required by the Alaska Constitution Article 7, Section 1. School board members are tasked with governing their districts and allocating funds to execute an educational plan for all students attending their public schools. It is a highly complex task. In Alaska, school boards have no taxing authority. They, therefore, must rely solely on revenue from the state, the federal government, and in organized areas at least a minimum local contribution to fund education. The highly uncertain nature of annual appropriation for education funding as part of the state's general fund budget, and potential executive vetoes, continually creates uncertainty that makes it difficult to sustain a maintenance of effort in an effective and efficient manner. Time and again, boards and superintendents must make hard choices that may result in the reduction of staff or the elimination of programs and services, which can negatively impact student achievement. The recently presented 10-year plan for education funding put forward by the Governor is an unimaginative and minimalist approach. It substantially ignores increasing costs, which are inevitable. While it appears stable and potentially sustainable, it continues the inadequacy we face today in meeting the needs of our public-school students. Let me highlight a few areas within a school district budget that are the biggest drivers: 2 Salaries and benefits make up on average 80 to 85 percent of the district budget. Most districts operate through collective bargaining agreements that set the terms for salary advancement

and benefits. In most instances, most agreements include a "step and lane" schedule that helps to ensure annual salaries see minimal growth that helps offset yearly inflation. In my experience, most of these schedules end up with a 1 to 1.5% yearly increase. Thus, using the Governor's proposed funding plan, there would not be the resources to exceed these current agreements without negatively impacting other elements of the budget. If we hope to improve teacher and administrator retention and recruitment, Alaska must become competitive with the nation's salaries and benefits. Providing an excellent education for every student every day means we must continually invest in developing and retaining the best and the brightest, especially those from Alaska. As a result of our inability to adequately fund education, I put forward this example. One of the many services AASB provides to districts is the facilitation of superintendent searches. Over the last five years, as I have worked with school boards to find their next superintendent, I have seen the number of applicants diminish significantly. The experience and quality of the candidates applying have also dramatically changed and are now dominated by applicants with no experience as a superintendent. More and more, we see candidates with minimal administrative expertise. Some of this is a result of the fact that administrator and superintendent turnover is so high there is very little time available for candidates to gain valuable experience as building-level administrators. Our ability to recruit and retain quality classroom teachers that ultimately become the principals and superintendents of the future is adversely impacted by public education funding that is unstable and inadequate. Maintenance and operations account for the next 10 to 15% of a district budget. This is an incredible challenge for school boards as they weigh the needs of maintaining school system infrastructure against the need for certified and classified staffing. For our education system to work, students and staff need structures that create conducive learning environments, whether physical or virtual. One result of the ongoing pandemic is that we have seen how important in person learning is. The human-to-human interactions between students, teachers, and their fellow students cannot be understated. The maintenance of effort to keep our aging schools useful

to good learning cannot be underscored enough. Most of Alaska's schools date back to the 80s and 90s, meaning most of them are nearing the end of their useful design life. School programs, administration, and other expenses make up the rest of the 5 to 10% of district budgets. It is often within these school programs, such as extracurricular activities, extra educational programming, field trips, and student and family engagement, that we find those most intrinsic things that may connect a student in a positive way to their school. These are often the most vulnerable elements of the school budget that boards must evaluate. While grant funding may provide for the support of some of these activities, it does not cover such things as basketball, volleyball, wrestling, drama and debate and so on. For most students, these may be the essential connections that keep them engaged in the rest of the educational program. For Alaska, the cost of many of these programs is extremely high often due to the cost of transportation. 3 In closing, when I review the proposed 10-year plan for education funding from the Governor, a proposal that is essentially flat-funding, I don't see the opportunity and hope to improve our system, to attract or train the best and the brightest to be in our classrooms and to maintain our aging buildings and systems. I see the continued struggle for school boards to meet only the minimum affordable effort with little room to focus on innovations and systems to improve student outcomes. I see a tradeoff for short-term, individual financial gain versus the long-term investment in Alaska's future, our students. Alternatives to the Governor's proposal, such as CS HB4003 (W&M), provides a substantive opportunity for the legislature to move forward with a statute that acknowledges the importance and necessity of providing predictable, sustainable, and more adequate funding for education. The proposed language in CS HB 4003(W&M) has provisions that address those times when the formula draw does not meet the BSA and also when the formula draw goes beyond the BSA need. This seems to be a responsible solution. As I stated previously, locally elected school boards have been delegated the authority to implement a system of public education on behalf of the state of Alaska. In order to do that, they rely upon state, local and federal governments for revenue. Locally elected boards implement the

local control model that has served Alaska well but depend on your support. Thank you for the opportunity to testify today. I would welcome any questions you might have.

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MR. GARRISON, in response to Representative Prax, expressed his concern that funding that considers broader possibilities is greatly diminished because schools have been operating in crisis management mode. In response to Representative Story, he mentioned that pupil transportation and food service needs are not met. The cost of food and fuel due to inflation has negatively impacted school district budgets.

CHAIR SPOHNHOLZ thanked testifiers, and in response to Representative Prax cited the Constitution of the State of Alaska Article 7, Section 1, which says "regarding public education, the legislature shall, by general law, establish and maintain and system of public schools open to all children of the state and may provide for other educational institutions." She noted that there is a minimal obligation to maintain public education. Alaska is reaching a crisis state regarding public education and public health.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 1:09 p.m.