

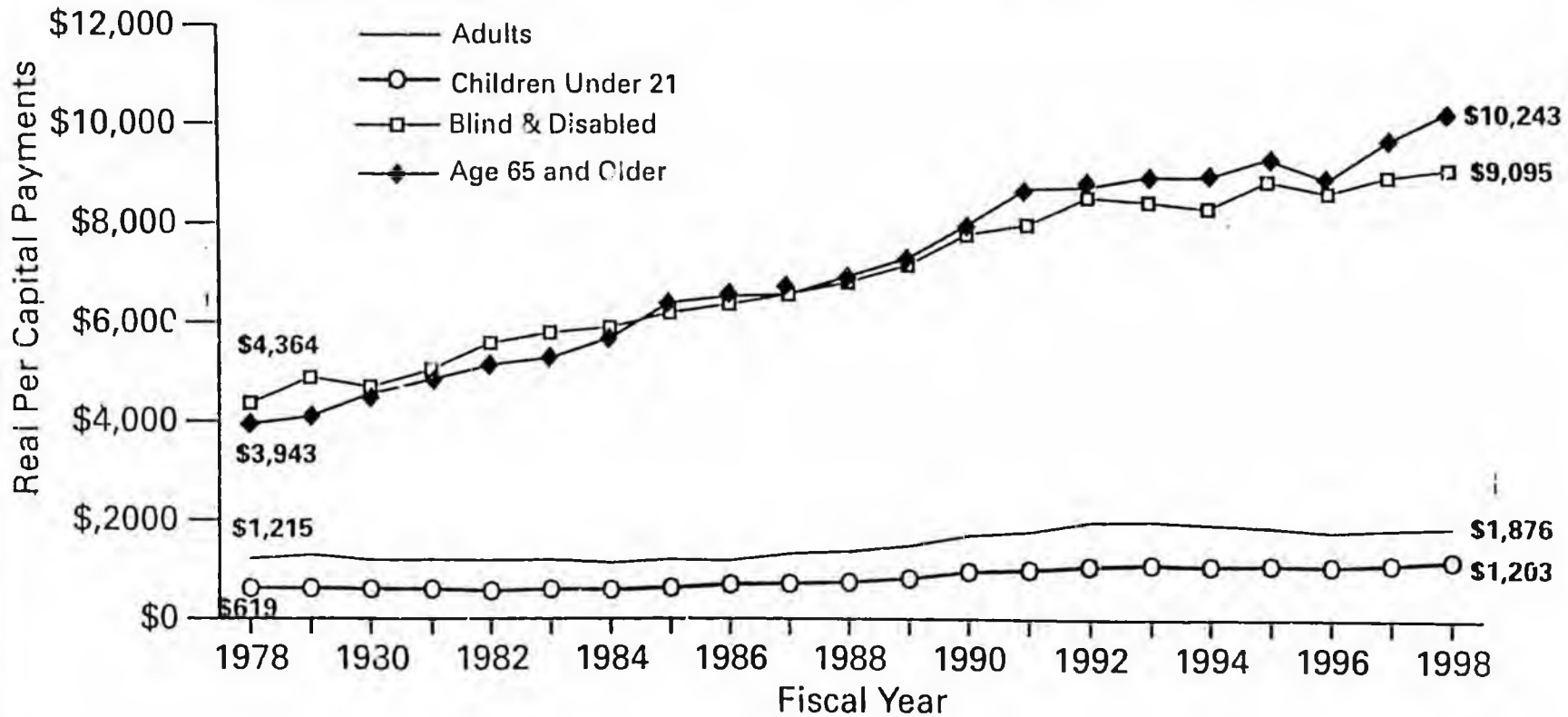
**ALASKA LEGISLATURE**

**2645**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004**

**Figure 2.12 Average Real Medicaid Payments per Person Served,  
Fiscal Years 1978-1998**

*Per capita payments for the elderly, blind and individuals with disabilities more than doubled while per capita payments for children and adults had modest growth rates.*



**Note:** (1) Data shown above are expressed in 1998 dollars; (2) for FY 1998 "payments" describe direct Medicaid vendor payments and Medicaid program expenditures for premium payments to third parties for managed care (but exclude DSH payments, Medicare premiums and cost sharing on behalf of beneficiaries dually enrolled in Medicaid and Medicare), while data from previous years only include direct vendor payments; (3) the term "adults" as used above refers to a category of non-elderly, non-disabled adults; (4) disabled children are included in the blind & disabled category shown above.

Source: HCFA Form 2082.



## ALASKA DEPARTMENT OF LAW

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### ALASKA MEDICAID FRAUD CONTROL UNIT

#### Message Hotline to Report Medicaid Fraud 1-907-269-6279

The Alaska Medicaid Fraud Control Unit (MFCU) has been part of the Attorney General's Office since January 1992. The unit is located in Anchorage and has statewide jurisdiction. It has the responsibility for investigating and prosecuting Medicaid fraud and the abuse, neglect or financial exploitation of patients in any facility that accepts Medicaid funds. The Director of the MFCU is Assistant Attorney General Donald R. Kitchen, a career criminal prosecutor with more than a quarter century of experience in the criminal justice system. There are 47 MFCU's across the U.S.

Although the vast majority of health care providers are honest and dedicated to providing the highest quality health care to their patients, Medicaid provider fraud costs American taxpayers hundreds of millions of dollars annually and threatens the integrity of the Medicaid program. Nationally, it is estimated that Fraud, Waste and Abuse account for 10 to 20 percent of the payments made by Medicaid. If the National trends hold true for the State of Alaska, these percentages equate to 30 million to 70 million Medicaid dollars annually, resulting in a substantial reduction in moneys available to provide necessary medical services to needy Alaskans.

Fraud is "intentional" deception or misrepresentation which results in an "unearned benefit", usually in the form of an excess payment. While health care fraud can take many forms, the most common involves billing for services not performed or billing for more expensive services than those actually provided. Medicaid patients may not suspect fraud, as they are seldom made aware of the procedures or dollar amounts billed to Medicaid. An unscrupulous provider can generate a fraudulent Medicaid payment simply by filing a false claim with an eligible recipient's identification number and a valid procedure code.

#### Examples Of Fraud Schemes In Health Care

- BILLING FOR SERVICES NOT RENDERED
- BILLING FOR HIGHER LEVEL OF SERVICES THAN ACTUALLY PERFORMED
- BILLING FOR MORE SERVICES THAN ACTUALLY PERFORMED
- CHARGING HIGHER RATES FOR SERVICES TO MEDICAID THAN OTHERS
- CODING BILLINGS TO GET MORE REIMBURSEMENT

- PROVIDING AND BILLING FOR UNNECESSARY SERVICES
- MISREPRESENTING AN UNALLOWABLE SERVICE IN A MEDICAID BILLING
- FALSELY DIAGNOSING SO MEDICAID WILL PAY FOR MORE SERVICES

**ALASKA DIVISION OF  
MEDICAL  
ASSISTANCE**



**ALASKA  
DEPARTMENT OF  
LAW**

If you suspect Medicaid health care fraud or patient abuse, do your part to protect the integrity of the Medicaid program and the public resources that fund it! Contact the Medicaid Fraud Control Unit Hotline at 1-(907) 269-6279 and ask to speak to an investigator or simply leave a message. Our fax is 1-(907) 269-6202. Or call the Crimestoppers Hotline at 1-(907) 561-7867. You need not give your name and you may be eligible for a reward.

*Alaska Medicaid Fraud Control Unit  
Office of Special Prosecutions and Appeals  
310 K Street, Suite 308  
Anchorage, Ak. 99501*

E-MAIL at [medfraud@law.state.ak.us](mailto:medfraud@law.state.ak.us)

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**Testimony  
Before the Finance Committee  
United States Senate**

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**Improper Payments**

**Statement of  
Michael F. Mangano  
Acting Inspector General**

**April 25, 2001**

**Office of Inspector General  
Department of Health and Human Services**

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Good morning Mr. Chairman. My name is Michael F. Mangano. I am the Acting Inspector General for the Department of Health and Human Services (HHS). It is my pleasure to be here today to give you an update on our work with regard to improper payments in Departmental programs.

Today, I will provide an overview of the types of payment errors revealed by our most recent Health Care Financing Administration (HCFA) audit. Over the past five years, the Office of the Inspector General (OIG) has undertaken audits of Medicare's fee-for-service claims to estimate the extent of payments that did not comply with Medicare laws and regulations. These payment errors, comprised of improper provider billings, make up the largest category of inappropriate payments in the Medicare program. These errors can include simple billing mistakes as well as fraudulent billings. We continue to believe that most health care providers do their best to provide high quality care and are honest in their dealings with Medicare. At the same time, we must be concerned about all errors, even those which are totally innocent. Our annual measurement of Medicare payment errors not only allows HCFA to focus on the areas where increased compliance is needed, but also enables HCFA to identify approaches to building a better Medicare program.

I will also describe instances of specific inappropriate payments made as a result of the complex, antiquated, and incompatible technology environment in which Departmental programs operate. These examples include Medicare and Medicaid payments made on behalf of deceased or incarcerated beneficiaries, as well as Temporary Assistance for Needy Families (TANF) payments made to fugitive felons. Taken together, these problems indicate systemic vulnerabilities which could lead to much more serious losses of funds if not remedied.

#### **MEDICARE PAYMENT ERROR RATE**

We recently released our report *Improper Fiscal Year 2000 Medicare Fee-for-Service Payments* (A-17-00-02000) in which we present the results of our review of Fiscal Year (FY) 2000 Medicare fee-for-service claims. Based on our statistical sample, we estimate that improper Medicare benefit payments made during FY 2000 totaled \$11.9 billion, or about 6.8 percent of the \$173.6 billion in processed fee-for-service payments reported by HCFA. It is important to note that this is an error rate estimate and not a fraud estimate. These improper payments could fall on a continuum anywhere from simple inadvertent mistakes to outright fraud and abuse.

When the sampled claims were submitted for payment to Medicare contractors, they contained no visible errors. We found that the contractors' claim processing controls were generally adequate for: (1) ensuring beneficiary and provider Medicare eligibility; (2) pricing claims based on information submitted; and (3) ensuring that the services as billed were allowable under Medicare rules and regulations. However, their controls were not effective in detecting the types of errors we found. Instead, reviews of patient records by medical professionals detected 92 percent of the improper payments. Our historical analysis of payment errors from FY 1996 through FY 2000 identified four major payment error categories: medically unnecessary services, unsupported services, coding errors, and noncovered services.

**Medically unnecessary services**, the largest error category this year, amounted to \$5.1 billion in improper payments. This category covers situations in which the medical review staff found enough documentation in the medical records to make an informed decision that the medical services or products received were not medically necessary. The following is an example of services that were determined not medically necessary:

- A physician was paid \$3,305 for 40 hypnotherapy sessions with an Alzheimer's patient. The medical records stated that the patient was neither attentive nor cooperative during the initial mental status exam. Since the patient could not participate in that exam, the medical reviewer determined that hypnotherapy treatment was not medically necessary, reasonable, or appropriate for a 95 year old Alzheimer's patient.

**Unsupported services** represented the largest error category in three of the last 5 years. In FY 2000, they accounted for an estimated \$4.3 billion in improper payments. Such services include those where there is insufficient documentation to determine the patient's overall condition, diagnosis, and extent of services performed (\$2.3 billion) or where there was no documentation to support the services provided (\$2 billion). An example of unsupported services follows:

- A hospital was paid \$722 for outpatient radiation therapy services. The medical records contained no documentation to support the provision of these services. After repeated unsuccessful attempts to obtain such documentation, the claim was denied.

**Coding errors** represented \$1.7 billion in improper payments (the net of upcoding and downcoding errors). For most of the coding errors found, the medical reviewers determined that the documentation submitted by providers supported a lower reimbursement code. Physician and inpatient Prospective Payment System (PPS) claims accounted for over 90 percent of the coding errors over the 5 years reviewed. An example of incorrect coding includes:

- A hospital was paid \$19,452 for providing a diagnostic related group service to a patient admitted with a chronic inflammation of the membrane lining the abdominal wall. The principal diagnosis code was shown as another infection. The medical reviewers concluded that the diagnosis code should have been related to an infection due to a dialysis catheter. As a result, \$7,125 was denied.

**Noncovered services and other errors** consistently constituted the smallest error category. Noncovered services are defined as those that Medicare will not reimburse because the services do not meet Medicare reimbursement rules and regulations. Such services include most routine physical examinations; eye and ear examinations to prescribe or to fit glasses or hearing aids; and, most routine foot care.

Since we developed the first error rate for FY 1996, HCFA has closely monitored Medicare payments and has instituted appropriate corrective actions. The HCFA has also worked with provider groups to clarify

reimbursement rules and to impress upon healthcare providers the importance of fully documenting services. Additional initiatives on the part of the Congress, HCFA, the Department of Justice, and the Office of Inspector General have focused resources on preventing, detecting, and eliminating fraud and abuse. All of these efforts, we believe, have contributed to reducing the improper payment rate by almost half -- from \$23 billion, or about 14 percent of Medicare program expenditures, in FY 1996 to \$11.9 billion, or about 6.8 percent of the \$173.6 billion in Medicare payments, in FY 2000.

The decrease in improper payments has had a positive effect on Medicare's financial situation. From 1991 to 1996, the Congressional Budget Office (CBO) reported that Medicare's rate of inflation averaged 10.9 percent per year. In FY 1998, the rate of inflation for the Medicare fee-for-service program dropped to the lowest in the program's entire history (since 1965) -- 1.5 percent. Overall, CBO calculated the average Medicare inflation rate for FY 1997 to FY 2000 at 3.2 percent. CBO commented that: "Most of the decline can be explained by a strong effort to ensure compliance with payment rules." (The Budget and Economic Outlook: Fiscal Years 2002-2011, CBO, January 2001)

As of 1996, the Trustees of the Medicare Part A Trust Fund projected that the Trust Fund would be insolvent in 1999. However, over the past 5 years, the Trustees have extended their estimate of the financial life of the Trust Fund by 30 years, from 1999 until 2029. One of the primary contributing factors cited by the Trustees has been "the continuing efforts to combat fraud and abuse." (Status of the Social Security and Medicare Programs, Trustees Annual Report, March 1999). We believe that these positive economic findings with respect to the financial integrity of the Medicare program, which will positively impact on both taxpayers and beneficiaries, are due in large part to the fact that the vast majority of health care providers are engaged in submitting accurate claims to HCFA and providing high quality, medically necessary services.

## **INAPPROPRIATE MEDICARE AND MEDICAID PAYMENTS**

Numerous OIG audits and investigations have revealed instances where antiquated and complex computer systems have resulted in inappropriate payments being made on behalf of Medicare beneficiaries and Medicaid recipients. Several recent OIG audits and inspections examined whether the Medicare or Medicaid programs were being billed for services which occurred after the date of a beneficiary's death and whether these programs were paying for such services. We have also recently completed work to identify inappropriate payments made on behalf of incarcerated Medicare beneficiaries.

### ***Payments Made on Behalf of Deceased Beneficiaries***

**Medicare Services:** In our inspection, *Medicare Payments for Services After Date of Death* (OEI-03-99-00200), we found that Medicare paid an estimated \$20.6 million in 1997 for services that started after a beneficiary's date of death. These payments were made because of several system problems. Approximately \$12.6 million was paid because Medicare had not yet received beneficiary date of death information from the Social Security Administration (SSA) Master Beneficiary Record at the time the claim was processed. For example, for one beneficiary who died in May 1997, HCFA did not receive the date of death information until October 1997. This delay allowed three months of rental payments for a nebulizer to be paid in June, July, and August 1997.

The remaining \$8 million was paid for services where the beneficiary's date of death was in its system at the time the claim was processed and approved for payment, but HCFA's Common Working File system, the system used by fiscal intermediaries and carriers to process fee-for-services claims, did not prevent the claims from being paid. Over half of the \$8 million was for durable medical equipment claims. For example, for one beneficiary who died in November 1997, HCFA received the date of death information in

that same month. However, in January 1998, HCFA paid claims on behalf of that beneficiary for durable medical equipment items with service dates in December of 1997.

We also found some payments for services where HCFA's Enrollment Database, which contains entitlement data for Medicare beneficiaries, and the Common Working File contained different dates of death. In one example, a beneficiary received four services relating to ambulance transport on May 12, 1997. Although data from the Enrollment Database indicated that the beneficiary died on May 9, 1997, the Common Working File contained a different date of death of May 13, 1997. In such examples, we found no indication of which file contained the accurate date of death and therefore do not know whether or not the claims were paid in error.

As a result of our findings, we recommended that HCFA require contractors to conduct annual post-payment reviews to identify and recover payments made for services after death; revise their Common Working File system edit to ensure that durable medical equipment payments are not made for deceased beneficiaries; and periodically reconcile date of death information between the Enrollment Database and Common Working Files. In January 2001, HCFA implemented the system change necessary to revise the Common Working File edits to prevent payment of durable medical equipment services billed after the beneficiary's date of death. HCFA has also recently issued instructions to Medicare contractors requiring them to conduct the necessary post-payment review activities to identify payments made on behalf of deceased beneficiaries. However, HCFA indicated that there is no way to systematically compare the Enrollment File and Common Working File to determine which date of death is accurate without a manual review; therefore, they will need to take into account contractor workload while implementing this recommendation.

**Medicaid Services:** In 1994, the OIG began an initiative to work more closely with State Auditors in reviewing the Medicaid program. Through this initiative, the OIG/State Audit Partnership Plan was developed to expand Medicaid program audits and allow State Auditors to apply methodologies we have successfully used in our Medicare audits. As an example, the State of Ohio's Office of the Auditor examined whether Medicaid was paying for services on behalf of deceased recipients (*Payments for Medicaid Services to Deceased Recipients*, A-05-00-00045). The audit determined that, during a period of almost 6 years, the Ohio Department of Human Services (ODHS) paid \$82 million for services to Medicaid recipients after the recipients' date of death. This amount consisted of 115,000 payments to over 4,000 different providers for services provided to almost 27,000 apparently deceased recipients. The average time to discover and recover an overpayment was just over five months after the recipient's date of death. About 93 percent of the unrecovered payments were in four categories of service: skilled nursing facility (75 percent of the unrecovered payments), intermediate care facility (7 percent), pharmacy (6 percent), and durable medical equipment (5 percent).

Subsequent analysis by the Ohio Department of Human Services confirmed that information in the Medicaid recipient master file is not always accurate. Ohio auditors determined that almost 30 percent of 34,330 Medicaid recipients who died during 1997, according to the Ohio Department of Health's Vital Statistics file, did not have a date of death entered on the recipient master file (meaning that providers could still bill and be reimbursed for Medicaid services). Moreover, 4.6 percent of the 24,463 recipients who had a date of death on the recipient master file had a death date that differed from the Vital Statistics death date by more than one day.

The Office of the Auditor recommended that the Ohio Department of Human Services recover the outstanding amount when feasible and cost effective, make corrections to prevent additional overpayments from being made for deceased recipients, and seek legislative authority to develop and apply sanctions against providers who do not timely report a recipient's death or who bill for or retain unearned

reimbursements. The State has now recovered all of the overpayments identified in this audit.

### *Payments Made on Behalf of Incarcerated Beneficiaries*

**Medicare Payments:** We are currently conducting a series of audits on Medicare payments provided on behalf of beneficiaries who were in the custody of Federal, State, or local law enforcement agencies at the time services were provided. Under current Federal law and regulations, payments for such services are generally unallowable. The State or other government component operating the prison is presumed to be responsible for the medical needs of its prisoners.

The rules for determining whether Medicare will pay are complex and administratively cumbersome. Under sections 1862(a)(2) and (3) of the Social Security Act, the Medicare program will not pay for services if the beneficiary has no legal obligation to pay for the services and if the services are paid for directly or indirectly by a governmental entity. Regulations at 42 Code of Federal Regulations (CFR) 411.4(b)(1) and (2) state the Medicare program may not pay for services provided to beneficiaries who are in the custody of penal authorities *unless* the authorities require that all individuals pay for such services and enforce that requirement by pursuing collection for repayment. The State or other Government component operating the prison is presumed to be responsible for the medical needs of its prisoners. According to HCFA's procedural manuals for its contractors, this is a rebuttable presumption that may be overcome only at the initiative of the Government entity. The entity must establish that it enforces the requirement to pay by billing and seeking collection from all individuals in custody, whether insured or uninsured, with the same vigor it pursues the collection of other debts. It must pursue collection, including the filing of lawsuits to obtain liens against an individual's assets outside the prison and income from non-prison sources.

The Social Security Administration, on the other hand, has a simple rule regarding payments to prisoners. A person's Social Security benefits are suspended if he/she is incarcerated for a month or more.

In our report *Review of Medicare Payments for Services Provided to Incarcerated Beneficiaries*(A-04-00-05568), we found that the Medicare program is vulnerable to improper payments for services provided to incarcerated beneficiaries. According to data provided to us by the SSA, there were 38,600 Social Security beneficiaries entitled to Medicare who were incarcerated as of July 2000. We used this data to determine whether Medicare claims have been paid on behalf of any of these beneficiaries during Calendar Years 1997 through 1999. To date, we have identified \$32 million in Medicare fee-for-service payments on behalf of 7,438 incarcerated beneficiaries during Calendar Years 1997 through 1999. We also found that some incarcerated beneficiaries were enrolled in Medicare managed care plans during their incarceration.

We are in the process of determining the amount of Medicare payments made on behalf of incarcerated beneficiaries which may be improper. We are concerned, however, because, in general, no Medicare payments should be made for services rendered to prisoners unless certain strict conditions are met by the government component (i.e., Federal, State, or local) which operates the prison. We are now determining if the government components operating prisons meet the strict conditions for Medicare payments to be allowable. The development underway includes researching State laws to determine if prisoners are required to repay their medical expenses. If such a law exists, the government entity must then prove that it enforces this requirement. Examples we are investigating include:

- Medicare paid \$25,423 for services to an inmate charged with killing his mother.
- In another State, Medicare paid a facility \$97,283 on behalf of nine inmates who were incarcerated

for various crimes including arson, attempted assault, breaking and entering, and burglary.

The HCFA does not identify Medicare beneficiaries who are in prison, making it virtually impossible for Medicare contractors to prevent improper payments. To minimize this risk, we recommend that HCFA formalize its efforts to obtain additional data from SSA in the daily transmission of enrollment data, which identifies incarcerated beneficiaries, and design and implement system controls in the Enrollment Database and Common Working File to alert contractors when a Medicare claim is submitted for services for an incarcerated beneficiary. We recognize that implementing the routine transfer of necessary information from SSA and making the necessary system enhancements will take time. In the interim, we recommend that HCFA periodically obtain a file on incarcerated beneficiaries for post-payment reviews from SSA similar to the file we obtained during our review.

**Medicaid Payments for Inmates of Public Institutions:** We are in the process of reviewing Medicaid payments for services provided to inmates of public institutions. Our involvement began with information received from the Louisiana Office of Legislative Auditor. The Auditor was concerned that the Louisiana Department of Health and Hospitals was including the cost of services provided to inmates in determining its Medicaid net uncompensated care costs for disproportionate share hospital payments made to State operated hospitals. The Louisiana Office of Legislative Auditor had interpreted that neither disproportionate share hospital payments nor Federal financial participation payments are allowable for services provided to inmates of public institutions, specifically prisoners in a penal institution.

Based on audit work to date, we found that HCFA has not established a definitive coverage policy that is consistent with the intent of the governing statute that generally prohibits Federal financial participation payments for inmates of public institutions. The current Medicaid coverage policy contains a provision allowing for Federal financial participation payments for services provided to inmates of public institutions when the inmate is an inpatient in a medical institution. We believe this provision is contrary to the intent of the Medicaid statute. We believe the intent was to ensure that Medicaid funds are not used to finance care that has traditionally been the responsibility of the State and local governments. Also, HCFA has no specific guidance on the availability of disproportionate share hospital payments to hospitals for uncompensated care provided to inmates. We expect to complete our review this summer.

#### *Other OIG Work*

In addition to the improper payments described above, we have also done extensive work through audits and inspections to identify duplicate payments made in the Medicare and Medicaid programs. For example, we have examined if Medicare fee-for-service payments were made on behalf of beneficiaries enrolled in Medicare managed care plans. This work involves identification of specific overpayments, as well as identification of the system vulnerabilities, which have allowed such payments to occur. Additionally, we have work underway to identify whether Medicare payments are being made on behalf of deported aliens. Preliminary results indicate that such payments are being made.

#### **TANF BENEFICIARIES WHO ARE FUGITIVE FELONS**

The problems of ensuring the appropriateness of payments in a complex program environment are not limited to Medicare and Medicaid. This is illustrated in the following account of income assistance payments which we discovered were being made to fugitive felons.

The U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, oversees the Temporary Assistance for Needy Families (TANF) program. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 increased the flexibility of the States in

operating the TANF program. The Act allows States to provide assistance so that children may be cared for in their own home; promote job preparation, work and marriage; prevent and reduce the incidence of out-of-wedlock pregnancies; and encourage the formation and maintenance of two parent families. Section 408 of the Act identifies prohibitions and other requirements for the TANF program including a requirement that States not use any part of the grant to provide assistance to any individual who is fleeing to avoid prosecution, custody or confinement after conviction for a felony, as defined under the laws of the place from which the individual flees.

Project Cornhusker is an initiative of our Office to reduce fraudulent TANF payments in the metropolitan area of Omaha, Nebraska. This is the first such joint project we have undertaken with local law enforcement to identify individuals with felony fugitive warrants who are recipients of federal assistance in violation of the Welfare Reform Act of 1996. As part of this effort, the active felony warrants for Douglas County, including Omaha, were matched with the active TANF beneficiary files maintained by the Nebraska Department of Health and Human Services. This computer match produced 64 wanted individuals.

On March 21 and 22, 2001, OIG agents assisted the Douglas County Sheriff's Office and the Omaha Police Department in the arrest of 24 individuals wanted for felonies committed in their jurisdiction. These arrests were made possible because of the cooperation of the Nebraska Department of Health and Human Services, local police and OIG. Twelve additional arrests were made without OIG assistance.

The majority of the arrested subjects were wanted for non-violent crimes, such as felony theft, bad checks, burglary and crimes against property. Three subjects were arrested on warrants for assault, one with a deadly weapon. Specific information concerning some of the arrests are identified below:

- A subject was arrested and found to have three Social Security cards in another individual's name. He also had a birth certificate in that subject's name with two passport photos of himself. This information was sent to the Social Security Administration, Office of Inspector General, Office of Investigations.
- An individual was arrested and found to be in possession of black tar heroin.
- Upon request, an individual present during the arrest of a TANF recipient produced identification. A check of law enforcement records showed that the individual was currently wanted in Louisiana for failure to pay court ordered child support. He was subsequently arrested on that charge.

Because of the success of this effort, we are considering replicating this type of joint initiative in the future.

## **MODERNIZING DEPARTMENT INFRASTRUCTURE**

The Secretary of the Department of Health and Human Services has named reforming the management of the Department's operations as one of his top priorities. Specific priorities include improving the management of HCFA and making appropriate investments in Department management and infrastructure.

*Improve the Management of the Health Care Financing Administration:* The demands on HCFA have grown dramatically in the last few years. On the one hand, the agency needs adequate resources to successfully administer the Medicare, Medicaid, and State Children's Health Insurance programs; on the other hand, it must be recognized that patients, providers and States have legitimate complaints about the scope and complexity of the regulations and paperwork that govern these programs. The Department has

therefore begun a thorough examination of HCFA's missions, its competing demands, and its resources.

***Invest in Department Management and Infrastructure:*** The Secretary has noted that one of the major challenges in a large, decentralized Department such as HHS is finding ways to bring together diverse activities and to develop coordinated systems for managing its programs.

In the area of financial management, the Secretary has proposed an additional \$50 million investment in a unified financial accounting system. The OIG has found major problems with the Department's current system structure, which involves separate accounting systems operated by multiple agencies. Department plans to replace these antiquated systems with one or two unified financial management systems should help to increase standardization, reduce security risks, and allow HHS to produce timely and reliable financial information needed for management decision-making, and provide accountability to the external customers.

In the information technology arena, the Secretary has proposed \$30 million to improve information technology systems through investments in the Information Technology, Security and Innovation Fund. As seen in my examples today, these systems are highly antiquated, incompatible, and vulnerable to exploitation. The Secretary has proposed that funds would be used to implement an Enterprise Infrastructure Management approach across the Department that would minimize vulnerabilities while maximizing cost savings and the ability to share information.

We fully support these proposals and continue to promote adequate departmental resources to ensure efficient and effective claims processing, policy development and regulation, and quality assurance. We remain concerned that the currently inadequate internal controls leave the Medicare program vulnerable to potential loss of funds, misstated financial statements, disclosure of sensitive information, and disruption of critical claim processing. Further, out-of-date and overly complex computer systems are not adequately preventing inappropriate program payments.

Over the past 5 years, the Trustees have extended their estimate of the financial life of the Trust Fund by 30 years, from 1999 until 2029. The expanded solvency projection provides a window of opportunity to develop a departmental technology infrastructure for the 21<sup>st</sup> century. Over time, such an investment will lead to further savings -- by reducing payment errors of all types and by making program operations more efficient.

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This concludes my testimony. I would be happy to answer any questions.

# ALASKA STATE LEGISLATURE

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## SENATOR LYDA GREEN

### COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR SENATE BILL 41

#### SPONSOR STATEMENT

**"An Act relating to medical care and crimes relating to medical care, including medical care and crimes relating to the medical assistance program, catastrophic illness assistance, and medical assistance for chronic and acute medical conditions."**

Since 1999, the costs of the Medicaid program have risen throughout the nation at an average rate of 11 percent per year. Alaska's Medicaid program has averaged annual increases of 20 percent, or more than \$100 million per year, bringing the total projected program costs in FY2004 to just under \$1 billion (\$695 million in federal funds and \$289 million in state funds).

Factors such as increased participant enrollments, increased use of health services, and the increasing costs of pharmaceuticals and long-term care are the greatest contributors to the rise in Medicaid program costs. While we have limited ability to contain these cost factors, we can control program integrity by targeting waste and fraud.

Nationally, the error rate of overpayments in the Medicare program is 7 percent, a number that could be inferred to the Medicaid program as well. In addition, the commonly held perception of the amount of fraud committed against the Medicaid program nationwide is 10 percent. Whether these two numbers are inclusive of one another or should be compounded, they represent a sizeable amount of spending -- between \$70 and \$170 million -- in Alaska's Medicaid program on activities that are, at best, questionable and at worst, criminal.

To preserve the integrity and fiscal viability of Alaska's Medicaid program, the system should be held to rigorous controls and frequent scrutiny. Relevant laws should be in place to prosecute those who commit fraud and abuse related to medical care. Alaska has no specific health care criminal theft statutes. Currently, in order to prosecute those who commit Medicaid fraud, prosecutors must use criminal statutes related to actions coincidental to the misconduct. Alaska theft statutes require proving the conduct was intentional, a very high standard to meet for a crime where there is no crime scene or physical evidence. Consequently, there have been relatively few prosecutions. Senate Bill 41 provides the legal tools for the fiduciaries of the Medicaid program to establish program integrity and maintain maximum fiscal control.

The legislation establishes the crime of medical assistance fraud, defines the elements that constitute the fraud, and classifies the crime committed as either a felony or a misdemeanor. It requires independent financial audits to identify errors, overpayments, and criminal violations made to, or by, Medicaid providers and requires administrative action within 90 days of receipt of each audit. It completes the loop between the Department of Health and Social Services and the Department of Law by requiring copies of all audits be provided to the Attorney General and by directing the Attorney General to notify the Department of Health and Social Services of any charges of misconduct filed against a Medicaid provider. Such notice requires the Department to undertake a complete review of any outstanding claims of that provider. Finally, Senate Bill 41 provides that financing of the audits may be made from the recovery, due to the audits, of misspent funds.

It is vital that the State of Alaska administer its Medicaid program in a manner that ensures effective, long-term cost containment while providing needed medical care to its intended recipients. Medicaid providers must operate honestly, responsibly and in accordance with the law. Those who do not should be held accountable. Senate Bill 41 provides the State with the means to better implement this philosophy.

**SB**

**43**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT

MAR 6 2003

SENATE FINANCE  
COMMITTEE

DATE: 2/28/03

FURTHER:

DATE TURNED IN TO OFFICE: 6 March 2003

Finance Committee considered

SENATE BILL NO. 43

SB 43 EXTEND STATE MEDICAL BOARD

"An Act extending the termination date of the State Medical Board."

and recommends:

- be replaced with \_\_\_\_\_ CS SB 43 (FIN)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

- Senate Bill:**  
 same title  
 new title
- House Bill:**  
 same title  
 technical title  
 new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#
DLED	2/2/03	729.7		#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Adrian Taylor</i>	✓			
<i>Michael [unclear]</i>	✓			
<i>Ben [unclear]</i>	✓			
<i>[unclear]</i>	✓			
COCHAIR: <i>Lynne [unclear]</i>	✓			
COCHAIR: <i>[unclear]</i>	✓			

MAR 6 2003

SENATE (TRADE)  
COMMITTEE

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
Bill Version: SB 43  
(S) Publish Date: 2/28/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title An Act extending the termination date of the BRU Occupational Licensing (117)  
State Medical Board Component Occupational Licensing  
Sponsor Senator Olson  
Requester Senate Labor and Commerce Component No. 2360

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	389.5	389.5	389.5	389.5	389.5	389.5
Travel	33.8	33.8	33.8	33.8	33.8	33.8
Contractual	301.4	301.4	301.4	301.4	301.4	301.4
Supplies	5.0	5.0	5.0	5.0	5.0	5.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES (1156)</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>
----------------------------------	--------------	--------------	--------------	--------------	--------------	--------------

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other 1156- Receipt Supported Services	729.7	729.7	729.7	729.7	729.7	729.7
<b>TOTAL</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>	<b>729.7</b>

Estimate of any current year (FY2003) cost: 729.7  
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time	5	5	5	5	5	5
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The bill extends the State Medical Board to June 30, 2011. In accordance with AS 08.03.020, funding is extended one year following the termination date allowing the board to conclude its affairs. The information above identifies direct expenditure and revenue information included in the FY 2004 Operating Budget request. New funds are not required to implement this bill.

Prepared by: Jennifer Strickler, Administrative Manager Phone (907) 465-2144  
Division: Occupational Licensing Date/Time 2/21/03 4:57 PM  
Approved by: Edgar Blatchford, Commissioner Date 2/21/2003  
Agency: Department of Community & Economic Development

Amend # 1

23-LS0373\D

SENATE BILL NO. 43

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY SENATOR OLSON

Introduced: 1/29/03

Referred: Labor and Commerce, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act extending the termination date of the State Medical Board."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 \* Section 1. AS 08.03.010(c)(12) is amended to read:

4 (12) State Medical Board (AS 08.64.010) -- June 30, <sup>2007</sup>~~2011~~ [2003];



**CS FOR SENATE BILL NO. 43(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Offered:**

**Referred:**

**Sponsor(s): SENATOR OLSON**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act extending the termination date of the State Medical Board."**

2 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 **\* Section 1. AS 08.03.010(c)(12) is amended to read:**

4 (12) State Medical Board (AS 08.64.010) -- June 30, 2007 [2003];

Amend  
#1

# Alaska State Legislature

Out of Session:  
PO Box 531  
Golovin, Alaska 99762  
(907) 443-5599

In Session:  
State Capitol, Suite 510  
Juneau, Alaska 99801-1182  
(800) 597-3707  
(907) 465-3707  
(907) 465-4821 Fax

## SENATOR DONALD C. OLSON

### DISTRICT S

Alakanuk  
Ambler  
Anaktuvuk Pass  
Atkasuk  
Barrow  
Brevig Mission  
Browerville  
Buckland  
Chevak  
Deering  
Diomedes  
Elim  
Emmonak  
Gambell  
Golovin  
Hooper Bay  
Kaktovik  
Kiana  
Kivalina  
Kobuk  
Kotlik  
Kotzebue  
Koyuk  
Mekoryuk  
Mountain Village  
Newtok  
Nightmute  
Noatak  
Nome  
Noorvik  
Nuiqsut  
Nunam Iqua  
Pitka's Point  
Point Hope  
Point Lay  
Savoonga  
Scammon Bay  
Selawik  
Shaktolik  
Shishmarof  
Shungnak  
St. Mary's  
St. Michael  
Stebbins  
Teller  
Toksook Bay  
Tununak  
Unalakleet  
Wainwright  
Wales  
White Mountain

March 3, 2003

### MEMORANDUM

To: Senator Wilken, Co-chair  
Senator Green, Co-chair  
Senate Finance Committee

From: Senator Olson 

Re: Schedule hearing for SB 43, Extend Termination Date of Medical Board.

I respectfully request a Senate Finance Committee hearing of SB 43 at your earliest convenience. My sponsor statement, a fiscal note and support documentation is attached. Please contact me if you need additional information.

Thank you for your attention to this request.

# Alaska State Legislature

Out of Session:  
PO Box 531  
Golovin, Alaska 99762  
(907) 443-5599

In Session:  
State Capitol, Suite 510  
Juneau, Alaska 99801-1182  
(800) 597-3707  
(907) 465-3707  
(907) 465-4821 Fax

## SENATOR DONALD C. OLSON

### DISTRICT S

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Buckland  
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Deering  
Diomedea  
Elim  
Emmonak  
Gambell  
Golovin  
Hooper Bay  
Kaktovik  
Kiana  
Kivalina  
Kobuk  
Kotlik  
Kotzebue  
Koyuk  
Mekoryuk  
Mountain Village  
Newtok  
Nightmute  
Noatak  
Nome  
Noorvik  
Nuiqsut  
Nunam Iqua  
Pitka's Point  
Point Hope  
Point Lay  
Savoonga  
Scammon Bay  
Selawik  
Shaktolik  
Shishmaref  
Shungnak  
St. Mary's  
St. Michael  
Stebbins  
Teller  
Toksook Bay  
Tununak  
Unalakleet  
Wainwright  
Wales  
White Mountain

### SPONSOR STATEMENT

#### SB 43, Extend State Medical Board

This is the year for the legislative sunset review of the Alaska State Medical Board's operations and activities. I introduced SB 43 to extend the life and function of the board based on a satisfactory performance audit and my own experience.

The Legislative Budget and Audit Report (#08-20017-02) concludes that the board "has carried out its responsibilities in a manner consistent with statutes, good administrative practice, and the public interest." The report further recommends that the board's termination date be extended for another eight years.

In my own view, I expect there will be a greater necessity for the board's licensing function in the near future to serve both the medical community's expansion needs and the substantial replacement anticipated from the retirement of senior professionals. Indeed, last year the legislature modified the state's locum tenens law specifically to better recruit and retain medical personnel essential for the future health care of the Alaskan population.

I respectfully urge your favorable consideration of SB 43.

# Audit Report

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DEPARTMENT OF COMMUNITY  
AND ECONOMIC DEVELOPMENT  
STATE MEDICAL BOARD  
SUNSET REVIEW

August 15, 2002

---



Audit Control Number:

08-20017-02

Division of Legislative Audit

P.O. Box 113300, Juneau, Alaska 99811-3300

# **LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

---

## **DIVISION OF LEGISLATIVE AUDIT**

The Legislative Budget and Audit Committee is a permanent interim committee of the Alaska Legislature. The committee is made up of five senators and five representatives, with one alternate from each legislative chamber. The chairmanship of the committee alternates between the two chambers every legislature.

The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than \$6 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

As a guide to all their work, the Division of Legislative Audit complies with generally accepted auditing standards established by the American Institute of Certified Public Accountants and with government auditing standards established by the U.S. General Accounting Office.

Audits are performed as mandated by Alaska Statutes or at the direction of the Legislative Budget and Audit Committee. Individual legislators or committees can submit requests for audits of specific programs or agencies to the committee for consideration. Copies of all completed audits are available from the Division of Legislative Audit's offices in either Juneau, Anchorage, or our web site <http://www.legis.state.ak.us/legaud/web/default.htm>.

### **BUDGET AND AUDIT COMMITTEE**

**Senator Gene Therriault, Chair**  
**Senator Dave Donley**  
**Senator Lyman Hoffman**  
**Senator Randy Phillips**  
**Senator Jerry Ward**  
**Senator Gary Wilken (alternate)**

**Representative Hugh Fate, Vice Chair**  
**Representative John Harris**  
**Representative Reggie Joule**  
**Representative Ken Lancaster**  
**Representative Eldon Mulder**  
**Representative Bill Williams (alternate)**  
**Representative John Davies (alternate)**

### **DIVISION OF LEGISLATIVE AUDIT**

**Pat Davidson, CPA**  
**Legislative Auditor**

**P.O. Box 113300**  
**Juneau, Alaska 99811-3300**

**(907) 465-3830, Juneau**  
**(907) 561-1445, Anchorage**  
**(907) 465-2347, Juneau Fax**  
**(907) 561-1452, Anchorage Fax**

SENATE FINANCE COMMITTEE

SIGN-IN

SB 43-EXTEND STATE MEDICAL BOARD

NAME: Pat Davidson Subject/Bill No: SB 43  
✓ Co./Dept./Title: Leg Asst Phone: 465-3830  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify? \_\_\_Yes \_\_\_No  Respond To Questions

NAME: Rick Union Subject/Bill No: 43  
✓ Co./Dept./Title: Director Division of Occupational Licensing Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes \_\_\_No \_\_\_ Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify? \_\_\_Yes \_\_\_No \_\_\_ Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify? \_\_\_Yes \_\_\_No \_\_\_ Respond To Questions

**SENATE COMMITTEE REPORT  
First Committee of Referral**

DATE: 1/29/03

FURTHER: Finance

Date of 5-Day Notice: 2/13/03  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 2/27/03

Labor and Commerce Committee considered SENATE BILL NO. 43

**SB 43 EXTEND STATE MEDICAL BOARD**

"An Act extending the termination date of the State Medical Board."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**

- same title
- new title

**House Bill:**

- same title
- technical title
- new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#
CED	2/21/03	✓		1

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:		Do PASS	Do NOT PASS	NO REC	AMEND
Seekins	<i>Ralph Seekins</i>	✓			
Davis	<i>Betty Davis</i>	✓			
French	<i>Bill French</i>	✓			
G. Stevens	<i>Chris Stevens</i>	✓			
Bunde	CHAIR: <i>Bunde</i>	✓			

**SB**

**45**

H F I N

F I L E

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 22, 2003

FURTHER REFERRALS:

Date of Committee Action: 5/16/03

The FINANCE Committee considered:

CSSB 45(JUD)

CS FOR SENATE BILL NO. 45(JUD)

LB&A CRIMES AND COOPERATION

"An Act relating to the Legislative Budget and Audit Committee."

Recommends it be replaced with  HCS or  CS for CS SB 45 (FIN)  
 For Senate Bills with new title:  Technical Title  New Title: HCR \_\_\_\_\_  Same Title  New Title

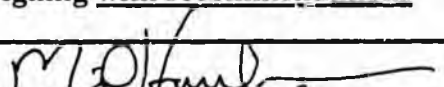
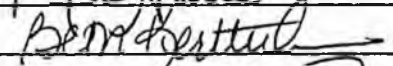

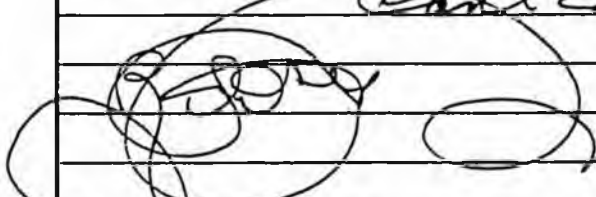
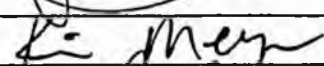
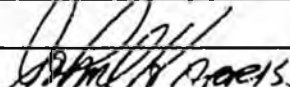
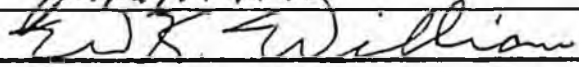
- attach amendments
- add new referral to \_\_\_\_\_ Committee
- Letter of Intent \_\_\_\_\_ Committee

List of Abbrev for Depts.:

- ADM
- CED
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- HSS
- LEG
- LAW
- LWF
- MVA
- DNR
- DPS
- REV
- DOT
- UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
law				✓

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DOA	H1			✓

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Hawk	✓			
	KERTHULA			✓	
	MOSES			✓	
	FOSTER	X			
	Mc	✓			
Chair: 	Williams	✓			
Chair: 	Williams	✓			

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HCS CSSB 45 (JUD)  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Law  
 Title: "An Act relating to the Legislative Budget and BRU Criminal Division  
Audit Committee." Component 411  
 Sponsor: Senator Green  
 Requester: Senate Judiciary Component No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 This bill creates new crimes: Hindering the Legislative Budget and Audit Committee in the first and second degrees. Hindering the LB&A Committee in the first degree is a class A misdemeanor. Hindering the LB&A Committee in the second degree is a class B misdemeanor.

The Department of Law does not anticipate many new cases from passage of this legislation, and does not expect a measurable fiscal impact.

Prepared by: David W. Marquez Phone (907) 465-5370  
 Division: Attorney General's Office Date/Time 5/2/03 11:19 AM  
 Approved by: Kathryn Daughhatee for Gregg D. Renkes, Attorney General Date 5/2/2003  
 Agency: Department of Law

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: SB 45  
 (S) Publish Date: 3/24/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
 Title An Act relating to the Legislative BRU Centralized Administrative Services  
Budget & Audit Committee Component Administrative Services  
 Sponsor Senator Green  
 Requester (H) FIN Component No. 46

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type--Do not abbreviate)	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

No fiscal impact on the Department.

Prepared by: Dan Spencer, Director  
 Division: Division of Administrative Services  
 Approved by: Mike Miller, Commissioner  
 Agency: Department of Administration

Phone 465-5655  
 Date/Time 2/20/03 11:45 AM  
 Date 2/20/2003

WORK DRAFT

WORK DRAFT

WORK DRAFT

Adopted 5/14 *Called in 9-4:40*

23-LS02051W  
Luckhaupt  
5/15/03

HOUSE CS FOR CS FOR SENATE BILL NO. 45( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:  
Referred:

Sponsor(s): SENATOR GREEN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the Legislative Budget and Audit Committee."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 \* Section 1. AS 11.56 is amended by adding a new section to article 6 to read:

4 Sec. 11.56.870. Hindering the Legislative Budget and Audit Committee.

5 (a) A person commits hindering the Legislative Budget and Audit Committee if the  
6 person intentionally (1) fails to give, or (2) directs, orders, threatens, restrains, coerces,  
7 forces, or prevents another person from giving, full cooperation to the legislative  
8 auditor or the legislative fiscal analyst in assembling or furnishing requested  
9 information to the committee or its staff, and the person did not reasonably believe  
10 that the action or failure to act was legally justified.

11 (b) Hindering the Legislative Budget and Audit Committee is a violation,  
12 punishable by a fine of not more than \$5,000.

13 \* Sec. 2. AS 24.20.201 is amended by adding a new subsection to read:

14 (c) The Legislative Budget and Audit Committee may delegate the powers  
15 authorized by (a)(2) of this section to the legislative fiscal analyst and the legislative

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
POOR  
ORIGINAL  
COPIES

WORK DRAFT

WORK DRAFT

23-LS02051W

1 auditor.

2 \* Sec. 3. AS 39.25.020 is amended by adding a new subsection to read:

3 (b) Unless a waiver is granted by the commissioner of administration, an  
4 appointing authority may not appoint a person to state service if the person has been  
5 convicted under AS 11.56.870. Before granting a waiver under this subsection, the  
6 commissioner shall give notice in writing to the Legislative Budget and Audit  
7 Committee of the intent to grant a waiver.

8 \* Sec. 4. AS 39.25.080(b) is amended to read:

9 (b) The following information is available for public inspection, subject to  
10 reasonable regulations on the time and manner of inspection:

11 (1) the names and position titles of all state employees;

12 (2) the position held by a state employee;

13 (3) prior positions held by a state employee;

14 (4) whether a state employee is in the classified, partially exempt, or  
15 exempt service;

16 (5) the dates of appointment and separation of a state employee;

17 [AND]

18 (6) the compensation authorized for a state employee; and

19 (7) whether a state employee has been dismissed or disciplined for  
20 a violation of AS 39.25.160(I) (interference or failure to cooperate with the  
21 Legislative Budget and Audit Committee).

22 \* Sec. 5. AS 39.25.160 is amended by adding a new subsection to read:

23 (I) A state employee may not intentionally (1) fail to give, or (2) direct, order,  
24 threaten, restrain, coerce, force, or prevent another person from giving, full  
25 cooperation to the legislative auditor or the legislative fiscal analyst in assembling or  
26 furnishing requested information to the Legislative Budget and Audit Committee or its  
27 staff if the person did not reasonably believe that the action or failure to act was  
28 legally justified. Violation of this section constitutes just cause for dismissal or other  
29 appropriate disciplinary action.

30 \* Sec. 6. AS 39.90.140(3) is amended to read:

31 (3) "matter of public concern" means

WORK DRAFT

WORK DRAFT

23-LS0205\W

1  
2  
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11

(A) a violation of a state, federal, or municipal law, regulation, or ordinance;

(B) a danger to public health or safety;

(C) gross mismanagement, a substantial waste of funds, or a clear abuse of authority; [OR]

(D) a matter accepted for investigation by the office of the ombudsman under AS 24.55.100 or 24.55.320; or

(E) interference or any failure to cooperate with an audit or other matter within the authority of Legislative Budget and Audit Committee;

\* Sec. 7. AS 24.20.201(a)(9) and 24.20.206(1) are repealed.

# ALASKA STATE LEGISLATURE



*Interim:*  
600 East Railroad Avenue  
Wasilla, Alaska 99654  
(907) 376-3370  
(907) 376-3157 Fax

*Session:*  
State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-6600  
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**SENATOR LYDA GREEN**  
SENATE DISTRICT G

## **SPONSOR STATEMENT FOR SENATE BILL 45**

**“An act relating to the Legislative Budget and Audit Committee.”**

AS 24.20.201(a)(3) states that the Legislative Budget and Audit Committee has the power to “require all state officials and agencies of state government to give full cooperation to the committee or its staff in assembling and furnishing requested information.” Unfortunately, this well-intentioned statute is unenforceable because it lacks any penalties for those who are uncooperative or who undermine the work of this committee. Senate Bill 45 is designed to remedy this by providing prosecutors with the necessary tools to deter and punish those who hinder the investigative work of the legislative budget and audit committee.

Senate Bill 45 also clarifies the process by which privilege is claimed and the process by which it is determined.

When the legislature created the Legislative Budget and Audit committee, it envisioned this committee would have full access to all information necessary to carry out their work. Senate Bill 45 helps to ensure that this vision can occur.

I urge your support and swift passage of this important legislation.

HC02 Box 7691A  
Palmer, Alaska 99645  
January 30, 2003

The Honorable Lyda Green  
State Capital Building, Room 561  
Juneau, Alaska 99508-1182

**RE: SB 45**

Dear Senator Green:

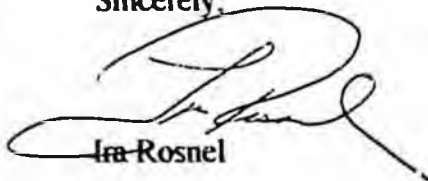
This correspondence is to let you know that I support SB 45.

During these times of diminishing revenues, I believe that every effort must be made to maximize our ability to manage public funds while minimizing mismanagement, a problem all too common in government.

The only way that an accurate accounting can be made of each department and division in state government is by requiring state officials and bureaucrats to fully cooperate with and address the concerns of legislative auditors. SB 45 supports state employees' appropriate use of public funds in service to Alaskan citizens.

Thank you for your representation.

Sincerely,



Ira Rosnel

*Attached copy  
of bill*

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: SB 45  
(S) Publish Date: 3/24/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
Title An Act relating to the Legislative BRU Centralized Administrative Services  
Budget & Audit Committee Component Administrative Services  
Sponsor Senator Green  
Requester (H) FIN Component No. 46

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type—Do not abbreviate)	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
No fiscal impact on the Department.

Prepared by: Dan Spencer, Director  
Division: Division of Administrative Services  
Approved by: Mike Miller, Commissioner  
Agency: Department of Administration

Phone 465-5655  
Date/Time 2/20/03 11:45 AM  
Date 2/20/2003

**SB**

**45**

SFIN

FILE



OFFICIAL BUSINESS

Alaska State Legislature  
Senate  
Office of the Secretary

STATE CAPITOL, ROOM 213  
JUNEAU, ALASKA 99801-1182  
(907) 465-3701  
FAX: 465-2832  
EMAIL: senate\_secretary@legis.state.ak.us

**FOR YOUR IMMEDIATE ATTENTION**

DATE: March 26, 2003  
TO: Finance Committee  
FROM: Office of the Senate Secretary  
SUBJ: Waived Bill(s)

Senator Wilken, Cochair, has waived referral on the following bill(s):

**RETRIEVE**

SENATE BILL NO. 45  
"An Act relating to the Legislative Budget and Audit Committee."

Please give the bill file(s) to the page for forwarding to the next Committee of referral.

Thank you.

**SB**

**47**

**SFIN**

**FILE**

SB 47

was referred to the  
Senate Finance  
Committee

No hearing was held  
on this bill

The bill was scheduled for a hearing  
3/5/03 but not heard

SENATE FINANCE COMMITTEE

SIGN-IN

SB 47 EXTEND BOARD OF NURSING

NAME: Pat Davidson Subject/Bill No: SB 47  
Co./Dept./Title: Leg Asst Phone: 465-3830  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

**SB**

**48**

**SFIN**

**FILE**

SB 48

was referred to the  
Senate Finance  
Committee

No hearing was held  
on this bill

**SB**

**50**

**SFIN**

**FILE**

SB 50

was referred to the  
Senate Finance  
Committee

No hearing was held  
on this bill

**SB**

**51**

**HFIN**

**FILE**



THE  
FOLLOWING  
DOCUMENT(S)  
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# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: SB 51  
 (S) Publish Date: 1/31/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Alaska Municipal Bond Bank BRU Alaska Bond Bank Authority  
Authority Limits Component Alaska Bond Bank Authority  
 Sponsor Rules Committee  
 Requester Governor Component No. 108

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a sept rate page if necessary)

This legislation would increase the Alaska Municipal Bond Bank's total borrowing limit from \$300 million to \$500 million and increase the amount of revenue bonds that may be issued in any one fiscal year from \$50 million to \$75 million.

The increase in the borrowing limit to \$500 million is needed as the Bond Bank expects to reach the existing limit in FY04, if not sooner. If all of the loan applications that have been submitted to the Bond Bank were funded immediately, the existing \$300 million cap would be filled and additional projects could not be funded. An inability to fund loans to communities will cost these communities -- and possibly the state in reimbursement costs -- in increased costs of issuance and interest expense.

The increase from \$50 million to \$75 million in annual revenue bond authority is needed in FY03 because the Bond Bank has issued, or has requests to issue, \$56 million in revenue bonds by the end of March 2003. A failure to approve the increase in the revenue bond limit will potentially result in the City of Valdez needing to issue two series of revenue bonds over two fiscal years, increasing the cost of issuing these bonds by approximately \$100,000, or delaying funding of the city's project until July 1, 2003.

As the Bond Bank is self-supporting, and has sufficient assets to fund reserves, the increases in statutory authorization would not have any fiscal impact.

Prepared by: Devon Mitchell, State Debt Manager Phone 465-5469  
 Division Treasury Division Date/Time 1/29/03 2:23 PM  
 Approved by: Larry Persily, Deputy Commissioner Date 1/29/2003  
 Agency Department of Revenue

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: SB 51  
(S) Publish Date: 2/14/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title: Bonds of Bond Bank Authority BRU: Investments (122)  
Component: Investments  
Sponsor: Governor  
Requester: Senate Community & Regional Affairs Component No.: 383

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0  
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill does not impact the fiscal operations of this department.

Prepared by: Greg Winegar, Director Phone 907-465-2510  
Division: Investments Date/Time 2/7/03 10:18 AM  
Approved by: Edgar Blatchford, Commissioner Date 2/7/2003  
Agency: Department of Community & Economic Development

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110400  
JUNEAU, ALASKA 99811-0400  
TELEPHONE: (907) 465-2300  
FACSIMILE: (907) 465-2389

March 12, 2003

The Honorable John Harris  
The Honorable Bill Williams  
Co-Chairs, House Finance Committee  
Alaska State Legislature  
Juneau, AK 99801

Dear Representatives Harris and Williams,

I am writing to request a hearing next week for Senate Bill 51, an act increasing the annual revenue bond issuance limit and the overall debt limit for the Alaska Municipal Bond Bank Authority. The House Community and Regional Affairs Committee moved the bill Tuesday, following Senate approval last week on an 18-0 vote.

Because of the timing on several municipal projects around the state, the Bond Bank Authority requests expedited action on this legislation. We need final approval by both chambers and signature into law by mid-March to avoid delays — and possibly additional costs — to several municipalities. The Bond Bank expects to reach its statutory debt issuance limit early this spring.

The Municipal Bond Bank Authority was created in 1975 to assist municipalities in issuing bonds for local projects. The Bond Bank is able to realize savings for municipalities by pooling bonds in large numbers and obtaining lower interest rates that result in reduced costs, and often better terms overall, than municipalities could obtain on their own. The purpose of this legislation is to raise the limit on the amount of revenue bonds the Authority may issue in any one fiscal year and to raise the limit on the total outstanding bond debt the Authority may carry on its books. The Legislature has not raised these limits since 1983 and 1984, respectively.

An increase in the amount of the Authority's indebtedness limit will not have a fiscal impact on the state's General Fund. Bond Bank debt is not a direct liability of the state, and the municipalities that use the Authority pay all of the debt service on the bonds.

As of January 23, 2003, the Bond Bank had issued \$27,145,000 in revenue bonds in Fiscal 2003, and there were \$235,655,878 in bonds outstanding. The existing limits in statute are \$50 million in any one year in revenue bonds and \$300 million in total bonds outstanding. Additional projects scheduled for funding in the next three months are the Lake and Peninsula Borough's Chignik dock project at \$1 million, the City and Borough of Juneau's hospital expansion at \$25

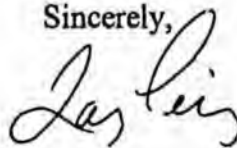
million, the City and Borough of Juneau's port improvement at \$5.6 million, the City of Valdez' hospital replacement at \$19 million, and the Kodiak Island Borough \$3.3 million refinancing of existing debt. Following these bond issues, the Authority would be at \$289,555,878 in total bonds outstanding, just \$11 million shy of its statutory limit.

Additional expected financing activity includes the City of Homer seawall at \$1 million and dock improvements at \$1 million, Aleutians East Borough school and dock improvements, Kenai Peninsula Borough solid waste project, City of Fairbanks fire protection facility, and the City of Petersburg \$1 million refinancing of existing debt. The combination of these would exceed the Authority's debt limit.

An increase in the annual bonding cap under AS 44.85.100(b) from \$50 million to \$75 million would enable the Authority to act on the applications it has received from municipalities this fiscal year. And, the increase in the cap on the total outstanding debt from \$300 million to \$500 million under AS 44.85.180(c) would enable the Authority to issue the bonds and notes already applied for as well as those that are anticipated this fiscal year. The Bond Bank has sufficient reserve capacity to continue financing capital projects up to the requested \$500 million cap.

Thank you for your consideration, and please let me know if you have any questions. My direct line is 465-5469. Or you also may contact Deven Mitchell, State Debt Manager, at 465-3750.

Sincerely,



Larry Persily  
Deputy Commissioner

cc: Mike Tibbles, Legislative Liaison, Office of the Governor

FRANK H. MURKOWSKI  
GOVERNOR  
GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

P.O. BOX 110001  
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January 30, 2003

The Honorable Gene Therriault  
President of the Senate  
Alaska State Legislature  
State Capitol, Room 107  
Juneau, AK 99801-1182

Dear President Therriault:

Under the authority of art. III, sec. 13, of the Alaska Constitution, I am transmitting a bill relating to revenue bonds issued by the Alaska Municipal Bond Bank Authority and the total amount of bonds and notes outstanding of that authority.

The Alaska Municipal Bond Bank Authority (AMBBA) was created in 1975 to assist Alaskan municipalities issue bonds for local projects. The AMBBA is able to realize savings for municipalities by pooling bonds in large numbers and obtaining lower interest rates that result in reduced costs for bond issuance, and often better terms overall, that would not be obtainable by municipalities on their own. The purpose of this bill is to raise the limit on the amount of revenue bonds that the AMBBA may issue in any one fiscal year and to raise the limit on the total outstanding bond debt the AMBBA may carry at any one time. These limits have not been raised by the legislature since 1983 and 1984, respectively.

An increase in the annual bonding cap under AS 44.85.100(b) from \$50,000,000 to \$75,000,000, would enable the AMBBA to act on the applications it has already received from municipalities this fiscal year. Current fiscal year applications exceed \$56,000,000.

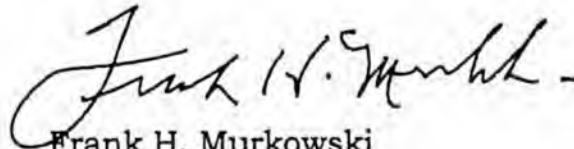
Further, an increase in the cap on the total outstanding bonds and notes from \$300,000,000 to \$500,000,000 under AS 44.85.180(c), would enable AMBBA to issue the bonds and notes already applied for as well as those that are anticipated, which may exceed \$70,000,000. Reaching the annual fiscal year limit or the outstanding limits would prevent municipalities from proceeding with projects or prevent municipalities from using the financially more attractive debt terms that could be made available if the bonds are issued by AMBBA.

An increase in the amount of the AMBBA's indebtedness limit will not have a fiscal impact on the state's general fund. Debt of the AMBBA is not a direct liability of the state. Additionally, municipalities that use the AMBBA to issue bonds pay all of the debt service on the bonds. And the AMBBA has sufficient reserve capacity to continue financing capital projects up to the requested \$500,000,000 cap.

Finally, in order to accommodate current fiscal year applications received by the AMBBA, an immediate effective date is included in the bill.

I urge your prompt and favorable action on this measure.

Sincerely Yours,

A handwritten signature in cursive script, reading "Frank H. Murkowski".

Frank H. Murkowski  
Governor



217 Second Street, Suite 200 • Juneau, Alaska 99801  
Tel (907) 586-1325 • Fax (907) 463-5480 • www.akml.org

March 14, 2003

Representative John Harris  
Representative Bill Williams  
Co-Chairs, House Finance Committee  
State Capitol  
Juneau, AK 99801

Dear Representatives Harris and Williams,

I am writing on behalf of the Alaska Municipal League (AML) Revenue and Finance Subcommittee to express AML's support for S.B. 51.

The AML believes that it is both necessary to (1) increase the maximum amount of revenue bonds that the Alaska Municipal Bond Bank Authority may issue from \$50,000,000 to \$75,000,000; and (2) increase the total amount of bonds that the Bond Bank may issue from \$300,000,000 to \$500,000,000. In fact, the AML 2003 Municipal Policy Statement "urges the state to take whatever action is necessary to ensure that the Municipal Bond Bank continues to be an independent and strong entity to help municipalities meet public facility construction needs at the lowest possible bonding cost."

Last month, the AML Revenue and Finance Subcommittee, which is comprised of seventeen municipal government officials and leaders, held a teleconference with Deven J. Mitchell, Executive Director of the Alaska Municipal Bond Bank Authority, to discuss S.B. 51. I am pleased to inform you that the subcommittee voted unanimously in support of S.B. 51. Thus, if there is anything that AML can do to facilitate the passage of this legislation, please let me know.

Sincerely,

Sarah A. Gilbertson  
Policy and Program Coordinator

## CITY OF VALDEZ NEW HOSPITAL AND SB 51

The City of Valdez has submitted an application to the Bond Bank for \$19.0 million of revenue bonds to assist in the financing of the new hospital in Valdez. The current revenue bond application to the Bond Bank exceeds the Bond Bank's annual \$50.0 million cap. The City's application pushes the Bond Bank over the limitation by approximately \$5.0 million. With the present statutory limitation on the amount of revenue bonds that the Bond Bank can issue annually, the Bond Bank will need to issue the City's bonds in two series. If the City's application is approved, the Bond Bank would issue \$14.0 million in March and the balance of \$5.0 million after July 1<sup>st</sup>. The additional cost to the City to issue two series of revenue bonds is approximately \$9,000.

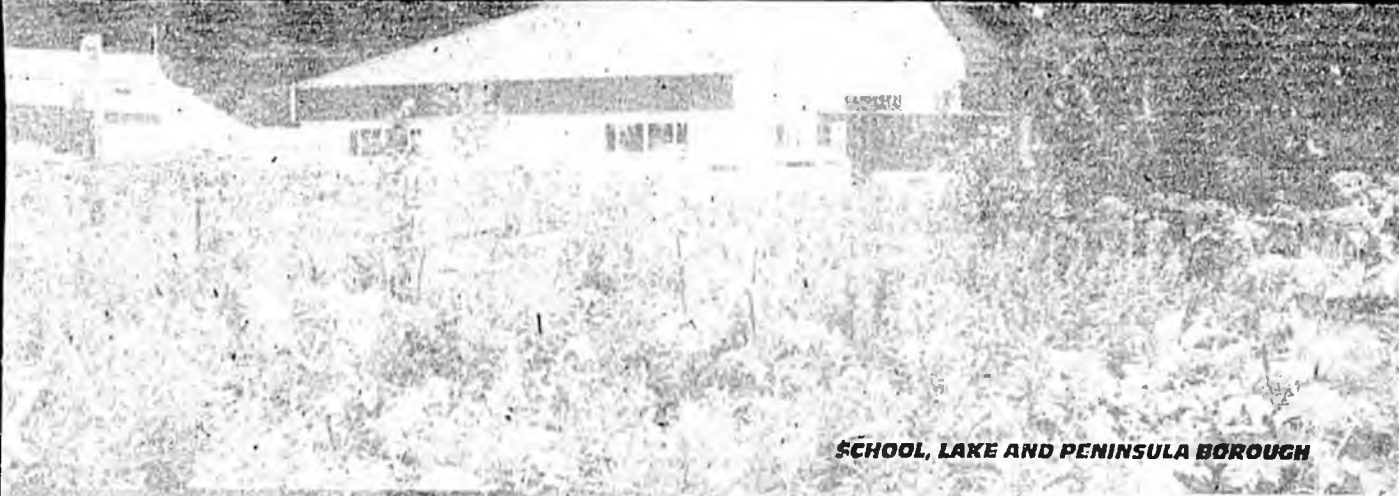
In 1997 the State closed the Harborview Developmental Center. The closure has had a severe impact on the operation of the Valdez Regional Hospital, which is co-located within the vacant state building.

The City began planning for a new facility in 1998. The City investigated the potential of remodeling the building to provide for a modern medical facility. It was determined that the cost to remodel the 35 year old building was almost the same to construct a new hospital. In 2002, the City received a Certificate of Need from the State to construct a new 21-bed hospital. The project will replace the present hospital, which is co-located in a vacated state-owned building, which was constructed in 1966.

In October of 2002, the Valdez voters approved the issuance of \$19.0 million of revenue to finance the construction of a new hospital. The City chose to use the Alaska Bond Bank to issue the revenue bonds as it reduces the cost to the City. This provides more funds to the construction of the hospital.

The total cost of the facility is approximately \$27.0 million. The City will finance the cost with the issuance of \$19.0 million of revenue bonds and the balance from City reserves and other sources. The City has entered into a Guaranteed Maximum Price contract with JE Dunn Construction to construct the project. Construction is scheduled to begin in April 2003 with completion in November of 2004.

Provided by the City Manager of Valdez.



**SCHOOL, LAKE AND PENINSULA BOROUGH**

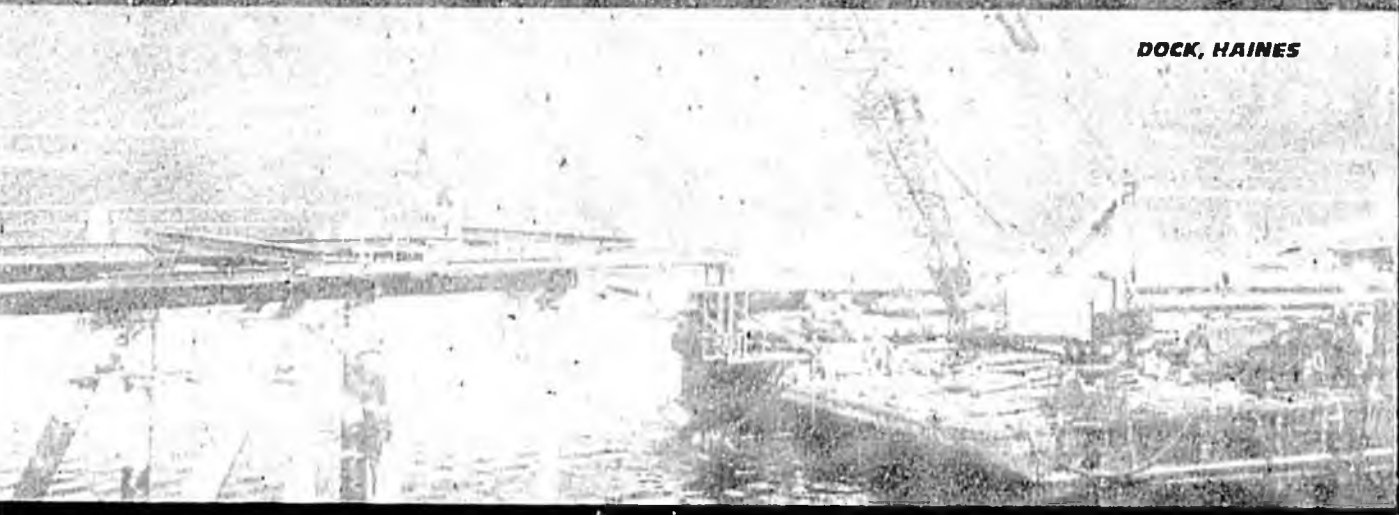


**AIRPORT, SAND POINT**

**SWIMMING POOL, CRAIG**

**SCHOOL GYMNASIUM, HOONAH**

**DEBT FINANCING HELPED MAKE THESE CAPITAL PROJECTS HAPPEN.**



**DOCK, HAINES**



# **DEBT FINANCING OPTIONS FOR SMALL ALASKAN MUNICIPALITIES**

**Does your community have a "hot" capital project that you need to build soon, but you don't have the funding for it?**

**If your municipality is in good financial condition, you'll want to consider Debt Financing through the Alaska Municipal Bond Bank Authority to help you build that project.**

**DEBT FINANCING HELPED  
MAKE THIS HAPPEN.**

## **HOONAH**

(population 900)

### **School Gymnasium Construction**

Hoonah's old gymnasium was so small that many sports fans had to watch basketball games standing out in the hallway. Also, there were safety concerns because some sports equipment had to be stored on the gym floor. To build their new gymnasium, the City of Hoonah put together a loan package that included \$1 million from the federal Department of Agriculture, Rural Development Office, and \$1 million from the Bond Bank.

Interest rate on the Bond Bank financing was 4.4% and the pay back period was ten years. To repay the Bond Bank, the City pledged the use of future revenues from the National Forest Receipts payments received annually from the Forest Service. The City also pledged access to its \$500,000 permanent fund if necessary.

***"We found the Bond Bank's attorney's visits to the community and presentations to community officials to be very helpful."***

*Bonnie Skaflestad, Business Manager  
Hoonah School District*

## **What is Debt Financing?**

Debt financing means borrowing money long term to accomplish a goal. Title 29 of the Alaska Statutes allows municipalities to use debt financing (bonds) to build or renovate community facilities and infrastructure. The purpose of this booklet is to introduce this financing tool to Alaska's smaller municipalities who may have little or no experience with debt financing. In particular, the financing opportunities available through the Alaska Municipal Bond Bank Authority are described. A number of other sources of debt financing assistance are also presented at the end of this booklet.

## Benefits of Debt Financing

### **PROJECTS CAN HAPPEN SOONER**

Projects which demonstrate local financial commitment are more likely to receive higher consideration in state and federal grant selection programs. Instead of waiting year after year for that water, sewer or transportation facility grant, the community could increase its chances by showing local financial commitment through debt financing.

### **A FAST WAY TO GET FUNDING**

A municipality can get funding through a bond sales process relatively quickly. Funds are usually available to the municipality within several months of beginning the bond sale process.

### **HELPS COMPLETE PROJECT FINANCIAL PACKAGE**

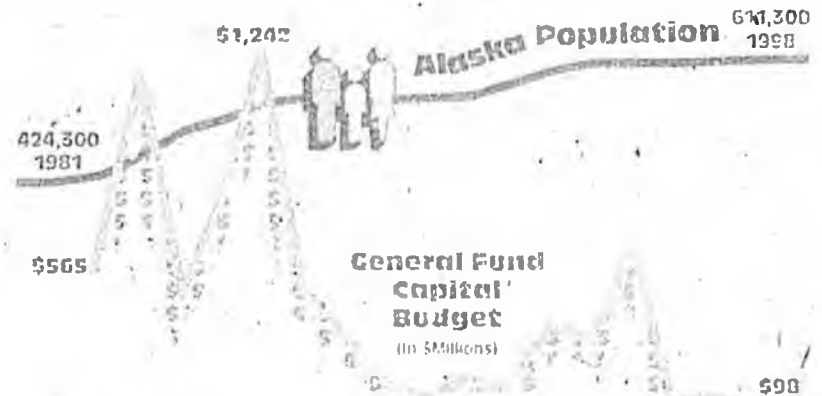
When grant funds are not enough to build the project, debt financing can close the gap. Committing to debt financing at the outset of the project can leverage other sources of funding to the project.

### **ESTABLISH YOUR COMMUNITY'S FINANCIAL CREDIBILITY**

State and federal capital project funding programs are drying up. Alaska's municipalities will need to look elsewhere for project funding. Gaining experience and a track record with debt financing will open more doors for financing future projects. This can also help establish a good credit rating for your community's future.

### **A WAY TO BUILD PROJECTS NOT COVERED BY TARGETED FUNDING PROGRAMS**

Because of declining funds, capital project funds available from state and federal agencies are being targeted at priority projects like water, sewer and roads. Debt financing can provide communities an alternative funding source for other kinds of construction projects.



General Fund Capital Budget and Alaska Population — 1981-1998

## Caution!

### **IS YOUR MUNICIPALITY READY FOR DEBT FINANCING?**

While debt financing provides an opportunity to fund community capital projects, it may not be the right thing to do in every community. Unlike a grant, municipalities must pay back the loans they receive, usually in regular payments over a period of 10 to 20 years. Municipal officials need to be clear about the financial condition of their community, the ability of the municipality to maintain future payments, and the risk which debt financing may represent for future municipal budgets. Staff at the Bond Bank can work with municipal officials to help them understand if debt financing is right for the community.

**DEBT FINANCING HELPED  
MAKE THIS HAPPEN.**

### **SAND POINT - ALEUTIANS EAST BOROUGH**

(population 808)

#### **Airport Construction**

In 1985, the City of Sand Point received a state grant to design a new community airport. The condition of the existing airport was considered a safety hazard. In 1989, residents of the newly formed Aleutians East Borough voted to pass a bond proposal which included approval to seek loan financing for the Sand Point Airport.

The majority of the \$11 million needed to build the airport came from Federal Aviation Agency grants. The state also kicked in a small amount but it was \$2.25 million borrowed through the Bond Bank that was the key to completing the project and meeting a federal requirement for local matching funds. The interest rate on this loan varied between 4.6% and 6% to be paid off over ten years. The borough used fish tax revenues and a pledge of access to its permanent fund to provide for repayment of the bonds.

***"The Bond Bank gave us the ability to make this project happen."***

*Bob Juettner, Administrator,*

*Aleutians East Borough*

*(Former Administrator at Sand Point)*

## **What is the Alaska Municipal Bond**

The Bond Bank is a public corporation created by state law. It was created to assist Alaskan communities in financing capital improvement projects such as schools, water and sewer systems, public buildings, harbors and docks.

The Bond Bank was created because many Alaskan communities are at a disadvantage in the tax-exempt financial markets. They may not have a credit rating, may have low bond ratings or, although credit worthy, have little or no experience in the finance markets and have not established a financial track record.

# Bank Authority?

Consequently, when these communities try to borrow money, they have to pay high interest rates because they represent an unknown risk to lenders. They also need to hire expensive consultants to put together and promote a bond proposal package. The Bond Bank helps municipalities get past these hurdles by working closely with them to provide the legal and financial expertise needed to develop the most financially advantageous financing programs for community projects. Most importantly, the Bond Bank provides municipalities access to low interest financing for capital improvement projects.

## Advantages of using the Bond Bank for capital project financing:

### ***GAIN EXPERIENCE IN THE MARKET***

As state and federal funds dry up, municipalities will need to turn increasingly to debt financing for local projects. The Bond Bank is organized to work closely with inexperienced municipalities to help them gain experience in the financial markets and establish a positive credit history.

### ***AVOID EXPENSIVE FEES FROM FINANCIAL ADVISORS***

The Bond Bank retains the services of professional financial advisors whose expertise is made available to municipalities to assist them in determining the community's economic health and level of risk.

### ***GET OBJECTIVE ADVICE***

Unlike private professionals in the bond sales industry, the Bond Bank does not stand to profit from a community's bond sale activity.

### ***LOWER INTEREST RATES***

Tax-exempt financing through the Bond Bank can provide low interest rates, below what the smaller municipalities could get on their own.

### ***SIMPLIFIED PROCESS***

The professional staff at Bond Bank works with the municipality at each step of the debt financing process to ensure that all steps are properly carried out. The Bond Bank believes this service is the primary reason the Bond Bank has been so successful.

### ***MINIMUM CLOSING COSTS***

In many cases the Bond Bank is able to reduce certain costs of issuing bonds, such as official statement printing and trustee/paying agency fees.



**DEBT FINANCING HELPED  
MAKE THIS HAPPEN.**

**CITY OF CRAIG**

(population 2,100)

**Prince of Wales Island  
Swimming Pool**

The communities on Prince of Wales Island are oriented towards the sea with many residents involved in commercial, subsistence and sport fishing. However, until recently there was no suitable place for residents to learn the basic water-safety skill of swimming. The City of Craig took the initiative to build a community swimming pool. Now residents from all over the island come to Craig to learn how to swim.

To build this project, the City started with \$700,000 of its own savings, then added \$1.5 million in debt financing through the Bond Bank. The City held an election in March to gain local approval for the bond sale — by June of that year, the City had its funding and the project was underway. Interest rate for the bond funds was about 6%.

***"The Bond Bank provided us a simplified, economical way to access bond financing and this allowed us to pay our own way for this project."***

*Tom Briggs, Manager, City of Craig*

**How the Bond Bank  
works**

The Bond Bank sells its bonds on the national tax-exempt bond market and uses the proceeds of the sale to purchase the bonds of Alaska municipalities. Because the Bond Bank has a high investment grade bond rating, it can borrow money at lower interest rates than most Alaskan municipalities. This low interest rate is passed through to the municipalities.

As municipalities pay principal and interest to the Bond Bank to liquidate their debt, the Bond Bank uses these payments to liquidate its debt to its bondholders.

Bonds issued by the Alaska Municipal Bond Bank Authority are obligations of the Authority and payable only from the revenues of funds from the Authority. The State of Alaska is not obligated to pay the principal or interest; however, the State has pledged its moral obligation to the maintenance of a debt service reserve for the majority of the Bond Bank's bonds.

## **LAKE AND PENINSULA BOROUGH**

(Population 1,850)

### **School Construction Package**

At the beginning of this decade, many of the community schools in the recently incorporated Lake and Peninsula Borough had significant unmet needs. Local school advisory committees reported failing fuel tanks, inadequate water and sewer systems, fire code infractions, and undersize classrooms. About this time, the Alaska Legislature created a statute providing for 70% reimbursement of school construction costs. The passage of this new law motivated the borough to put together a financial package to build and repair community schools.

In an October 1993 election, borough voters authorized the sale of general obligation bonds for school construction. Using the Bond Bank, the borough sold \$4.6 million in bonds at an interest rate of 4.6% to be paid off over ten years. The borough pays about \$500,000 every six months, and is then reimbursed 70% of this amount through the state's school construction program. The borough's bond package is being repaid based on the borough's fish tax receipts.

***"In a nutshell, the important thing about the Bond Bank is that it allows municipalities with little or no bond market experience to venture into this market and get the added advantage of low interest rates based on the Bond Bank's good credit rating."***

*Walt Wrede, Manager, Lake & Peninsula*

## **Two Bond Bank Programs:**

### **General Obligation Bonds and Revenue Bonds**

#### **GENERAL OBLIGATION BONDS:**

This is the Bond Bank's "mainstream" program. These bonds are used to finance facilities that do not generate revenue such as schools, roads, public safety and municipal buildings. They are paid off through the municipality's capacity to generate revenues through taxes and other funding sources like shared state revenues. Contrary to popular belief, repayment of the bonds does not have to be based on a local property tax. General obligation bonds require the approval of municipal voters. The four examples of debt financing presented in this booklet all used general obligation bonds.

#### **REVENUE BONDS:**

Used less frequently, these bonds are designed to finance capital projects that can generate revenue such as an electrical utility or port facilities. Revenue bonds are paid off through the revenues of the facility itself, rather than a municipality's general funds. Since revenue bonds are not secured by a municipality's taxing power, local voter approval is not required unless otherwise mandated by local ordinances.

**DEBT FINANCING HELPED  
MAKE THIS HAPPEN.**

## Steps of the Bond Bank Process

### 1 Municipality determines need for project and specific project design and costs

The community undertakes some form of local planning or visioning process to establish what projects are needed and supported by community residents. Project designs and cost estimates are completed.

### 2 Municipality contacts the Bond Bank and begins informal discussions about project financial needs

Bond Bank staff works with community officials to examine the possibilities and requirements of using debt financing for the project. If it becomes clear that debt financing through the Bond Bank is not possible, or won't work for a municipality, the Bond Bank will continue to work with the municipality's administration to find ways of meeting their financial objectives.

### 3 Municipality holds a local election to gain resident approval of bond sales

If the municipality intends to sell general obligation bonds, Title 29 of the Alaska Statutes requires the municipality to hold an election and get approval from a majority of local voters. The election may occur either during regular general elections or any time during the year as a special election. During the election process, it is very important for the municipality to work with an attorney experienced in bond sales to ensure proper documentation for a successful financing.

### 4 Municipality prepares and submits formal loan application

Bond Bank staff assist municipal officials in preparing an application. Application information includes a description of the project, resumes of key municipal officials, a list of major local taxpayers and employers, a general description of the community's economy, and a statement of the municipality's financial status, any outstanding debts, and method by which the municipality proposes to pay off the bonds. During an internal review, Bond Bank staff will consult with the municipality to ensure the application is completed properly.



**5** Bond Bank financial advisors review loan application and examine municipality's financial health

Financial consultants retained by the Bond Bank assess the information submitted in the municipality's formal loan application, carry out follow-up interviews with local officials, and prepare a report for the Bond Bank.

**6** Bond Bank Board votes on proposal

Bond Bank staff presents the municipality's loan application and financial advisor's report to the Bond Bank Board. The municipality may be there to answer questions, or make their own presentation. The Board then votes on the proposal.

**7** Bond Bank arranges bond sale

If the Board approves the sale, Bond Bank staff arrange for the sale of bonds in the financial market. This usually takes about 60 to 90 days.

**8** Municipality gets funding

As soon as the bonds are sold, the municipality can receive its funding for project construction. First payments are usually due in six months with payments twice a year thereafter. The repayment period is typically 10 to 15 years, and may be up to 20 years for some projects.



## How to get in touch with the Bond Bank

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Bond Bank Authority

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Fax: (907) 465-2902

e-mail: AMBBA@rev.state.ak.us

## Other Debt Financing Resources:

There are a number of other sources that provide loan funding for capital projects. Some of these are targeted at specific kinds of projects while others may apply more generally. These funding sources, and Bond Bank funding, can sometimes be combined to fund projects in cases where one source cannot cover the total project cost.

### **DCRA POWER PROJECT FUND**

The Alaska Department of Community and Regional Affairs program provides loans to electric utilities, local governments, regional and village corporations, and independent power producers for the development and upgrade of electric power and conservation facilities, bulk fuel storage, and potable water supply. The loan term is related to the life of the project.

#### **CONTACT:**

Terri Bramlett, Loan Specialist  
DCRA, Division of Energy  
333 West Fourth Avenue, Suite 220  
Anchorage, AK 99501-2341  
Phone: (907) 269-4628 • Fax: 269-4645  
email: TBramlett@ComRegAl.state.ak.us

### **DEC DRINKING WATER AND CLEAN WATER LOAN FUNDS**

The Alaska Department of Environmental Conservation operates two programs which provide loan funds for the construction of water systems and sanitation systems. Loan periods are 20 years for both programs and both offer below market interest rates.

#### **CONTACT:**

Mike Burns, DEC  
Division of Facility Construction & Operation  
410 Willoughby Ave., Suite 105  
Juneau, AK 99801-1795  
Phone: (907) 465-5136 • Fax: 465-5177  
email: Mike\_Burns@environcon.state.ak.us

### **USDA RURAL DEVELOPMENT, COMMUNITY FACILITY LOANS**

This U. S. Department of Agriculture program makes facility construction loans available to municipalities under 50,000 population. Priority is given to communities with less than 5,500 people. Loan terms depend on the facility and interest rates are based on current municipal bond market rates.

#### **CONTACT:**

Frank Muncy or Dave Winter  
USDA Rural Development  
800 W. Evergreen, Suite 201 Palmer, AK 99645  
Phone: (907) 745-2176; Fax: 745-5398  
e-mail: FMuncy@rurdev.usda.gov

## **ECONOMIC DEVELOPMENT FUNDING FORUM**

A number of state and federal agencies meet on a regular basis to exchange information and facilitate cooperative efforts in economic development grant and loan programs. The forum discusses specific project proposals and seeks to coordinate state and federal funding for these projects.

### **CONTACT:**

Martin Richard, Director, Div. of Investments  
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## **AIDEA TAX EXEMPT REVENUE BOND PROGRAM**

The Alaska Industrial Development and Export Authority (AIDEA) provides for tax-exempt financing under this program. AIDEA acts only as a conduit for the issuance of tax-exempt bonds. The assets and creditworthiness of AIDEA are not involved. A municipality using this program must still arrange for the underwriting and placement of bonds for sale. AIDEA charges a fee for this program which is dependent on the size of the bond issue.

### **CONTACT:**

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