

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2771

Message from the FY2004 Chair

DEMONSTRATING LEADERSHIP IN CHANGING TIMES

To Governor Murkowski, Members of the Alaska Legislature and the Alaska Public:



As Trustees, we take seriously our obligation to provide leadership and to advocate on behalf of Trust beneficiaries. Being leaders takes considerable vision and the capacity to turn that vision into reality. This can be an especially daunting task in times of change or uncertainty. In FY2004, Alaska was in a transition period during which state agencies, health-care providers, beneficiaries, their advisory boards and The Trust were adjusting to many changes. Trustees and staff rose to the occasion by proposing a dramatically new method for developing their funding recommendations for the comprehensive integrated mental health program, including expenditures of Trust income.

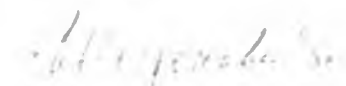
The new budgeting method, the Budget Recommendation Planning Process (BRPP), will guide our decision-making and funding processes for the next five to ten years. The BRPP enhances collaboration between all the Trust's stakeholders by involving them in crafting our recommendations for the state's comprehensive integrated mental health program. The plan is to allocate larger amounts of funds to four or five focus areas so they can be more effective in accomplishing results and system change, rather than spreading funding out thinly over a wide spectrum of programs. We believe this new process will be a wise use of state funds and Trust resources because it concentrates our efforts and assets, and those of our partners, where we can have the most long-term, lasting impact.

The BRPP was launched in January 2003 and in April 2004 the Trustees approved four focus areas for the FY06-07 budget cycle. The Trust's goal and vision behind this new process is to affect significant system changes in the selected focus areas. Over the summer, Trustees and staff worked closely with our many stakeholders to develop goal, strategies, objectives and funding recommendations for the following four focus areas:

- *Improving Access to Housing for Homeless Individuals*, which will focus on household stability, reduction in homelessness, and sufficient income to meet the needs of homeless individuals and better access to supportive services.
- *Enhancing the Health System*, which will focus on reforming the behavioral health system in Alaska by reforming the state's economic investment of state funds, moving care toward home and community based services, building on existing capacity and developing new service mechanisms to support a continuum of care.
- *Improving Prevention and Diagnostic Services*, which will focus on prevention and diagnostic services, education, early intervention, treatment programs, which will be coordinated, data driven, team oriented, and system wide.
- *Improving Consumer and Family Support Programs*, which will focus on enhancing consumer and family support programs, increasing access to housing, and providing support opportunities, supporting provider managed programs that focus on consumer provided services, including substance abuse programs, and personal other funding for consumer directed services.

We appreciate all the hard work that went into the shaping of these four focus areas and applaud all our stakeholders for their collaborative efforts. We also must thank those stakeholders who worked hard this year to provide leadership in other program areas. We have chosen "Leadership in Changing Times" as the theme of this year's annual report in honor of all those who strove to make a difference in the lives of Trust beneficiaries during FY2004. Their vision and efforts to turn that vision into reality have made a tremendous difference, one which we want to recognize and celebrate publicly.

Warmest regards,


Phil Younk, Sr.
FY2004 Chair

FY2004: A Year In Review

This year's annual report theme, *Leadership in Changing Times*, highlights the efforts by Trustees and staff of the Alaska Mental Health Trust Authority to advocate on behalf of Trust beneficiaries at all levels within the service delivery system. A key example of one program that has set a model for others to follow is The Trust's annual Rural Outreach Trip, which opened the eyes of many to the specific needs and challenges faced in rural Alaska by beneficiaries and those who care for them.

The annual trips were developed at the urging of Trustee Susan LaBelle, whose term expired in March 2004, having served on the board since 1997. It was her vision that Trustees, Trust staff, members of the four advisory boards, and state agency staff members would benefit from seeing first-hand what issues and barriers exist and what programs function well or need work in rural and remote communities.

The Trust committed to funding the annual trip over a five-year period that ended in FY2004 with a visit by 33 individuals to six communities along the Aleutian Chain. Other communities and regions visited over the past five years include the Bristol Bay and Bethel regions, Yukon Flats region, Nome area and Copper River Delta.

The Trust also provided support each year by funding a rural technical assistance contractor to work with rural communities and service providers in seeking funding and other support. According to the Trust rural technical assistance contractor and agency contacts in the regions visited, funding several times the targeted amount of \$200,000 annually has been generated or leveraged, either directly or indirectly, as a result of the visits.

directly benefiting Trust beneficiaries. One such grant awarded in FY2004 went to Morning Star Ranch of Fairbanks, which received \$8,813 to purchase equipment for a weekly equestrian program for developmentally delayed individuals.

The mission of Morning Star Ranch is simple: to use its farm/ranch setting to enhance the quality of life for all abilities through education, activity programs and work experience. The ranch operates year-round, working with volunteers, parents, athletes and board members from the local 4-H and Tanana Valley Special Olympics. Morning Star used its Trust small projects grant to purchase equipment for the weekly therapeutic riding sessions given to children and adults with disabilities who qualify for Special Olympics. The training sessions benefited 30 riders throughout the year. Many participants went on to compete in regional and state Special Olympics competitions.

SUNSHINE CLINIC

The \$5 million Sunshine Clinic was dedicated in February 2004, becoming the first of what those in the behavioral health field hope is a model for service delivery for other communities around the state. Behavioral health care and primary care are merged at the Sunshine Clinic, with physician assistants and other medical staff trained to recognize and, in some cases, treat behavioral health issues. The 12,000 square foot facility was funded with financial assistance from a host of state and federal agencies and non-profit organizations, including \$20,000 from The Trust.

The new clinic replaces an older, smaller facility that had been straining to meet the need of residents in Talkeetna, Sunshine and surrounding areas who sometimes had to travel to Palmer or Wasilla for care. Health care providers are hoping that by co-locating primary care and behavioral health treatment, patients' behavioral health problems will be diagnosed and treated sooner and that some of the stigma associated with such issues and treatment will be reduced or eliminated.



Health

MORNING STAR RANCH

Each year The Trust budgets \$250,000 in grant award for new and innovative small projects

DONATED DENTAL SERVICES

Many disabled and elderly Alaskans suffer from neglected dental problems because they cannot afford treatment. Furthermore, government programs, such as Medicare and Medicaid, have little or no dental coverage. The Alaska Dental Society and the national Foundation of Dentistry for the Handicapped developed a statewide Donated Dental Services project in 1994 to help these people. The Trust first began funding the program in 1998 and contributed \$25,000 in FY2004.

There were 76 dentists participating in FY2004 and 18 dental laboratories. During the year, volunteer dentists donated \$123,069 worth of treatment for 34 people and local dental labs contributed \$8,986 worth of fabrications. In addition, 36 other patients were referred to dentists and had begun receiving treatment at the close of the fiscal year.

Since the inception of the program, 224 Alaskans with disabilities have received \$574,787 worth of treatment from 74 volunteer dentists and 19 donating laboratories.



Safety

THERAPEUTIC COURTS

Alaska's courts, like those of other states, deal each day with a disproportionate number of cases involving persons with mental disabilities. This is reflected in Alaska's jails and prisons, which also hold a disproportionate number of persons with mental disorders — 37 percent on a snapshot day in 1997 studied by Alaska's Department of Corrections, compared to 16 percent nationally.

Most of those with mental disorder who become involved with the criminal justice system, both nationally and in Alaska, have not committed a serious crime. Most are arrested for a minor offense like trespass or disorderly conduct that is a direct behavioral result of their untreated or under-treated mental disorder. Sometimes they have committed no crime at all and are jailed because there is no alternative

mechanism in the community to respond to an emergency situation.

Cases in Alaska involving individuals with mental disorders, beneficiaries of the Trust, can present some of the most complex and troubling issues faced by the justice system and by individual judges. Because of their disorders, individuals with mental disabilities are at greater likelihood of becoming involved in the criminal justice system. Once involved, they are at greater risk of repeated cycling through a system that is not structured to be either accessible to them or well equipped to deal effectively with the disorders that prevent them from fully understanding the processes and complying with orders and requirements of the justice system.

The Trust and Alaska Court System began a significant partnership in FY2004 to help make Alaska's Courts more capable of providing an accessible forum for justly resolving cases involving Trust beneficiaries and better equipped to achieve the positive outcomes for the beneficiaries and the communities.

Building on the Trust's long-standing support for Anchorage's innovative Mental Health Court, The Trust and Alaska Court System developed a partnership to sustain and expand Alaska's therapeutic courts and to provide all of Alaska's judges with information and tools that will help them incorporate therapeutic principles and practices into their court proceedings.

At the request of the Court System, the Trust began providing financial support in FY2004 for several elements of a long-term Court System strategy. These elements included:

- Training focused on providing judges with information about substance abuse, addiction, assessment, treatment and recovery and practical ways of using that information in their daily work.
- A Therapeutic Court Coordinator position to coordinate policy, planning, implementation and evaluation of therapeutic courts and therapeutic justice practices; provide technical

assistance to judges and communities in developing and sustaining therapeutic court efforts, and develop funding sources to permanently sustain therapeutic court efforts.

- Development of a planning guide to assist judges and communities in planning and implementing therapeutic courts and incorporating therapeutic practices into regular court processes.

As a further step in the partnership, Alaska's Chief Justice appointed an Advisory Committee on Therapeutic Courts to help in assessing existing therapeutic court programs, coordinating therapeutic programs with the court system's more traditional functions, and evaluating proposals to implement new therapeutic courts.

A key success of The Trust and Court System partnership was its ability to work with Sen. Lyda Green who, spurred by interests of her constituents and her visit to the Anchorage Mental Health Court, championed an effort to permanently fund the Anchorage Mental Health Court - Alaska's landmark therapeutic court - during the 2004 legislative session. By permanently assuring support for the Mental Health Court in Anchorage, Sen. Green made it possible for The Trust to fund a new mental health court project in Palmer, in partnership with the Court System and the community, in FY2005.

SAFE HARBOR INN

Alaska's only nonprofit motel, Safe Harbor Inn, celebrated the opening of a new 26-unit addition in March 2004, nearly doubling the motel's capacity. The motel offers safe, comfortable and affordable transitional housing for homeless families and people with disabilities who are referred to the motel by 46 partner agencies.

The expansion project was ahead of schedule and under budget, requiring only six months to complete from groundbreaking to move-in. The new 3-story addition increased the number of units to 55. It included a large common area, a playroom for children, a meeting room and a kitchen. With

the expansion, 10 more units were reserved for Trust beneficiaries for a total of 20; plus five more handicapped accessible units were added for a total of 10.

In November 2004, Safe Harbor Inn celebrated its third anniversary, having provided 65,000 safe and secure bed nights during that period with 37 percent to individuals who have mental disabilities. More than 130 people are on the motel's waiting list on any given day, with an average wait of four to five months. Of the 928 guests who stayed at the facility during its first three years, 70 percent have moved to permanent housing.



Economic Security

INDIVIDUAL DEVELOPMENT ACCOUNTS

Two programs were launched in FY2004 to improve savings behavior, increase financial literacy and increase asset ownership among low-income Alaskans as a means of expanding access to economic independence and self-sufficiency. Each program encourages participants to save money in individual development accounts or IDAs to obtain an asset like a home, business or education, or as part of an asset building strategy like a computer or car. Deposits by participants are matched with funds from public or private sources.

Armed with more than \$1.2 million in grant money, Cook Inlet Tribal Council, Inc. launched a pilot IDA project in 2004 targeting Alaska Natives and American Indians in Anchorage. Funding for the program consists of a five-year, \$625,000 grant from the federal Administration for Children and Families with a matching grant from The Trust. At the close of FY2004, CTC had enrolled 16 participants who were required as part of the program to attend a 6-part financial literacy training course covering topics that range from budgeting to banking and repairing credit. Individual participants are allowed to contribute up to \$800 to an IDA and households may contribute up to \$1,000 each. Account holders receive a 5% match for their deposits.

The Trust and the Rasmuson Foundation collaborated on funding for an initiative by United Way of Anchorage that serves as an IDA program incubator, encouraging development of programs through start-up grants. At the close of FY2004, the Asset Building Initiative of Alaska awarded four grants of \$13,000 each to pilot projects developed by Bristol Bay Economic Development Corporation in Dillingham and 17 rural villages; Child Care Connection in Anchorage and the Mat-Su Valley; Lutheran Social Services in Anchorage, and Tlingit-Haida Regional Housing Authority in Juneau. Each pilot project had five enrollees. All four programs provide 1:1:1 match with each dollar saved by the account holder matched by ABIA and the grantee. The maximum match is \$2,000.

MICRO ENTERPRISE DEVELOPMENT PROJECT

Many people with disabilities find the options for employment and opportunities for professional growth and development are limited. The choices are fewer for individuals with disabilities who are interested in working for themselves because they often lack the capital resources needed to get a small business established and operational. When given economic support, people with disabilities that start their own business not only reap the financial rewards of business ownership, but also enjoy the sense of worth and value that comes from being self-reliant.

Several projects and programs throughout Alaska are now offering assistance to people with disabilities backed by financial support from The Trust totaling \$157,500 over two years and an \$82,500 match from the state Division of Vocational Rehabilitation. In late FY2003, \$134,500 of available grant funds were awarded through the Department of Health and Social Services to six agencies for developing micro enterprise businesses.

The single largest grant went to the YWCA Anchorage, which received \$102,500 to fund a Micro Enterprise Program. With matching

federal funds and other donations, the program is expected to assist, over a three-year period, 35 individuals in developing a talent, service, product or other creative expression into a viable financial venture that will provide them with income. Participants will receive grants for equipment, working capital, furnishings or other assets to start a business.

The Micro Enterprise Development Project at the University of Alaska Anchorage Center for Human Development received a \$20,000 grant to provide technical and financial assistance to budding entrepreneurs who have disabilities. Applicants receive technical assistance and advice on developing and starting a micro business, plus benefit analysis and planning assistance. Applicants are required to develop a business plan and must be able to match dollar-for-dollar any funds received through the project. Joe Spillane was the first applicant to receive funding through the CHD for his business, Northern Lights Seasonal Services. Joe does lawn maintenance, hauling, and miscellaneous chores in the summer, and snow removal and maintenance during the winter.

The Anchorage School District received a \$10,000 grant that was used to assist Mariah Codes in establishing an eBay business in which she sells used wedding dresses, formal gowns and accessories. Her short-term goal is to establish the business in her home, then move to her own shop and eventually to offer wedding planning services.

Bethel Community Services received \$4,000 that was used to assist five beneficiary clients develop businesses that include a private mail delivery service, a small custodial business and a custom sewing and quilting business.

Another five beneficiaries received funds through Ioma, Inc. to purchase equipment to start a farm. A beneficiary who received \$10,000 through Peters Creek Christian Center started a construction business that is expected to employ from 10 to 20 beneficiaries.



Living with Dignity

OXFORD HOUSE

Recovery from alcoholism and drug addiction frequently requires a lifestyle change for those involved. Many times they are homeless or have recently been released from jail. All too often, their previous behavior has caused family or friends to sever ties with them and they are not welcome at home or they know that if they return home they will be unable to resist sliding back into their old habits. That is why it is especially important for them to have a place to live that is supportive, safe, and affordable where they can focus on their recovery.

One such program is Oxford House Inc., a self-run, self-supported housing program that offers participants an alcohol and drug free living environment. Individual houses are democratically run, with participants electing officers and voting on who to accept into the group or whether to expel someone who has relapsed. There are more than 1,000 Oxford Houses in cities across the country. The program does not rely on government subsidy, but instead requires residents to share equally in the rent and cost of living in the home as a means of teaching them responsibility and self-reliance.

In Alaska there were seven Oxford Houses operating in FY2004, providing accommodations for about 70 people in Anchorage and Fairbanks. Nearly 70 percent of the residents previously had been homeless and 98 percent had served jail time. Now they are sharing living expenses and rent with up to eight individuals per house who have similar experiences and goals. Because many of the residents came to the program with very few personal possessions or furnishings, the Trust contributed \$10,000 to furnish the houses and to provide an outreach worker who visited the various homes to assist residents with any issues or problems. The Trust also provided \$24,500 for a vehicle to help residents when moving.

At the close of FY2004 nearly 60 percent of the residents in the Anchorage and Fairbanks houses

were employed and attending some sort of counseling for their addictions. Plus, two more houses were scheduled to open in FY2005, including one in Wasilla.

ALASKA MOBILITY COALITION

Several Trust beneficiary groups pooled their efforts with Alaska's congressional delegation in 2004 to seek capital funding for transportation projects that would assist beneficiaries around the state. The Alaska Mobility Coalition, working with the state Department of Transportation, funded such purchases as mini vans, pickup trucks with snowplows, and other vehicles for use by programs that serve seniors, individuals with special needs, and individuals with disabilities. The funds also were used to support coordinated transportation services such as CARTS on the Kenai Peninsula, MASCOT, in the Mat-Su Valley and KATS in Kodiak. Money for these purchases and programs came from a variety of sources, such as the Ramson Foundation and the U.S. Transit Administration via Alaska's congressional delegation, plus \$296,962 from The Trust's FY2004 capital budget.



Workforce Development

UNIVERSITY OF ALASKA ANCHORAGE DISTANCE-DELIVERED MSW PROGRAM

Since 1995, The Trust and the University of Alaska Anchorage College of Health and Social Welfare have collaborated to develop a master's degree program that addresses the shortage in Alaska of those with advanced degrees in social work. The latest component of the program available to students is a part-time, distance-delivered MSW program. It was funded with \$250,000 from The Trust and is an extension of the on-site, part-time MSW program already offered at UAA. The distance-delivered program is open to all Alaska residents and in FY2004 there were 15 students enrolled in 12 communities. This first group of students will graduate in May 2007.

Distance-delivered MSW required courses are offered through intensive classroom sessions presented in short time blocks followed by periodic class meetings available by teleconference and Internet. There are two courses taught each semester and classes are available year-round. Students are also required to fulfill two field practicum placements at either a state agency or a non-profit organization and must be supervised by a person with a master's degree in social work.

There are many advantages to the distance-delivered program for students, with perhaps the most significant being the opportunity to earn a degree in place so they can continue working and remain in their home communities. The program also helps students build a strong network of peers around the state, which will be beneficial after graduation because many will be sole providers in their home communities.

ALASKA GERIATRIC EDUCATION TRAINING CENTER

Alaskans are getting older in record numbers. U.S. census data ranks Alaska second only to Nevada in the increase of individuals over age 65. While this is a small percentage of the total Alaska population, the number is expected to mushroom in the coming decade. The graying of Alaska adds another wrinkle to the challenges already faced by the state's health care delivery system because of the shortage of health care workers, the state's size, the distance between communities, and transportation issues.

In an effort to respond to the health care needs of Alaska's aging population, the University of Alaska Anchorage, University of Alaska Fairbanks, and University of Alaska Sitka have formed the Alaska Geriatric Education Center to train and prepare health profession faculty, health care providers, and current and aspiring health care professionals. The center provides multicultural, interdisciplinary, and discipline specific geriatric education.

The center was funded through a five-year, \$2.3 million grant from the U.S. Department of

Health and Human Services, Bureau of Health Professions, Health Resources and Service Administration.

The Trust provided \$50,000 through the Alaska Commission on Aging in FY2004 to sponsor 12 gerontology training workshops presented by the center statewide. There were 569 participants, most of whom were social workers, medical assistants and nurses. The training addressed such issues as elder care, recognizing and treating Alzheimer's disease and related disorders, and medication management.

LEADERSHIP INSTITUTE

The Governor's Council on Disabilities and Special Education and The Trust partnered again in FY2004 to fund the second session of the Leadership Institute. The training program was created to increase the skills and competencies of front-line supervisors who oversee direct service employees working with Trust beneficiaries.

The Institute uses a comprehensive, multi-faceted approach that includes a three-day skills training workshop, mentoring, guided practice, distance-delivered discussion opportunities, and a competency evaluation. The University of Alaska Anchorage Center for Human Development conducts the program.

In FY2004, the Institute provided 17 front-line supervisors a rigorous, time-intensive, and competency-based curriculum designed to develop their leadership and management skills. Each participant was paired with a seasoned supervisor who also attended the skills training workshop and served as a mentor for six months. In addition to the workshop and mentoring support, audio conference discussions were conducted to help participants use their new skills. To complete the course, participants were required to submit a portfolio that demonstrated leadership and skill competencies.

Nine participants received certificates of completion in FY2004. Another institute is scheduled in April 2005.



Infrastructure Development

BEHAVIORAL HEALTH INTEGRATION

In June 2000, Alaska began a multi-year planning effort to improve the integration of mental health and substance abuse treatment for individuals with co-occurring disorders. This effort was based on the recognition that individuals with both mental health and substance disorders are an expectation rather than an exception and can be treated best when they have access to both services in tandem.

The first step in this process occurred when Gov. Frank Murkowski took office in 2003 and mandated the creation of a new integrated division within the Department of Health and Social Services to address these issues directly. The new Division of Behavioral Health was tasked with changing and improving the Alaska behavioral health service delivery system.

With its integrated infrastructure in place, the newly created division selected a clinical service delivery model to guide its system design and wrote an implementation plan to organize the process. By the close of FY2004, the division was developing a plan to operationalize the integration on a clinical and an administrative level with providers statewide. It is hoped this will benefit service recipients by providing a continuous and comprehensive service array while streamlining agencies so their administrative components are less redundant.

A significant piece of the integration process involves working with communities to find local service and administrative solutions. This effort was funded with \$300,000 from The Trust and \$50,000 from the state. Additionally the Division of Behavioral Health, The Trust, and the University of Alaska pooled funding and expertise to create training and educational opportunities to help reduce the workforce shortage in the behavioral health field. The state also committed to a collaborative arrangement between The Trust, the Alaska Mental Health Board and the Advisory Board on Alcoholism and Drug Abuse that will

encourage merged data collection and sharing, and coordinated efforts to address key policy issues.

In FY2004, The Trust teamed with the Division of Behavioral Health to convene the Alaska Behavioral Health Integration External Stakeholder Committee. Funded with \$45,000 from The Trust and \$25,000 from the state, this group developed a consensus vision of what a comprehensive, well-integrated community-based behavioral health system should look like in Alaska. The group also developed a strategic plan to articulate the vision, goals and actions needed to develop a sound behavioral health system and the framework for integrating that system statewide.

ALZHEIMER'S DISEASE RESOURCE AGENCY OF ALASKA

A major challenge for many non-profit agencies is finding the money to buy or lease adequate space in which to work and hold meetings. Frequently, funding organizations will not contribute money for agencies to pay off debt, instead preferring to fund programming that is of direct service to agency beneficiaries. One Alaska non-profit has found a unique way to overcome this problem and is now comfortably working in a new headquarters.

The Alzheimer's Disease Resource Agency of Alaska was running out of room in 2002 and had no money to lease or purchase a new office. Knowing they would find little support from traditional funding sources, the resource agency turned to two couples that were long-time supporters. The two couples formed a corporation and bought a building that they then leased to the agency with an option to buy. That gave the agency time to mount a capital campaign while providing a much-needed new headquarters.

In FY2003 and FY2004, the agency concentrated on raising \$1.3 million and was successful in obtaining several major grants including \$50,000 from The Trust, plus individual contributions from about 1,000 community donors. By the beginning of FY2005, the agency was able to buy the property without a mortgage and now has enough space to lease a portion as a source of income.

2004 Financial Report

TRUST FINANCIAL HOLDINGS STABILIZE IN FY2004

MANAGEMENT OF TRUST ASSETS

Cash and non-cash assets of The Trust are called the corpus of the Trust Fund. The majority of the cash assets are managed by the Alaska Permanent Fund Corporation (APFC) on behalf of The Trust. The Trust Land Office, a special unit within the Department of Natural Resources, manages The Trust's non-cash assets, which include land, buildings, minerals, timber, and other resources that generate income through sales, leases and rent. The Treasury Division of the Department of Revenue manages the mental health budget disbursement (payout), half of the budget reserve, and current revenue generated by the Trust Land Office and the interest generated from these holdings.

The cash assets of The Trust consist of the original settlement, inflation proofing, interest and revenues generated from non-cash resources. The cash is maintained at the APFC and the Treasury Division of the Department of Revenue in several accounts. These are the Principal, Budget Reserve and Income accounts. The Principal consists of the original settlement, inflation proofing and allocated revenues from resource management. The Budget Reserve consists of 400 percent of the prior fiscal year's disbursement (payout) and is set

aside to provide a steady stream of funding during downturns in investment markets. The Income account holds the disbursement (payout) amount for funding the current mental health program, any current allocated revenues generated from non-cash resources, and the current interest on the funds in these accounts.

The Trust routinely coordinates with the APFC, the Treasury Division, and the Trust Land Office on financial management matters. The Trust Land Office routinely coordinates with Trust staff, the Trust Resource Management Committee and the Board of Trustees on resource management and development matters.

KEY FINANCIAL OUTCOMES OF THE TRUST FUND

In FY2004, to maintain stability in the Budget Reserve and to protect it during fluctuations in the market, the Trustees split the Reserve account, transferring half to the Department of Revenue Treasury Division for investment in its securities lending program. The remainder was invested by the APFC. As a result of this strategy, the financial holdings of the Trust Fund experienced a 14.2 percent gain and, at the FY2004 closeout, the Budget Reserve contained 400 percent of the prior year's disbursement as required, or \$54,928,379. For the first time since FY2000, after having losses for several years due to the volatile market, The Trust was able to add approximately \$15 million to the Principal account for inflation proofing, confirming the Trustee's asset management model is a sound

TRUST CASH ASSETS AT END OF FY2004



Settlement	58%	\$200,000,000
Inflation	14.5%	\$50,093,085
Budget Reserve	15.9%	\$54,928,379
Land Revenue	11.6%	\$40,081,638

TRUST PROGRAM AREA EXPENDITURES FY2004



■ Health	27%
■ Safety	29%
■ Economic Security	5%
■ Living with Dignity	18%
■ Infrastructure	18%
■ Workforce Development	3%

Note: The total expenditures for programs was \$1,370,161.9 in FY2004. This does not include Trust Authority Admin or Trust Land Office costs.

method for sustaining The Trust as a perpetual fund for future beneficiaries.

The Trust Land Office also experienced a successful year in FY2004, generating a total of \$11.3 million. In FY2004, the Trustees approved spending \$1,495,000 from the Principal account for enhancement of the resources portfolio to renovate the 718 L Street property in Anchorage (Trust Land Office space), to construct a road through Tract E in Anchorage, and to purchase land for the Fairbanks Detox Facility site.

The Trust's disbursement or payout rate, which is used to determine the disbursement or payout for the mental health budget, remained at 3.5 percent for FY2004. This rate is applied to the amount of the Trust Fund (Principal and Budget Reserve) plus 100 percent of the revenues allocated as income from resource management, interest on the financial holdings at the Treasury Division, and any lapsed funding from prior-year projects.

Reacting to the improving market, the Trustees decided at the end of FY2004 to increase the payout to 3.75 percent beginning with the FY2006 budget.

The following performance for FY2004 is available for funding the FY2005 mental health budget:

- Disbursement (payout) rate remained at 3.5 percent for a payout of \$12,398,992.59 — a 12.3 percent increase over FY2003
- Resource management revenue allocated as income was \$2,623,100.74

- Interest on the Income Account at Treasury Division was \$1,067,566.33
- Lapsed funds from prior fiscal years was \$4,731,268.87
- Total funding available for the mental health trust budget in FY2005 is \$20,821,928.53 — an increase of 11.7 percent over FY2004.

KEY FINANCIAL OUTCOMES OF THE TRUST LAND OFFICE

The Trust Land Office (TLO) exceeded its FY2004 gross revenue goal by about 66 percent, with final revenues equalling about \$11.3 million, including \$2.6 million in Spendable Income. Of the total revenue, \$8.7 million was from the sale of Trust Land assets and was deposited in the Principal Account, with the remaining \$2.6 million being fees and rents and thereby Spendable Income. Much of the revenue was attributable to multi-year transactions, which were not guaranteed to close in FY2004 and were, therefore, not included in the FY2004 gross revenue projections. Core and supplemental operating costs for the year equaled about \$1.8 million. Other highlights included:

- The Real Estate Program accounted for over 55 percent (6.3 of \$6.3 million) of gross revenue. Successful efforts included selling about 2,300 acres in Petersburg (Petersburg Creek) to the U.S. Forest Service for \$2.5 million, completing a significant commercial development transaction in the University-Medical District in Anchorage (\$224,000 annual lease), and creating two new subdivisions (Westlake

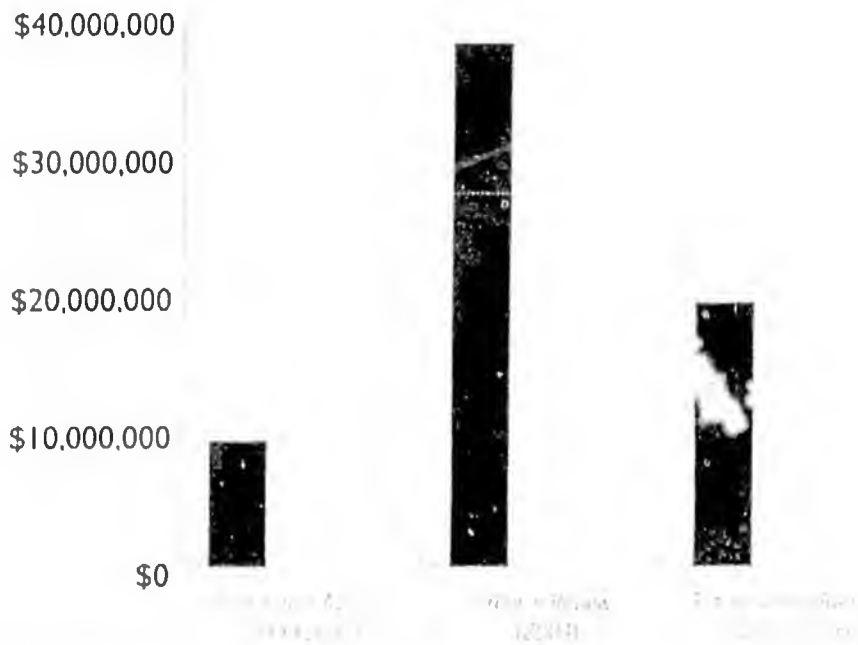
Shores and Twin Island Lake). At the sixth annual land sale 58 parcels were sold through a competitive sealed bid process with a sale value of over \$2,607,000.

- Timber harvest revenue accounted for about 36 percent (about \$4 million) of gross revenue, with sales in Thorne Bay, North Kenai and Tyonek.
- Acreage leased for oil and gas exploration increased by 24,000 acres with most of the new leases located on the Kenai Peninsula. By year-end, the TLO had a total of about 100,000 acres under lease. The Trust also began receiving oil and gas royalty payments from production in the Beluga River Unit.

- The mineral and materials program ended the year with about \$445,000 in revenue including the first royalty payment from the Fort Knox Mine of about \$102,000.
- The TLO successfully remodeled and relocated to one of three Trust owned facilities at 7th & L Street in Anchorage. The two smaller facilities located at the same site provided the TLO with a new revenue-producing arena in property management.

A detailed description of the Trust Land Office's financial status for FY2004 is available in the TLO Year-End Report available online at www.mhtrustland.org or by calling (907) 262-8658.

TRUST FUND PERFORMANCE



Trust Fund Performance	\$9,091,320	\$37,990,300	\$19,086,600
Trust Income Available	\$16,955,020	\$18,725,000	\$19,515,380
Trust Funded Projects	\$12,966,240	\$13,993,800	\$18,312,340

Note:

The Trust Fund Performance is calculated as Trust Income Available minus Trust Funded Projects. Trust Income Available is calculated as Total Trust Income minus Administrative Expenses. Total Trust Income is calculated as Timber Harvest Revenue plus Mineral and Materials Revenue plus Royalty Revenue plus Other Revenue. Administrative Expenses are calculated as Personnel Expenses plus Travel Expenses plus Office Expenses plus Other Administrative Expenses. Trust Funded Projects are calculated as Capital Expenses plus Operating Expenses. The Trust Fund Performance is reported in the TLO Year-End Report.

The FY2004 Board of Trustees



(L to R): Tom Hawkins, William Doolittle, M.D., Phil A. Younker, Sr., Caren Robinson, Nelson G. Page, John Pugh, John F. Malone

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Secretary

Tom Hawkins

Resource Management Committee Chair

John F. Malone

Program and Planning Committee Chair

Nelson G. Page

Finance and Budget Committee Chair

John Pugh

Community and Integrated Mental Health Program Chair

Staff Contact Information

Trust Administrative Office

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Anchorage AK 99501
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Fax: 907-269-7966
www.mhtrust.org

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907-269-7965

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Erika Wolter, Trust Program Specialist Assistant
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907-269-7968

Lucas Lind, County Assessor/Collector
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907-269-7969

Yvette Miller, Administrative Secretary
ymiller@mhtrust.org
907-269-7960

Trust Land Office

718 L Street, Suite 202
Anchorage AK 99501
Phone: 907-269-8658
Fax: 907-269-8905
www.mhtrustland.org

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Will Marshall, Resource Technician
wmarsh@dnr.state.ak.us
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Heather L. Weatherell, Resource Technician
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The Alaska Mental Health Trust Authority

FY2004 ANNUAL REPORT

DESIGN: [illegible]

COORDINATION AND COPYWRITING: [illegible]

PRINTING: [illegible]

[illegible]

This report was printed on [illegible]



The TRUST

The Alaska Medical Health Trust Authority

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CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Central Microfilm Services
Department of Education & Early Development
State of Alaska



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550 W. 7th Avenue, Suite 1820 Anchorage, Alaska 99501 Tel: 907-269-7960 Fax: 907-269-7944 www.mhtrust.org

The Alaska Mental Health Trust Authority

Fiduciary Responsibility

Trustees believe it is essential to have a long term plan by which the assets of the Trust be maintained and enhanced through prudent management.

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

The Asset Management Policy Statement (AMPS)

The Trustees adopted the AMPS as the management plan for these assets.

The AMPS document specifically delineates the asset management philosophy and practices of the Board of Trustees of the Alaska Mental Health Trust Authority. (the full document is available on request)

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

The Corpus of The Trust

- Cash Assets
Funds in the Alaska Permanent Fund Corp.

- Non Cash Assets
Trust property and resources managed
by The Trust Land Office

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Cash Management Objectives:

- Preserve purchasing power of the Trust's principal
- Enhance the income generating capacity of
the Trust's natural resource portfolio
- Maximize return with reasonable and
prudent levels of risk
- Provide a steady reliable payout stream year to year to
ensure Trust funded projects
- To ensure The Trust's ability to meet its spending goals in
difficult market environments and ensure liquidity in future
years

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Our Cash Assets Objectives

- Principal: Long Term Growth
100% Invested Alaska Permanent Fund
- Budget Reserve: Intermediate Growth
50% Invested Alaska Permanent Fund
50% Invested Dept. of Revenue, Treasury
- Current Year Budget: Cash
100% Invested Dept. of Revenue, Treasury



Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Property & Resources Management Objectives:

- To protect and enhance the value and productivity of Trust natural resources
- To maximize revenues from Trust natural resources over time
- To encourage a diversity of revenue producing uses of Trust natural resources
- To manage Trust natural resources prudently, efficiently, and with accountability to the Trust and its beneficiaries

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Our Property & Resource Assets

Managed by the Trust Land Office:

Land

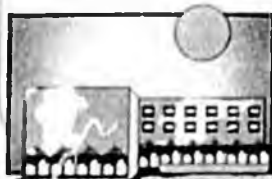
Improvements

Minerals

Gas/Oil/Coal

Timber

Materials



Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Our General Expectations of Natural Resource Revenues

- | | |
|-----------------------|-----------------------------|
| ➤ Leases | 8% of appraised value |
| ➤ Competitive Sales | best offer over minimum bid |
| ➤ Negotiated Sales | 12% of appraised value |
| ➤ Coal Royalty | 5% of Gross Sales |
| ➤ Mineral Royalty | Market Rate Royalty |
| ➤ Oil & Gas Royalty | 12.5% of Gross Revenue |
| ➤ Material Sales | Market rate per yard/ton |
| ➤ Improved Properties | Market Rate |

Note: in some cases the rates may vary depending on circumstances, the TLO has complete rate information

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Sources of Land Management Revenue that go to Principal

- Proceeds from land sales
- Royalties from sale of oil, gas, coal and minerals
- 85% of the proceeds from timber sales

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Trust Principal

- Revenue from Trust Land Management
- Cash assets at the Alaska Permanent Fund allocated to principal
- Cannot be Spent

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Budget Reserve

- Mitigates the effects of short-term market volatility on spending to maintain constant funding to ensure program stability.
- Permits the Trustees to fund multi year projects
- Is capped at 400% of the targeted annual disbursement amount
- Excess over 400% flows to the Principal Account

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

All Earnings flow to Budget Reserve

At 400% earnings
flow on to
Principal

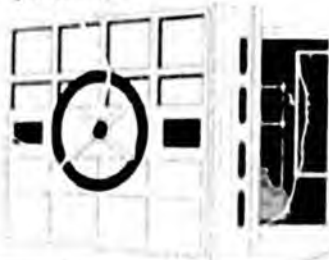


Budget
Reserve

Quarterly Board Meeting
to the Trustees



Principal



Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Sources of Income for Annual Spending

- 3.75% (for FY 06) of Net Asset Value of Trust Funds Corpus (Principal) Invested in Alaska Permanent Fund Budget Reserve (Invested 50% A.P.F. & 50% D.O.R.)
- Lapsed Funds from prior year
- Income from D.O.R. Treasury Account (expenditure income)
- Income from rents, fees, purchase contract interest and 15% of timber sales from Trust Land Management

Note the 3.75% is subject to change by the Trustees

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Our Track Record in thousand's \$

Fiscal Year	Payroll Rate	Payroll Amount	Plus 100% of Income from Trust Land Management	Interest from DOR Account	Lapsed Unallocated Income prior Year	Equals Payout for Programs
1997	3%	6,845.7	785.5	93.1	2,418.1	10,142.4
1998	3%	7,474.5	1,416.0	1,111.8	1,611.1	11,643.7
1999	3.25%	8,704.3	1,082.7	132.1	1,890.9	11,810.0
2000	3.5%	10,072.9	1,182.9	2,620.0	2,865.9	16,741.8
2001	3.5%	11,522.2	1,381.0	874.7	7,019.4	20,797.4
2002	3.5%	10,910.8	2,116.2	1,518.0	3,973.7	18,482.8
2003	3.5%	10,481.8	2,520.1	1,254.3	3,455.5	17,711.7
2004	3.5%	11,039.4	2,532.1	719.9	3,944.6	18,735.0

Trust Asset Management Policy

The Alaska Mental Health Trust Authority

Our Track Record:

Our model has provided:

- Stable funding for Trust projects across funding years
- Maintenance of the purchasing power of the principal, including inflation

Trust Asset Management Policy

50-2-05

Alaska Mental Health Trust Authority

House Finance

February 2, 2005

The TRUST
The Alaska Mental Health
Trust Authority

Key Terms of Settlement

- Trust resources to act as a catalyst for change
- Separate appropriation bill
- Comprehensive planning for mental health program
- Mental Health Trust Lands released for development

The Trust's Beneficiaries

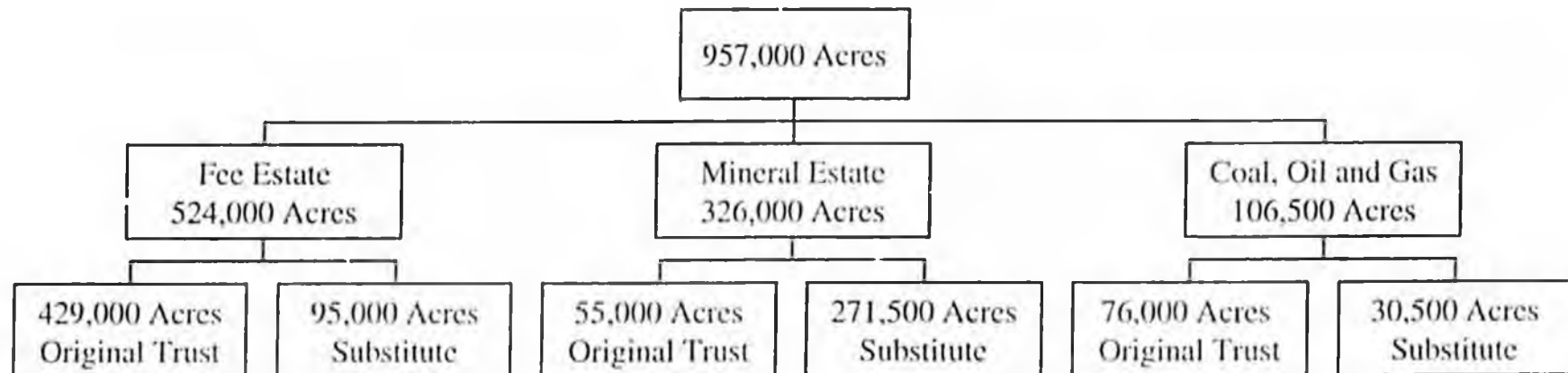
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- *People with developmental disabilities*
- *People with chronic alcoholism*
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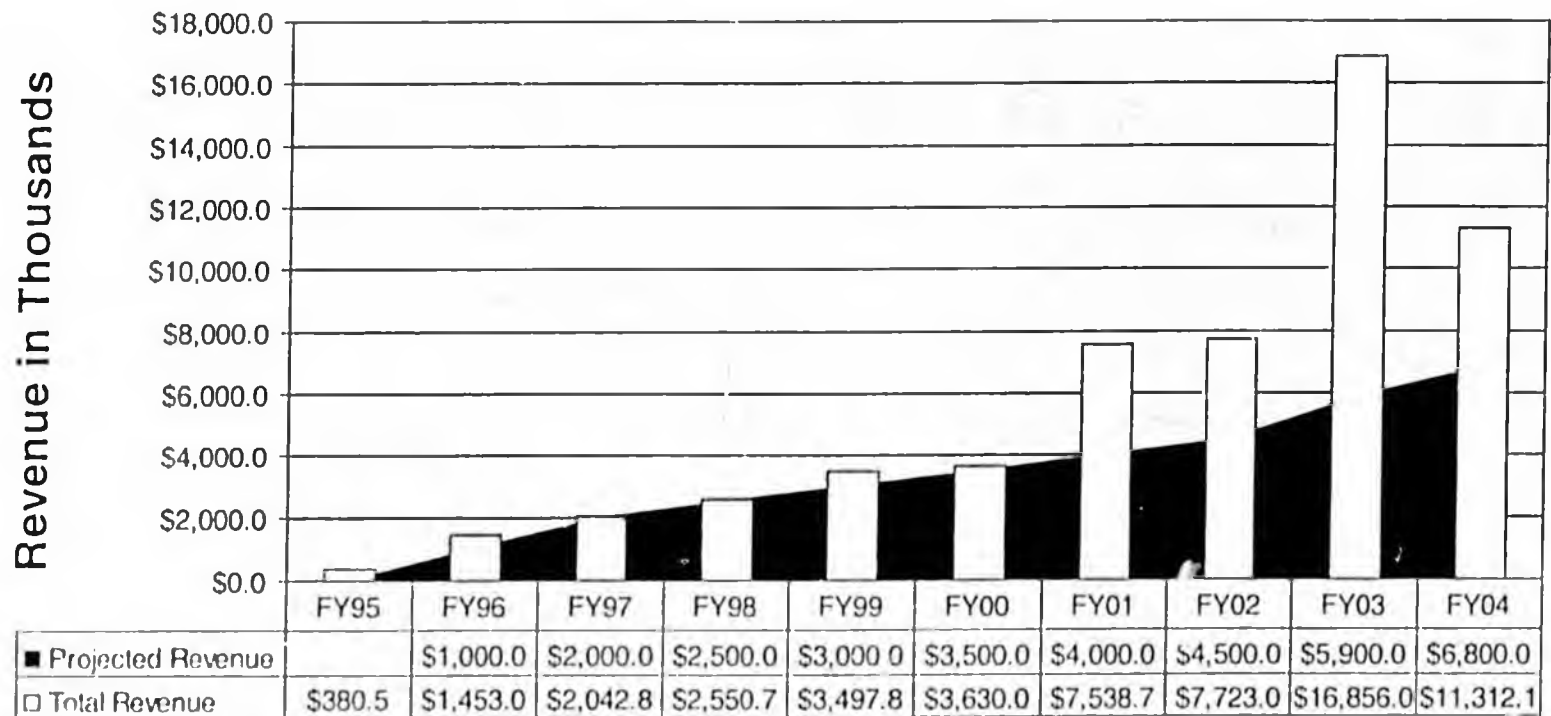
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- *Advisory Board on Alcoholism & Drug Abuse*
- *Governor's Council on Disabilities & Special Education*
- *Alaska Commission on Aging*
- *Commissioners of the departments of Health and Social Services, Natural Resources and Revenue.*
- *Alaska Traumatic Brain Injury Board*

Land and Resources

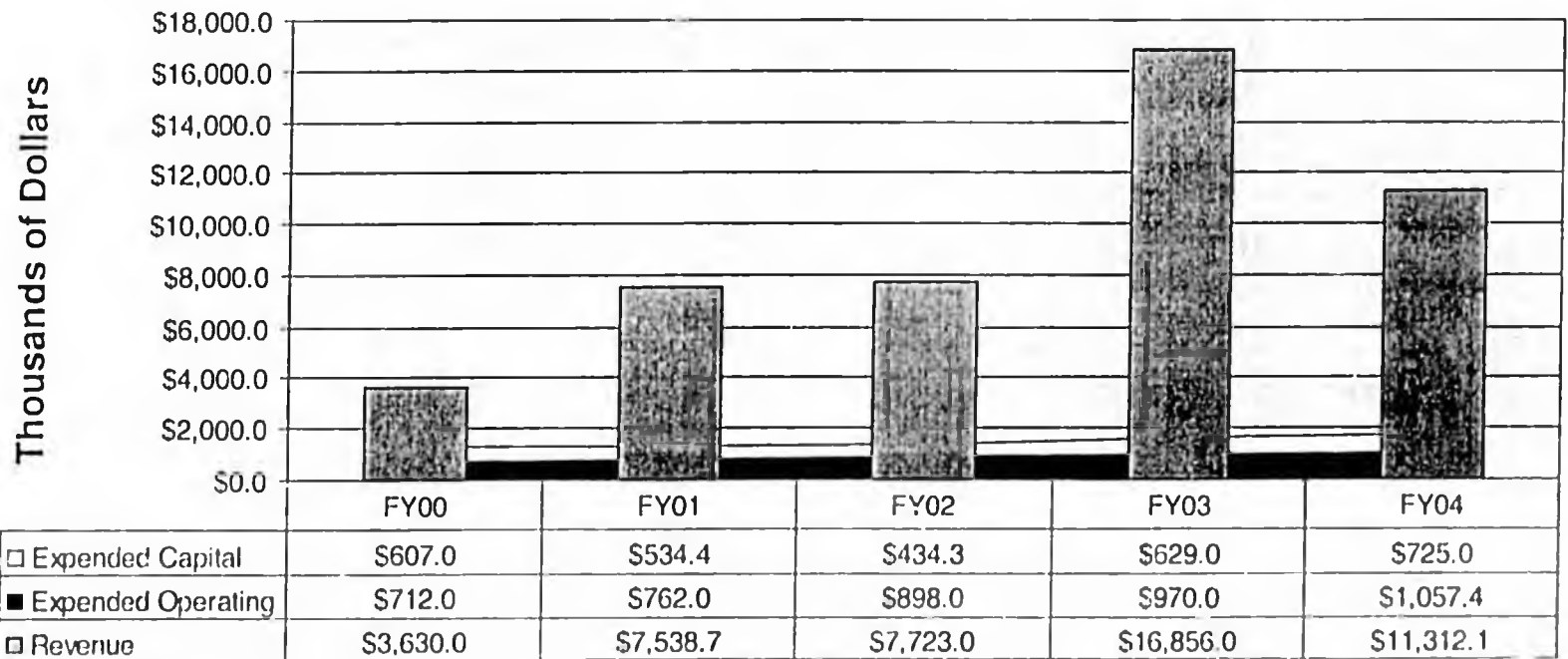


Gross Revenue from Trust Land



Actual Revenues through FY04

Trust Land Office Operating & Capital Expenditures Vs. Revenue Earned



Actual Revenue through FY04

Trust FY06

<u>TRUST Distributable Income</u>	
Land Office Income	\$ 2,600,000
<i>Trust Fund Payout 3.75%</i>	\$13,618,398
Prior Year Lapse	\$ 3,782,728
Interest	<u>\$190,000</u>
Total Trust Projected	\$20,191,126
Expenditure Recommendations	\$11,684,500 Operating
	\$3,200,000 Capital
Total Recommendations	<u>\$4,236,000 Direct Grants</u>
	\$19,828,400

Trust Budget for FY 06/07

- Collaborative planning process
- 4 focus areas targeting system change
- Emphasis on partnering to maximize funding

Four Focus Areas

- Bring the Kids Home
- Affordable Housing
- Justice for Persons with Disabilities
- Trust Beneficiary Group Initiatives

Guiding Direction for Trust Program Investment

- Focused on results.
- Investing in policies, programs, services that make a difference.
- Example in Justice Focus Area:
 - Therapeutic Courts
 - Apply sound scientific principles of behavior change – effective use of incentives and sanctions, with treatment and other new technologies.
 - Effectively coordinates the persuasive and coercive power of the court with essential treatment and supports and oversight of treatment and behavioral compliance.
 - Results in real change and real results with some of the most difficult and complex problems facing courts – mentally ill, alcoholics, people with traumatic brain injuries, developmental disabilities and complex combinations of these disorders.

Two Major Initiatives

- Adult Preventive/Restorative Dental
 - Partner with DHSS
 - Trust cash commitment over 5 yrs - \$5,375,000
- Behavioral Health Workforce Development
 - Partnership with Trust, UA, and DHSS
 - \$950,000 Trust funds over 2 years
 - \$1,000,000 from UA
 - \$200,000 from DHSS

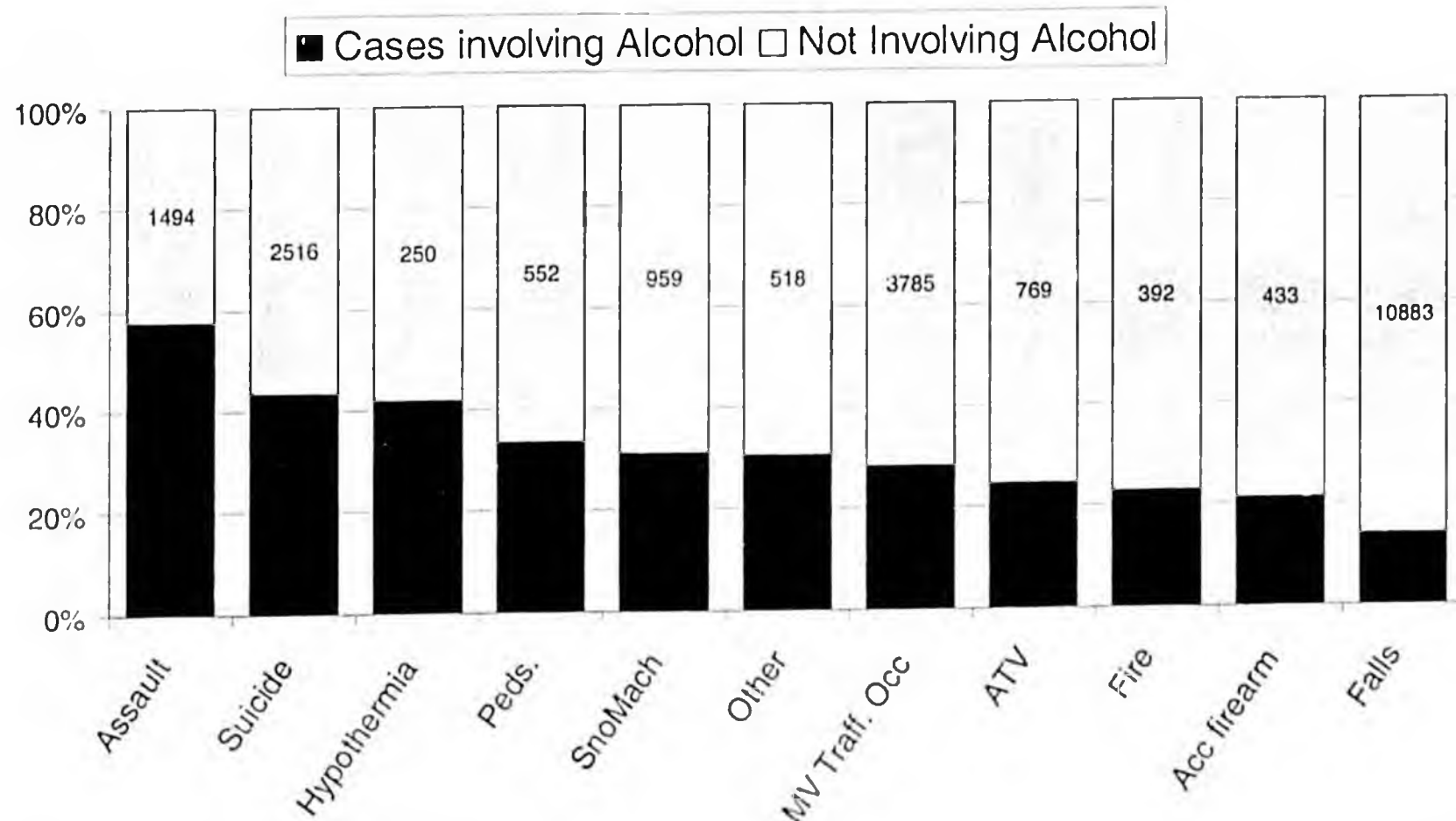
Homeless Initiatives

- Alaska Interagency Council on Homelessness
- Trust Affordable Housing Workgroup
- Anchorage Task Force on Homelessness
- Interior Alaska Coalition to Prevent and End Homelessness (Fairbanks)

FY 06 Budget

- Medicaid is critical
- AFHC funding is critical to providing affordable housing
- Support extension/expansion of Senior Care program
- Address DD Waitlist
- Alcohol prevention and treatment

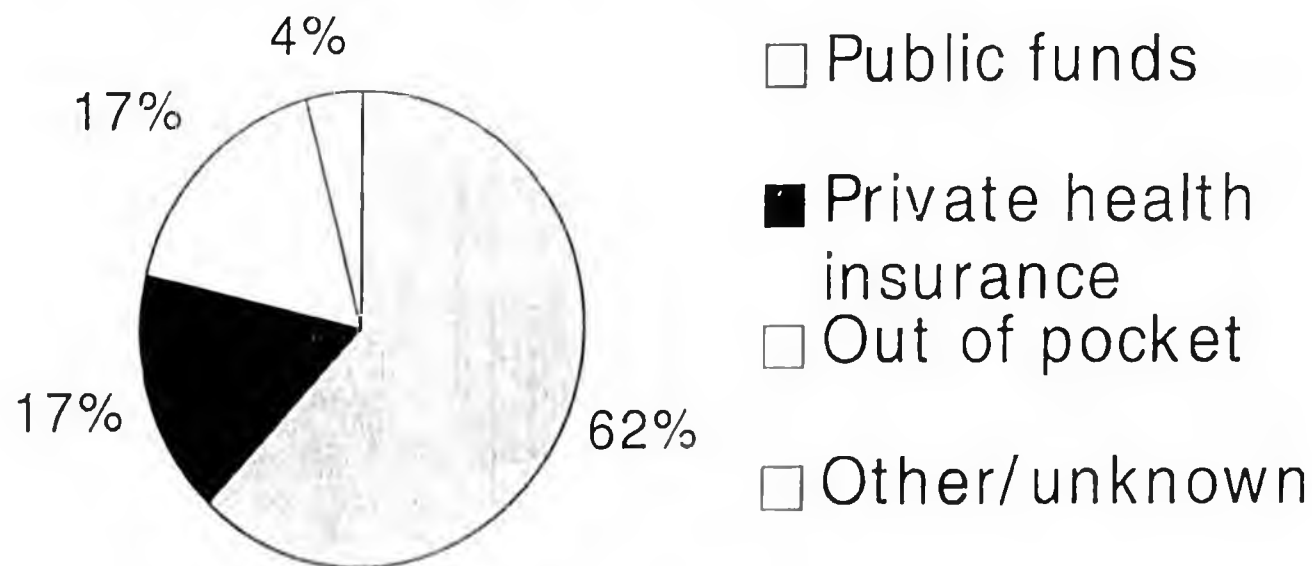
Selected Injuries with alcohol involvement, AK Residents, 1991-2000



Source: Alaska Trauma Registry

Study: Alaska Injury Prevention Center

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Costs of Alcohol

- Alcohol related injury, disease and social impact estimated at \$453 million in 1999 study
- 2004 Oklahoma study showed 41% of Traumatic Brain Injury related to alcohol
- Alcohol treatment funding continues to decrease (now Behavioral Health) - \$13,416.2 FY06 - down 1.1 million from FY05
- Support Alcohol prevention funds proposed by Administration
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Alcohol and Drug Advisory Board Budget/Legislative Priorities

- ABADA Guiding Principle: The fatal diseases of alcoholism and drug addiction are both **preventable** and **treatable**.
- **Adequate funding** for alcohol and drug abuse programs.
- Support Governor's alcohol prevention and treatment initiatives

Alaska Mental Health Board Budget/Legislative Priorities

- U.S. Surgeon General's Mental Health Report
 - Mental illness is real and disabling, but recovery is realistic
 - Treatment works, but stigma is a real barrier
- New Freedom Commission Report
 - Facilitate recovery and build resilience
 - Care should be consumer and family driven.
- Joint AMHB/ABADA Legislative Issues
 - Fiscal responsibility under Trust Settlement to fund Comprehensive Mental Health Program
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 - Transport and Voluntary Admissions – seek sponsor
 - Preferred Drug List – Access to Medications – monitor status
 - Denali Kid Care Eligibility – support 200% income guideline
- Restore FY 2005 Program Cuts
 - 330.0 GF/MH– Services to Severely Mentally Ill Adults
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Alaska Commission on Aging Budget/Legislative Priorities

- Senior Care Program extension/expansion
- Adult Dental preventive/restorative Medicaid coverage
- Senior Centers Deferred Maintenance
- New Adult Protective Services worker
- Add Alzheimer's disease and related dementias to Medicaid eligibility

Governors Council on Disabilities and Special Education Budget/Legislative Priorities

- Long Term Fiscal Plan
- Adult Dental Services Medicaid funding
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- Grant dollars for DD services
- Address DD Waitlist problems
- Universal Newborn Hearing Screening funding
- Assistive Technology and Home Modifications
Capital funds
- Increase Formula Funding for Education

Traumatic Brain Injury Board Budget/Legislative Priorities

- One of the highest rates in the nation:
 - Every year, about 800 Alaskans suffer a brain injury
 - Costly in funding and human loss: Up to 30% of people without insurance or bill Medicaid program. Up to \$4 million in a lifetime
 - High risk: ages 15-19; rural regions
- FY 06 Legislative Focus:
 - Support for SB 63, Seat belt signage
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Suicide Prevention Council Budget/Legislative Priorities

- Extend sunset of Suicide Prevention Council to 6/30/2009 (SB 60/HB 82)
- Fund Suicide Prevention Council in FY 06
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Alaska Mental Health Trust Authority

House Finance

February 2, 2005



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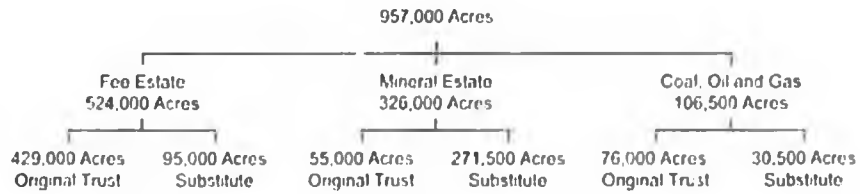


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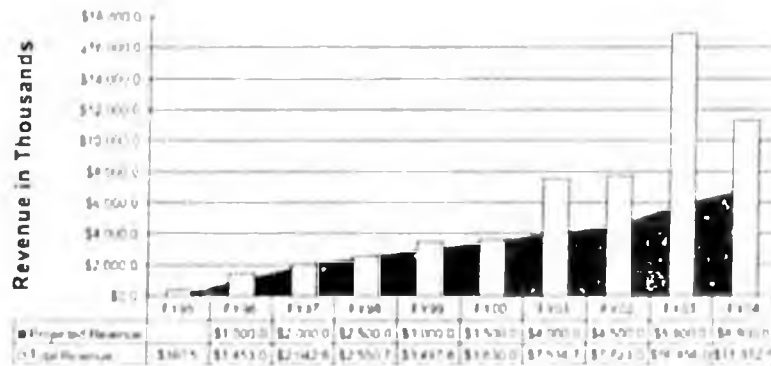


Land and Resources



IN TRUST
The Peace Through Trust

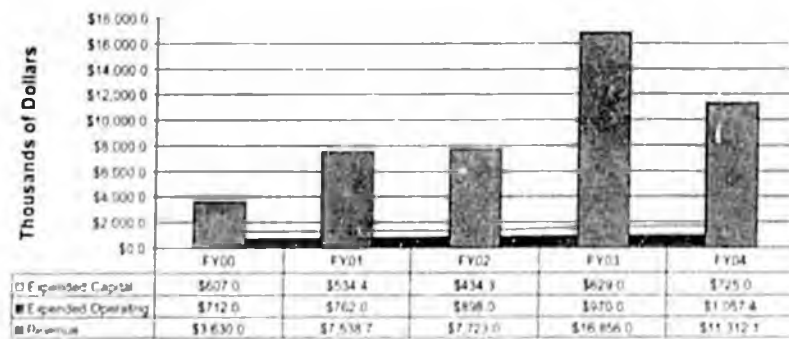
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IN TRUST
The Peace Through Trust

**Trust Land Office
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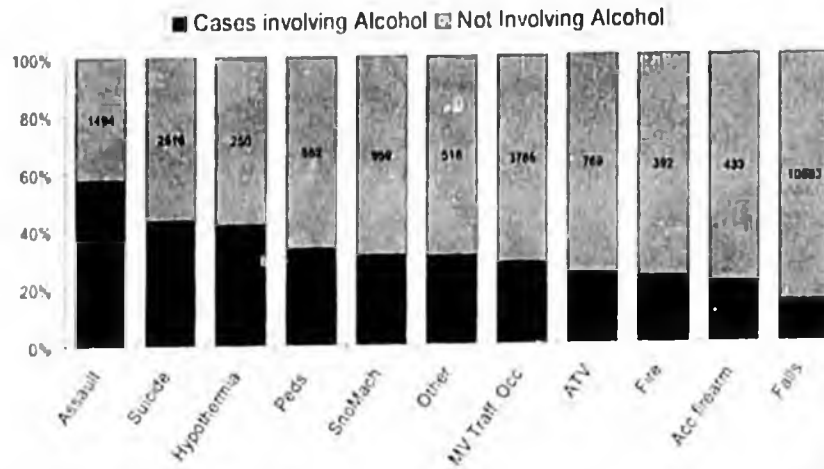


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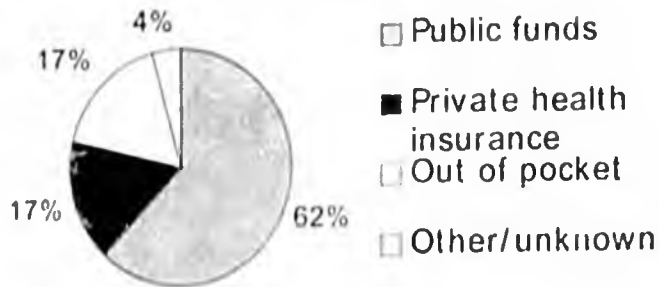
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the TRUST
The Oklahoma Trust for Alcohol and Drug Abuse

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The TRUST
The State Mental Health Trust

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The TRUST
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Governors Council on Disabilities and Special Education
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The Alaska Trust

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The TRUST
The Alaska Mental Health Trust

2/8/05

OVERVIEW:

AETNA

PREMIUM

HFIN

FILE

2-8-05

STATE OF ALASKA

AMENDMENT TO PROFESSIONAL SERVICES CONTRACT

1. Agency Contact Number
2. ASPS Number 2001-0200-2140
3. Optional Renewal? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Years remaining <u>1</u>
4. Financial Coding 02800535/537/538/539
5. Agency Assigned Encumbrance Number
6. Amendment No. 05

This agreement is between the State of Alaska,

7. Department of Administration, Division of Retirement & Benefits (DRB) hereafter the State, and

8. Contractor Aetna Life Insurance Company hereafter the Contractor

Mailing Address	Street or P.O. Box	City	State	ZIP Code
2409 Camino Ranon		San Ramon	CA	94583

9. Original period of performance FROM: 7/1/2001 TO: 6/30/2004	10. Amended period of performance FROM: 7/1/2001 TO: 6/30/2005
---	---

11. Previous amount of contract to date: \$ 40,000,000	12. Amount of this amendment: \$ 7,000,000	13. This amended contract shall not exceed a total of \$ 47,000,000
---	---	---

In accordance with the provisions of the above referenced contract, the parties to that contract agree that the services to be performed by the contractor under the contract are amended as follows: All other terms and conditions of the contract remain in effect. (Use reverse for continuation of amended provisions if necessary.)

Amendment is to continue work as the Third Party Administrator as outlined in the original contract, any previous amendments thereto, and the attached 18 pages dated August 24, 2004 that reflect this amendment. All other terms and conditions remain the same.

In full consideration of the contractor's performance under and including this amendment, the State shall pay the contractor a new total not to exceed \$ \$ 47,000,000.

The period of performance under this contract is increased/decreased by 10 Months to 6/30/2005.

IN WITNESS WHEREOF the parties hereto have executed this amendment.

NOTICE! This amendment has no effect until signed by the head of the contracting agency, procurement officer or designee.

15. CONTRACTOR

Name of Firm
Aetna Life Insurance Company

Signature of Authorized Representative *Richard Salow* Date 8/25/04

Typed or Printed Name of Authorized Representative
Rick Salow

Title
Underwriting Manager

17. CERTIFICATION: I certify that the facts herein and on supporting documents are correct, that this voucher constitutes a legal charge against funds and appropriations cited, that sufficient funds are encumbered to pay this obligation, or that there is a sufficient balance in the appropriation cited to cover this obligation. I am aware that to knowingly make or allow false entries or alterations on a public record, or knowingly destroy, mutilate, suppress, conceal, remove or otherwise impair the verity, legibility or availability of a public record constitutes tampering with public records punishable under AS 11.56.815 - .820. Other disciplinary action may be taken up to and including dismissal.

16. CONTRACTING AGENCY

Department/Division
Administration, Division of Retirement & Benefits

Signature of Project Director *Melanie Millhorn* Date 8-26-04

Typed or Printed Name of Project Director
Melanie Millhorn

Title
Director

Signature of Head Contracting Agency or Designee *Kevin Brooks* Date 8-30-04

Typed or Printed Name of Authorizing Official
Kevin Brooks

Title
Deputy Commissioner

STATE OF ALASKA

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6. Amendment No 05

This agreement is between the State of Alaska,				
7. Department of Administration, Division of Retirement & Benefits (DRB) hereafter the State, and				
8. Contractor Aetna Life Insurance Company hereafter the Contractor				
Mailing Address	Street or P.O. Box	City	State	ZIP Code
2409 Camino Ramon		San Ramon	CA	94583
9. Original period of performance FROM: 7/1/2001 TO: 6/30/2004		10. Amended period performance FROM: 7/1/2001 TO: 6/30/2005		
11. Previous amount of contract to date \$ 40,000,000	12. Amount of this amendment \$ 7,000,000	13. This amended contract shall not exceed a total of \$ 47,000,000		

14. In accordance with the provisions of the above referenced contract, the parties to that contract agree that the services to be performed by the contractor under the contract are amended as follows. All other terms and conditions of the contract remain in effect. (Use reverse for continuation of amended provisions if necessary.)

Amendment is to continue work as the Third Party Administrator as outlined in the original contract, any previous amendments thereto, and the attached 18 pages dated August 24, 2004 that reflect this amendment. All other terms and conditions remain the same.

In full consideration of the contractor's performance under and including this amendment, the State shall pay the contractor a new total not to exceed \$ \$ 47,000,000

The period of performance under this contract is increased/decreased by 10 Months to 6/30/2005

IN WITNESS WHEREOF the parties hereto have executed this amendment

NOTICE! This amendment has no effect until signed by the head of the contracting agency, procurement officer or designee

15 CONTRACTOR Name of Firm Aetna Life Insurance Company Signature of Authorized Representative _____ Date _____ Typed or Printed Name of Authorized Representative Rick Salow Title Underwriting Manager	17 CERTIFICATION: I certify that the facts herein and on supporting documents are correct, that this voucher constitutes a legal charge against funds and appropriations cited, that sufficient funds are encumbered to pay this obligation, or that there is a sufficient balance in the appropriation cited to cover this obligation. I am aware that to knowingly make or allow false entries or alterations on a public record, or knowingly destroy, mutilate, suppress, conceal, remove or otherwise impair the verity, legibility or availability of a public record constitutes tampering with public records punishable under AS 11 56 815 - 820. Other disciplinary action may be taken up to and including dismissal.
16 CONTRACTING AGENCY Department/Division Administration, Division of Retirement & Benefits Signature of Project Director _____ Date _____ Typed or Printed Name of Project Director Janie Millhorn Director	Signature of Head Contracting Agency or Designee _____ Date _____ Typed or Printed Name of Authorizing Official Title

AMENDMENT TO PROFESSIONAL SERVICE CONTRACT FOR
ENTRY DEFINITIONS

- 1 Agency assigned contract number for tracking, reference, and billing
- 2 Authority to Seek Professional Services (ASPS) number assigned by Department of Administration (DOA)
- 3 Optional renewal? Yes or no Years remaining not including this renewal
- 4 Financial coding assigned by the agency for billing purposes
- 5 Encumbrance number assigned to this contract by the agency
- 6 Amendment number. How many to date for this contract including this one?
- 7 Department
- 8 Contractor's name and address
- 9 Original period of performance including previous amendments
- 10 Amended period of performance of this document
- 11 Total date not including this amendment
- 12 Amount of this amendment
- 13 New total not to exceed including this amendment
- 14 This section must contain all material changes from the contract such as the new total not to exceed amount and the new period of performance. If no change is being made, write "same". This section also requests the number of years, months and days this contract is either increased or decreased by.
- 16 Contractor's name, signature, and address
- 17 Your division project director's name and signature

APPENDIX C
Administrative Services Contract

Section III. Obligations of the State, subsection H. 4. is amended to read:

4. Effective July 1, 2004, AETNA may adjust the Administrative Fees effective as of the date on which any of the following occurs.

If, for any product, there is a:

- 15% decrease in the average enrolled medical, pharmacy or dental lives from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established);
- 15% increase in the member to employee ratio from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established).
- 15% increase in the retiree percentage from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established);
- 15% increase in the processed claim transactions (PCTs) per employee from the Administrative Fee Assumptions below or from any subsequently reset Assumptions (reset if a new fee is established);

if a material change in the plan of benefits is initiated by the State or by legislative or regulatory action;

If a material change initiated by the State or by legislative or regulatory action in the claim payment requirements or procedures, claim fiduciary option, account structure, or any other change materially affecting the manner or cost of paying benefits and/or administering the plan;

If the Contract is terminated by the State requiring Aetna to incur charges for maintaining plan structure to report and/or process runoff claims.

If the National Advantage Program (NAP) is terminated by the State.

If the Aetna Pharmacy Management Program (APM) is terminated by the State.

Administrative Fee Assumptions (7/1/2004 - 6/30/2005):

	Active Medical	Active Rx	Active DVA	Retiree Medical	Retiree Rx	Retiree DVA
7/04-7/05 Enrolled Lives	5,266	5,266	5,266	27,781	27,781	18,024
Member to Employee Ratio	2.65	n/a	n/a	1.91	n/a	n/a
Retiree Percentage	0.0%	n/a	n/a	100.0%	n/a	n/a
PCTs per Employee	26.37	17.50	5.32	35.36	31.93	4.15

Section VI. General Provisions, E. Notice is amended to read:

E. Notice. All written notice required under this Agreement will be deemed to have been given to a party if sent to the party at the addresses appearing below by any means, including facsimile, which leaves a hard copy in such party's hands.

If to AETNA: Riek Salow
Underwriting Manager
2409 Camino Ramon
San Ramon, CA 94583

If to State: Ray Matiashowski
Department of Administration
P.O. Box 110203
Juneau, AK 99811-0203

Exhibit B, Administrative Fees is amended as follows:

To add the following to Section 1.(a):

For the Contract Year beginning July 1, 2004, the Administrative Fees will be set forth in Exhibit B-1.

To add the following to Section 1.(c):

The Late Payment charge for the Contract Year beginning July 1, 2004 will be communicated prior to the start of the Contract Year.

Exhibit B-1 is amended to add the following:

Exhibit B-1, Administrative Rates: 7/1/2004 - 6/30/2005

Active Health Plan "Applies to all enrolled active employees"

Medical, Vision, and Dental - includes network access fees, Informed Healthline, VSP and Magellan Behavioral Health

\$2.09 Per Employee Per Month

Retiree Health Medical Plan "Applies only to those retirees enrolled in a medical plan"

Medical - includes Informed Healthline and Magellan Behavioral Health

\$28.51 Per Retiree Per Month

Retiree DVA - Dental/Vision/Audio "Applies only to those retirees enrolled in this coverage"

\$4.22 Per Retiree Per Month

Long Term Care Claim Processing "Applies only to those enrolled in this coverage"

\$0.43 Per Participant per month

Health Care Reimbursement Account "HCRA"

\$3.75 per participant per month for semi-monthly checks and one primary wire line.

Premium Collection Fee - For continuees and plan participants enrolled in "self-pay" status.

\$14.00 Per Participant per month

\$4.60 Per HIPAA Certificate mailed

Other Fees: 7/1/2004- 6/30/2005

- (1) Banking wire line in addition to (4) contained in pricing for Active Medical, Retiree Medical, DVA, and HCRA.

LTC Claim Wire - \$2,285 Annually.

- Two additional suffix/accounts for HCRA @ \$485 annually = \$970 annually

Exhibit C, A. Affiliates is amended to read:

A. Affiliates.

AETNA Life Insurance Company

Payment of medical and dental claims (Active and Retiree Plans). Customer service at the AlaskaCare Service Centers, Utilization review for medical claims under the Active and Retiree Plans, and the Custom AETNA Provider Network.

AETNA Pharmacy Management

Drug card and mail order prescription drug programs for Active and Retiree Plans.

Aetna Integrated Informatics

Claim and utilization reporting for Active and Retiree Plans.

B. Subcontractors.

Vision Services Plan

Vision and optical services network (Active Plan only).

Magellan Behavioral Health

For the Active Plan, EAP and managed mental health and substance abuse services and utilization review; For the Retiree Plan, managed mental health and substance abuse services and utilization review.

Aetna Rx Home Delivery

Mail order prescription drug program for Active and Retiree Plans.

Exhibit F, Banking is amended to add the following:

The Late Wire charge for the Contract Year beginning July 1, 2004 will be communicated prior to the start of the Contract Year.

The following Exhibit G, Performance Guarantees, replaces any previous performance guarantees under the Administrative Services Contract:

EXHIBIT G PERFORMANCE GUARANTEES

General Performance Guarantee Provisions

Aetna Life Insurance Company (ALIC) provides health benefits administration and other services for the self-funded Preferred Provider Organization (PPO) Medical plan. The services set forth in this document will be provided by ALIC (hereinafter "AETNA").

Performance Objectives

AETNA believes that measuring the activities described below are important indicators of how well it services the State of Alaska. Aetna is confident that the Plan Administration, Claim Administration and Member Services provided to the State will meet their high standards of performance. To reinforce the State's confidence in AETNA's ability to administer their program, AETNA is offering guarantees in the following areas:

Account Management
Management Reports

Claim Administration
Turnaround Time
Financial Accuracy
Payment Incidence Accuracy
Total Claim Accuracy

Member Satisfaction

Member Services
Telephone Service Factor (TSF)
Abandonment Rate

Guarantee Period

The guarantees described herein will be effective for a period of 12 months and will run from July 1, 2004 through June 30, 2005 (hereinafter "guarantee period").

The performance guarantees shown below will apply to the self-funded Preferred Provider Organization (PPO) Medical plan administered under the Administrative Services Contract ("Contract"). These guarantees **do not** apply to non-AETNA benefits or networks.

If AETNA processes runoff claims upon termination of the Contract, performance guarantees of Turnaround Time, Financial Accuracy, Payment Incidence Accuracy and Total Claim Accuracy will not apply to such claims. Further, performance guarantees described herein will not apply to the guarantee period claims if termination is prior to the end of the guarantee period.

Aggregate Maximum

AETNA agrees to place \$1,028,000 of its applicable guarantee period administrative service fees at risk through the Performance Guarantees outlined in this document. The maximum consists of the following amounts by performance category:

1. Management Reporting	\$ 30,000
2. Claims Turnaround Time/12 days	\$360,000
3. Claims Turnaround Time/30 days	\$120,000
4. Financial Accuracy	\$122,000
5. Payment Incidence Accuracy	\$ 72,000
6. Total Claim Accuracy	\$120,000
7. Member Satisfaction	\$ 60,000
8. Abandonment Rate	\$ 60,000
9. Telephone Service Factor	\$ 84,000
Total	\$1,028,000

Termination Provisions

Termination of the guarantee obligations shall become effective upon written notice by AETNA in the event of the occurrence of (i), (ii) or (iii) below:

- (i) a material change in the plan initiated by the State or by legislative action that impacts the claim adjudication process, member service functions or network management; An example of a material change is a significant decline in membership so that the majority of claims for the unit are not the State's claims or a transfer of a large portion of the membership to an insured plan.
- (ii) failure of the State to meet its obligations to pay administrative service fees or to fund their bank account as stated in the Administrative Services Contract.
- (iii) the results were significantly impacted by reasonable reliance by AETNA on the State's responsibilities (e.g., incorrect or incomplete eligibility information was provided by the State, etc.). A significant impact refers to an impact such that AETNA's ability to service and meet timely and accurate administration would be seriously impaired.

Further, performance guarantees described herein will only apply to the period in a contract year preceding termination, by the State or by AETNA, if termination is prior to the contract renewal. Upon termination of the contract, the State would have the right to

negotiate continuance of the guarantees for a to be determined period, at a mutually agreeable fee.

Refund Process

At the end of each guarantee period, AETNA will compile its Performance Guarantees results. If necessary, AETNA will offset administrative service fees by an amount equal to any penalties incurred by AETNA or AETNA will provide a "lump sum" refund. At the State's request, AETNA will provide the performance results and worksheets used to calculate the penalty, if any, for the State's verification of the calculation.

Measurement Criteria

AETNA's internal quality results for all AETNA unit(s), affiliates, and subcontractors processing the State's claims will be used to determine guarantee compliance for any Financial Accuracy, Payment Incidence Accuracy and Total Claim Accuracy Guarantees. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the performance guarantees, the results from the independent audit performed will be incorporated on a weighted basis with AETNA's internal quality results. The audit handled by the State or its representatives will be conducted in accordance with the audit policy and guidelines mentioned later in this agreement. Each claim transaction audited by the State's auditors will have the same impact on the final results as each claim audited by AETNA.

Customer Audit Guidelines

General Guidelines

Audits of performance guarantees should be completed in the year following the completion of the guarantee period. The State's right to complete a performance guarantee audit is waived if the audit is not completed within the year following the completion of the guarantee period.

AETNA is not responsible for paying the State's audit fees. Any payment by AETNA resulting from the audit must be based upon documented findings agreed to by both parties, and must be solely due to AETNA's actions or inactions.

Auditor Qualifications

The State of Alaska will utilize individuals to conduct audits on their behalf who are qualified by appropriate training and experience for such work, will perform their review in accordance with published administrative safeguards or procedures against unauthorized disclosure, in the audit report or otherwise, of any individually identifiable information (including health care information) contained in the claim records to be audited and will not make or retain any record of provider negotiated rates included in the audited transactions, or patient identifying information concerning treatment of drug or alcohol abuse, mental/nervous or AIDS, in connection with any audit. There must be no conflict of interest which would prevent the auditor from performing an independent audit.

Audits of any services to which these guarantees apply are subject to any related proprietary and confidentiality requirements protecting the nature of the data.

Audit Coordination

The Service Center Manager(s) must be contacted to initiate an audit. The manager(s) will designate an audit coordinator who will have day-to-day responsibility for coordinating and facilitating the audit.

The State will provide reasonable advance notice of its intent to audit, and complete and sign the Customer Audit Request Form. Further, the State or their representative will provide the Service Center Manager(s), at least four weeks in advance of the audit, with a complete and accurate listing of the transactions to pull for audit. Notification requirements may exceed four weeks for unusually large sample sizes (i.e., greater than 250 transactions). AETNA will communicate these to the State upon receipt of the completed Customer Audit Request Form. AETNA agrees the State reserves the right to review the Customer Audit Request Form and AETNA will discuss any issues to reach a mutual agreement on terms.

Identification of Audit Sample

Prior to the audit, the auditors will provide a listing of the transactions selected for testing and the specific performance guarantee for which each item is being tested. The sample must be based on a statistical random sampling methodology [e.g. systematic random sampling, simple random sampling, stratified random sampling (*in determining the appropriateness of the stratification, each stratum should have a relatively small standard deviation, and the weighted sum of the standard deviation should be less than the standard deviation for the entire population*)].

AETNA reserves the right to review and approve the sample size and sampling methodology proposed by the State or their representatives. The State will be charged for any Service Center audit that cannot be completed within 5 days on site or for which the audit sample size exceeds 250 transactions. AETNA will communicate the basis of any charges to the State prior to the audit.

Closing Meeting

The auditors will identify, in writing, sample items which they believe to be in error and the nature of the error. This will provide the basis of the discussion to resolve disagreement and a summarization of the audit findings. Only in-sample claim transaction errors will be included in calculating audit results.

Account Management

Management Reports

Guarantee: AETNA will provide the State with ActInfo management reports within 45 days after the end of the reporting period.

Penalty and Measurement Criteria: If the State does not receive their management reports within 45 days after the end of the reporting period, AETNA will reduce its compensation by \$2,000 for each report which is not delivered according to the schedule specified above, to a maximum of \$30,000 annually. AETNA's records will be used to determine if the terms of this guarantee have been met. At the State's request, AETNA will provide those records for review.

Claim Administration

Turnaround Time

Guarantee: AETNA will guarantee that the claim turnaround time during the guarantee period will not exceed 12 calendar days for 80% of the processed claims in any month.

Definition: AETNA measures turnaround time from the claimant's viewpoint; that is, from the date the claim is received in the service center to the date that it is processed (paid, denied or pending). Weekends and holidays are included in turnaround time.

Penalty and Measurement Criteria: If the turnaround time (TAT) exceeds the day guarantee as stated above, AETNA will reduce its compensation by an amount equal to \$2,000 for each full day that Turnaround Time exceeds 12 calendar days for 80% of all claims. There will be a maximum reduction of \$30,000 in any month. Any penalties will be reconciled annually.

A computer generated turnaround time report for the State's specific claims will be provided on a monthly basis.

Turnaround Time (Tier-2)

Guarantee: AETNA will guarantee that the claim turnaround time during the guarantee period will not exceed 30 calendar days for more than 2.5% of the processed claims in any month.

Definition: AETNA measures turnaround time from the claimant's viewpoint; that is, from the date the claim is received in the service center to the date that it is processed (paid, denied or pending). Weekends and holidays are included in turnaround time.

Penalty and Measurement Criteria: If the turnaround time (TAT) exceeds the day guarantee as stated above, AETNA will reduce its compensation by an amount equal to \$1,000 for each 0.1% that Turnaround Time exceeds 2.5% of all claims. There will be a maximum reduction of \$10,000 in any month. Any penalties incurred will be reconciled annually.

A computer generated turnaround time report for the State's specific claims will be provided on a monthly basis.

Financial Accuracy

Guarantee: AETNA will guarantee that the monthly dollar accuracy of the claim payment dollars will be 99.0% or higher.

Definition: Financial accuracy is measured by the dollar amount of claims paid accurately divided by the total dollars paid. AETNA considers each underpayment and overpayment an error; AETNA does not offset one by the other.

Penalty and Measurement Criteria: AETNA will reduce its compensation by an amount equal to \$4,000 for each 1.0% that financial accuracy drops below 99.0%. There will be a maximum reduction of \$12,000 in any month not to exceed a maximum of \$122,000 annually. Any penalties incurred will be reconciled annually.

AETNA's audit results for the unit(s), subcontractors and affiliates processing the State's claims will be used to determine guarantee compliance. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the Performance Guarantees, the results from the audit performed by the State of Alaska or their representatives will be incorporated on an weighted basis with AETNA's internal quality results to determine guarantee compliance.

Payment Incidence Accuracy

Guarantee: We will guarantee the monthly payment incidence accuracy will be 97% or higher.

Definition: Payment incidence accuracy is measured by the number of correct payments divided by the total number of payments audited.

Penalty and Measurement Criteria: AETNA will reduce its compensation by \$2,000 for each 1.0% payment incidence accuracy drops below 97%. There will be a maximum reduction of \$6,000 in any month. Any penalties incurred will be reconciled annually.

AETNA's audit results for the unit(s), affiliates and subcontractors processing the State's claims will be used to determine guarantee compliance. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the Performance Guarantees, the results from the audit performed by the State of Alaska or their representatives will be incorporated on an weighted basis with AETNA's internal quality results to determine guarantee compliance.

Total Claim Accuracy

Guarantee: Aetna will guarantee that the guarantee period overall accuracy of the claim payments will not be less than 90.0%.

Definition: Total claim accuracy is measured as the number of claims with no errors (financial and non-financial) divided by the total number of claims audited.

Penalty and Measurement Criteria: AETNA will reduce its compensation by \$2,000 for each 1.0% that total claim accuracy drops below 90.0%. There will be a maximum reduction of \$10,000 in any month. Any penalties incurred will be reconciled annually.

Aetna's audit results for the unit(s), affiliates and subcontractors processing the State's claims will be used to determine guarantee compliance. However, if the State prefers to use the results of an independent audit (performed at its own expense) to determine compliance with the Performance Guarantees, the results from the audit performed by the State of Alaska or their representatives will be incorporated on an weighted basis with AETNA's internal quality results to determine guarantee compliance.

Member Satisfaction

Guarantee: AETNA will guarantee a positive response rate of 80% or better on the standard AETNA Performance Tracking Process. The survey is based on a randomly selected sample of actively enrolled members aged 18-64. Interviews are conducted on a continuous basis throughout the year.

Penalty and Measurement Criteria: AETNA will reduce its compensation by an amount equal to \$6,000 for each 1.0% that the positive response rate drops below 80%. There will be a maximum reduction of \$60,000 for the year. Results of the AETNA Performance Tracking Process will be used as the measurement criteria. These surveys are performed based on statistically valid samples of members, by product across all customers.

Member Services

Total Service Factor (TSF)

Guarantee: AETNA will guarantee that, on a monthly basis, the telephone service factor for the skill providing the State's customer service will not fall below 80% of all calls responded to within 30 seconds.

Definition: On an ongoing basis, AETNA measures telephone response time through monitoring equipment which produces a report on the telephone service factor. Total Service Factor measures the speed in which calls are answered by a Customer Service Professionals (CSPs) after being placed in queue by the auto attendant. This does not include the time the caller spent navigating through any auto attendant menus. TSF includes total calls (answered and abandoned) that are offered to CSPs. Interactive Voice Response (IVR) system calls are not included in the measurement of TSF. The TSF measure is reported as a percentage of calls answered within 30 seconds.

Penalty and Measurement Criteria: AETNA will reduce its compensation by \$700 for each full percentage point that the cumulative telephone service factor falls below 80% for calls to be answered within 30 seconds, to a maximum reduction of \$7,000 in any month. AETNA's results for the skill providing member service for the State will be used. Any penalties incurred will be reconciled annually.

Abandonment Rate

Guarantee: AETNA will guarantee that the monthly average rate of telephone abandonment for the unit(s) providing the State's member services will not exceed 3%.

Definition: On an ongoing basis, AETNA measures telephone response time through monitoring equipment that produces a report on the average abandonment rate. The abandonment rate measures the total number of calls abandoned divided by the number of calls accepted into the skill.

Penalty and Measurement Criteria: AETNA will reduce its compensation by \$1,000 for each 1.0% that the average abandonment rate exceeds 3%. There will be a maximum reduction of \$5,000 in any month. AETNA's results for the skill(s) providing member services for the State will be used. Any penalties incurred will be reconciled annually.

The following **Exhibit K, Network Savings Guarantee** is added to the Administrative Services Contract.

EXHIBIT K Network Savings Guarantee

Guarantee: For the period July 1, 2004 through June 30, 2005, AETNA will guarantee the network savings that result from negotiated arrangements with providers participating in our Preferred Provider Organization (PPO) will be a minimum of \$73.37 per employee per month.

Definition: AETNA will calculate the actual Network Discount Savings by comparing the providers' billed fee to the negotiated fee within the PPO networks. This measurement will be reported in the Standard Report for Self Insured Medical Products Package entitled "Self Insured PPO with Pharmacy". We also have the option to create Network Savings reports on an ad hoc basis utilizing the allocated ActInfo Reporting hours each year. The reports will be generated on a calendar year basis.

The Network Savings per subscriber per month will be calculated as follows:

$$\frac{\text{[Total Network Discount Savings]}}{\text{[July 1, 2004 - June 30, 2005 Average Enrollment]}} \div 12$$

The network savings will be calculated based on claims from participating providers and is based on allowed amounts. Claims where Medicare is primary or Coordination of Benefits (COB) is involved are excluded from the calculation. Reasonable & Customary savings and National Advantage Program savings for participating providers are included. The billed amount used in the calculation of network discount savings excludes ineligible charges, duplicate claims and pending claims, or subrogation amounts.

Penalty: If the actual network savings is below \$73.37 per employee (combined active employee and retiree) per month, AETNA will not collect the additional service fees due as a result of the difference between the Regular Monthly Billed Service Fees and the