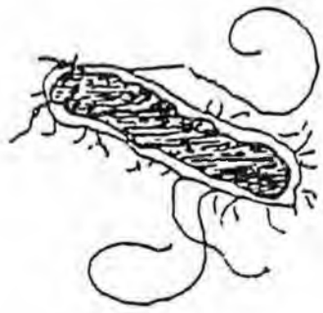
ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672
7394 SENATE HEALTH EDUCATION & SOCIAL SERVICES

**Lesson IV** **Water Treatment** (grades 4-6)

**Objective:** Students will view a demonstration of the effectiveness of water treatment, and will explain at least three of the four steps in the chlorination demonstration with accuracy.



**Materials:**

- Three glasses
- Packet of baker's yeast
- Household bleach (DO NOT allow the students to see the bleach bottle)
- Two tablespoons syrup (Karo, etc.)
- Teaspoon
- Stirring rod
- One student reading material: Southeast Alaska Empire article (pp. ___).

**Introduction:** Carefully transfer a few drops of bleach to a small container labeled POISON before the experiment. Do not identify the chlorine as to its source as household bleach.

This lesson will show the effects of chlorine on micro-organisms. It will take approximately two hours to show clear results. The experiment can be started easily during a convenient point in the morning and then set aside for examination later during the day. This simple experiment will give the children a concrete reference for further instruction in water treatment.

Many water supplies are treated with chlorine, a liquid which has been used to destroy disease organisms in town water supplies since 1897. It works by forming a powerful oxidizing agent which burns up the organic material in the water. This makes the water safer, also changing the color, taste and odor.

**Vocabulary Preparation:**

| | | |
|---|---|---|
| salmonella | disinfection | investigation |
| confirmed | preventatives | chlorination |
| requirements | feces | hygiene |
| diarrhea | | |

**Instructional Activities:**

1. Explain to the class that they will see an experiment in which the micro-organisms they have studied will be eliminated from water. Explain this process will be done in two periods - first growing the organisms and later destroying them by using a chemical called chlorine. Chlorine kills disease causing micro-organisms and makes water taste and smell better.

   a. The experiment begins by adding 1/2 teaspoon of dried bakers' yeast to 1/2 glass of warm water. This should be done a half hour prior to the period and redone for demonstration purposes for the students.

   b. Separate the mixture into two clean glasses. To one glass add five drops of laundry bleach. Add 1 teaspoon of syrup (yeast will ferment the sugar - producing alcohol and carbon dioxide which feed the micro-organisms) to each glass and stir gently. Set the glasses aside for later examination marking them for identification.

   c. To begin the afternoon period tell the students that you will read a newspaper article adapted from The Southeast Alaska Empire by Ines Edicott, written sometime during the summer of 1974, which reports on a water-borne disease which affected a number of people in Juneau.

   d. Say that we will now look at what the chlorine mentioned in the article really does to micro-organisms.

      The glass with the chlorine added should show no activity, while the glass free from chlorine should have activity caused by the growing yeast. (The chlorine killed the yeast exactly like it kills the bacteria, algae, and protozoans in the water which might cause sickness.)

2. Develop a list of pollution sources on the chalkboard. Help the students recognize and identifiable threats to their water source.

**Suggested Speakers**

Southeast Alaska Empire - Article
by Ines Edicott

The Department of Environmental Conservation yesterday issued to first emergency order, charging a danger exists to those people served by the Switzer Creek water supply.

Last week the water supply was determined to be the probable cause of an outbreak of salmonella.

The department charged that "lack of enough disinfection has existed in spite of repeated requests from local and state health authorities. On July 23rd from 5 p.m. to 6:30 p.m., an investigation by representatives of the Department of Environmental Conservation showed totally absent or not enough chlorination in the water system".

According to the order, the water must keep an adequate level of chlorine throughout the water supply. The order further won't allow new connections to the public water supply until state requirements are met.

Twenty-three cases of salmonella infection were discovered here last week by the public health lab.

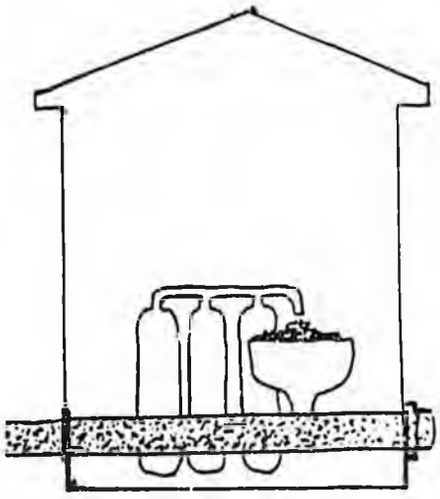
Salmonellosis is a serious infectious disease with symptoms of stomach ache, diarrhea, nausea, vomiting and fever. The organism is spread by being eaten from food or water that has been infected by the feces of animal or man.

To be safe, the Division of Public health recommends:

- good personal hygiene through hand washing after using toilet facilities.
- keeping infected persons from food handling or the care of young children.
- providing safe food and safe water supplies.
- persons having symptoms of diarrhea or fever lasting more than 24 hours should see their doctor or contact the Public Health Office.

**Lesson V** **Water Plant Visit** (grades 4-6)

**Objective:** Following a visit to a local water treatment facility, students will complete a fact-finding worksheet with an accuracy of at least six of the ten items.



**Materials:**

- Visiting arrangements.
- Visual aid: Water distribution cross section (pg. ____)
- Suggestions sheet for Fact Finding Worksheet (pg. 28 )
- Poster of water distribution cross section
- How Water Treat Facilities Work (pg. 29 )

**Introduction:** This lesson provides a concrete reference for the concepts of water pollution and safe drinking water which have been introduced. The students should be prepared before their visit. Develop a set of questions to ask during the visit.

Have advanced contact with the person who will be conducting the tour. Explain the purpose of the visit and the student goal of completing a fact-finding worksheet.

Different communities will have water plants of varied sophistication. Many Alaskan facilities do not chlorinate the water at all, relying instead on maintaining a source and distribution system free of contamination. Learn for yourself in advance of your visit how the local system functions so that you can establish a focus for the students' field experience.

Small villages may have a system as simple as a water pump and tank trucks for carrying lake or stream water to homes. In others, the school may have the only water system. Here, the maintenance person could explain how the water recycling works and how contamination of drinking water is avoided.

Included here is a visual "Water Distribution Cross Section" which provides background information for the teacher. In addition, it may be used following the water plant visit to reinforce and clarify what was seen.

C. Is chlorine used in treatment? Is anything else added?

D. Have there ever been any outbreaks of disease locally that might have been caused by water problems?

Make a list of the class questions to be duplicated and given to each student to record the answers either during the visit or after returning to the classroom.

4. Make the visit to the treatment facility. Be alert for opportunities to highlight those aspects of the tour applicable to the questions raised by the class and the essentials of the "Water Distribution Cross Section".

5. Following the visit, duplicate and distribute the fact-finding worksheet for the students to complete and hand in.

**Additional Activities**

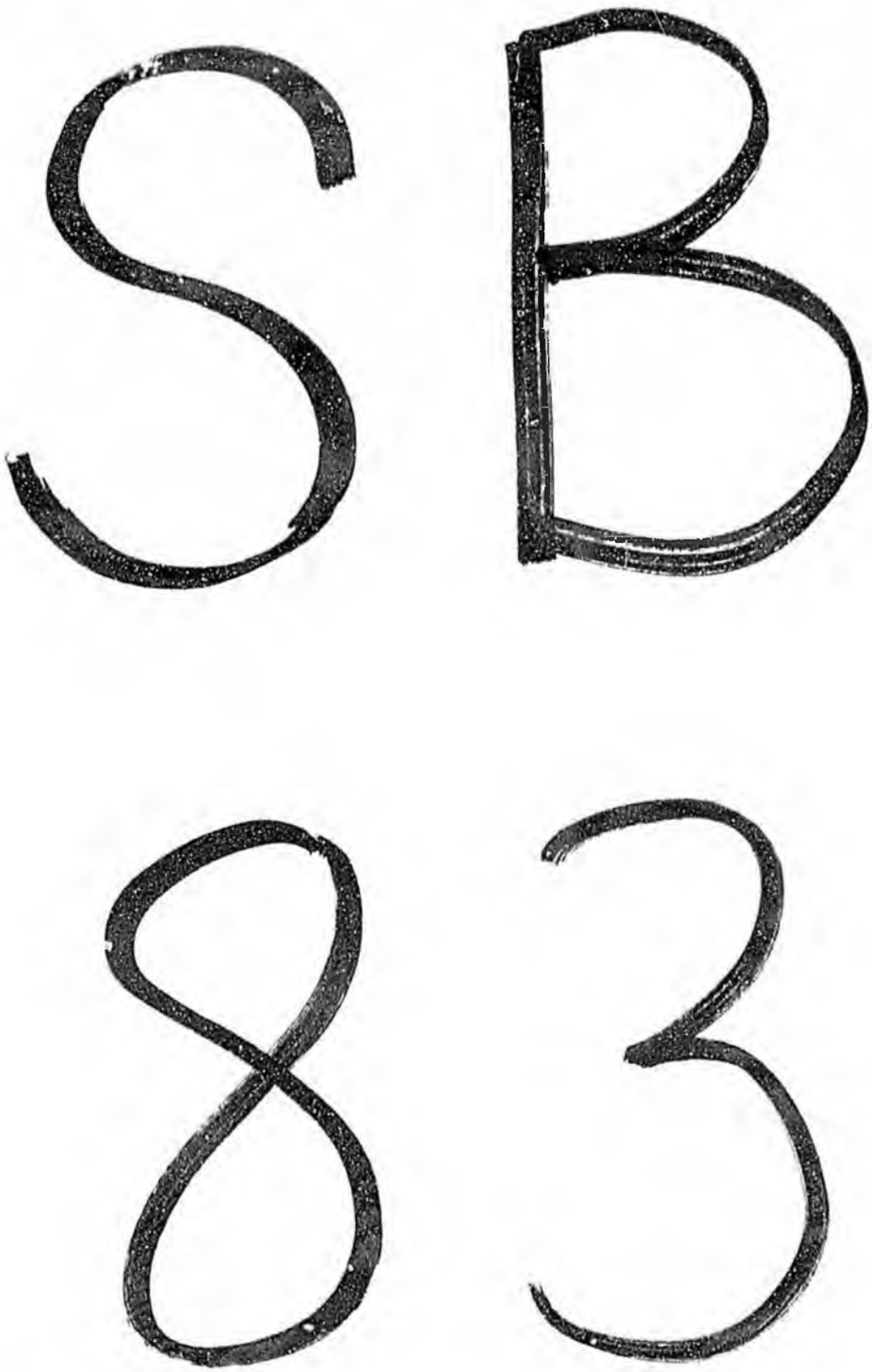
1. Write a story about a her/heroine who save the day for a town or group of people who have a danger in their drinking water.

2. Make a list of things which a) individual persons, b) families, c) towns can do to make sure their drinking water is safe.

3. Write a story about a drop of water traveling from the source (well, river, etc.) through the treatment plant and into your home.

**Suggested Speakers**

Plant operator



STATE OF ALASKA
1990 LEGISLATURE

BILL VERSION SB 83
PUBLISH DATE

# FISCAL NOTE

REQUEST:
Revision Date: 3-18-91
Title: Alaska State Health Resources Authority
Sponsor: Senator Duncan

Affected Agency:
BRU:
Components:

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

| OPERATING | | FY 91 | FY 92 | FY93 | FY 94 | FY 95 | FY 96 |
|---|---|---|---|---|---|---|---|
| Personal Services | | | 112.7 | 112.7 | | | |
| Travel | | | 40.4 | 40.4 | | | |
| Contractual | | | 145.3 | 145.3 | | | |
| Supplies | | | 3.5 | 3.5 | | | |
| Equipment | | | 21.0 | 1.0 | | | |
| Land & Structures | | | | | | | |
| Grants, Claims | | | | | | | |
| Miscellaneous | | | | | | | |
| TOTAL OPERATING | | | 322.9 | 302.9 | * | * | * |
| CAPITAL | | | | | | | |
| REVENUE | | | | 122,723. | 318,573. | 642,677. | 1,614,954.0 |

FUNDING: (THOUSANDS OF DOLLARS)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| General Fund | | | 322.9 | 302.9 | * | * | * |
| Federal Fund | | | | | | | |
| Other | | | | | | | |
| TOTAL | | | 322.9 | 302.9 | * | * | * |

POSITIONS:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Full-Time | | | 2 | 2 | | | |
| Part-Time | | | | | | | |
| Temporary | | | | | | | |

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY) See pages 2 and 3 for budget detai

*After July 1, 1992, the Authority shall provide that sufficient premiums are collected to provide the required insurance coverage and to pay the expenses of the Authority.

Prepared By: Dale Staley for Senator Jim Duncan Phone: 465-4766
Division: Date: 3-1-91

Approved By:
Agency: Date:

DISTRIBUTION (BY PREPARER)
LEGISLATIVE FINANCE
LEGISLATIVE SPONSOR

REQUESTOR
OFFICE OF MANAGEMENT & BUDGET
AGENCY(IES)

CONTINUATION OF FISCAL NOTE:

Senate Bill 83 "An Act relating to the Alaska State Health Resources Authority; relating to the delivery, quality, and financing of health care for residents of the state, and to the issuance of certificates of need; and providing for an effective date."

Personal Services:

Executive Director Range 24A
$5084 x 12 months = $60,008
$60,008 x 37% benefits = $22,573
Subtotal $82,581

Clerk Typist III Range 8B $1830
$1830 x 12 months = $21,960
$21960 x 37% benefits = $8,125
Subtotal $30,085

Total Personal Services $112,666

Travel:

It is anticipated there will be 6 meetings of the Health Care Resources Authority.
6 meetings x 9 members = 54 airfares
54 airfares x $436 = $23,544
2 days per diem x 54 = 108
108 days x $95 = $10,260
Subtotal $30,804

Travel for Executive Director
10 board meetings x $436 = $4,360
2 meetings x 12 months x $436 = $5,232
Subtotal $ 9,592

Total Travel $ 40,396

CONTINUATION OF FISCAL NOTE:

SB 83

Contractual:

| | | |
|---|---|---|
| Office Space 500 sq. ft. x $1.75 = $875 | | |
| $875 x 12 months | $ 10,500 | |
| Telephone $200 x 12 months | $ 2,400 | |
| Postage $200 x 12 months | $ 2,400 | |
| Advertising and printing | $ 5,000 | |
| Professional Services Contract(s) | $125,000 | |
| which may include: | | |
| Rate Studies | | |
| Utilization Research | | |
| Financial Systems Analysis | | |
| Total Contractional | | $145,300 |

Supplies:

| | | |
|---|---|---|
| $1,000 per employee | $ 2,000 | |
| Software | $ 1,500 | |
| Total Supplies | | $ 3,500 |

Equipment:

| | | |
|---|---|---|
| 2 Desk top computers and a printer | $ 11,000 | |
| Bookcases and file cabinets | $ 1,200 | |
| Desk and chairs | $ 4,000 | |
| Photocopier | $ 2,000 | |
| Phone system | $ 800 | |
| Miscellaneous | $ 2,000 | |
| Total Equipment | | $ 21,000 |

TOTAL OPERATING $322,862

## REVENUE ASSUMPTIONS FOR SB 83

The revenue assumptions are based on the estimated 20% per year increase in the costs of medical care.

Understanding that this 20% per year figure may not be constant over a long period of time it is the target that SB 83 is aiming to reduce. This figure has been used in the following table to demonstrate the costs savings in Alaska resulting from the phased implementation of SB 83. Savings achieved by this phased implementation are calculated by the application of the formula in column B.

| | A<br>Health Care Expenditure w/o ASHRA | B<br>FORMULA | C<br>Health Care Expenditure With ASHRA | ANNUAL SAVINGS . |
|---|---|---|---|---|
| FY 91 | $1,929,000.0 | | NO ASHRA | 00.0 |
| FY 92 | $2,315,520.0 | | NO ASHRA | 00.0 |
| FY 93 | $2,778,624.0 | 20%@CPI, 80%@17% | $2,655,901.0 | $ 122,723.0 |
| FY 94 | $3,334,348.0 | 30%@CPI, 70%@15% | $3,015,775.0 | $ 318,573.0 |
| FY 95 | $4,001,218.0 | 40%@CPI, 60%@15% | $3,358,541.0 | $ 642,677.0 |
| FY 96 | $4,801,462.0 | 40%@CPI, 60%@15% | $3,729,137.0 | $ 1,072,325.0 |
| FY 97 | $5,761,754.0 | 40%@CPI, 60%@15% | $4,146,800.0 | $ 1,614,954.0 |
| FY 98 | $6,914,105.0 | 50%@CPI, 50%@15% | $4,571,847.0 | $ 2,342,258.0 |
| FY 99 | $8,296,926.0 | 50%@CPI, 50%@15% | $5,040,461.0 | $ 3,256,465.0 |
| FY 2000 | $9,955,312,.0 | 50%@CPI, 50%@15% | $5,557,108.0 | $ 4,398,204.0 |

NOTES:

**A** = FULL 20% ANNUAL MEDICAL INFLATION

**B** = EFFECTS OF ASHRA, CPI ESTIMATED AT 5% PER YEAR, REDUCED INFLATION AT 17% PER YEAR UNTIL 1994, 15% THEREAFTER.

**C** = TOTAL HEALTH CARE EXPENDITURE IN ALASKA AFTER ASHRA.

# FISCAL NOTE

BILL NO. CSSB 83
Ford 3/23/92

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: March 27, 1992
Title: An Act establishing the Alaska State Health Resources Authority

Department Affected: Administration
BRU: Retirement and Benefits

Component: Retirement and Benefits

Sponsor: Duncan
Requestor: Senate HESS Committee

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

| OPERATING | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 |
|---|---|---|---|---|---|---|
| PERSONAL SERVICES | 138.4 | 163.3 | 171.4 | 180.0 | 189.0 | 198.5 |
| TRAVEL | 63.3 | 49.7 | 49.7 | 49.7 | 49.7 | 49.7 |
| CONTRACTUAL | 139.0 | 139.0 | 139.0 | 139.0 | 139.0 | 0139.0 |
| SUPPLIES | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| EQUIPMENT | 33.3 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| LAND & STRUCTURES | 0 | 0 | 0 | 0 | 0 | 0 |
| GRANTS, CLAIMS | 0 | 0 | 0 | 0 | 0 | 0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 377.3 | 356.3 | 364.4 | 373.0 | 382.0 | 391.5 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE FUND SOURCE: | 0 | 0 | 400.8 | 410.3 | 420.2 | 430.7 |

FUNDING: (Thousands of dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | 377.3 | 356.3 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | | 0 | 0 | 0 | 0 | 0 |
| OTHER FUND SOURCE | 0 | 0 | 364.4 | 373.0 | 382.0 | 391.5 |
| TOTAL | 377.3 | 356.3 | 364.4 | 373.0 | 382.0 | 391.5 |

POSITIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| FULL-TIME: | 3 | 3 | 3 | 3 | 3 | 3 |
| PART-TIME: | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY: | 0 | 0 | 0 | 0 | 0 | 0 |

Estimate of current year impact:

ANALYSIS: (attach a separate page if necessary.)

See attached

Prepared By: Gary Bader
Division: Retirement and Benefits
Phone: 465-4470
Date: March 27,1992

Approved by Commissioner: Nancy Bear Usera
Agency: Department of Administration
Date: 3/30/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Analysis: This bill creates the Alaska State Health Resources Authority in the Department of Administration. This independent agency would have specific duties and powers as outlined including regulatory powers and authority to charge fees and establish reserves to cover the expenses of the Authority. The Authority shall be managed by a nine member board of directors appointed by the Governor.

Employing an Executive Director and additional staff as necessary, the Authority shall:

** issue determinations on the effect of certificates of need on the cost of group health insurance under AS 18.07.071;

** by July 1, 1993, collect all data to develop the data system of health expenditures described in section AS 44.87.060.

** by July 1, 1994, complete development of budget and expenditure limits for the state.

**by July 1, 1995, implement expenditure limits, mandatory reimbursement schedules and utilization standards.

The bill requires representatives from different classes of healthy care providers to annually negotiate the reimbursement scedules to be mandated. The bill would allow procurement of group health insurance for employers or residents.

It is expected that this bill would decrease the cost of health insurance through the expenditure cap.

For purposes of this fiscal analysis, it is assumed that participation in the plan will be adequate to allow the Authority to charge sufficient administrative fees to support the entire operating costs of the Authority beginning in FY 95. These fees are shown as revenue on

the fiscal note form and it is assumed that the amount collected will be 10% higher than the operating costs for the first five years in order to establish a reserve to cover continuing expenses. It is also assumed that staff salaries will increase 5% annually.

Personal Services

| | | |
|---|---|---|
| Executive Director (Range 26A, 12 mos.) | 87.1 | |
| Administrative Assistant II (14A, 9 mos.) | 29.9 | |
| Clerk Typist III (8B, 9 mos.) | 21.4 | |
| Total Personal Services | | 138.4 |

Travel

Assume 12 Board Meetings for FY 92 and 9 each year thereafter at an average cost of $400 per member per trip:

| | | |
|---|---|---|
| $475 X 9 members X 12 trips = | 51.3 | |

Administrative travel for Director:

| | | | |
|---|---|---|---|
| Board Meetings | $400 X 12 = | 4.8 | |
| Organizational Meetings | $600 X 12 = | 7.2 | |
| Total Travel | | | 63.3 |

Contractual

| | |
|---|---|
| Office space--500 sq. ft. @ $2.00 X 12 mos.= | 12.0 |
| Telephone--$300 X 12 mos.= | 3.6 |
| Courier Services--$220 X 12 mos.= | 2.4 |
| Postage--$500 X 12 mos.= | 6.0 |
| Printing, binding, transcription services= | 15.0 |

Professional Services Contract (s) which could include services such as:

- carrier surveys and analysis;
- provider data collection;
- provider meetings;
- financial and investment consulting;

| | | | |
|---|---|---|---|
| self vs fully insured analyses; and/or plan design and development= | | 100.0 | |
| Total Contractual | | | 139.0 |

Supplies

| | | | |
|---|---|---|---|
| $500 per employee | | 1.5 | |
| Software | | 1.8 | |
| Total Supplies | | | 3.3 |

Equipment

| | | | |
|---|---|---|---|
| 3 PCs and printer | | 15.0 | |
| Phone system | | 2.6 | |
| Photocopier | | 1.3 | |
| Fax machine | | 1.8 | |
| Office furniture: | | | |
| 1 management unit | 4.0 | | |
| 2 support workstations | 5.0 | | |
| 3 chairs | 1.2 | | |
| 3 side chairs | .8 | | |
| 2 file cabinets | .9 | | |
| bookcase | .1 | | |
| storage cabinet | .6 | | |
| Total Equipment | | | 33.3 |

FISCAL NOTE

BILL NO. CSSB 83

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: April 3, 1990
Title: An Act relating to the Alaska State Health Resources Authority

Department Affected: Administration
BRU: Health Resources Authority

Component: Health Resources Authority

Sponsor: Duncan
Requestor:

COMPONENT SERIAL NO. 6.4

Expenditures/Revenues: (Thousands of Dollars)

| OPERATING | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 |
|---|---|---|---|---|---|---|
| PERSONAL SERVICES | 155.5 | 163.3 | 171.4 | 180.0 | 189.0 | 198.5 |
| TRAVEL | 62.5 | 49.7 | 49.7 | 49.7 | 49.7 | 49.7 |
| CONTRACTUAL | 319.0 | 239.0 | 239.0 | 239.0 | 239.0 | 239.0 |
| SUPPLIES | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| EQUIPMENT | 33.3 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| LAND & STRUCTURES | 0 | 0 | 0 | 0 | 0 | 0 |
| GRANTS, CLAIMS | 0 | 0 | 0 | 0 | 0 | 0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 573.6 | 456.3 | 464.4 | 473.0 | 482.0 | 491.5 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 0 | 547.6 | 557.3 | 567.7 | 578.4 | 589.8 |

FUNDING: (Thousands of dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | 573.6 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER | 0 | 456.3 | 464.4 | 473.0 | 482.0 | 491.5 |
| TOTAL | 0 | 0 | 0 | 0 | 0 | 0 |

POSITIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| FULL-TIME: | 3 | 3 | 3 | 3 | 3 | 3 |
| PART-TIME: | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY: | 0 | 0 | 0 | 0 | 0 | 0 |

Estimate of current year impact:

ANALYSIS: (attach a separate page if necessary.)

See attached analysis

Prepared By: Gary Bader
Division: Retirement and Benefits
Approved by Commissioner: Millett Keller
Agency: Department of Administration

Phone: 465-4460
Date: 4/2/91
Date: 4/3/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Rev 10/90

Analysis: This bill creates the Alaska Health Resources Authority in the Department of Administration. This independent agency would have specific duties and powers as outlined including regulatory powers and authority to charge fees and establish reserves to cover the expenses of the Authority. The Authority shall be managed by a nine member board of directors appointed by the Governor.

Employing an Executive Director and additional staff as necessary, the Authority shall:

** issue recommendations on the effect of certificates of need under AS 18.07.071 effective immediately;

** by July 1, 1992, create provider reimbursement systems and utilization standards mandatory within the boundaries of municipalities with a population of 20,000 or more. Implementation must be complete by 12/31/93;

** after July 1, 1992, procure or provide through self insurance group health insurance pool for certain individuals, groups or employers; and

**after February 15, 1993, procure or provide through self insurance group health insurance for employers with 50 or fewer emplyees and who have been refused coverage by two carriers and have not provided insurance to its employees for a year.

The bill allows voluntary participation in the Authority's group plan that would be available after 7/1/92. It is assumed that the State would participate in this plan if the coverage could be provided less expensively than through the normal marketplace. It is expected that this bill will decrease the cost of health insurance since that is the charge to the Authority. Upon participation, a public entity or other employer would be required to continue participation unless granted a waiver by the Authority.

For purposes of this fiscal analysis, we have assumed that participation in the plan will be adequate to allow the Authority to charge sufficient administrative fees to support the entire operating costs of the Authority beginning in FY 93. These fees are shown as revenue on the fiscal note form and it is assumed that the amount collected will be 20% higher than the operating costs for the first five years in order to establish a reserve to cover continuing expenses. It is also assumed that staff salaries will increase 5% annually.

At the same time the fees are taken from insurance premiums paid by participating employers, it is assumed for purposes of this analysis, that there is a decrease in the overall health care expenditure in the state due to the cost containing influences of the Health Resource Authority. This decrease in expenditures resulting in annual savings has been estimated by other sources to be $132,723 in FY 93 and increasing to $1,066,318 by FY 96.

Personal Services

| | | |
|---|---|---|
| Executive Director (Range 26A, 12 mos.) | 87.1 | |
| Administrative Assistant II (14A, 12 mos.) | 39.9 | |
| Clerk Typist III (8B, 12 mos.) | 28.5 | |
| Total Personal Services | | 155.5 |

Travel

Assume 12 Board Meetings for FY 92 and 9 each year thereafter at an average cost of $400 per member per trip:

| | | |
|---|---|---|
| $475 X 9 members X 12 trips = | 51.3 | |

Administrative travel for Director:

| | | | |
|---|---|---|---|
| Board Meetings | $400 X 12 = | 4.8 | |
| Organizational Meetings | $600 X 12 = | 7.2 | |
| Total Travel | | | 63.3 |

## Contractual

| | | |
|---|---|---|
| Office space--500 sq. ft. @ $2.00 X 12 mos.= | 12.0 | |
| Telephone--$300 X 12 mos.= | 3.6 | |
| Courier Services--$220 X 12 mos.= | 2.4 | |
| Postage--$500 X 12 mos.= | 6.0 | |
| Printing, binding, transcription services= | 15.0 | |
| Professional Services Contract (s) which could include services such as: carrier surveys and analysis; provider data collection; provider meetings; financial and investment consulting; self vs fully insured analyses; and/or plan design and development= | 280.0 | |
| Total Contractual | | 319.0 |

## Supplies

| | | |
|---|---|---|
| $500 per employee | 1.5 | |
| Software | 1.8 | |
| Total Supplies | | 3.3 |

## Equipment

| | | | |
|---|---|---|---|
| 3 PCs and printer | | 15.0 | |
| Phone system | | 2.6 | |
| Photocopier | | 1.3 | |
| Fax machine | | 1.8 | |
| Office furniture: | | | |
| 1 management unit | 4.0 | | |
| 2 support workstations | 5.0 | | |
| 3 chairs | 1.2 | | |
| 3 side chairs | .8 | | |
| 2 file cabinets | .9 | | |
| bookcase | .1 | | |
| storage cabinet | .6 | | |
| Total Equipment | | | 33.3 |

No. 3

FISCAL NOTE

Bill Version: CSSB 83 (L+C)

(S) Publish Date: 4/22/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: April 3, 1990
Title: An Act relating to the Alaska State Health Resources Authority

Department Affected: Administration
BRU: Health Resources Authority

Component: Health Resources Authority

Sponsor: Duncan
Requestor:

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

| OPERATING | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 |
|---|---|---|---|---|---|---|
| PERSONAL SERVICES | 155.5 | 163.3 | 171.4 | 180.0 | 189.0 | 198.5 |
| TRAVEL | 62.5 | 49.7 | 49.7 | 49.7 | 49.7 | 49.7 |
| CONTRACTUAL | 319.0 | 239.0 | 239.0 | 239.0 | 239.0 | 239.0 |
| SUPPLIES | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| EQUIPMENT | 33.3 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| LAND & STRUCTURES | 0 | 0 | 0 | 0 | 0 | 0 |
| GRANTS, CLAIMS | 0 | 0 | 0 | 0 | 0 | 0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 573.6 | 456.3 | 464.4 | 473.0 | 482.0 | 491.5 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 0 | 547.6 | 557.3 | 567.7 | 578.4 | 589.8 |

FUNDING: (Thousands of dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | 573.6 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER | 0 | 456.3 | 464.4 | 473.0 | 482.0 | 491.5 |
| TOTAL | 0 | 0 | 0 | 0 | 0 | 0 |

POSITIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| FULL-TIME: | 3 | 3 | 3 | 3 | 3 | 3 |
| PART-TIME: | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY: | 0 | 0 | 0 | 0 | 0 | 0 |

Estimate of current year impact:

ANALYSIS: (attach a separate page if necessary.)

See attached analysis

Prepared By: Gary Bader Gary M Bader Phone: [illegible]
Division: Retirement and Benefits Date: 4/2/91
Approved by Commissioner: Millett Keller Date: 4/3/91
Agency: Department of Administration

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Rev 10/90

For purposes of this fiscal analysis, we have assumed that participation in the plan will be adequate to allow the Authority to charge sufficient administrative fees to support the entire operating costs of the Authority beginning in FY 93. These fees are shown as revenue on the fiscal note form and it is assumed that the amount collected will be 20% higher than the operating costs for the first five years in order to establish a reserve to cover continuing expenses. It is also assumed that staff salaries will increase 5% annually.

At the same time the fees are taken from insurance premiums paid by participating employers, it is assumed for purposes of this analysis, that there is a decrease in the overall health care expenditure in the state due to the cost containing influences of the Health Resource Authority. This decrease in expenditures resulting in annual savings has been estimated by other sources to be $132,723 in FY 93 and increasing to $1,066,318 by FY 96.

Personal Services

| | | |
|---|---|---|
| Executive Director (Range 26A, 12 mos.) | | 87.1 |
| Administrative Assistant II (14A, 12 mos.) | | 39.9 |
| Clerk Typist III (8B, 12 mos.) | | 28.5 |
| Total Personal Services | | 155.5 |

Travel

Assume 12 Board Meetings for FY 92 and 9 each year thereafter at an average cost of $400 per member per trip:

| | | |
|---|---|---|
| $475 X 9 members X 12 trips = | | 51.3 |

Administrative travel for Director:

| | | |
|---|---|---|
| Board Meetings | $400 X 12 = | 4.8 |
| Organizational Meetings | $600 X 12 = | 7.2 |
| Total Travel | | 63.3 |

# CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

No. 3

FISCAL NOTE

Bill Version: CSSB 83 (S+C)

(S) Publish Date: 4/22/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: April 3, 1990
Title: An Act relating to the Alaska State Health Resources Authority

Department Affected: Administration
BRU: Health Resources Authority

Component: Health Resources Authority

Sponsor: Duncan
Requestor:

COMPONENT SERIAL NO. 6 4

Expenditures/Revenues: (Thousands of Dollars)

| OPERATING | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 |
|---|---|---|---|---|---|---|
| PERSONAL SERVICES | 155.5 | 163.3 | 171.4 | 180.0 | 189.0 | 198.5 |
| TRAVEL | 62.5 | 49.7 | 49.7 | 49.7 | 49.7 | 49.7 |
| CONTRACTUAL | 319.0 | 239.0 | 239.0 | 239.0 | 239.0 | 239.0 |
| SUPPLIES | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| EQUIPMENT | 33.3 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| LAND & STRUCTURES | 0 | 0 | 0 | 0 | 0 | 0 |
| GRANTS, CLAIMS | 0 | 0 | 0 | 0 | 0 | 0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 573.6 | 456.3 | 464.4 | 473.0 | 482.0 | 491.5 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 0 | 547.6 | 557.3 | 567.7 | 578.4 | 589.8 |

FUNDING: (Thousands of dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | 573.6 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER | 0 | 456.3 | 464.4 | 473.0 | 482.0 | 491.5 |
| TOTAL | 0 | 0 | 0 | 0 | 0 | 0 |

POSITIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| FULL-TIME: | 3 | 3 | 3 | 3 | 3 | 3 |
| PART-TIME: | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY: | 0 | 0 | 0 | 0 | 0 | 0 |

Estimate of current year impact:

ANALYSIS: (attach a separate page if necessary.)

See attached analysis

Prepared By: Gary Bader Gary M Bader
Division: Retirement and Benefits
Approved by Commissioner: Millett Keller
Agency: Department of Administration

Phone: 465-4460
Date: 4/2/91
Date: 4/2/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Rev 10/90

CSSB 83
Analysis of Financial Impact
Prepared by the Division of Retirement and Benefits
Department of Administration
April 2, 1991


Analysis: This bill creates the Alaska Health Resources Authority in the Department of Administration. This independent agency would have specific duties and powers as outlined including regulatory powers and authority to charge fees and establish reserves to cover the expenses of the Authority. The Authority shall be managed by a nine member board of directors appointed by the Governor.

Employing an Executive Director and additional staff as necessary, the Authority shall:

** issue recommendations on the effect of certificates of need under AS 18.07.071 effective immediately;

** by July 1, 1992, create provider reimbursement systems and utilization standards mandatory within the boundaries of municipalities with a population of 20,000 or more. Implementation must be complete by 12/31/93;

** after July 1, 1992, procure or provide through self insurance group health insurance pool for certain individuals, groups or employers; and

**after February 15, 1993, procure or provide through self insurance group health insurance for employers with 50 or fewer emplyees and who have been refused coverage by two carriers and have not provided insurance to its employees for a year.

The bill allows voluntary participation in the Authority's group plan that would be available after 7/1/92. It is assumed that the State would participate in this plan if the coverage could be provided less expensively than through the normal marketplace. It is expected that this bill will decrease the cost of health insurance since that is the charge to the Authority. Upon participation, a public entity or other employer would be required to continue participation unless granted a waiver by the Authority.

274

For purposes of this fiscal analysis, we have assumed that participation in the plan will be adequate to allow the Authority to charge sufficient administrative fees to support the entire operating costs of the Authority beginning in FY 93. These fees are shown as revenue on the fiscal note form and it is assumed that the amount collected will be 20% higher than the operating costs for the first five years in order to establish a reserve to cover continuing expenses. It is also assumed that staff salaries will increase 5% annually.

At the same time the fees are taken from insurance premiums paid by participating employers, it is assumed for purposes of this analysis, that there is a decrease in the overall health care expenditure in the state due to the cost containing influences of the Health Resource Authority. This decrease in expenditures resulting in annual savings has been estimated by other sources to be $132,723 in FY 93 and increasing to $1,066,318 by FY 96.

Personal Services

| | | |
|---|---|---|
| Executive Director (Range 26A, 12 mos.) | | 87.1 |
| Administrative Assistant II (14A, 12 mos.) | | 39.9 |
| Clerk Typist III (8B, 12 mos.) | | 28.5 |
| Total Personal Services | | 155.5 |

Travel

Assume 12 Board Meetings for FY 92 and 9 each year thereafter at an average cost of $400 per member per trip:

| | | |
|---|---|---|
| $475 X 9 members X 12 trips = | | 51.3 |

Administrative travel for Director:

| | | |
|---|---|---|
| Board Meetings | $400 X 12 = | 4.8 |
| Organizational Meetings | $600 X 12 = | 7.2 |
| Total Travel | | 63.3 |

## Contractual

| | | |
|---|---|---|
| Office space--500 sq. ft. @ $2.00 X 12 mos.= | | 12.0 |
| Telephone--$300 X 12 mos.= | | 3.6 |
| Courier Services--$220 X 12 mos.= | | 2.4 |
| Postage--$500 X 12 mos.= | | 6.0 |
| Printing, binding, transcription services= | | 15.0 |
| Professional Services Contract (s) which could include services such as: | | |
| carrier surveys and analysis; | | |
| provider data collection; | | |
| provider meetings; | | |
| financial and investment consulting; | | |
| self vs fully insured analyses; and/or | | |
| plan design and development= | | 280.0 |
| Total Contractual | | 319.0 |

## Supplies

| | | |
|---|---|---|
| $500 per employee | | 1.5 |
| Software | | 1.8 |
| Total Supplies | | 3.3 |

## Equipment

| | | |
|---|---|---|
| 3 PCs and printer | | 15.0 |
| Phone system | | 2.6 |
| Photocopier | | 1.3 |
| Fax machine | | 1.8 |
| Office furniture: | | |
| 1 management unit | 4.0 | |
| 2 support workstations | 5.0 | |
| 3 chairs | 1.2 | |
| 3 side chairs | .8 | |
| 2 file cabinets | .9 | |
| bookcase | .1 | |
| storage cabinet | .6 | |
| Total Equipment | | 33.3 |

4084

FISCAL NOTE No. 1

Bill Version: SB 83

(S) Publish Date: 4/22/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date:

Title: An Act relating to the Alaska State Health Resources Authority

Department Affected: Administration

BRU: Retirement and Benefits

Component: Retirement and Benefits

Sponsor: Duncan

Requestor:

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

| OPERATING | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 |
|---|---|---|---|---|---|---|
| PERSONAL SERVICES | 0 | 0 | 0 | 0 | 0 | 0 |
| TRAVEL | 0 | 0 | 0 | 0 | 0 | 0 |
| CONTRACTUAL | 0 | 0 | 0 | 0 | 0 | 0 |
| SUPPLIES | 0 | 0 | 0 | 0 | 0 | 0 |
| EQUIPMENT | 0 | 0 | 0 | 0 | 0 | 0 |
| LAND & STRUCTURES | 0 | 0 | 0 | 0 | 0 | 0 |
| GRANTS, CLAIMS | 0 | 0 | 0 | 0 | 0 | 0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 0 | 0 | 0 | 0 | 0 | 0 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 0 | 0 | 0 | 0 | 0 | 0 |

FUNDING: (Thousands of dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | 0 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 0 | 0 | 0 | 0 | 0 | 0 |

POSITIONS

| | | | | | | |
|---|---|---|---|---|---|---|
| FULL-TIME: | 0 | 0 | 0 | 0 | 0 | 0 |
| PART-TIME: | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY: | 0 | 0 | 0 | 0 | 0 | 0 |

Estimate of current year impact:

ANALYSIS: (attach a separate page if necessary.)

Prepared By: Gary Bader Phone: 465-4460

Division: Retirement and Benefits Date:

Approved by Commissioner: Millett Keller Date: 2/17/91

Agency: Department of Administration

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Rev 10/90

STATE OF ALASKA
1991 LEGISLATIVE SE..ION

Bill Versio
Publish Da

No. 2

Bill Version: SB 83

(S) Publish Date: 4/22/91

REQUEST: FISCAL NOTE

Revision Date:

Agency Affect: Health & Social Serivces

Title: Relating to the delivery, quality, and financing of health care

BRU: State Health Serivces

Sponsor: Duncan, Zharoff

Components: none

Requester: Labor and Commerce

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 91 | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 |
|---|---|---|---|---|---|---|
| Personal Services | | | | | | |
| Travel | | | | | | |
| Contractual | | | | | | |
| Supplies | | | | | | |
| Equipment | | | | | | |
| Land & Structures | | | | | | |
| Grants, Claims | | | | | | |
| Miscellaneous | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CAPITAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| REVENUE | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| General Funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Federal Funds | | | | | | |
| Other | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

POSITIONS

| | | | |
|---|---|---|---|
| Full-Time | | 0 | |
| Part-Time | | 0 | |
| Temporary | | 0 | |

Changes in CSSB 23 (HC) have no fiscal impact. This fiscal note is appropriate.

4-19-91 date

RAM Comte Aide (initial)

ANALYSIS: (attach a separate page if necessary)

No fiscal impact will occur in the immediate future. At the time that the Authority requires services from Division of Public Health, the Division will assess the Authority for those services

Prepared By: Alfred G. Zangri

Phone: 465-3090

Division: PUBLIC HEALTH

Date: 02/13/91

Approved By Commissioner: Theodore Mala, M.D., MPH

Date: 3/12/91

Agency: HEALTH & SOCIAL SERVICES

Distribution (by preparer):
Legislative Finance, Legislative Sponsor, Requestor,
Office of Management & Budget, Impacted Agency(ies)

# Alaska State Legislature

SENATOR JIM DUNCAN

P. O. BOX V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:
FINANCE
VICE CHAIR – HEALTH EDUCATION & SOCIAL SERVICES
BUDGET & AUDIT
BANKING & ECONOMIC DEVELOPMENT

## EXECUTIVE SUMMARY

Senate Bill 83, legislation creating the Alaska State Health Resources Authority (ASHRA), introduced by Senator Jim Duncan and endorsed by the State of Alaska Health Care Cost Containment Task Force.

BACKGROUND

Health care expenditures in Alaska have risen from $480 million in 1979 to over $1.5 billion in 1989, a per capita rise in expenditures from $1197.00 in 1979 to over $2524.00 in 1989.

These staggering increases and the substantial rise in the uninsured and underinsured population (estimated at over 90,000) prompted the Legislature to create the Alaska State Health Care Cost Containment Task Force in 1989.

Since early in 1989 the Task Force has been investigating the causes for these rampant rises in health care expenditures and costs. After twenty two months of hearings, surveys, investigations and critical reviews around the State and Nationally the Task Force will be issuing its findings, recommendations and report to tne Seventeenth Alaska Legislature in mid February 1991.

The Task Force report will show that there is no one culprit to blame for these rapidly rising costs, but that the only credible long term solution is a comprehensive approach that manages health care delivery at all levels to assure affordable, quality health care access for all Alaskans.

The comprehensive approach recommended by the Task Force is provided for in the legislation creating the Alaska State Health Resources Authority (ASHRA).

THE LEGISLATION

The legislation will create the Alaska State Health Resources Authority (ASHRA). ASHRA will be empowered to manage the delivery, quality and financing of health care in Alaska. The powers of the Authority will be implemented in two phases.

PHASE ONE

By July 1, 1992 the Authority will have created and will begin implementation of statewide health care provider reimbursement schedules and utilization standards. which shall be used bv all Alaska public emplovers and available for

use by all other Alaska employers by application to the Authority.

This provision requires the Authority to create a system or method that streamlines or results in cost efficient payments to health care providers and includes schedules of maximum allowable reimbursement for health care related services. These schedules will be based on geographic regions, actual provider costs, and availability of care. The Authority will also create a statewide utilization standards system to monitor, track and verify patterns of treatment by health care providers to assure that cost efficient and cost effective care is provided without reducing the quality of medical care available to participants in the Authority.

The Authority will also be required to issue an impact statement on all Certificate Of Need (CON) applications within 60 days of notice. This will allow the Authority to determine the cost implications of the proposed certificates or changes to certificates of need.

IMPACT

The goal of this phase is to reduce the rate of inflation in the cost of medical care for participants in the Authority to or near the C.P.I. from its current level of about 20% per year. Also to minimize the cost shift to other health care programs.

PHASE TWO (procurement of insurance)

Beginning after July 1, 1992 the Authority is authorized to provide comprehensive group health insurance for Alaska public employers and other employers in the state who elect to participate in the Alaska State Health Resources Authority.

This will expand the pool of subscribers and maximize the opportunities for health care cost management and should realize significant savings for those participating in the Authority.

Creating the most comprehensive, cost effective, and efficient method of providing a variety of types of health care insurance necessary to meet the coverage requirements resulting from negotiated agreements. The Authority will also be charged with reviewing, and where feasible, providing coverage to the uninsured and underinsured residents of Alaska. Additionally the Authority could also devise a health insurance protection plan for the sole proprietor or small Alaskan employer.

IMPACT

This phase will bring together the provider reimbursement and utilization management with the delivery and financing of health care in Alaska, which will enable the state through the Authority to provide quality, cost effective health care to all Alaska residents.

# Alaska State Legislature

SENATOR JIM DUNCAN

P.O. BOX V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:
VICE CHAIR – FINANCE
VICE CHAIR – STATE AFFAIRS
RULES
BUDGET & AUDIT
ETHICS REFORM


## PROVIDING ACCESS TO AFFORDABLE HEALTH CARE FOR ALL ALASKANS

POSITION PAPER

from

SENATOR JIM DUNCAN

Background

The rising costs of health care and health insurance in our state is one of the most critical problems facing all Alaskans. Total health care expenditures in Alaska during 1990 are estimated at $1.5 Billion, up 300% from the $480 Million expended in 1979. It is estimated that 90,000 Alaskans are either uninsured or underinsured. If the current inflationary trend continues unchecked, it is estimated that by the year 2000 health care expenditures will increase to at least $10 Billion with over 25% of the state's population uninsured or underinsured.

In addition to inflationary pressures pushing the cost of health care and health premiums upward there are a number of other contributing factors. These included overbuilt facilities, new technology, a lack of prevention programs, the need for statewide planning, the absence of a health care financing system, and uncompensated costs incurred by providers. As the cost of health care increases the cost of health insurance premiums also go up forcing more and more Alaskans, both employed and unemployed, to join the ranks of the uninsured and underinsured.

Statement of Problems

Providing access to affordable health care must begin by slowing down the rate of increase in the costs of health care. By simply spending millions of dollars to provide health care for those who are uninsured or underinsured or to pay providers for uncompensated care can only offer temporary relief to patients and providers. This will undoubtedly add to the inflationary increase in health care cost, and result in increasing the number of uninsured Alaskans.

The Solution

The establishment of fee schedules and utilization standards to be used by providers for services delivered to all Alaskans is a necessary step to slow the rate of increase in the cost of health care. This approach will work !

-over-

The State of Maryland established reimbursement schedules for hospitals in 1974. Hospital rates in Maryland have been reduced from 25% above the national average in 1974 to 8% below the national average today. The National Governor's Association, in a February 2, 1991 press release, indicated its Task Force on Health will suggest a "State Level All-Payer System" in which an association of purchasers come together to negotiate with an association of providers. In addition, the Families USA Foundation in a November 1990 report recommends a similar approach.

Legislative Action

Controlling rate increases and utilization as done in Maryland, and establishing an "all payer's system" as referred to in the press release by the National Governor's Association and the Families USA Foundation is exactly what the Alaska State Health Resources Authority as created by Senate Bill 83 is designed to do.

Senate Bill 83 is designed to develop ways to provide affordable quality health care for all Alaskans by the creation of a Health Resources Authority. Initially the authority is required to create and begin to implement a system that results in cost efficient payments to health care providers. This system includes schedules of maximum allowable reimbursement for health care related services based on actual provider costs, geographic regions and availability of care. The authority is also directed to create a statewide utilization standards system to monitor, track and verify patterns of treatment by health care providers to assure that cost efficient and cost effective care is delivered without reducing the quality of medical care available to participants or affecting the design of their health care plan. The fee schedules and utilization standards will be used by providers for services delivered to all public employees and private sector employers may elect to use the schedules. Allowing all employers to use the schedules will prohibit cost shifting. This does not affect plan design and is a positive step in controlling costs.

The authority is directed to design and procure or provide a basic health care plan for the small employer who elects to participate. This plan will be designed to address the problem of the uninsured and underinsured who do not presently have access to health care.

Conclusion

We need affordable, quality health care for all Alaskans. Senate Bill 83 is designed to maintain quality care, slow the inflationary rise in health care cost, and reduce the number of uninsured and underinsured Alaskans.

## HEALTH CARE COST CONTAINMENT INFORMATION PACKET

-Paper from Senator Duncan concerning access to affordable health care for all Alaskans.

-Minutes from Senate Labor & Commerce hearing on SB 83 on April 15, 1991.

-Press releases with background information from the State of Maryland's Health Services Cost Review Commission on the successful implementation of hospital rates which have cut costs dramatically. These figures are highlighted on the first page of the release.

-A press release from the National Governor's Association announcing that a report on controlling health care costs will be issued later this year by its' Task Force on Health Care. The report will include an approach similar to the approach in Senator Duncan's legislation which is highlighted on the bottom of page 3.

-A report by the Families USA Foundation entitled, "To the Rescue: Toward Solving America's Health Cost Crisis" which outlines a goal of holding health care expenses to an inflation rate of 6.6% annually and recommends establishment of system wide rate controls for providers. This information is highlighted on pages 5 and 6 of the report.

-Another report by the Families USA Foundation entitled, "Emergency: Rising Health Costs in America", which outlines the dramatic increase in the ranks of the uninsured. Pertinent information is highlighted on pages 2 through 5. Table 4 in the back of the report estimates Alaska's uninsured population at about 86,000 in 1988.

-A report by AETNA which estimates a 20% increase to the State of Alaska in the cost of health care per year.

-An article in the March 1, 1991, edition of the Anchorage Times regarding the efforts by Blue Cross in Alaska to control health care costs through a participating provider agreement that limits physician's fees.

-Editorials by the Anchorage Daily News and the Alaska Journal of Commerce in support of Senator Duncan's legislation. Journal of Commerce article on issue is also attached.

-An editorial by the Anchorage Times in opposition to Senator Duncan's legislation and Senator Duncan's response. Printed with Senator Duncan's response were the views of Mr. Harlan Knudson, President of the Alaska State Hospital and Nursing Home Association and Dr. Raymond Schalow, Executive Director of the Alaska State Medical Association.

-A May 1991 SENIOR VOICE article concerning necessary changes in our health care system.

-A report on the uninsured population submitted to the American Association of Retired Persons.

-A report by Dr. Henry Simmons of the National Leadership Commission on Health Care.

-A column by Lou Cannon of the Washington Post on Hawaii's health care system.

-A series of articles in the Alaska press on SB 83.

-Copies of various endorsements of the concepts proposed in SB 83.

-The final report of the Alaska Health Care Cost Containment Task Force to the Legislature.

# DIVISION OF LEGAL SERVICES

## LEGISLATIVE AFFAIRS AGENCY
## STATE OF ALASKA

*(907) 465-3867 or 465-2450*
*FAX (907) 465-2029*
*Mail Stop 3101*

*240 Main Street, Suite 500*
*Juneau, Alaska 99801-2101*


**MEMORANDUM** March 30, 1992

**SUBJECT:** Sectional analysis - (CSSB 83( ))

**TO:** Senator Jim Duncan

**FROM:** Michael F. Ford
Legislative Counsel

The following is a sectional analysis of CSSB 83( ), dated March 27, 1992:

Section 1 - Purpose.

Section 2 - Requires a copy of certain certificate of need applications be provided to the Alaska Health Resources Authority.

Section 3 - Prohibits certain certificates of need from being issued until a cost determination is received from the Alaska Health Resources Authority.

Section 4 - Requires the Legislative Budget and Audit Committee to provide for an annual audit and performance evaluation of the Alaska Health Resources Authority.

Section 5 - Requires the legislature to appropriate funds for the operation of the Alaska Health Resources Authority.

Section 6 - Places the executive director of the authority in the exempt service.

Section 7 - Subjects the employees of the authority to the conflict of interest chapter AS 39.50.

Section 8 -

Sec. 44.87.010 - Creates the authority as a public corporation in the Department of Administration. Describes the purpose of the authority.

Sec. 44.87.020 - Establishes the board of directors and provides for organization of board.

Sec. 44.87.030 - Establishes the general powers of the authority.

Sec. 44.87.040 - Establishes the duties of the board, including requiring an annual report.

Sec. 44.87.050 - Provides for certain staff of the authority and for professional service contracts.

Sec. 44.87.060 - Requires the authority to develop and periodically update a statewide health care data system. Specifies the data system has a base year of 1991 and requires certain specific expenditures be included in the data system.

Sec. 44.87.070 - Requires the authority to develop statewide health care budget and expenditure limits. Establishes the base year as 1991 and requires that the limits be adjusted for inflation and for certain factor specified under subsection (c).

Sec. 44.87.080 - Requires the board to convene representatives from each class of health care provider to negotiate recommendations for required reimbursement schedules. Requires the board to adopt a good faith negotiating process and specifies that each class have a three-person negotiating team. Allows the board to appoint a negotiating team for a class of health care providers who fail to select a negotiating team. Provides that if the negotiating process fails to result in a recommended reimbursement schedule, the board shall establish the required schedule by regulation.

Sec. 44.87.090 - Requires that the authority establish reimbursement schedules, that the schedules use a base year of 1991, and that the schedules be adjusted as provided under AS 44.87.070(b) and (c). Requires that the schedules incorporate certain specified criteria for hospitals, physicians and other health care services. Requires the schedules include recommendations resulting from health care provider negotiations under AS 44.87.080.

Sec. 44.87.100 - Requires that health care providers must comply with the expenditure limits and reimbursement schedules established by the board. Prohibits submission of a charge for health care services that fails to comply with limits or schedules established by the authority and provides that a person receiving a charge that violates the limits or schedules established by the authority may not be required to pay the charge.

Sec. 44.87.110. - Requires a health care provider, insurer, or agency of the state to provide certain information if requested by the authority.

Sec. 44.87.120 - Allows the authority to procure or offer group health insurance to a resident or an employer without coverage or for whom the authority can provide more cost effective insurance. Allows the authority to establish pools for purposes of group health insurance. Requires that insurance be obtained from licensed insurers, except when acting as a self-insurer. Requires the authority to solicit proposals for required coverage and obtain approval from the legislature, before acting as a self-insurer.

Sec. 44.87.130 - Creates a fund for the authority to expend to carry out duties imposed under AS 44.87.

Sec. 44.87.140 - Provides for the collection and investment of insurance premiums by the authority.

Sec. 44.87.150 - Provides that certain public records statutes apply to the authority, except for certain medical records. Provides that the authority is subject to the Administrative Procedure Act.

Sec. 44.87.900 - Definitions.

Section 9 - Required report from the authority to the legislature.

Section 10 - Establishes a phased transition period under which the provisions of AS 44.87 would be implemented.

Section 11 - Delayed effective date for health care provider negotiation process.

Section 12 - Delayed effective date for mandatory health care provider compliance with expenditure limits and reimbursement schedules.

Section 13 - Effective date.

MFF:gc
92-265.glc

# DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

*P.O. Box Y, Juneau, Alaska 99811*
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**MEMORANDUM** May 7, 1991

**SUBJECT:** Sectional analysis - CSSB 83(L&C)

**TO:** Senator Jim Duncan

**FROM:** Michael F. Ford
Legislative Counsel

The following is a section by section analysis of CSSB 83(L&C):

Section 1 - Purpose.

Section 2 - Requires certificate of need applications, except for temporary or emergency applications, to be provided to the authority.

Section 3 - Provides that certificates of need, except for temporary or emergency certificates, may not be issued until the authority makes a determination regarding the effect of the certificate on group health insurance.

Section 4 - Requires the Legislative Budget and Audit Committee to perform an annual audit of the authority.

Section 5 - Requires the legislature to appropriate funds for the operation of the authority.

Section 6 - This provision places employees of the authority in the exempt service.

Section 7 - This provision subjects the employees of the authority to the conflict of interest chapter AS 39.30.

Section 8 -

Sec. 44.87.010 - Creates the authority and requires the creation and phased implementation of reimbursement systems and utilization standards established by the authority, within municipalities that have a population of 20,000 or more by July 1,

1992, and in municipalities with less than 20,000 in population, by July 1, 1995. Also, all reimbursement systems and utilization standards created within a municipality that has a population of 20,000 or more must be operational by December 31, 1993 or by July 1, 1995, if the municipality has less than 20,000 in population. Also, a requirement is imposed under subsection (c), that all health care providers or persons submitting a claim for services provided to a public employer or public employee, must use the reimbursement systems or utilization standards if established by the authority. Other employers may elect to use the reimbursement systems and utilization standards, if the use is approved by the authority. Also establishes reimbursement components under (a)(3). Beginning July 1, 1992, the authority is required to design a new health insurance program for certain employers who elect to participate, under subsections (e), (f) and (g). The authority is required to provide public notice and accept public comments under subsection (h).

Sec. 44.87.015 - Requires cooperation by state agencies.

Sec. 44.87.020 - Establishes the board and its organization.

Sec. 44.87.030 - Establishes the general powers of the authority.

Sec. 44.87.040 - Establishes the duties of the board, including requiring an annual report.

Sec. 44.87.050 - Provides for certain staff of the authority and for service contracts.

Sec. 44.87.060 - Allows the authority, after July 1, 1992, to procure insurance for an individual or employer without insurance or with insurance that is more costly than could be provided by the authority. Allows the authority to establish group insurance pools for employees who elect to participate, requires coverage for eligible employees and dependents, and requires employees who elect to participate to use the reimbursement systems and utilization standards established by the authority. This section also imposes restrictions on when the authority can act as a self-insurer, in subsection (c) and (d), and allows creation of pools or subpools to track insurance costs, in subsection (e).

Sec. 44.87.070 - Creates a fund for the authority to expend to carry out duties imposed by this chapter.

Sec. 44.87.080 - Provides for the collection and investment of insurance premiums.

Sec. 44.87.090 - Allows participation by the state, a municipality or a school district in the group insurance provided by the authority. Requires participation after initial entry into the system, unless a waiver is granted. Sets out criteria for granting a waiver.

Sec. 44.87.100 - Definitions.

Section 9 - Report.

Section 10 - Effective date.

MFF:mi
91-087.mai

**DIVISION OF LEGAL SERVICES**

**LEGISLATIVE AFFAIRS AGENCY**
**STATE OF ALASKA**

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*Mail Stop 3101*

**MEMORANDUM** March 21, 1991

**SUBJECT:** Sectional analysis - CSSB 83(L&C) and CSSB 83( )

**TO:** Senator Drue Pearce

**FROM:** Michael F. Ford
Legislative Counsel

The following is a section by section analysis of CSSB 83(L&C), with a comparison to CSSB 83( ) that reflects the changes made in the blank substitute:

Section 1 - Purpose.

The blank CS contains minor changes in paragraphs (1), (2) and (9), adds new paragraph (3), and deletes paragraph (8).

Section 2 - Requires certain certificate of need applications to be provided to the authority.

No change.

Section 3 - Provides that certain certificates of need may not be issued until the authority makes a determination regarding the effect of the certificate on group health insurance.

No change.

Section 4 - Requires the legislature to appropriate funds for the authority.

This section is now section 5 in the blank CS. Section 4 is a provision requiring an annual audit by the Legislative Budget and Audit Committee.

Section 5 - This provision places employees of the authority in the exempt service.

No change.

Section 6 - This provision subject the employees of the authority to the conflict of interest chapter AS 39.30.

No change.

Section 7 -

Sec. 44.87.010 - Creates the authority and requires establishment of a reimbursement system and utilization standards. Requires the state, a municipality, or a school district to use the reimbursement system and utilization standards. Allows other employers to participate with approval of the authority. Limits the authority's ability to establish group health insurance pools, to not earlier than July 1, 1992. Allows participation by an eligible state program.

The blank CS requires, by July 1, 1992, the creation and phased implementation of reimbursement systems and utilization standards established by the authority, within municipalities that have a population of 20,000 or more. Also, all reimbursement systems and utilization standards created within a municipality that has a population of 20,000 or more must be operational by December 31, 1993. Also, a requirement is imposed under subsection (c), that all health care providers or persons submitting a claim for services provided to a public employer or public employee, must use the reimbursement systems or utilization standards if established by the authority. Other employers may elect to use the reimbursement systems and utilization standards, if the use is approved by the authority. The blank CS also imposes new deadlines on the authority in (a)(1), requires new reimbursement components under (a)(2) and (3), and inserted paragraphs (a)(4) and (5). The blank CS also requires the authority to design a new health insurance program for certain employers who elect to participate, in subsections (e), (f) and (g). The authority is required to provide public notice and accept public comments under subsection (h).

Sec. 44.87.015 - Requires cooperation by state agencies.

No change.

Sec. 44.87.020 - Establishes the board and its organization.

No change.

Sec. 44.87.030 - Establishes the general powers of the authority.

No change.

Sec. 44.87.040 - Establishes the duties of the board, including requiring an annual report.

The blank CS adds paragraphs (5) - (9), that impose new duties on the board.

Sec. 44.87.050 - Provides for certain staff of the authority and for service contracts.

No change.

Sec. 44.87.060 - Gives the authority the power to procure insurance or to act as a self-insurer. Imposes certain requirements on the insurance obtained by the authority.

The blank CS rewrites subsection (a) to limit the authority to providing insurance for an individual or employer without insurance or with insurance that is more costly than could be provided by the authority. This section also adds a new subsection (b) that allows the authority to establish group insurance pools for employees who elect to participate, requires coverage for eligible employees and dependents, and requires employees who elect to participate to use the reimbursement systems and utilization standards established by the authority. This section also imposes new restrictions on when the authority can act as a self-insurer, in subsection (c) and (d), and allows creation of pools or subpools to track insurance costs, in subsection (e).

Sec. 44.87.070 - Creates a fund for the authority to expend to carry out duties imposed by this chapter.

No change.

Sec. 44.87.080 - Provides for the collection and investment of insurance premiums.

No change.

Sec. 44.87.090 - Allows participation by the state, a municipality or a school district in the group insurance provided by the authority. Requires participation after initial entry into the system, unless a waiver is granted. Sets out criteria for granting a waiver.

No change.

Sec. 44.87.100 - Definitions.

The blank CS contains two new definitions, of "full-time employee" and "public employer" and made minor changes in the definition of "reimbursement system".

Section 8 - Report.

No change.

Section 9 - Effective date.

No change.

MFF:pl
91-198.plm

7-LS0305\S
Ford
4/27/92

CS FOR SENATE BILL NO. 83 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATORS DUNCAN, Zharoff, Rodey

A BILL

FOR AN ACT ENTITLED

"An Act relating to Alaska State Health Resources Authority; and providing for an effective date."

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

* Section 1. PURPOSE AND INTENT. (a) The purpose of this Act is to collect data necessary for the

(1) development of recommended statewide health care expenditure limits, and access and quality goals;

(2) development of recommended reimbursement schedules, utilization standards, and other measures that may include increased utilization of managed care, increased utilization of alternatives to institutionalization, and procedures for the allocation and limitation of capital investment necessary to achieve health care budget goals, while maintaining quality, and improving accessibility to health care;

(3) performance of studies, issuance of reports, and gathering of data to contribute to the objective of providing access to high quality affordable health care; and

(4) performance of any other activities determined to be necessary to further the goal of making available affordable, accessible, high quality health care in the state.

(b) It is the intent of this Act to require the legislature to amend this Act before the Alaska State Health Resources Authority implements statewide health care expenditure limits, reimbursement schedules, or utilization standards.

* Sec. 2. AS 24.20.206 is amended to read:

Sec. 24.20.206. DUTIES. The Legislative Budget and Audit Committee shall

(1) report to the legislature its recommendations relating to the confirmation of appointees to the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(3) review periodic reports from all agencies of the state which perform lending or investment functions;

(4) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the legislature within 30 days after the convening of each regular session;

(5) present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d) with recommendations for needed legislation;

(6) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and for the income from the permanent fund;

(7) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation investments and investment programs;

(8) provide for an annual operational and performance evaluation of the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority; the performance evaluation shall include, but is not limited to, a comparison of the effect on various sectors of the economy by public and private lending, the effect on resident and nonresident employment, the effect on real wages, and the effect on state and local operating and capital budgets of the programs of the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority;

(9) provide for an annual post audit and annual operational and performance evaluation of the Alaska State Health Resources Authority.

* Sec. 3. AS 37.07.030 is amended to read:

Sec. 37.07.030. RESPONSIBILITIES OF THE LEGISLATURE. The legislature shall

(1) provide for a budget review function;

(2) analyze the comprehensive operating and capital improvements programs and financial plans recommended by the governor;

(3) adopt legislation to authorize implementation of the governor's comprehensive operating and capital improvements programs and financial plans or appropriate alternatives to those plans;

(4) provide for a post-audit function to cover financial transactions, program accomplishment, and compliance with legislative intent;

(5) adopt or revise the estimate of receipts required to balance the succeeding fiscal year's budget in order that proposed expenditures do not exceed estimated receipts for that fiscal year;

(6) adopt, revise, or initiate revenue measures in order to balance the succeeding fiscal year's budget and the capital improvements section of the budget for the succeeding six years;

(7) appropriate funds for the operation of the Alaska State Health Resources Authority.

* Sec. 4. AS 39.25.110 is amended by adding a new paragraph to read:

(30) the executive director of the Alaska State Health Resources Authority.

* Sec. 5. AS 39.50.200(b) is amended by adding a new paragraph to read:

(54) Alaska State Health Resources Authority (AS 44.87).

* Sec. 6. AS 44 is amended by adding a new chapter to read:

CHAPTER 87. ALASKA STATE HEALTH RESOURCES AUTHORITY.

Sec. 44.87.010. AUTHORITY CREATED; PURPOSE. (a) The Alaska State Health Resources Authority is established. The authority is a public corporation and an instrumentality of the state within the Department of Administration but has a legal existence independent of and separate from the state.

(b) The purpose of the authority is to collect data necessary to recommend

(1) statewide health care expenditure limits, and access and quality goals;

(2) reimbursement schedules, and utilization standards;

(3) a program to provide access to health care insurance or services for all residents of the state; and

(4) where possible, coordination of the delivery, quality, access, and financing of health care in the state.

(c) The authority may not implement statewide health care expenditure limits, reimbursement schedules, or utilization standards until authorized by the legislature after January 31, 1994.

Sec. 44.87.020. BOARD OF DIRECTORS; ORGANIZATION. (a) The authority shall be managed by a board of directors composed of five members appointed by the governor. In appointing members to the board, the governor shall ensure that

(1) the interests of health care providers and purchasers are fairly represented; and

(2) a majority of the board are experts in health care issues and fairly represent the interests of the general public in having access to quality and affordable health care.

(b) Members of the board serve staggered terms of four years. The board shall elect from its membership a president, vice-president, and secretary. Members of the board serve without compensation but are entitled to receive per diem and travel expenses authorized for boards and commissions under AS 39.20.180. Members of the board are subject to AS 39.50.

Sec. 44.87.030. GENERAL POWERS. The authority may

(1) sue or be sued;

(2) enter into contracts or agreements;

(3) establish administrative or accounting procedures;

(4) collect, invest, and disburse funds;

(5) charge fees for providing administrative services;

(6) adopt necessary regulations and procedures for implementation of this chapter.

Sec. 44.87.040. DUTIES OF BOARD; ANNUAL REPORT. The board shall

(1) provide to the governor and to the legislature an annual report covering the previous fiscal year's activities of the authority;

(2) analyze the health care needs of the state population that is uninsured or underinsured;

(3) provide recommendations to the legislature for a systematic approach or plan with alternatives including financing alternatives that may be considered to assure access to affordable quality health care for all state residents; the recommendations must be updated each year.

Sec. 44.87.050. STAFF AND PROFESSIONAL SERVICES CONTRACTS. The authority shall employ an executive director who serves at the pleasure of the authority as its chief administrative officer. The executive director may, with the approval of the authority, select and employ additional staff as necessary. The executive director is in the exempt service under AS 39.25.110. Employees of the authority other than the executive director are in the classified service under AS 39.25.100. In addition to its staff of regular employees, the authority may contract for the services of consultants and professional, technical, and financial advisors the authority considers necessary for the purpose of developing information, conducting hearings, studies, investigations, or other proceedings, or otherwise exercising its powers.

Sec. 44.87.060. STATEWIDE HEALTH CARE DATA SYSTEM. (a) The authority shall develop and periodically update a data system that indicates the total amount expended on health care for residents of the state. To the extent practicable, the data system base year for health care expenditures shall be 1991 and must contain a separate expenditure breakdown for

(1) hospital services;

(2) physician services;

(3) laboratory services;

(4) pharmaceutical products;

(5) durable medical equipment; and

(6) other health services that the authority determines appropriate.

(b) In addition to the data collected under (a) of this section, the authority shall collect data on the following:

(1) the aging of the population and other factors that may affect the demand for health care in the future;

(2) general inflation factors and the costs related to inflation in labor and other inputs used to produce health services;

(3) technological advances that may increase or decrease health care costs;

(4) appropriate improvements in health care productivity;

(5) feasible reductions in unnecessary health care;

(6) the need to assure that all sectors of the population have adequate access to health care services;

(7) the effect and availability of statewide expenditure goals on the quality of health care; and

(8) other factors that the authority determines appropriate.

Sec. 44.87.070. STATEWIDE HEALTH CARE EXPENDITURE LIMITS. (a) The authority shall recommend a statewide health care budget and expenditure limits, based on the data obtained under AS 44.87.060. To the extent practicable, the base year for the statewide health care budget and expenditure limits shall be 1991.

(b) The authority shall annually adjust the recommended health care expenditure limits developed under this section to reflect changes in the Consumer Price Index for all urban consumers for all items complied by the Bureau of Labor Statistics, United States Department of Labor, for the preceding calendar year. The annual index for 1991 is the reference base index.

(c) In developing recommended expenditure limits applicable in a current year the authority shall adjust the expenditure limits for the following factors if these factors would affect the expenditure limits:

(1) changes in the size or demographic characteristics of the population of the state;

(2) changes in technology and health care delivery that may increase or decrease health care costs;

(3) reduction in unnecessary health care;

(4) access to adequate health care services;

(5) costs of medical malpractice insurance;

(6) administrative cost reduction; and

(7) other factors determined appropriate by the authority.

(d) Health care expenditure limits recommended under this section must, to the extent practicable,

(1) include a separate expenditure limit for each health care service described under AS 44.87.060(a) and may include limits for other subcategories of health care services that the authority determines appropriate;

(2) be based on the following criteria as adjusted under (b) and (c) of this section:

(A) for hospitals and health care facilities, the limit must be based on actual costs in the base year;

(B) for health care providers other than hospitals and health care facilities, the limit must be based on the actual expenditures or payments in the base year;

(C) for other health care services not described in (A) or (B) of this paragraph, limits shall be developed as determined by the authority.

Sec. 44.87.080. ESTABLISHMENT OF REIMBURSEMENT SCHEDULES. Reimbursement schedules recommended by the authority shall use a base year of 1991 to the extent practicable, and incorporate the following criteria as adjusted by factors described in AS 44.87.070(b) and (c):

(1) for hospitals, the schedule shall be established to allow payment on a per discharge basis and utilize diagnosis related groups as the classification system; the schedule must reflect uncompensated care or payments received from public programs that are not sufficient to cover costs;

(2) for health care facilities other than hospitals, the schedule shall be based on the actual cost of the service in the base year;

(3) for physician services, the schedule must include a resource based relative value scale;

(4) for other health care services not described in (1) - (3) of this subsection, schedules shall be developed as determined by the authority.

Sec. 44.87.090. REQUIRED COOPERATION IN EXPENDITURE LIMIT AND GOAL DEVELOPMENT. When requested by the authority, a health care provider, insurer, or an agency of the state shall collect and provide information possessed by the health care provider, insurer, or agency, necessary to the development and revision of the health care expenditure, access, and quality goals established by the authority.

Sec. 44.87.100. PUBLIC RECORDS; PROCEDURES. The provisions of AS 09.25.110 - 09.25.120 apply to records of the authority, except for medical records that identify an individual. The Administrative Procedure Act (AS 44.62) applies to the authority.

Sec. 44.87.900. DEFINITIONS. In this chapter,

(1) "authority" means the Alaska State Health Resources Authority;

(2) "board" means the board of directors of the Alaska State Health Resources Authority;

(3) "health care provider" means an acupuncturist licensed under AS 08.06; a chiropractor licensed under AS 08.20; a dental hygienist licensed under AS 08.32; a dentist licensed under AS 08.36; a nurse licensed under AS 08.68; a dispensing optician licensed under AS 08.71; an optometrist licensed under AS 08.72; a pharmacist licensed under AS 08.80; a physical therapist or occupational therapist licensed under AS 08.84; a physician licensed under AS 08.64; a podiatrist; a psychologist and a psychological associate licensed under AS 08.86; and a hospital as defined in AS 18.20.130, including a governmentally owned or operated hospital; and an employee of a health care provider acting within the course and scope of employment;

(4) "health care services" means services for medical or dental care or hospitalization, furnished for the purpose of alleviating, curing, or healing human illness, injury, or physical disability;

(5) "hospital" has the meaning given in AS 18.20.130;

(6) "insurer" has the meaning given in AS 21.90.900;

(7) "reimbursement schedules" means a schedule or system that streamlines or results in cost efficient payments to health care providers, and includes a schedule of maximum allowable reimbursement for health care services;

(8) "resident" means a person who is eligible for a permanent fund dividend under AS 43.23.005;

(9) "state" means the executive, legislative, and judicial branches of state government, and includes the University of Alaska and a public corporation of the state created within a principal executive department;

(10) "utilization standards" means a system to monitor, track, and verify patterns of treatment by health care providers and to develop utilization review criteria, that assures that cost efficient and cost effective care is provided within accepted medical standards without reducing the quality of care.

* Sec. 7. REPORT. The Alaska State Health Resources Authority shall report to the Alaska State Legislature by

(1) March 1, 1993, on the progress made by the authority in establishing recommended health care provider reimbursement systems and utilization standards; and

(2) January 31, 1994, with final recommendations for statewide health care expenditure limits, reimbursement systems, and utilization standards.

* Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

7-LS0305\P
Ford
3/27/92

**CS FOR SENATE BILL NO. 83 ( )**

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - SECOND SESSION

**BY**

**Offered:**
**Referred:**

**Sponsor(s): SENATORS DUNCAN, Zharoff, Rodey**

**A BILL**

**FOR AN ACT ENTITLED**

**"An Act establishing the Alaska State Health Resources Authority; relating to the delivery, quality, access, and financing of health care; requiring the establishment of health care expenditure limits; relating to the issuance of certificates of need; and providing for an effective date."**

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

* **Section 1.** PURPOSE. The purpose of this Act is to provide for the

(1) development of statewide health care expenditure limits, and access and quality goals;

(2) development of reimbursement schedules, utilization standards, and performance of other activities necessary to achieve expenditure limits developed under (1) of this section;

(3) establishment of reimbursement schedules, utilization standards, and other measures that may include increased utilization of managed care, increased utilization of alternatives to institutionalization, and procedures for the allocation and limitation of capital investment necessary to achieve the health care budget goals, while maintaining quality, and improving accessibility to health care;

(4) preparation and submission to the legislature, and to the general public, of an annual report concerning the success in achieving the limits and goals established under (1) of this section, together with recommendations the authority considers appropriate to further the objectives of providing access to affordable, quality health care for all Alaskans;

(5) establishment of uniform billing and claim forms and mandatory reporting requirements to

(A) measure the success in meeting the limits and goals established under (1) of this section;

(B) permit the authority, to the extent practicable, to analyze data acquired under reporting requirements to assist purchasers and consumers in evaluating the quality and cost of care offered by different providers; and

(C) reduce the administrative cost of the health care system;

(6) recommendation of reimbursement schedules, and other measures as appropriate and consistent with expenditure limits developed by the authority to ensure access to quality affordable health care under health insurance programs and programs under which the state provides or enters into contracts for the delivery of health care and to minimize cost-shifting;

(7) performance of studies, issuance of reports, and gathering of data to contribute to the objective of providing access to high quality affordable health care; and

(8) performance of any other activities determined to be necessary to further the goal of making available affordable, accessible, high quality health care in the state.

* **Sec. 2.** AS 18.07.035 is amended to read:

Sec. 18.07.035. APPLICATION AND FEES. Application for a certificate of need shall be made to the department upon a form provided by the department and must contain the information the department requires to reach a decision under AS 18.07.041 - 18.07.111. Each application for a certificate of need must be accompanied by an application fee established by the department by regulation. **A copy of each application for a certificate of need, except an application for a temporary or emergency certificate issued under AS 18.07.071, shall be provided to the Alaska State Health Resources Authority.**

* **Sec. 3.** AS 18.07.041 is amended to read:

Sec. 18.07.041. STANDARD OF REVIEW FOR APPLICATIONS FOR CERTIFICATES OF NEED. The office shall grant a sponsor a certificate of need or modify a certificate of need

if the availability and quality of existing health care resources or the accessibility to those resources is less than the current or projected requirement for health services required to maintain the good health of citizens of this state. **A certificate of need may not be issued, except for a temporary or emergency certificate under AS 18.07.071, unless the office has received a determination from the Alaska State Health Resources Authority regarding the effect of the certificate of need on the cost of group health insurance.**

* **Sec. 4.** AS 24.20.206 is amended to read:

Sec. 24.20.206. DUTIES. The Legislative Budget and Audit Committee shall

(1) report to the legislature its recommendations relating to the confirmation of appointees to the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(3) review periodic reports from all agencies of the state which perform lending or investment functions;

(4) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the legislature within 30 days after the convening of each regular session;

(5) present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d) with recommendations for needed legislation;

(6) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and for the income from the permanent fund;

(7) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation investments and investment programs;

(8) provide for an annual operational and performance evaluation of the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority; the performance evaluation shall include, but is not limited to, a comparison of the effect on various sectors of the economy by public and private lending, the effect on resident and nonresident employment, the effect on real wages, and the effect on state and local operating and capital budgets of the programs of the Alaska Housing Finance Corporation and the Alaska Industrial

Development and Export Authority;

**(9) provide for an annual post audit and annual operational and performance evaluation of the Alaska State Health Resources Authority.**

*** Sec. 5.** AS 37.07.030 is amended to read:

Sec. 37.07.030. RESPONSIBILITIES OF THE LEGISLATURE. The legislature shall

(1) provide for a budget review function;

(2) analyze the comprehensive operating and capital improvements programs and financial plans recommended by the governor;

(3) adopt legislation to authorize implementation of the governor's comprehensive operating and capital improvements programs and financial plans or appropriate alternatives to those plans;

(4) provide for a post-audit function to cover financial transactions, program accomplishment, and compliance with legislative intent;

(5) adopt or revise the estimate of receipts required to balance the succeeding fiscal year's budget in order that proposed expenditures do not exceed estimated receipts for that fiscal year;

(6) adopt, revise, or initiate revenue measures in order to balance the succeeding fiscal year's budget and the capital improvements section of the budget for the succeeding six years;

**(7) appropriate funds for the operation of the Alaska State Health Resources Authority.**

*** Sec. 6.** AS 39.25.110 is amended by adding a new paragraph to read:

(30) the executive director of the Alaska State Health Resources Authority.

*** Sec. 7.** AS 39.50.200(b) is amended by adding a new paragraph to read:

(54) Alaska State Health Resources Authority (AS 44.87).

*** Sec. 8.** AS 44 is amended by adding a new chapter to read:

CHAPTER 87. ALASKA STATE HEALTH RESOURCES AUTHORITY.

Sec. 44.87.010. AUTHORITY CREATED; PURPOSE. (a) The Alaska State Health Resources Authority is established. The authority is a public corporation and an instrumentality of the state within the Department of Administration but has a legal existence independent of and separate from the state.

(b) The purpose of the authority is to

(1) develop statewide health care expenditure limits, and access and quality goals;

(2) implement statewide health care expenditure limits through reimbursement schedules and utilization standards;

(3) develop a program to provide access to health care insurance or services for all residents of the state; and

(4) where possible, coordinate the delivery, quality, access, and financing of health care in the state.

Sec. 44.87.020. BOARD OF DIRECTORS; ORGANIZATION. (a) The authority shall be managed by a board of directors composed of nine members appointed by the governor. In appointing members to the board, the governor shall ensure that

(1) the interests of health care providers and purchasers are fairly represented; and

(2) a majority of the board are experts in health care issues and fairly represent the interests of the general public in having access to quality and affordable health care.

(b) Members of the board serve staggered terms of four years. The board shall elect from its membership a president, vice-president, and secretary. Members of the board serve without compensation but are entitled to receive per diem and travel expenses authorized for boards and commissions under AS 39.20.180. Members of the board are subject to AS 39.50.

Sec. 44.87.030. GENERAL POWERS. The authority may

(1) exercise the powers granted to insurers under the laws of the state; if the authority acts as an insurer, the authority shall comply with the requirements applicable to insurers under AS 21;

(2) sue or be sued;

(3) enter into contracts or agreements;

(4) establish administrative or accounting procedures;

(5) collect, invest, and disburse funds;

(6) charge fees for providing administrative services;

(7) establish appropriate levels of reserves to cover the expenses of the authority;

(8) adopt necessary regulations and procedures for implementation of this chapter.

Sec. 44.87.040. DUTIES OF BOARD; ANNUAL REPORT. The board shall

(1) establish reimbursement schedules and utilization standards necessary to

implement this chapter;

(2) develop uniform billing and common claims forms for health care providers and patients;

(3) in procuring or providing group health insurance allowed under this chapter, procure or provide comprehensive coverage at the lowest possible cost per participant;

(4) provide to the governor and to the legislature an annual report covering the previous fiscal year's activities of the authority;

(5) review each application for a certificate of need under AS 18.07.041 and within 60 days after receiving a copy of the application determine the effect of issuing the certificate on the cost of the group health insurance required under this chapter; a copy of the determination shall be provided to the office of planning and research in the Department of Health and Social Services;

(6) establish a grievance procedure to resolve disputes between the authority and health care providers or participants;

(7) every third fiscal year, include in the annual report a cost and benefit analysis of the activities of the authority;

(8) analyze the health care needs of the state population that is uninsured or underinsured;

(9) provide recommendations to the legislature for a systematic approach or plan with alternatives including liabilities and financing alternatives that may be considered to assure access to affordable quality health care for all state residents; the recommendations must be updated each year.

Sec. 44.87.050. STAFF AND PROFESSIONAL SERVICES CONTRACTS. The authority shall employ an executive director who serves at the pleasure of the authority as its chief administrative officer. The executive director may, with the approval of the authority, select and employ additional staff as necessary. The executive director is in the exempt service under AS 39.25.110. Employees of the authority other than the executive director are in the classified service under AS 39.25.100. In addition to its staff of regular employees, the authority may contract for the services of consultants and professional, technical, and financial advisors the authority considers necessary for the purpose of developing information, conducting hearings, studies, investigations, or other proceedings, or otherwise exercising its powers.

Sec. 44.87.060. STATEWIDE HEALTH CARE DATA SYSTEM. (a) The authority shall develop and periodically update a data system that indicates the total amount expended on health care for residents of the state. To the extent practicable, the data system base year for health care expenditures shall be 1991 and must contain a separate expenditure breakdown for

(1) hospital services;

(2) physician services;

(3) laboratory services;

(4) pharmaceutical products;

(5) durable medical equipment; and

(6) other health services that the authority determines appropriate.

(b) In addition to the data collected under (a) of this section, the authority shall collect data on the following:

(1) the aging of the population and other factors that may affect the demand for health care in the future;

(2) general inflation factors and the costs related to inflation in labor and other inputs used to produce health services;

(3) technological advances that may increase or decrease health care costs;

(4) appropriate improvements in health care productivity;

(5) feasible reductions in unnecessary health care;

(6) the need to assure that all sectors of the population have adequate access to health care services;

(7) the effect and availability of statewide expenditure goals on the quality of health care; and

(8) other factors that the authority determines appropriate.

Sec. 44.87.070. STATEWIDE HEALTH CARE EXPENDITURE LIMITS. (a) The authority shall develop statewide health care budget and expenditure limits, based on the data obtained under AS 44.87.060. To the extent practicable, the base year for the statewide health care budget and expenditure limits shall be 1991.

(b) The authority shall annually adjust the health care expenditure limits developed under this section to reflect changes in the Consumer Price Index for all urban consumers for all items complied by the Bureau of Labor Statistics, United States Department of Labor, for the preceding

calendar year. The annual index for 1991 is the reference base index.

(c) In developing expenditure limits applicable in a current year the authority shall adjust the expenditure limits for the following factors if these factors would affect the expenditure limits:

(1) changes in the size or demographic characteristics of the population of the state;

(2) changes in technology and health care delivery that may increase or decrease health care costs;

(3) reduction in unnecessary health care;

(4) access to adequate health care services;

(5) costs of medical malpractice insurance;

(6) administrative cost reduction; and

(7) other factors determined appropriate by the authority.

(d) Health care expenditure limits developed under this section must, to the extent practicable,

(1) include a separate expenditure limit for each health care service described under AS 44.87.060(a) and may include limits for other subcategories of health care services that the authority determines appropriate;

(2) be based on the following criteria as adjusted under (b) and (c) of this section:

(A) for hospitals and health care facilities, the limit must be based on actual costs in the base year;

(B) for health care providers other than hospitals and health care facilities, the limit must be based on the actual expenditures or payments in the base year;

(C) for other health care services not described in (A) or (B) of this paragraph, limits shall be developed as determined by the authority.

Sec. 44.87.080. REQUIRED HEALTH CARE PROVIDER NEGOTIATION. (a) The board shall convene representatives from each class of health care providers to negotiate recommendations for the reimbursement schedules required under AS 44.87.090. A recommendation may not be submitted to the board unless it meets the expenditure limits established under AS 44.87.070. The board shall adopt regulations to establish a good faith negotiating process.

(b) Negotiations required under (a) of this section

(1) shall be conducted annually, shall commence on or before January 1, and shall be completed on or before March 31 unless the board extends the time for completing the negotiation process;

(2) must include an attempt to agree on recommendations to be submitted to the board for reimbursement schedules required under AS 44.87.090;

(3) shall endeavor to recommend reimbursement schedules that, if implemented, will result in the achievement of the expenditure limits established under AS 44.87.070.

(c) Each health care provider class shall be responsible for providing a three-person negotiating team to represent that class in negotiations required under this section. A negotiating team may not represent a class of health care providers unless the team presents a petition to the authority indicating that at least 50 percent of the health care providers in that class have consented to representation by that negotiating team. A petition required under this subsection shall be submitted annually on or before January 1.

(d) If a class of health care providers fails to select a negotiating team as required by this section, the board shall appoint a three-person negotiating team to represent health care providers in that class.

(e) A reimbursement schedule to which a majority of the negotiators agree shall be adopted by the board as provided under AS 44.87.090(b). If a majority of the negotiators fail to agree on a recommended reimbursement schedule, the board shall adopt regulations establishing reimbursement schedules required under AS 44.87.090.

Sec. 44.87.090. ESTABLISHMENT OF REIMBURSEMENT SCHEDULES. (a) Reimbursement schedules established by the authority shall use a base year of 1991 to the extent practicable, and incorporate the following criteria as adjusted by factors described in AS 44.87.070(b) and (c):

(1) for hospitals, the schedule shall be established to allow payment on a per discharge basis and utilize diagnosis related groups as the classification system; the schedule must reflect uncompensated care or payments received from public programs that are not sufficient to cover costs;

(2) for health care facilities other than hospitals, the schedule shall be based on the actual cost of the service in the base year;

(3) for physician services, the schedule must include a resource based relative value scale;

(4) for other health care services not described in (1) - (3) of this subsection, schedules shall be developed as determined by the authority.

(b) A reimbursement schedule established by the board must include the recommendations resulting from the negotiation process under AS 44.87.080, unless the negotiation process fails to result in recommendations or the authority determines that the recommendations would result in the violation of an expenditure limit established under AS 44.87.070.

Sec. 44.87.100. MANDATORY HEALTH CARE PROVIDER COMPLIANCE. (a) All health care providers in the state shall comply with the expenditure limits established by the authority under AS 44.87.070 and the reimbursement schedules established by the board.

(b) A health care provider may not submit a charge for health care services that fails to comply with this section. A person receiving a charge that does not comply with (a) of this section may not be required to pay that portion of the charge that exceeds the reimbursement schedules established under AS 44.87.090.

Sec. 44.87.110. REQUIRED COOPERATION IN EXPENDITURE LIMIT AND GOAL DEVELOPMENT. When requested by the authority, a health care provider, insurer, or an agency of the state shall collect and provide information possessed by the health care provider, insurer, or agency, necessary to the development and revision of the health care expenditure, access, and quality goals established by the authority.

Sec. 44.87.120. PROCUREMENT OF INSURANCE. (a) The authority may procure and offer a policy or policies of comprehensive group health insurance to a resident or an employer that the authority determines does not have health insurance or for whom health insurance could be more cost effective if procured by the authority. Group health insurance may include coverage for eligible employees and dependents. The authority shall procure the insurance from an insurer authorized to transact business in the state under AS 21.09, or the authority may elect to act as a self-insurer if approved by the legislature and the authority complies with (d) of this section.

(b) The authority may establish a group health insurance pool or pools of eligible residents or employers that elect to participate in the group health insurance procured or provided

by the authority. Coverage provided under this subsection must include eligible dependents of residents and employees.

(c) Except when acting as a self-insurer, the authority shall procure or provide group health insurance in compliance with the provisions of AS 36.30 and shall make available bid specifications for desired group health insurance benefits to all insurance carriers licensed in the state and qualified to provide the desired benefits. The specifications shall be made available at least once every five years.

(d) Before the authority elects to act as a self-insurer, the authority shall solicit proposals for the required coverage from insurers licensed in this state to offer health insurance. If after the proposal process has been completed, the authority determines that the desired coverage or benefits are not available from insurers licensed in this state or the authority can provide the desired coverage and benefits at a lower cost per eligible person, the authority may submit a plan of the intended self-insurance coverage and benefits to the legislature. The authority may not begin acting as a self-insurer until the legislature has approved the self-insurance plan submitted by the authority.

Sec. 44.87.130. ALASKA STATE HEALTH RESOURCES FUND. The Alaska state health resources fund is created in the general fund. The fund consists of money appropriated by the legislature. The fund shall be managed and invested by the board. The board may expend money from the fund to carry out the provisions of this chapter.

Sec. 44.87.140. INSURANCE PREMIUMS. The authority shall provide that sufficient funds are collected to provide authorized benefits, reserves, and to pay the expenses of the authority. Reserves remaining at the termination of an insurance contract shall be invested by the authority in the same manner as retirement funds are invested under AS 14.25.180.

Sec. 44.87.150. PUBLIC RECORDS; PROCEDURES. The provisions of AS 09.25.110 - 09.25.120 apply to records of the authority, except for medical records that identify an individual. The Administrative Procedure Act (AS 44.62) applies to the authority.

Sec. 44.87.900. DEFINITIONS. In this chapter,

(1) "authority" means the Alaska State Health Resources Authority;

(2) "board" means the board of directors of the Alaska State Health Resources Authority;

(3) "class" means a group of health care providers who are practicing the same

occupation or profession;

(4) "eligible employee" means an employee of a participant who qualifies for group health benefits as determined by the participant;

(5) "employer" means the state, a municipality, a district, a collective bargaining unit, the board of a public corporation of the state created within a principal executive department, a self-employed person, or a person employing one or more persons in a business or industry;

(6) "fund" means the Alaska state health resources fund;

(7) "group health insurance" means coverage that may include medical care and treatment, dental care, eye care, and other group health coverage as determined by the authority;

(8) "health care provider" means an acupuncturist licensed under AS 08.06; a chiropractor licensed under AS 08.20; a dental hygienist licensed under AS 08.32; a dentist licensed under AS 08.36; a nurse licensed under AS 08.68; a dispensing optician licensed under AS 08.71; an optometrist licensed under AS 08.72; a pharmacist licensed under AS 08.80; a physical therapist or occupational therapist licensed under AS 08.84; a physician licensed under AS 08.64; a podiatrist; a psychologist and a psychological associate licensed under AS 08.86; and a hospital as defined in AS 18.20.130, including a governmentally owned or operated hospital; and an employee of a health care provider acting within the course and scope of employment;

(9) "health care services" means services for medical or dental care or hospitalization, furnished for the purpose of alleviating, curing, or healing human illness, injury, or physical disability;

(10) "hospital" has the meaning given in AS 18.20.130;

(11) "insurer" has the meaning given in AS 21.90.900;

(12) "participant" means a person who participates in the group health insurance procured or provided by the authority;

(13) "reimbursement schedules" means a schedule or system that streamlines or results in cost efficient payments to health care providers, and includes a schedule of maximum allowable reimbursement for health care services;

(14) "resident" means a person who is eligible for a permanent fund dividend under AS 43.23.005;

(15) "state" means the executive, legislative, and judicial branches of state

government, and includes the University of Alaska and a public corporation of the state created within a principal executive department;

(16) "utilization standards" means a system to monitor, track, and verify patterns of treatment by health care providers and to develop utilization review criteria, that assures that cost efficient and cost effective care is provided within accepted medical standards without reducing the quality of care.

* **Sec. 9.** REPORT. The Alaska State Health Resources Authority shall report to the Alaska State Legislature by March 1, 1993, on the progress made by the authority in establishing a health care provider reimbursement systems and utilization standards.

* **Sec. 10.** PHASED TRANSITION PERIOD. Notwithstanding the provisions of AS 44.87, the Alaska State Health Resources Authority shall implement the provisions of AS 44.87 on an orderly and gradual basis as follows:

(1) by July 1, 1993, the authority shall finish collecting data required under AS 44.87.060;

(2) by July 1, 1994, the authority shall complete the statewide health care expenditure budget and reimbursement schedules described in AS 44.87.070 and 44.87.090;

(3) by January 1, 1995, the authority shall implement the expenditure limits established under AS 44.87.070, and the reimbursement schedules and utilization standards required under AS 44.87.040(1) and the uniform billing and common claims forms required under AS 44.87.040(2) shall be in operation.

* **Sec. 11.** AS 44.87.080, enacted in sec. 8 of this Act, takes effect January 1, 1994.

* **Sec. 12.** AS 44.87.100, enacted in sec. 8 of this Act, takes effect January 1, 1995.

* **Sec. 13.** Except as provided in secs. 11 and 12 of this Act, this Act takes effect immediately under AS 01.10.070(c).

# 1991 LEGISLATION
# POSITION PAPER
# DEPARTMENT OF ADMINISTRATION

**Division** Labor Relations **Bill Number** CSSB 83

**Bill Title** Act relating to the Alaska State Health Resources Authority

**Position Statement:** Explain briefly what bill does, its impacts and Department's position, i.e., a) support, b) do not support, c) neutral or d) oppose.

We oppose this legislation for budgetary reasons.

This bill would establish the Alaska State Health Resources Authority as a nonprofit incorporated legal entity, within the Department of Administration; the authority is to be managed by nine (9) uncompensated directors appointed by the Governor.

The Alaska State Health Resources Authority would be charged with three (3) primary responsibilities:

1. Issuing recommendations on the effect of certificates of need (AS 18.07.071) on group insurance costs, effective immediately.

2. By July 1, 1992, implement a health care provider reimbursement system and utilization standards; these are mandatory for all public employers and may be voluntarily utilized by other employers.

3. By July 1, 1992, establish a voluntary health insurance pool designed to purchase or provide affordable health insurance.

State agencies involved in health care/health insurance are to cooperate in developing the reimbursement system and utilization standards, through the sharing of information. The authority is to report its progress to the legislature by March 1, 1992, and annually thereafter.

While we support the objectives proposed in this legislation, we must oppose the bill's proposed effective dates because immediate implementation will increase our FY 92 operating budget beyond the level we believe appropriate. The bill is otherwise meritorious. We believe the bill should be given budgetary support in FY 93, along with a cost reduction justification offset.

**APPROVED:**

**Director** Bruce Cummings **Division** Labor Relations

**Signature** Bruce Cummings **Date** 4/1/91

**Commissioner** Millett Keller

**Signature** Millett Keller **Date** 4/3/91

(For more information, call Barbara Pritchett 465-2200) Rev. 01/28/91

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# MEMORANDUM

# State of Alaska

TO: Senator Drue Pearce
Chairperson
Senate Labor & Commerce Committee
Alaska State Senate

DATE: March 1, 1991

FILE NO.:

THRU:

TELEPHONE NO.: (907) 465-2515

SUBJECT: CSSB 83

FROM: Dave Walsh
Director
Division of Insurance
Department of Commerce
and Economic Development

We have reviewed the following documents and they appear to respond to the points and concerns noted in the February 22, 1991 Position Paper from the Department of Commerce and Economic Development attached. The reviewed documents are:

| | |
|---|---|
| CS for Senate Bill No. 83 (L&C) | Work Draft 7-LS0305\G, Ford, 2/28/91 |
| Amendment to CSSB 83 (L&C) | Work Draft 7-LS0305\G.1, Ford, 2/28/91 |
| Amendment to CSSB 83 (L&C) | Work Draft 7-LS0305\G.2, Ford, 2/28/91 |
| Amendment to CSSB 83 (L&C) | Work Draft 7-LS0305\G.3, Ford, 2/28/91 |
| Amendment to CSSB 83 (L&C) | Work Draft 7-LS0305\G.4, Ford, 2/28/91 |
| Amendment to CSSB 83 (L&C) | Work Draft Page 5 Line 29, Ford, no date |

Dep tment of Commerce & Economic Development / POSITION PAPER

SB 83: "An Act relating to the Alaska State Health Resources Authority; relating to the delivery, quality, and financing of health care for residents of the state, and to the issuance of certificates of need; and providing for an effective date."

This department is in favor of this legislation with the changes noted below.

SB 83 would create a Health Resources Authority in the Department of Administration which would become the purchasing entity or may become the provider of health insurance coverage for state employees, municipal employees, school district employees and other groups electing to participate.

The department recommends the following changes to SB 83.

1. Move Section 4 of the bill from Title 21 to another title.

   This would avoid conflict with the content and purpose of Title 21. Title 21 is designed for the regulation of the business of insurance. Section 4, on the other hand, is designed for the purchase or provision of coverage. These two roles tend to be in conflict with each other. Further, Title 21 is administered and regulated within the Department of Commerce and Economic Development while Section 4 is an authority administered under the Department of Administration.

2. Eliminate regulatory oversight of the authority by the Division of Insurance.

   The regulation of one agency in the executive branch by another agency in the executive branch is not workable. The potential for interagency squabbles is substantially increased and other conditions beyond the regulatory scheme may control and prevail. This arises if the authority elects to become a direct provider of coverage. To a large extent, that should be part of the responsibility of the authority Board of Directors.

3. Provide for legislative oversight of any move to provider status.

   If the authority elects to become a direct provider of coverage, it basically enters an area that has been a subject for private enterprise. Such a move must, therefore, be subject to a process that assures that conditions warrant such a move. This should be done only after appropriate hearings on the specific move and the Legislature has had an opportunity to review the proposal.

4. Expand the report required in page 4 to include complaints against the authority as an element for review.

   The fiscal activities of the authority are a reasonable measure of the financial activities and rate activities of the authority. An equally important activity is one that deals with how the authority treats those it serves. Complaints are one measure of a firm's success in its relations with the public. It should also serve to let the authority and the Legislature know how the public perceives the authority and the coverage it provides.

5. Change the cost-benefit analysis to biannual rather than triannual.

   A greater frequency of cost-benefit analysis is desirable. A two-year period would assure that each Legislature has an opportunity to see and review such information. The three-year approach would skip every other Legislature.

Exec. Asst. II

Glenn A. Olds, Commissioner

Date: 2-22-91

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# STATE OF ALASKA

FEB 2 5 1991

WALTER J. HICKEL, GOVERNOR

**DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT**

*OFFICE OF THE COMMISSIONER*

*P. O. BOX D*
*JUNEAU, ALASKA 99811-0800*
*PHONE: (907) 465-2500*

February 25, 1991

Honorable Drue Pearce
Alaska State Senate
P.O. Box V
Juneau, AK 99811

Dear Senator Pearce:

Please accept this letter as a formal retraction of the position paper on SB 83 dated 2/19/91. The most current position paper, dated 2/22/91, is attached.

The original bill analysis was not affected.

Please excuse our ignorance on this procedure. If the Department of Commerce and Economic Development can be of any assistance to you in the future, please do not hesitate to ask.

Sincerely,

Larry Galloway
Special Assistant

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Enclosure
cc: Senator Jim Duncan

08-H2LH

Department of Commerce & Economic Development / POSITION PAPER

SB 83: "An Act relating to the Alaska State Health Resources Authority; relating to the delivery, quality, and financing of health care for residents of the state, and to the issuance of certificates of need; and providing for an effective date."

This department is not in favor of this legislation as presently written.

SB 83 would create a Health Resources Authority in the Department of Administration which would become the purchasing entity or may become the provider of health insurance coverage for state employees, municipal employees, school district employees and other groups electing to participate.

We believe that this legislation effectively puts the state in the insurance business as either an agent or as an insurer. It will adversely impact competition, and tends to create a monopoly either way. If the authority further concentrates insurance coverage in a single insurer as an agent or elects to become an insurer itself, other private insurers will be unable to continue to provide coverage at a reasonable expense level, thus resulting in higher costs of coverage. The remaining market will be too small to support more than a very few insurers, thus limiting choice and competition. It is unlikely they will be able to compete with the state.

The legislation will adversely impact insurance agents currently making a living at selling health insurance. No data is available to quantify this impact.

- Move AS 21 provisions to another title.
- Expand the report required in page 4 to include complaints as an element for review.
- Change the cost-benefit analysis to biannual rather than triannual.
- Provide for legislative oversight of any move to provider status.
- Eliminate regulatory oversight of the Authority by the Division of Insurance.

Spec. Asst II

Glenn A. Olds, Commissioner

Date: 2-19-91

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# Health Access & Cost Containment Council

POSITION PAPER
in re: SB 83
by
Joint Health Access and Cost Containment Council
Alaska Hospital & Nursing Home Association
Alaska Hospital Council
Alaska State Medical Association

We do not support Senate Bill 83, and would like to lay out the reasons for our opposition in a joint response by our three organizations, representing Alaska's hospitals, nursing homes and physicians. Our comments concern both the Health Care Cost Containment Task Force Report (or, HCCC Report) to the 17th Legislature, and its outgrowth legislation, SB 83.

We share a deep concern about the crisis of the uninsured and the increasing costs of health care. We have formed a working group to deal with the issues, the Joint Health Access and Cost Containment Council. Health care providers represented by this Council are committed to help solve the problem of ensuring access to health care for all Alaskans; we are equally committed to help find ways to contain health care costs and maximize effectiveness of health care dollars. In our judgment, SB 83 does not adequately address either of these broad commitments.

Before we comment on Senate Bill 83, we must first review the Health Care Cost Containment Task Force Report of February 1991 on which SB 83 is based. The report's major contentions are that Alaska health care costs are skyrocketing, and will be almost $10 billion by the year 2000; and that, the cause of this inflation is provider charges. SB 83 consequently proposes a reduction of those charges as the primary method of controlling health care expenditures. It also proposes, without saying how, to establish utilization standards to reduce the volume of services.

The HCCC Report is so poorly done that it is difficult to critique without redoing all the work. Throughout the report, statements are made without adequate data, sources are not referenced, the method selected for multiple data "adjustments" is not specified, the questionnaires used and the response rates are not shown. The report has an obvious slant, driven by alarmist costs for the year 2000, extrapolated from scanty data using unstated statistical methodology. *Since these projections are central to the HCCC Report's conclusions, it is imperative that the methodology used by fully revealed and completely justified.*

Alaska Hospital Council · Alaska Hospitals & Nursing Homes Association · Alaska State Medical Associaton
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The projections seem to have been made by taking the rate of increase from a single year --1979-80-- and projecting forward for 20 years of compounded increases. However, the rate of increase on which the projections are based is in marked disagreement with the health care cost inflation rate given by the U.S. Bureau of Labor Statistics in the Consumer Price Index (CPI) for 1985-89. (See attached). These CPI figures actually show that the rate of increase in Anchorage is approximately one-half that shown in the Task Force's Report. It also shows that Alaska's rate is in line with the rate of medical inflation nationwide. *In fact, as the CPI shows, Alaska's rates in the recent past have increased more slowly than U.S. rates.*

The report fails to address other Alaska-specific factors impinging on cost increases. For example, during the 1970's and 1980's Alaska medicine was intent on catching up with the rest of the country in order to create the medical and technological infrastructure already in place elsewhere in the United States. In response to strong public demand, the health care community built coronary and intensive care units, developed an adequate emergency medical services and transport system, built newborn and pediatric intensive care units, acquired CT scanners and so on. Further the state greatly expanded the Pioneer Home system, nursing homes and schools, public health nursing and village aide programs; and thereby created increased expectations in rural and bush Alaska for high quality local services. These represented huge capital outlays and have clearly driven the costs of medical care upwards in Alaska.

Had these expenditures not been made, Alaskans would now be complaining loudly that our medical system is backward and inadequate, and that we need to spend the money immediately to improve it. *The money was spent, and it should have been spent--Alaska was a medically underdeveloped territory. These expenditures severely skew the Alaska cost increase curve.* The skewing is not automatically bad--it's just a reality of what it costs to cease being a medical backwater of Seattle. As the CPI figures show, now that we have made our initial investment, our rate of cost increases has slowed to keep step with the rest of the nation.

One of the most significant developments in health care insurance costs in Alaska is almost completely ignored by the HCCC Report: namely, that $20 million was saved in 1990-91 for state employee health insurance expenditures without any legislation at all and without the development of a huge state bureaucracy. During this period, some common modes of controlling costs were instituted: pre-admission review, effective case management and some increase in employee financial participation. Yet the report fails to take this decrease into account in making its alarmist extrapolations about state employee health costs in the year 2000. In fact, if we use the report's simplistic projection model, and take the very latest percentage change in rates, then project it linearly forward to 2000, we find predicted health care costs for 2000 *lower* than those of 1990! *An unlikely event, but the result of simplistic statistical modeling.*

The HCCC Report only gives lip service to other factors impinging on health care cost increases, even though these overshadow by far the effect of provider charges. Some of these other factors include: ever-growing social expectations -- and patient demands -- for the full use of every resource on every problem, coupled with capital-intensive technological breakthroughs; professional liability and defensive medicine issues; the huge resources spent to preserve life born too soon and to put off death for the mortally ill; and the unanticipated and massive health care expenditures resulting from the AIDS, violence and cocaine epidemics. These are all given only perfunctory attention, even though we providers see these as the real drivers of health care costs increases.

Purported to be a response to the problems identified in the HCCC Report, SB 83 does not meaningfully address the problem the Task Force identified as highest priority: the paramount question of access to care for the uninsured and underinsured. This is surprising, since the HCCC Report claims growth in this group from 40,000 to 90,000 in the last few years. And furthermore, publicity about SB 83 implies that the bill addresses this problem. In fact, SB 83 specifies neither how nor when this group will have health insurance, only that the problem will be addressed after July 1, 1992.

Despite the report's stated interest in reducing cost shifting, SB 83 will actually exacerbate the problem. It will further erode access and quality of care by further jeopardizing the economic viability of Alaska's rural hospitals. Already, many of these hospitals are serving a small number of patients, and barely make ends meet. Rural physicians depend on the existence of rural hospitals and nursing homes for a substantial part of their practice activity. Every patient without insurance generates costs for the hospitals and physicians, which are either included in charges to other patients who can pay, or are taken as losses by the hospitals and physicians.

The pool of employees covered under SB 83's Health Resources Authority (HRA) would be the last major group which can help bear the costs of care for the uninsured. *Medicaid and Medicare reimbursement already is at or below real cost.* If the HRA lowers the rate it pays for care of its beneficiaries, the costs for taking care of the uninsured cannot be passed along to others, nor made to vanish. The costs will be there, and will increase the losses taken by the hospitals, and by the physicians. The losses will reduce the margin of free care which health care providers will be able to provide to those with no resources, or even tip the fragile balance of financial viability of small hospitals and their physicians. These obviously make the problem of access even worse.

The HCCC Report's reference to the importance of controlling the costs of defensive medicine is ignored in SB 83. There is nothing in the way of tort reform, or any other solution. Some individual physicians are paying more than $100,000 a year for professional liability insurance. A family practitioner who agrees to deliver babies may pay more than $1000 per baby delivered for the obstetrical portion of his/her malpractice insurance. Some authorities estimate that the cost of medical care is inflated by as much as one-third by defensive medicine, which is further encouraged with each huge judgement or settlement. And the spiral of medical costs continues upwards.

The heart of SB 83 is fixing provider charges and establishing "utilization standards." Careful historical analysis of the establishment of fee schedules reveals almost nothing but failures. The establishment of fee ceilings invariably results in further inflationary pressures, as the ceiling automatically becomes the new "floor" which all providers will automatically charge, even those whose charges were originally lower than the ceiling. *We have cited source articles in our bibliography.* The establishment, maintenance and periodic revision of a fee schedule is a complex and costly undertaking, requiring a sizeable bureaucracy.

Our experience with fee schedules has been unpleasant. Fee schedules under other programs, which at first appeared fair, and based on fair market rates, increasingly have become provider's-cost-based, and then payor's-budget-based, and so paper-laden, complicated and slow that no payment is sometimes better than the costs of collection. Fee schedules exacerbate access to care because some providers choose not to participate.

What would the establishment and implementation of utilization standards really mean? First, there currently *are* no generally accepted standards -- medicine is not an exact science. Some work has begun in this area, but it is early and largely untested. Second, assuming that such standards can be developed, then a bureaucracy must be established and hired to implement and enforce them. Due process for beneficiaries and providers must be developed and maintained. A large professional and paralegal bureaucracy will have to be established, which will likely cost more to sustain than whatever minimal savings may be realized

Finally, SB 83 creates a government-run insurance bureau, whether or not the state actually gets into the direct insurance business of receiving premiums, reviewing claims, and making payments.

In short, SB 83 certainly will create a large bureaucracy and in our opinion is unlikely to reduce the cost of medical care in Alaska at all.

Health care providers in Alaska oppose SB 83. So what do we support?

* First, and foremost, we support and pledge to continue our participation in the establishment of a coherent health policy for Alaska. This must address access to health care as one of the basics. It must set goals for health status and spell out the skeleton of a health care system to which federal, state, and local government programs, as well as private health care providers can contribute. How can we know whether we have succeeded if we don't know where we are trying to go?

* Secondly, we support a high quality analysis of the Alaska health care system, using standardized methodology and uniform medical data. The discrepancies between the HCCC Task Force Report and our analysis must be resolved prior to the adoption of any legislation enacting changes.

* Third, we support watchful analysis and thoughtful observation of other state and federal proposed solutions to the problem of providing health care to all Americans at reasonable cost. We are a small state and can ill-afford to be out "on point" when larger states with more resources have been unable as yet to demonstrate a successful solution.

* Fourth, we support continued implementation of those cost-saving measures which have been demonstrated to reduce cost *without* increased regulation or the creation of state bureaucracies -- measures such as those which have already reduced the increase in health care insurance costs for state employees by $20 million in FY 1990 and frozen them in place for FY 1991.

* Fifth, we support immediate and concrete measures to deal with Alaska's uninsured that could include the establishment of basic medical benefits packages, mandated risk pooling for currently uninsurable individuals, and state subsidies of premiums for certain individuals.

* And finally, we support a mechanism that provides a forum for cooperation, dialogue and consensus among all levels of government, business, the uninsured, providers, Natives, and the generai public.

For all of the reasons cited in previous pages, the Joint Health Access and Cost Containment Council and its constituent organizations representing Alaska's hospitals, nursing homes and physicians, respectfully request that the legislature not pass Senate Bill 83. We stand willing and ready to assist in whatever way we can with a thoughtful, careful analysis of Alaska's health needs and its current health system. We believe that the broadest base of agreement possible is the place to start, and that sound public policy will more certainly follow if we agree where we are trying to go.

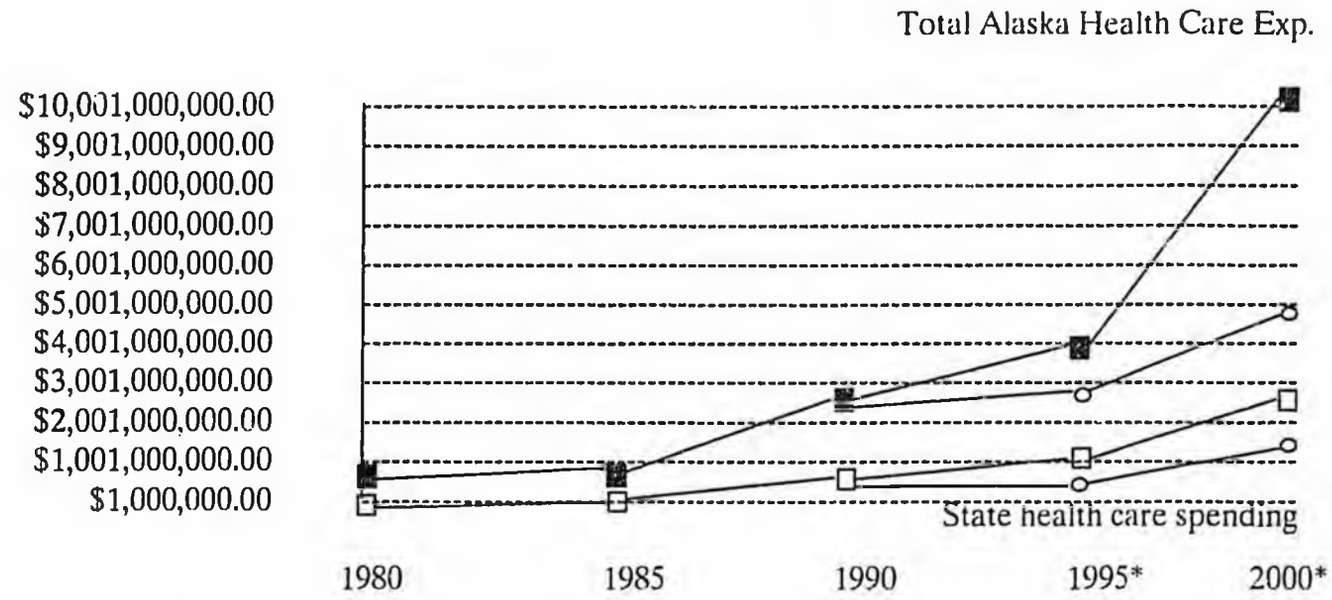
Respectfully submitted on behalf of the Joint Health Access and Cost Containment Council,

April 12, 1991

# Health Cost Containment Task Force Exhibit

Source - Noble Lowndes

This exhibit demonstrates the rise in health care spending in Alaska from 1980 through the year 2000.




■ Illustrates total health care expenditures in Alaska

1980 = $576. million, 1985 = $852. million, 1990 = $1.608 billion
1995 = $4.0 billion*, 2000 = $10.0 billion*

□ Illustrates health care spending by the State

1980 = $75. million, 1985 = $175. million, 1990 = $350 million
1995 = $1.068 billion*, 2000 = $3.26 billion*

○ Revised to reflect corrected rate of increase

* estimate

Table 1

# Consumer Price Index – Urban Consumers
## All Items and Selected Components
## U.S. & Alaska

| Year | All Items | | | | All Items Less Shelter | | | | Housing | | Medical | | Food & Beverage | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | U.S. annual average | Percent change | Anchorage annual average | Percent change | U.S. annual average | Percent change | Anchorage annual average | Percent change | U.S. annual average | Anchorage annual average | U.S. annual average | Anchorage annual average | U.S. annual average | Anchorage annual average |
| 1960 | 29.6 | | 34.4 | | | | | | | | | | | |
| 1965 | 31.5 | 6.4% | 35.3 | 2.6% | | | | | | | | | | |
| 1970 | 38.8 | 23.2 | 41.1 | 16.4 | | | | | | | | | | |
| 1975 | 53.8 | 38.7 | 57.1 | 38.9 | | | | | | | | | | |
| 1980 | 82.4 | 53.2 | 86.5 | 49.7 | 82.9 | | 84.7 | | 81.1 | 85.9 | 74.9 | 76.5 | 88.7 | 89.7 |
| 1981 | 90.9 | 10.3 | 92.4 | 8.1 | 91.0 | 9.8% | 92.0 | 8.6% | 90.4 | 92.5 | 82.8 | 86.9 | 93.5 | 94.3 |
| 1982 | 96.5 | 6.2 | 97.4 | 5.4 | 96.2 | 5.7 | 96.3 | 4.7 | 96.9 | 98.2 | 92.5 | 94.8 | 97.3 | 97.2 |
| 1983 | 99.6 | 3.2 | 99.2 | 1.8 | 99.8 | 3.7 | 99.9 | 3.7 | 99.5 | 98.3 | 100.6 | 99.7 | 99.6 | 99.7 |
| 1984 | 103.9 | 4.3 | 103.3 | 4.1 | 103.9 | 4.1 | 103.6 | 3.9 | 103.6 | 102.7 | 106.8 | 106.6 | 103.2 | 103.2 |
| 1985 | 107.6 | 3.6 | 105.8 | 2.4 | 107.0 | 3.0 | 107.5 | 3.8 | 107.7 | 103.0 | 113.6 | 110.9 | 105.6 | 106.2 |
| 1986 | 109.6 | 1.9 | 107.6 | 1.8 | 108.0 | 0.9 | 111.2 | 3.4 | 110.9 | 102.6 | 122.0 | 127.6 | 109.1 | 110.6 |
| 1987 | 113.6 | 3.6 | 108.2 | 0.5 | 112.6 | 3.3 | 115.1 | 3.5 | 114.2 | 97.5 | 130.1 | 137.0 | 113.6 | 113.1 |
| 1988 | 118.3 | 4.1 | 108.6 | 0.4 | 115.9 | 3.9 | 117.8 | 2.3 | 118.5 | 95.4 | 138.6 | 145.0 | 118.2 | 118.9 |
| 1989 | 124.0 | 4.8 | 111.7 | 2.9 | 121.6 | 4.9 | 122.3 | 3.8 | 123.0 | 98.3 | 149.3 | 7.0 154.1 | 7.6 124.9 | 127.2 |
| 1st half 1988 | 116.8 | | 108.4 | | 114.4 | | 117.0 | | 117.2 | 95.8 | 136.5 | 143.0 | 116.5 | 118.5 |
| 1st half 1989 | 122.7 | 5.1 | 110.9 | 2.3 | 120.4 | 5.2 | 121.4 | 3.8 | 121.7 | 95.8 | 146.3 | 9.8 / 152.1 | 10.1 123.6 | 116.4 |
| 1st half 1990 | 128.7 | 4.9 | 116.9 | 5.4 ← | 126.2 | 4.8 | 126.5 | 4.2 | 128.6 | 102.2 | 159.1 | 12.8 160.1 | 7.0 131.0 | 122.5 |

Notes: The most current Consumer Price Index data available for Alaska is for the first half of 1990.
For comparability, data for the first half of 1988 and 1989 are given to show the percentage change over the year.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

TESTIMONY ON SB83
OLIVER M. KORSHIN, M.D.
APRIL 10, 1992

Senator Sturgelewski and committee members, thank you very much for the opportunity to testify on SB83 on behalf of the Alaska State Medical Association. My name is Oliver Korshin. I am board certified in both preventive medicine and ophthalmology. I spent a career in the federal government administering various health programs before entering private practice here in Anchorage in 1985. I am a member of the doctors' and hospitals' joint council that has developed CHIPRA, a truly comprehensive health care reform bill, on which you have already heard testimony.

It is my organization's firm position that the enormous complexity of the health care crisis demands sweeping reform, such as CHIPRA, and not quick fixes, like SB83. SB83 caters to the resentment and frustration everyone feels about the costs of health care, but it contains radical, one-dimensional solutions which are untested. If it is enacted, it will only exacerbate the problem.

Senator Duncan persists in referring to SB83 as comprehensive, but it is no such thing. Purely and simply, it is a price control bill that would fix prices for an entire free-market segment of Alaska's economy without addressing other, crucial aspects of the health care crisis. Read SB83 carefully and note: nothing in SB83 is mandated except price controls, data collection and the establishment of expenditure limits. These portions of the bill are to be implemented according to a timetable, but the procurement of insurance for those 90,000 Alaskans outside the health care system is optional, and will very likely never come to pass. Controlling

the health care crisis by addressing only reimbursements to providers is like solving a housing crisis by legislating that new homes shall sell for only 1/3 of their current prices. Few homes would be built after enactment of such a law. The housing crisis would no doubt deepen.

Senator Duncan represents SB83 as the embodiment of the legislative Task Force's "final recommendations," but this is not true. Although I think the task force failed to grapple with several critical health care issues, [personal responsibility, preventive care] its report was thorough. Its recommendations indeed included the concepts of global budgeting and establishment of provider reimbursement schedules, and these are dutifully written into SB83, but it also had strong recommendations in the areas of general health insurance reform, small group health insurance market reform, malpractice reform, and access. These are all basic elements in any meaningful health care reform. But where are these concepts in SB83? They are either absent or optional.

And, incidentally, I am puzzled by use of the word "final" as in "final recommendations." I'm under the impression that the Task Force has not yet finished its work and will be meeting again in June.

Not only does this bill fail to address the real causes of increasing health care costs, but its centerpiece, global budgeting, is seriously flawed in its proposed implementation.

First, let me talk about global budgeting in the abstract. If you enact SB83, Alaska will be the first to try it in this country. No other state has global budgeting of health care or has set expenditure limits for the totality

of health services delivered within its borders, nor is any state contemplating it. There are several good reasons for this.

Global budgeting is a meaningful concept only where the authority making the budget and setting the limits also pays all the costs. Thus, a single program, such as Medicare, can set a global budget (it hasn't yet). So can a socialized medical system, such as the Canadian one, where the government is the sole payor.

In a pluralistic system like ours, even just identifying the totality of expenditures in the health sector is almost impossible. And, if you've really identified it, how do you pick a limit? 5% more than last year? 20% less? Who makes that decision? After all, what gets paid for and how much is paid will have profound effects on the practice of medicine in the state, on the availability of providers and technology, etc.

Under SB83 the health resources authority decides, and so must bear all responsibility for the consequences, since the future success or failure, or growth or shrinkage, of health care services and costs will no longer be a market phenomenon, but a result of the authority's central planning and control of the entire health care system. We all know the fate of centrally planned economies... The greatest experiment in centralized planning in the history of the planent collapsed under its own weight last year, and the republics of the former Soviet Union are struggling to reintroduce market forces and privatization into their society, including into their sclerotic, low quality, inefficient (but inexpensive) health care system even as the Alaska legislature debates doing just the opposite.

Besides, global budgeting cannot work fairly when the entity making the budget does not pay *all* the costs of the system, or pays only a small portion. SB83 calls for control of *all* health expenditures in the state of Alaska. How can it control the costs of the substantial federal health programs in the state, such as Medicare, the VA, the military, and Native Health Service, over which it has no jurisdiction? It cannot. It does not even propose seeking waivers from the fedewral government to do so. How can it control the costs of out-of-state care delivered to, and paid for by Alaskans? It cannot. These sources of care cumulatively account for at least a quarter of total annual health expenditures in Alaska.

And SB83 must receive a failing grade for its global accounting because it ignores substantial expenditures in adding up the state's total health care tab. The Authority confines itself principally to Senator Duncan's real targets: hospitals and physicians. Just for starters, the bill omits the following important categories of health expenditures:

- First and foremost, the costs of the gargantuan Alaska State Health Resources Authority, but you will be obligated to appropriate funds for it every year.
- The profits and overhead expenses of health insurance companies.
- All public health programs.
- Land acquisition, facilities construction and mortgage costs or their equivalent for federal and state facilities. For example, the $120 million that will be spent for a new Native Medical Center will not

appear in their annual operating budget, ever. But private sector cost figures *do* include these big-ticket items.

- Reimbursements (at the outset) to dentists, dental hygienists, chiropractors, naturopaths, physical therapists, occupational therapists, psychologists, private-duty nurses, nurse practitioners, nurse midwives, physicians assistants, podiatrists, optometrists, opticians, acupuncturists, naturopaths, homeopaths, etc. If you don't include them at the outset, it's not global; if you do include them, it's a bureaucratic nightmare to implement what the bill demands.

Now for the moment, let's assume that the health resources authority by some miracle identifies these costs and sets expenditure limits in each category. It still treats the private sector unfairly compared to the public sector. SB83 would regulate the incomes of only those providers in the private sector, and would do nothing to regulate the cost of the public sector doctors or hospitals. For global budgeting to have any meaning, *all* providers must have their reimbursements subject to the same degree of control, whether by restricting fees, reducing salaries or eliminating positions. To single out only reimbursements for fee-based private-sector providers and ignore the public sector is not only denying the former equal protection of the law, but effectively scuttles the whole global budgeting concept. The private sector would be held hostage to the inefficiencies and spending habits of the public sector, since the target expenditure limits are based on the total of both sectors.

How about the rate-setting portion of SB83? What has been the experience with rate-setting elsewhere in the country, or within programs

such as Medicare? What have been its effects on the availability of providers and access to care? I mean much simpler rate-setting, not tied to a global expenditure ceiling as in SB83.

In New York, the physical plants and capital equipment of hospitals have been eroded; the level of care they provide is being jeopardized. In Massachusetts, while costs have been kept down, access has become a problem as physicians have left the state or have retired early rather than deal with the constraints placed on medical practice by the state. Many say they can no longer afford to practice because of unrealistic reimbursement levels and a physician shortage now exists. In Connecticut, proposed rate setting precipitated a vigorous hospital lobbying campaign that resulted in a hefty rate *increase*. Wisconsin tried hospital rate setting starting in 1983, but abolished its commission in 1987, because it was ineffective and because individual legislators were constantly introducing exceptions for hospitals in their own districts! And Washington state, having experimented with hospital rate-setting in the early 1980's, abolished its rate-setting commission in 1987, also because it was ineffective.

In Alaska, which already has difficulty attracting and retaining physicians, rate-setting will probably cause many early retirements and discourage the recruitment of new physicians. This will be particularly crippling outside of Anchorage and Fairbanks. Community hospitals now on the brink will have to close their doors.

Why are physicians so vigorously opposed to Alaska's government, or any government, for that matter, becoming involved in setting our fees? Well, it has to do with a shared experience we all have had with Medicare,

the ultimate health care Big Brother in this country. It had made us profoundly distrustful of any government's ability or willingness or promise to regulate fees equitably. We have seen how a program driven only by budgetary considerations has adversely affected the practice of medicine.

This is a very hot topic in our profession right now, and I'd like to give you some history so you can understand where physicians are coming from on this issue and why. Beginning in 1986, Harvard Medical School, under a grant from Medicare, developed a new methodology for reimbursing physicians for their services, called the resource based relative value system or RBRVS, which also happens to be the methodology SB83 proposes. For the last 40 years physicians were paid on the so-called usual, customary and reasonable system, or UCR, based on historical charges in geographic localities. The UCR system favored procedure-based, surgically-oriented practices. Under UCR Medicare was paying, on the average, about 40¢ on the dollar through 1991.

RBRVS seeks to make payment for services more fair by considering the work, overhead and malpractice components that go into producing each service. The various components add up to a total relative value unit figure for a service, which is multiplied by a standard dollar value per unit. So, for example, if a service adds up to 1.5 RVU's and the conversion unit for the system is $80.00, the charge works out to 1.5 x $80.00, or $120.00.

At any rate, RBRVS held out the promise of more equitable reimbursements for physicians, by paying more for services that used "brains," (so-called "cognitive" services) and by paying less for those that used

"brawn" (i.e., surgical procedures). RBRVS split the profession along a medicine-surgery fault line, since RBRVS would augment the earnings of family practitioners, internists and other non-surgical specialties, while surgeons would be economically hurt. Nonetheless, after Harvard developed RBRVS, the AMA formally endorsed and supported it along with a number of physician specialty groups. They worked closely with Medicare in developing new procedure codes for the system.

But in June, 1991, six months before RBRVS was to go into effect, Medicare published its rules in the Federal Register. It had added so many new variables, caveats, exemptions, disclaimers and exceptions that were not part of the Harvard study, and had not even been discussed, and had also set the dollar conversion factor so low, that those who had predicted they would be paid a little less were paid *much* less, and those who thought they'd be paid more, and who had ardently supported RBRVS, were *also* paid less. Everyone lost. Physician specialties which had been previously split united in a firestorm of protest over what they all saw as a betrayal, generating 95,000 letters to Congress in a 60-day period.

Medicare backed down a bit, but when RBRVS took effect on January 1 of this year, physicians found reimbursement levels for some Medicare services were set so low under RBRVS that they literally do not meet the costs of providing the service. That might be OK, if Medicare were a program for the indigent, but it is not: it covers the poor and millionaires alike, and physicians cannot charge more than the Medicare rates to any beneficiary—by law. And *now* Medicare reimbursement rates average only about 34¢ on the dollar. That is what providers mean when they say that Medicare is not paying its share.