Good morning fellow Commission members, with regrets I will not be able to attend our session tomorrow as I have a Governing Board meeting at the same time. I think Deb has done a terrific job of keeping us up-to-date with the public comments relative to our report. ASHNHA shared some comments that by this point you may have had the opportunity to review. Since I will not be in attendance tomorrow I will not be able to address any questions related to those comments. I have attached two documents to this email that I would have provided tomorrow and are intended as purely informational. The first is a note from Greg Erickson from Erickson & Associates Economic Consultants regarding the issue of comparing health care costs to the well head price of oil. The second attachment is simply a document produced by ASHNHA that describes the economic benefit of health care in the communities we serve. As I said, normally I would use our discussion time to reference these but this will suffice for sharing information.

Many thanks and I will miss you tomorrow,

Patrick J. Branco

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Health care spending comparisons

December 7, 2011

In the public comment draft of its "2011 Findings and Recommendations," the Alaska Health Care Commission issued "findings on the cost of health care."[1] Some, such as, "Health care is becoming increasingly unaffordable for U.S. and Alaskan employers and families," and, "Health care prices paid in Alaska are significantly higher than in comparison states," are evident to even casual observers. Others, such as, "Cost shifting occurs between commercial and public payers," though not obvious, come as no surprise to anyone familiar with American healthcare finance.

But the one of the nine findings in the draft has proven controversial.

> **Health care spending in Alaska continues to increase faster than the rate of inflation, and consumes a growing share of Alaska's wealth.** Total spending for health care in Alaska reached $7.5 billion in 2010, a 40% increase from 2005. At current trends it is projected to double to more than $14 billion by 2020. Health spending in 2010 was roughly 50% of the value of oil produced at the wellhead that year. By comparison, this measure of health care spending against petroleum industry production (the major driver of Alaska's economy since statehood) was 6% in 1980, 16% in 1990, 33% in 2000, and is projected to reach between 72-74% by 2020.

Alaska health care spending is increasing faster than inflation; no one questions that. It is the comparison of Alaska health care costs to "Alaska's wealth" that has drawn criticism. [2]

My independent analysis, commissioned by the Alaska Hospital and Nursing Home Association, concludes that this comparison misleads in a way that could lead Alaska legislators and key officials to decisions based on a fundamentally mistaken narrative.

The decline in Alaska oil production is rightly worrisome, and presents a challenge to Alaskans, but Alaska's health care challenges are not – repeat, *not* – a creature of that decline. The problems – declining affordability of health care, cost shifting, inefficient utilization, and all the other issues identified in the Commission's 2010 report and 2011 draft – will persist regardless of whether the value of oil production declines or increases.

The comparison of health care costs with "oil wealth," is not harmless hyperbole. It implicates the health care industry as the cause of a looming fiscal and economic crisis, demonizing the industry as an out-of-control drain on the economy. To portray growing health care costs in that fashion may advance a particular political agenda, but it works at cross purposes to building consensus on concrete

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[1] Alaska Health Care Commission, *Transforming Health Care in Alaska: 2011 Report / 2010-2014 Strategic Plan, PUBLIC COMMENT DRAFT*, November 11, 2011, p. 8-11.

[2] See Karen Perdue, "Comparison of Alaska's Health Care Costs to the Wellhead Value of Oil," Memorandum to Mark Foster, July 15, 2011.

steps to increase efficiency, control costs and improve the quality, accessibility, and availability of health care for Alaskans.

The unfortunate inflammatory comparison is fortunately isolated. Nowhere except in the paragraph quoted from page 8 is the comparison used or even mentioned. The comparison does not underpin or support any of the Commission's findings and recommendations. Neither is it cited as backup for any conclusion or recommendation in the supporting research by the Commission's consultants, the Institute of Social and Economic Research (ISER) and Milliman, Inc.

Stripped of its gratuitous comparisons, the paragraph on page 8 would read:

> **Health care spending in Alaska continues to increase faster than the rate of inflation.** Total spending for health care in Alaska reached $7.5 billion in 2010, a 40% increase from 2005. At current trends it is projected to double to more than $14 billion by 2020.

TECHNICAL ISSUES

The comparisons in the paragraph on page 8 are technically problematic.

The first sentence states that the cost of health care "consumes a growing share of Alaska's wealth." But the fourth sentence shifts the comparison from wealth to income, stating that health spending in 2010 was roughly half the "value of oil produced at the wellhead that year." Perhaps the only thing economists and accountants agree on is that wealth and income are fundamentally different concepts. The paragraph on page 8 confuses the two.

The paragraph's fifth sentence adds to this confusion by tracking the trajectory of health care costs since 1980 in terms of "petroleum industry production," Production is a measure of *physical* output, in this case barrels of oil.

The context suggests, however, that whoever wrote this sentence meant "the *value* of the production." But how that value should be measured is far from clear.[3]

The same sentence adds, parenthetically, that oil production has been "the major driver of Alaska's economy since statehood." That's true. University of Alaska economist Scott Goldsmith estimates that half of all Alaska jobs are due to the petroleum industry, either directly or through state outlays financed by petroleum royalties and taxes.[4]

But less than half of the "value of oil produced at the wellhead" stays in Alaska as state revenue, wages to Alaska workers, or payments to Alaska contractors and suppliers. Moreover, the value of oil production has gyrated with oil prices, which have ranged from as low as $9 per barrel in 1999 to as $140 per barrel in 2008. These shifts have huge impacts on the ratio of health care costs to oil value, but have no relation to progress (or lack of progress) on managing health care costs or gains (or lack of gains) in the efficiency with which Alaska providers deliver services.

The page 8 comparisons say health care spending is, "projected to reach between 72-74% [of oil produced at the wellhead] by 2020." The implication is that all of this would come from the state's oil

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[3] In her July 2011 memo, Perdue (note 2, *supra*) describes the different ways that the "value of oil produced at the wellhead" can be measured, and points out how significant those ambiguities are to the ratios of health care costs to "value of oil produced at the wellhead."

[4] Scott Goldsmith, "Alaska's Petroleum Industry: Transformative, But is it Sustainable?" Presentation sponsored by Northrim Bank, Anchorage, Juneau, and Fairbanks. April 2011, p. 18.

revenue. Not true. According to the ISER analysis, only 9 percent of current health care costs are covered by state revenue.[5]

AN ALTERNATIVE COMPARISON

Alaska state government own-source spending rose from $5.5 billion in FY 11 to $6.7 billion in FY 12, the fiscal year that began in July. That's a 21 percent increase in a single year. It's an increase that far exceeds the growth rate of health care costs. Growth in Medicaid spending and increases in the costs of state employee health care accounted for less than three percentage points of that 21 percent increase. The other 18 percent points of the increase came from capital project spending.

"Strike-through" version of suggested revision

Health care spending in Alaska continues to increase faster than the rate of inflation~~, and consumes a growing share of Alaska's wealth~~. Total spending for health care in Alaska reached $7.5 billion in 2010, a 40% increase from 2005. At current trends it is projected to double to more than $14 billion by 2020. ~~Health spending in 2010 was roughly 50% of the value of oil produced at the wellhead that year. By comparison, this measure of health care spending against petroleum industry production (the major driver of Alaska's economy since statehood) was 6% in 1980, 16% in 1990, 33% in 2000, and is projected to reach between 72-74% by 2020.~~

[5] I estimate that the state covers an additional 3-7 percent of total health care costs through its contributions to the health care costs of its employees and retirees.

ASHNHA

ALASKA STATE HOSPITAL & NURSING HOME ASSOCIATION

HOSPITALS & NURSING HOMES IN ALASKA:

The Economic and Community Impacts of Caring

OVERVIEW

Alaska hospitals and nursing homes save lives, help heal the sick or injured and keep families together by delivering health care close to home.

The local hospital is where many Alaskans are born into this world. In some instances it is where they say goodbye to their loved ones for the last time. In between, the hospital delivers health care ranging from important preventive screenings to intricate surgeries in time of great emergency.

The hospital is in some ways like the local fire station. It is open 24 hours every day of the year. You love to know it is there. You want it fully staffed with the most competent people and best equipment. And you hope you never have to use it.

It is easy to see why many Alaskans never think of health care as an industry. But it is – a very strong industry. Hospitals are a large employer and a significant contributor to the state and local economies in Alaska.

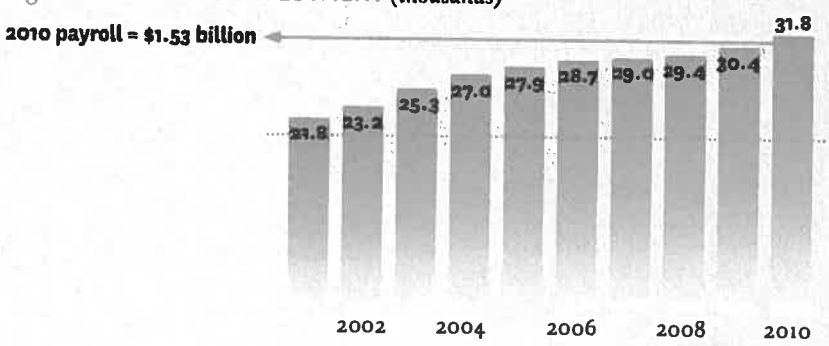
This report examines the economic benefits provided by Alaska's hospitals and nursing homes. It also addresses some of the unique demographic, distance and market challenges that affect the cost of hospital care in Alaska.

The hospital ... is like the local fire station. It's open 24 hours a day every day of the year and serves all who need care.

ALASKA HOSPITALS AND NURSING HOMES PROVIDE GOOD JOBS AND REGIONAL ECONOMIC GROWTH

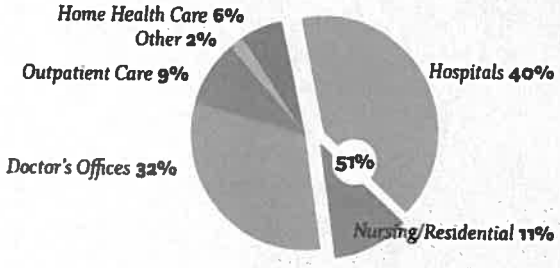
HEALTH CARE IS A $7.2 BILLION INDUSTRY IN ALASKA. *In 2010, it accounted for about 31,800 jobs and an overall payroll of $1.53 billion.* Fig. 1

Fig. 1 HEALTH CARE EMPLOYMENT *(thousands)*



Fifty-one percent of those jobs were in hospitals and nursing homes. Fig. 2

Fig. 2 HEALTH CARE EMPLOYMENT SETTINGS 2010



According to the State of Alaska, health care employs more people than state government, the oil patch or most other industries. The Department of Labor and Workforce Development recently ranked Alaska's largest private-sector employers for 2010. The Top 50 included 10 hospitals and/or health care organizations.

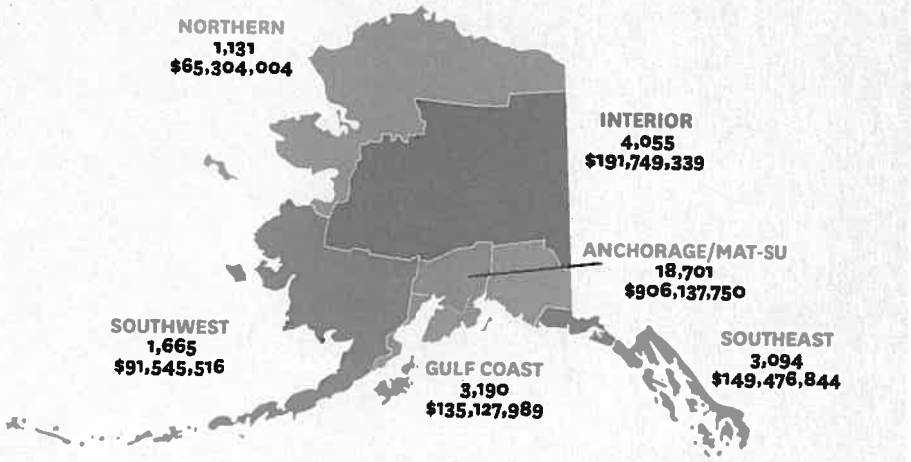
Health care has been Alaska's fast-growing industry over the past decade, with employment up 46 percent during that time. Such growth is about five times faster than Alaska's overall population and three times as fast as all other sectors of the economy.

The trend is continuing: the state labor department projects the number of health care jobs to grow an additional 26 percent through the 10-year period ending in 2018.

Health care has been Alaska's fast-growing industry over the past decade.

HEALTH CARE EMPLOYMENT IS UNIQUE IN ALASKA BECAUSE JOB GROWTH OCCURS THROUGHOUT THE STATE.
Job openings are found in all regions of Alaska, offering close-to-home employment and solid, steady payrolls for communities in each region of the state. Fig. 3

Fig. 3 **HEALTH CARE'S EMPLOYMENT AND TOTAL WAGES 2010**



Health care, hospitals, and nursing homes also provide indirect jobs throughout Alaska. Construction spending for Alaska hospitals alone was forecast at $305 million in 2011. Major projects are underway in Nome, Anchorage, Mat-Su, Fairbanks – and planned soon in Wrangell.

Also, the wages earned by hospital and health care workers generate an economic ripple effect. Hospital employees buy homes, cars, food and clothing. They also pay local property and / or sales taxes to support schools and local governments.

Finally, as large employers, hospitals can be a magnet for stimulating other nearby business development such as medical supply outlets, restaurants, banks and retail stores.

HEALTH SPENDING IS ON THE RISE IN ALASKA AND THROUGHOUT THE U.S.

Health spending in Alaska and the rest of the United States is continuing to grow, driven mostly by increased utilization and higher medical costs.

Recently the Alaska Health Care Commission stated that health insurance premiums for working Alaska families grew by 91 percent between 2000 and 2009. During the same period median earnings for Alaska workers rose just 17 percent.

Alaska's hospitals and nursing homes bear a responsibility to provide better value and higher quality. We are working each day toward these goals.

Rising costs affect not just family pocketbooks but businesses big and small. As businesses are forced to commit more of the bottom line to providing health insurance to recruit and retain top-notch workers, they have less capital available for expansion or investments in innovation and new technology.

Though the solution must be comprehensive – more Americans with insurance coverage, a healthier population, better value for the health care dollar and other needed system reforms – part of the discussion is correctly focused on hospital and nursing home costs.

PRICING STUDY FINDS HOSPITAL, PHYSICIAN COSTS HIGHER IN ALASKA

THE ALASKA HEALTH CARE COMMISSION STUDIED HOSPITAL AND PHYSICIAN PAYMENTS IN ALASKA AND SIX COMPARISON STATES – *Washington, Oregon, Idaho, Wyoming, North Dakota and Hawaii. The Commission's study found that hospital payments are 38 percent more costly in Alaska, while physician reimbursement here is 60 percent higher than the average of the other states used for comparison.* *Fig. 4*

Fig. 4 **ALASKA COSTS COMPARED TO COMPARISON STATES**

Alaska's cost of living **30% ↑**
Alaska Hospital costs **38% ↑**
Alaska Hospital payment from insurance companies **35% ↑**
Alaska Physician payment from insurance and other payers **60% ↑**
Alaska Rural hospital total margins **SAME**
Alaska Urban Hospital all payer total margins **9.6% ↑**

ALASKA COSTS ARE DRIVEN BY CLIMATE, DISTANCE, DEMOGRAPHICS AND MARKETS

Delivering health care in Alaska truly is a unique and challenging endeavor. Alaska's hospitals, nursing homes and other providers are still growing and refining a health care system that in many communities lags behind the Lower 48 in offering basic treatments and technology.

As a result, each hospital faces unique circumstances and challenges impacting the cost of care. While these can differ greatly across regions of the state, here are the most common "cost drivers" in Alaska:

- **HIGH COST OF LIVING AND DOING BUSINESS IN ALASKA**

CONSTRUCTION LABOR AND MATERIALS COST SIGNIFICANTLY MORE IN ALASKA. ***In addition the cost of utilities in our harsh climate is significantly higher, especially with regard to heat and electricity. In addition, maintaining and servicing equipment can be particularly expensive due to travel costs for technicians who service equipment in Alaska's rural areas.*** *Fig. 5*

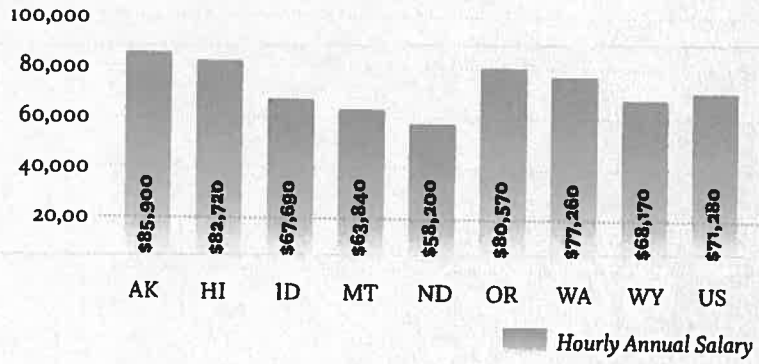
Fig. 5 **COST OF LIVING INDEX** ***2010***

URBAN AREA	COMPOSITE INDEX	GROCERY ITEMS	HOUSING	UTILITIES	TRANSPOR-TATION	HEALTH CARE	MISC.
Anchorage	128.4	134.5	142.9	94.1	122.0	135.7	128.4
Fairbanks	137.4	127.9	148.5	193.1	118.7	144.9	118.8
Juneau	136.5	133.1	165.7	135.1	121.2	144.4	116.1
Kodiak	128.7	149.4	127.8	131.9	143.4	143.4	115.4

• WORKFORCE RECRUITMENT AND RETENTION

IN ORDER TO RECRUIT AND RETAIN TOP-NOTCH STAFF INALASKA, MANY HOSPITALS PAY HIGHER SALARIES, *a higher portion of health insurance premiums, and offer more flexible time-off programs than facilities in the Lower 48. The flexible time-off programs are required to overcome the misconception of remoteness Alaska carries in the recruiting process.* Fig. 6

Fig. 6 STATE WAGE COMPARISONS FOR HEALTH CARE PRACTITIONERS AND TECH OCCUPATIONS 2010

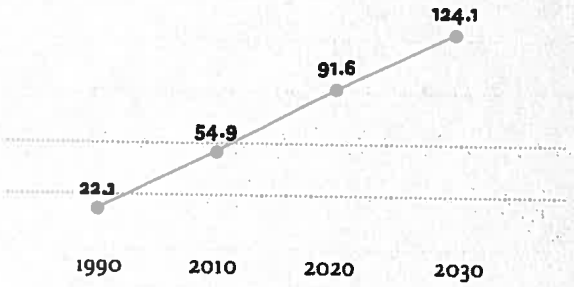


Because of ongoing workforce shortages in many areas of the state there is a heavy reliance on expensive Locum Tenens or temporary workers – particularly for surgery and behavioral health – as well as a need for on-call pay for local physicians.

• AGING AND POORER HEALTH

SOME COST GROWTH IN ALASKA IS DRIVEN BY SIMPLE DEMOGRAPHICS. *Alaska has the second-fastest aging population in the country.* Fig. 7 *As the baby-boom generation begins to age into typically more utilized and more expensive care, overall costs go up and there is a corresponding societal need to make sure seniors have access to the full continuum of elder care and facilities. Senior services are growing everywhere in Alaska – especially in rural communities such as Kotzebue, Nome, Bethel and* Kodiak.

Fig. 7 ALASKA SENIORS *(thousands)*



In addition, the overall health status of Alaskans is changing. Obesity is on the rise in Alaska, as it is elsewhere. In 2009, 65 percent of Alaska adults were overweight or obese and the state has high rates of childhood and youth obesity.

Because obesity often is a contributing factor to chronic illnesses such as diabetes and cardiopulmonary disease, this alarming trend drives more Alaskans to the hospital in need of more expensive care.

Because of ongoing workforce shortages in many areas of the state there is a heavy reliance on expensive Locum Tenens or temporary workers

WITH 13 CRITICAL ACCESS HOSPITALS (FEWER THAN 25 BEDS) IN A STATE OF JUST OVER 700,000 PEOPLE, ALASKA HAS THE EIGHTH-HIGHEST POPULATION-TO-SMALL HOSPITAL OR CAHS RANKING IN THE COUNTRY. *Even some of Alaska's relatively larger Sole Community Hospitals – in communities such as Juneau and Fairbanks – would be considered very small markets in the Lower 48. 78 % of the facilities in Alaska have special federal designation as tribal facilities, government facilities, critical access hospitals or sole community hospitals.* Fig. 8

Fig. 8 ALASKA HOSPITALS AND NURSING HOMES

	NUMBER	PERCENT
Critical Access Hospitals (CAH)	9	33%
Tribal Hospitals[1]	6	22%
Sole Community Hospitals	4	15%
Military/Veterans Hospitals	2	7%
SUBTOTAL	**21**	**78%**
Tertiary Hospitals	3	11%
Psychiatric/BH Hospitals	2	7%
Long Term Acute Hospitals	1	4%
TOTAL ALASKA HOSPITALS	**27**	
STAND ALONE NURSING HOMES	**3**	

[1] *Includes 4 Tribal CAH*

• SMALL MARKETS, SAME HEALTH NEEDS

Yet the health care needs of residents in these Alaska communities are no less important than people who live in bigger cities. This means small markets often must bear the high cost of improved technology, such as adding imaging equipment like a CT scanner in a CAH.

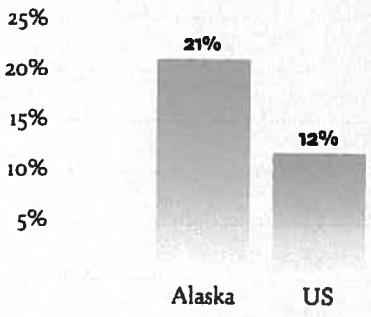
This improves diagnosis and treatment, but lower patient volumes make new technology more expensive to capitalize and harder to pay off. The same smaller-market issues apply to workforce recruitment and retention, especially physicians and mid-level practitioners.

78 % of health facilities in Alaska have special federal designation as tribal facilities, government facilities, critical access hospitals or sole community hospitals.

HOSPITALS AND NURSING HOMES DOOR'S ARE ALWAYS OPEN. *By law hospitals cannot turn away anyone needing care, even if they are unable to pay. In 2009, Alaska hospitals reported $410 million in lost revenue from underpayments and uncompensated care, or about 21 percent of their total operating expenses. Uncompensated care alone cost Alaska hospitals $178 million.* Fig. 9

Fig. 9 UNCOMPENSATED CARE 2009

Uncompensated care in Alaska = $178M



• UNCOMPENSATED CARE AND UNDERPAYMENTS

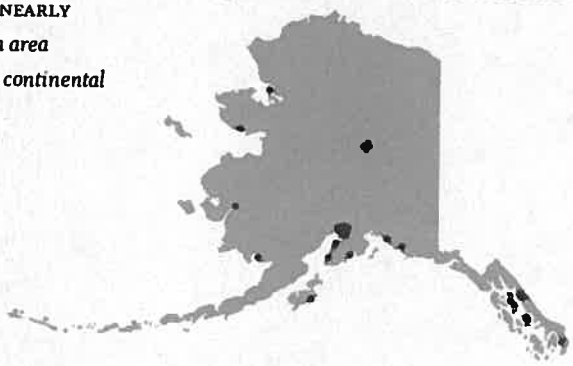
This loss of revenue by hospitals is shifted to other payers – to people with health insurance provided by their employer, by the government or through individual policies. But this cost-shifting continues an ongoing cycle that drives up costs. As insurance becomes more expensive more people become uninsured or underinsured.

They often delay or avoid care until it is a crisis, then arrive at the hospital with very expensive health needs and little or no means to pay for it.
The issue of compensation is compounded because Medicaid and Medicare are significant but often insufficient payers in Alaska.

While Medicaid reimbursements are higher here than Medicare, they often fall below the actual cost of delivering care – and far below reimbursement to providers by private health insurers. And Medicare continues to be the lowest payer in Alaska, relative to the actual cost of delivering care. In 2009, Medicaid and Medicare combined paid Alaska hospitals just 74 percent of the actual cost of care.

THERE ARE 30 HOSPITALS AND NURSING HOMES IN ALASKA SERVING NEARLY 572,000 SQUARE MILES – *an area one-fifth the size of the entire continental United States.* Fig. 10

Fig. 10 DISTRIBUTION OF ALASKA HOSPITALS 2011



	LAND AREA miles²	POP DENSITY miles²	BED DENSITY 1,000 miles²
AK	571,951	1.2	3.4
HI	6,423	211.8	576.5
ID	82,747	18.9	48.7
MT	145,552	6.8	34.4
ND	68,976	9.8	55.9
OR	95,997	39.9	83.3
WA	66,544	101.1	211.97
WY	97,100	5.8	27.5

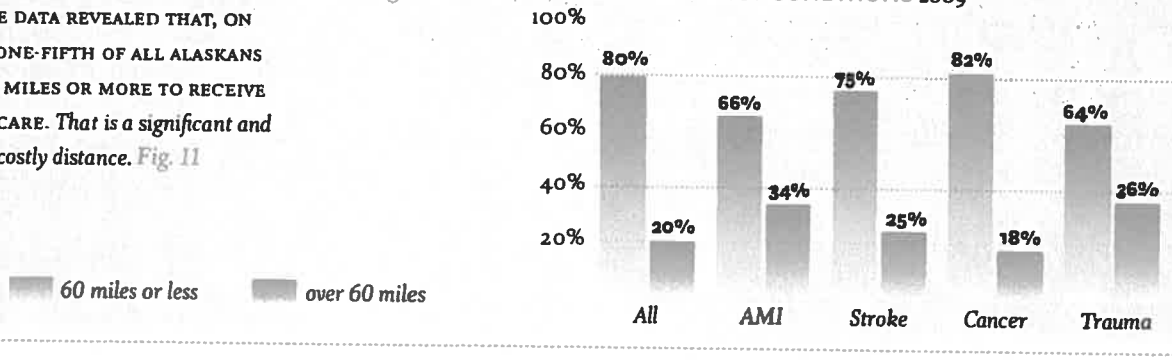
• GREAT LAND, VAST DISTANCES

Aside from often harsh climates and reduced economies of scale, especially in our small-community hospitals, Alaska's geography adds to both the effectiveness of health care and the cost of its delivery.

Seventy-five percent of Alaska's communities are not connected by road to a hospital.
Significant cost is associated with hospital transportation, whether from a nearby village to the closest critical access hospital or onto one of Alaska's bigger hospitals for more serious treatment and care. The further away Alaskans live from the hospital

A RECENT SURVEY OF ALASKA HOSPITAL DISCHARGE DATA REVEALED THAT, ON AVERAGE, ONE-FIFTH OF ALL ALASKANS TRAVEL 60 MILES OR MORE TO RECEIVE HOSPITAL CARE. *That is a significant and ultimately costly distance.* Fig. 11

Fig. 11 DISTANCE TRAVEL BY SELECT CONDITIONS 2009



the less likely they are to get timely needed care – and the more it costs to treat them.

CONCLUSION

At the Alaska State Hospital and Nursing Home Association, our foremost goal is to advance a health care delivery system that improves the health of all Alaskans.

To accomplish that, our hospitals and nursing homes provide vital services in settings ranging from big cities to the smallest fishing towns and subsistence-based villages.

Every day, we offer services far beyond routine preventive screenings or round-the-clock emergency care. Often provided free of charge, these programs deliver health care assistance and solutions to specific populations with unique medical needs- whether its immunizations, CPR classes or help for the elderly.

The best way to describe hospital and nursing home care is this: People caring for people.

We work to provide quality and affordable care for everyone. As we do so, we create good jobs and generate substantial economic benefits throughout Alaska.

The need for our care is great. And our goal – improving the lives of Alaskans every day – is incredibly important.

ALASKA'S HOSPITALS AND NURSING HOMES 2011

ORGANIZATION	LOCATION	ACUTE	LONG TERM	SWING	OTHER	
Alaska Native Medical Center	Anchorage	150				
Alaska Pioneers Home	Six Homes					
Alaska Psychiatric Institute	Anchorage	80				
Alaska Regional Hospital	Anchorage	254				
Alaska VA Healthcare System	Anchorage				74	Outpatient
Bartlett Regional Hospital	Juneau	55				
Bassett Army Community Hospital	Fort Wainwright	43				
Central Peninsula General Hospital	Soldotna	62		8		
Cordova Community Medical Center	Cordova	13	10	4		
Denali Center	Fairbanks		90			
Fairbanks Memorial Hospital	Fairbanks	152				
Heritage Place	Soldotna		60			
Kanakanak Hospital	Dillingham	16		4		
Ketchikan General Hospital	Ketchikan	39	29			
Maniilaq Health Center	Kotzebue	17				
Mat Su Regional Medical Center	Palmer					
North Star Behavioral Health	Anchorage				108	Psych/Subs. Abuse
Norton Sound Health Corporation	Nome	19	15			
Petersburg Medical Center	Petersburg	12	15	5		
PrestigeCare and Rehabilitation Center	Anchorage		90			
Providence Alaska Medical Center	Anchorage	340				
Providence Extended Care Center	Anchorage		224			
Providence Kodiak Island Medical Center	Kodiak	25	19	25		
Providence Seward Medical and Care Center	Seward	6	43	6		
Providence Valdez Medical Center	Valdez	11	10			
Samuel Simmonds Memorial Hospital	Barrow					
SEARHC/Mt Edgecumbe	Sitka	27				
Sitka Community Hospital	Sitka	12	15	12		
South Peninsula Hospital	Homer	22	25	4		
St. Elias Specialty Hospital	Anchorage	60				
Tanana Valley Clinic	Fairbanks					Ambulatory
USAF 3rd Medical Group - Elmendorf	Elmendorf AFB	59				
Wildflower Court	Juneau		57			
Wrangell Medical Center	Wrangell	8	14	4		
Yukon-Kuskokwim Delta Regional Hospital	Bethel	50				

State Cost Comparison with Alaska

	State Average	Avg. Daily Nursing Home Rate	Avg. Monthly Cost in Assisted Living Facility	Home Health Aide Average Hourly Rate	Adult Day Services Daily Rate
Pacific Northwest	**Alaska**	**$687**	**$4,372**	**$25**	**$71**
	Oregon	$246	$3,120	$22	$89
	Idaho	$228	$2,985	$19	$73
	Washington	$253	$2,979	$23	$71
	Montana	$183	$2,709	$20	$90
Other States	Vermont	$261	$4,627	$23	$140
	Massachussetts	$329	$4,468	$24	$58
	New York	$350	$3,701	$21	$99
	California	$287	$3,601	$21	$75
	Texas	$183	$3,091	$18	$38
	Florida	$242	$2,996	$18	$58
	Minnesota	$154	$2,961	$28	$66
	New Mexico	$214	$2,685	$20	$80

Source: 2009 MetLife Market Survey of Long-Term Care Costs