

**74<sup>th</sup> OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session  
BUDGET REPORT AND MEASURE SUMMARY**

**MEASURE: HB 5031-A**

**JOINT COMMITTEE ON WAYS AND MEANS**

**Carrier – House: Rep. Nathanson  
Carrier – Senate: Sen. Carter**

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**Action:** Do Pass as Amended and Be Printed A-Engrossed

**Vote:** 18 – 0 – 4

House – Yeas: D. Edwards, Galizio, Garrard, Hanna, Nathanson, Nolan, Shields

– Nays:

– Exc: Jenson, Morgan

Senate – Yeas: Bates, Brown, Courtney, Devlin, Johnson, Morse, Nelson, Schrader, Verger, Westlund, Whitsett

– Nays:

– Exc: Gordly, Winters

**Prepared By:** Blake Johnson and Eric Moore, Department of Administrative Services

**Reviewed By:** Sheila Baker and John Britton, Legislative Fiscal Office

**Meeting Date:** 6/23/07

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**Agency**

Department of Human Services

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**Biennium**

2007-09

**Senators:** Bates, Carter, Devlin, Gordly, Johnson, Morse, Nelson,  
Schrader, Verger, Westlund, Whitsett, Winters

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Senator Kurt Schrader, Co-Chair

**Representatives:** D. Edwards, Galizio, Garrard, Hanna, Jenson,  
Morgan, Nathanson, Nolan, Shields

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Representative Mary Nolan, Co-Chair

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Senator Margaret Carter, Human Services Subcommittee Chair

## **Budget Summary\***

	2005-07		2007-09		Percentage Committee
	Legislatively Approved Budget (1)	Governor's Budget	Committee Recommendation	Difference from Governor's Budget	Change from Governor's Budget
General Fund	\$ 2,702,631,335	\$ 3,297,925,044	\$ 3,313,435,788	\$ +15,510,744	+0.5%
General Fund Debt Service	3,370,941	11,784,833	11,545,283	-239,550	-2.0%
Lottery Funds	9,312,000	12,032,591	13,161,000	+1,128,409	+9.4%
Other Funds	1,146,081,234	1,401,789,135	1,202,979,675	-198,809,460	-14.2%
Other Funds Debt Service	0	8,094,520	4,144,380	-3,950,140	-48.8%
Other Funds Nonlimited	29,331,072	30,240,335	30,240,335	0	0.0%
Federal Funds	5,243,928,307	6,086,441,954	5,828,687,275	-257,754,679	-4.2%
Federal Funds Nonlimited	1,036,009,010	1,086,632,027	1,085,753,867	-878,160	-0.1%
Total	\$ 10,170,663,899	\$ 11,934,940,439	\$ 11,489,947,603	\$ -444,992,836	-3.7%

## **Position Summary**

Authorized Positions	9,625	10,111	9,904	-207
Full-time Equivalent (FTE) Positions	9,171.51	9,707.33	9,587.56	-119.77

(1) Includes adjustments through SB 5547 May 2007 budget rebalance actions

\* Excludes Capital Construction expenditures

## **Summary of Revenue Changes**

The Department of Human Services (DHS) is funded with a mix of General Fund, Other Funds and Federal Fund revenues. Most of the General Fund appropriation is used to match federal dollars for programs and administration or to meet federal maintenance of effort requirements. Other Funds revenues make up about 10.8 percent of the total budget. These are generated from a variety of sources, including third party reimbursement and recoveries, fees and service charges, Medicaid provider taxes, and cigarette and tobacco tax receipts. Nonlimited Other Funds come from infant formula rebates in the Women, Infants and Children (WIC) program. Federal Funds, which support 60.2 percent of the Department's expenditures, include Medicaid, child welfare, vocational rehabilitation, the Temporary Assistance for Needy Families (TANF) block grant, and various other block and categorical grants. Nonlimited Federal Funds support Food Stamps benefits and the WIC program.

The approved budget anticipates the passage of House Bill 3057, which extends three "provider taxes" relating to nursing facilities, hospitals and managed care organizations. These account for about \$322.4 million in Other Funds revenue. The Department expects to receive a total of \$383.1 million from current law tobacco tax revenues for the 2007-09 biennium. This budget does not anticipate any changes in tobacco tax revenue due to the possible passage of Senate Bill 571, which narrows the exceptions to the requirement that employers (such as bar owners) provide a smoke-free workplace effective January 1, 2009. The budget also includes revenue from public health fee increases made during the 2005-07 biennium and continued in House Bill 5032, as well as revenue from new fees set out in House Bill 2187 (relating to drinking water

inspection fees) and House Bill 2193 (relating to radiation inspection fees). The budget does not anticipate any increase in cigarette and tobacco taxes or Oregon Liquor Control Commission revenues as proposed in the Governor's recommended budget.

### **Summary of Subcommittee Action**

DHS provides a broad array of social services through over 200 programs. These services are delivered to Oregonians through a network of state offices, county and local governments, private profit and non-profit entities, and health plans. The Department is responsible for services to Oregon's low income and vulnerable citizens. Those services include public assistance, protective services, public health, health care, mental health, vocational rehabilitation, long term care for seniors and people with physical and/or other disabilities, and alcohol and other drug abuse treatment. House Bill 5031 provides appropriations and expenditure limitations for the Department as follows:

Department-Wide Support Services:	Director's Office Administrative Services Division Finance
Children, Adults and Families:	Adult Self-Sufficiency Programs Child Welfare and Adoptions Vocational Rehabilitation Services
Health Services:	Public Health Programs Mental Health and Addiction Services Medical Assistance Programs
Seniors and People with Disabilities:	Senior and Physical Disability Services Developmental Disability Services

House Bill 5031 also makes separate appropriations for Capital Improvement and Debt Service expenditures. The Department's Capital Construction expenditures are part of House Bill 5006.

The Joint Committee on Ways and Means Human Services Subcommittee heard agency and public testimony on the Department's budget. The Subcommittee approved a budget, including Nonlimited funds, of \$3.3 billion General Fund, \$11.5 billion total funds and 9,904 positions (9,587.56 full-time equivalent). This budget is 22.8 percent General Fund and 13.0 percent total funds higher than the 2005-07 Legislatively Approved Budget as adjusted for the Department's most recent budget rebalance plan in Senate Bill 5547. It is 0.5 percent General Fund more, but 3.7 percent total funds less, than the Governor's recommended budget.

The net adjustments to the Governor's budget for the Department added \$15.3 million General Fund and increased Lottery Funds expenditures by \$1.1 million; reduced Other Funds by \$202.8 million, Federal Funds by \$257.8 million, and Nonlimited Federal Funds by \$0.9 million; and eliminated 207 positions (119.77 full-time equivalent). The changes include the Department's repricing ("reshoot") of program caseloads, costs,

and revenues since the development of the Governor's budget, which reduced the Governor's budget by \$33.7 million General Fund, \$206.7 million total funds, and 128 positions (152.80 full-time equivalent) overall.

A more detailed description of each program area and Subcommittee actions follows:

### **Department Wide Support Services**

Department Wide Support Services (DWSS) is made up of three operating units: the Director's Office, the Administrative Services Division, and Finance. DWSS provides overall guidance and direction to DHS. It also provides the forecasts for major caseload-driven programs; development, monitoring, and execution of the budget; fiscal and policy analysis and oversight; development of provider rates; communications; information services; human resources; and contracts and procurement. The services provided by these units support and benefit the entire department. In addition, parts of DWSS directly serve clients and/or external customers.

The Subcommittee approved a budget for DWSS of \$172,425,019 General Fund, \$460,234,783 total funds, and 1,133 positions (1,104.39 full-time equivalent). This is 21.7 percent General Fund and 8.5 percent total funds more than the 2005-07 legislatively approved budget for DWSS, excluding debt service. It is 4.4 percent General Fund more but 1.0 percent total funds less than the Governor's budget. The approved budget includes adjustments requested in the DHS reshoot for the 2007-09 impact of issues included in the May 2007 rebalance of the 2005-07 budget (Senate Bill 5547), workload increases, cost and revenue changes, corrections for policy packages in the Governor's budget, transfers from other divisions, and central administration costs related to actions in other areas of the agency. DWSS' reshoot changes included an \$8.3 million General Fund increase and offsetting Federal Funds decrease due to a projected shortfall in Federal Funds revenue under the cost allocation process. Reshoot adjustments also added 12 positions (10.00 full-time equivalent) to DWSS.

The Subcommittee also approved the following other adjustments:

- \$1.8 million in General Fund savings resulted from reshoot changes made in other program areas but not reflected in DWSS' reshoot, and other reshoot corrections.
- Adjustments for the impact of budget actions in other program areas, based on the co-chairs' budget and later budget actions such as the TANF reauthorization package enhancements in Children, Adults and Families, and House Bill 2406 funding in the Seniors and People with Disabilities budget.
- A policy package that would have added three internal audit staff positions was reduced to fund only one position, a new Information Technology (IT) auditor to focus on IT issues.
- \$580,683 Other Funds expenditure limitation was added for higher costs of issuance for estimated Certificates of Participation (COPs) needed to fund Oregon State Hospital project expenditures through fall 2009.
- \$400,000 General Fund was added for a "Network of Care"-type website to provide online information for consumers, community organizations, and government agencies. The Subcommittee heard discussion on a website the agency has developed in the senior programs area. It is expected the new funding would be used for a similar website focused on mental health. The agency will need to solicit competitive bids from entities for development and maintenance of a website within the resources provided.

The approved budget supports a number of operational improvements for the agency. Funding is included to continue three management positions added during the 2005-07 biennium, and contract for professional services, to continue work to improve DHS' financial operations and management. The Office of Payment Accuracy and Recovery will be expanded to improve collections of overpayments; DHS expects these improvements to generate over \$5.0 million in additional recoveries. The Department will replace current contracted actuarial services with a full range in-house actuarial staff, and add other positions to expand the agency's forecasting, research and analysis work. A consolidated Criminal Records Information Management System (CRIMS) will be developed to better track criminal background checks on employees, volunteers and service providers. New positions are added to the Criminal Records Unit to comply with recent federal legislation requiring fingerprint-based FBI background checks and other screening checks for prospective foster and adoptive parents, and other adults living in their homes. Funds are included to begin planning for a new unified eligibility and case management system for the agency's self-sufficiency programs, and for development of a data system for the new Oregon State Hospital facility. The budget also supports continued work on the Medicaid Management Information System (MMIS) replacement project and the Statewide Automated Child Welfare Information System (SACWIS).

### **Children, Adults and Families**

The Children, Adults, and Families (CAF) division administers self-sufficiency programs that promote independence for families and adults, with a focus on supporting people to prepare for, find, and keep jobs. The Temporary Assistance to Needy Families (TANF) program provides cash assistance, and employment and training services, for very low-income families with children. Employment Related Day Care (ERDC) helps pay child care costs for TANF recipients and other low-income families. The Food Stamp program is a federally funded benefit program to help low-income families, single adults and childless couples buy the food they need to stay healthy. CAF also assists in protecting children from abuse and neglect, helping parents care for and protect their children at home, securing foster care for those who are abused or neglected, providing residential treatment for children with special needs, and arranging adoptions. The Office of Vocational Rehabilitation Services, the designated state entity responsible for vocational rehabilitation services for individuals with disabilities, is also part of this budget.

The Subcommittee approved a budget of \$545,973,667 General Fund, \$2,485,021,070 total funds, and 4,284 positions (4,180.72 full-time equivalent) for CAF. The approved budget is 19.3 percent General Fund and 8.2 percent total funds higher than the 2005-07 budget for CAF as adjusted by Senate Bill 5547. It is 4.0 percent General Fund and 1.7 percent total funds less than the Governor's budget.

The approved budget includes adjustments requested in the DHS reshoot of the Governor's budget for updated program caseload, cost and revenue information; corrections or updated costs for policy packages in the Governor's budget; and technical adjustments and transfers to other DHS divisions. These adjustments reduced the budget by a net \$7.4 million General Fund and \$49.6 million total funds. The major reshoot adjustments reflected changes in forecast caseloads and costs, and federal TANF Maintenance of Effort (MOE) requirements.

Forecast Changes The Spring 2007 CAF caseload and cost per case forecast projects that CAF caseloads and costs will be below the forecast levels used in development of the Governor's budget. Food Stamps, TANF, ERDC, child foster care and special rates foster care, and Adoption Assistance programs all are forecast to be lower than previously projected. This resulted in budget savings of over \$36 million General Fund and \$54 million total funds, and 155 positions (151.40 full-time equivalent).

TANF MOE To receive its \$166.8 million annual allocation of federal TANF block grant funds, Oregon is required to spend \$91.6 million each federal fiscal year on TANF or TANF-related activities, as maintenance of effort (MOE) for the federal funds. The requirement increases by about \$6 million a year if program clients do not achieve minimum federal work participation rates. DHS is the major contributor to the state's MOE requirement, but other agencies also have funding which can be claimed for MOE purposes. The reshoot reviewed DHS' expected claimable expenditures for 2007-09, and other agencies' expected expenditures based on 2005-07 funding levels, and determined that the Governor's budget would be about \$20 million General Fund short of meeting the expected MOE requirements during the 2007-09 biennium. After adjustment for new claimable expenditures in the Oregon Housing and Community Services Department, DHS added \$14.3 million General Fund in the reshoot to bring expected expenditures in line with the MOE requirements. The added General Fund freed up \$14.3 million in federal TANF funds that were not used in the reshoot.

In considering the Governor's proposed restructuring of the TANF program, the Subcommittee considered the repriced costs of the Governor's original policy packages, the updated MOE estimate, additional program provisions included in House Bill 2469, and the projected level of available TANF funds. The Governor's original budget included \$20 million General Fund and \$32.3 million total funds to restructure the TANF program with increased JOBS and JOBS Plus employment and training services, post-employment TANF supports, separate state-funded programs for disabled clients and some two-parent families, and added Family Support and Connections funding. After the reshoot re-pricing, the new funding was reduced to \$19.1 million General Fund and \$25.6 million total funds. The legislature's \$13 million General Fund reduction in the child care improvement package (see below) reduces MOE-eligible expenditures, but the \$39 million General Fund added to the Oregon Pre-Kindergarten program and \$3 million added to the Healthy Start program for 2007-09 should provide an additional \$17 million claimable towards TANF MOE, for a net improvement in the state's overall MOE position. With this understanding, the Subcommittee added \$10.7 million federal TANF funds to the CAF budget in Packages 101-4 and 101-17 for the restructured TANF program. This supports additional program changes anticipated in House Bill 2469 regarding child support paid to families, client sanction policy, and transitional medical assistance; increases funding for the Family Support and Connections program, and enhances intensive case management services for multiple-barrier clients. These funds offset \$925,485 General Fund that will move to the Department of Justice for the new child support provisions, and \$3.2 million General Fund shifted to DHS' Health Services program area to be matched with federal Medicaid funds for the TANF extended medical program. With these adjustments, the approved budget adds \$18 million General Fund and \$40.3 million total funds in DHS for the restructured TANF program, is expected to fully meet federal TANF MOE requirements, and is estimated to leave a minimum \$17 million in unspent TANF funds as a hedge against program cost increases during the 2007-09 biennium.

Due to continued uncertainty around MOE, the Senate Bill 5547 budget report for DHS' 2005-07 biennium budget rebalance plan included a budget note requiring DHS to report to the Emergency Board or the 2008 Special Session, at the time of its 2005-07 budget close-out, on the status of TANF MOE and available federal TANF funds. The Subcommittee also approved the following budget note regarding the restructured TANF program:

## **Budget Note**

The Department is directed to report to the Interim Committee on Ways and Means, the 2008 Special Session, or the Emergency Board on the restructured Temporary Assistance for Needy Families (TANF) program, with revised budget estimates for the program, at the time of each departmental budget rebalance. Also, the Department is to continue its work with the Family Services Review Commission and other stakeholders during the interim to review the impact of the restructured program on program clients, assess program outcomes, and consider any potential program improvements. The Department shall report to the 2009 Legislative Assembly on its findings and any recommendations developed as a result of this work.

The Subcommittee eliminated \$13 million General Fund in Package 101-1 for child care improvements and replaced that with \$13 million in federal TANF funds. The \$39.9 million total funds package will increase ERDC program eligibility from 150 percent to 185 percent of the Federal Poverty Level, reduce client co-payment levels, and bring provider rates to an average of the 75<sup>th</sup> percentile of market rates. The program eligibility and co-payment changes are restorations of prior funding reductions in the ERDC program.

The approved budget adds funding for child welfare services to restructure child welfare staffing to improve workload efficiency and child safety; increase legal review and representation for child welfare cases; fund reimbursement for low-income relative foster caregivers beginning in 2008; and increase reimbursement rates for Behavioral Rehabilitation Services (BRS) providers. More specifically:

- The Subcommittee added \$96,942 General Fund and \$96,957 Federal Funds to Package 101-2, but reduced the package by 11 positions (11.00 full time equivalent), based on the Department's restructured position plan and costs. The approved package adds \$1.7 million General Fund, \$1.7 million Federal Funds, and 20 positions (20.00 full-time equivalent) in CAF. It was noted that this package does not resolve the workload issues in the child welfare system, but is a low-cost approach to improve staffing ratios to at least meet national standards. DHS also plans to use funding in the DWSS budget for a work load study in this area early in the biennium, and is expected to make further recommendations for staffing or operational improvements when that study is completed.
- Package 101-3 includes \$3.1 million General Fund and \$2.0 million Federal Funds for increased legal representation and Attorney General case review for juvenile cases, which is expected to ultimately speed up permanency for children.
- The relative foster caregiver reimbursement Package 101-18 assumes the passage of Senate Bill 282, which would allow DHS to make payments to relatives, and establish payment standards in rule. The \$1.8 million General Fund and \$0.4 million Federal Funds approved by the Subcommittee anticipates a July 1, 2008 start date and an income eligibility test at 150 percent of the Federal Poverty Level (FPL). The Subcommittee discussed the July 1 start-up and the 150 percent FPL means test, and noted that the Department should review its budget and report back if it is able to implement payments earlier or change the means test to reimburse more families within its approved budget.
- The Subcommittee added \$1.4 million General Fund and \$2.8 million total funds to Package 102-21, which funds rate increases for BRS providers, to align the rates paid by CAF for these services for children in its custody with the rates paid by the Oregon Youth Authority for youth in its custody. The total package as approved is \$2.5 million General Fund and \$4.9 million total funds.

The Subcommittee also added \$80,204 General Fund and \$80,204 Federal Funds expenditure limitation to cover Attorney General and system modification costs associated with Senate Bill 414, which adds requirements for children placed in DHS' custody.

The Subcommittee approved policy packages as proposed by the Governor to fund eligibility determination staff for the Oregon Health Plan Standard program with continued provider taxes; transfer the Student Day Care program to the Oregon Student Assistance Commission; and add staff for quality assurance in the self sufficiency programs, to complete home studies for interstate placement of foster children within new federal timelines, to help disabled children qualify for federal Supplemental Security Income benefits, and to recoup costs for rehabilitation services for clients eligible for Social Security Disability and Supplemental Security Income benefits.

The approved budget anticipates a net \$4.2 million General Fund and \$11.2 million total funds reduction from improved management of foster care special rate payments, reduced Vocational Rehabilitation Services special payments, and services and supplies savings. Policy packages related to the Oregon Healthy Kids Plan (Package 101-6) and the proposed expansion of the Oregon Health Plan Standard program (Package 103-36) were not approved, since the related revenues proposed in the Governor's budget have not been approved.

### **Health Services**

The Health Services (HS) program area provides policy and program support for benefits and services that help keep Oregonians healthy. Health Services is comprised of three operating divisions: the Public Health Division (PHD), the Addictions and Mental Health Division (AMHD) and the Division of Medical Assistance Programs (DMAP). The Public Health Division consists of six offices including the offices of the State Public Health Officer, Environmental Public Health, Family Health, Disease Prevention and Epidemiology, State Public Health Laboratories, and Multicultural Health. Division activities are wide-ranging and include the licensing of health care interpreters, inspection of radiological devices, administration of the AIDS Drug Assistance Program, tracking disease outbreaks so they can be contained, and analysis of vital statistics. The Addictions and Mental Health Division administers a variety of alcohol and other drug prevention and treatment programs, manages the Oregon State Hospital and oversees a variety of residential and non-residential community mental health programs. The Division of Medical Assistance Programs consists of the Oregon Health Plan, payments to the federal government on behalf of dually-eligible Medicare and Medicaid clients for Medicare Part D prescription drug benefits, and Medicare premium payments for low-income Oregonians.

The Subcommittee approved a budget of \$1,565,803,441 General Fund, \$5,649,115,817 total funds and 2,494 positions (2,361.95 full-time equivalent). This is 27.7 percent General Fund and 14.7 percent total funds higher than the 2005-07 budget for Health Services after Senate Bill 5547, and a 1.2 percent General Fund increase, but 7.2 percent total funds decrease, from the Governor's budget. The approved budget includes the adjustments requested in the DHS reshoot to reflect program and revenue changes and technical adjustments identified since the development of the Governor's budget. The reshoot request lowered the Governor's budget by \$154.7 million total funds, including a reduction of \$31.5 million General Fund. The reshoot adjustments, all of which were approved by the Subcommittee, include the following items.



## Division of Medical Assistance Programs

Lower Oregon Health Plan (OHP) Caseload The Spring 2007 caseload forecast for the OHP is lower than the forecast used to construct the Governor's budget. In particular, the Temporary Assistance to Needy Families medical caseload is anticipated to be 115,045 average monthly cases during the 2007-09 biennium, about 10.4 percent lower than the caseload used in the Governor's budget. Overall, the OHP caseload (exclusive of the OHP Standard caseload) is expected to be 384,387, about 4 percent lower than the 400,014 caseload forecast used in the Governor's budget.

Two corrections to the Governor's budget saved a net \$1.0 million General Fund. The first correction added \$7.5 million General Fund to replace new tobacco tax that had been assumed in the Governor's budget in excess of the new tobacco tax revenue forecast. While the tobacco tax expenditure limitation had been removed in the Governor's budget, General Fund was inadvertently not added to replace this revenue. The second correction removed \$8.5 million of General Fund from the budget. The cost of a Children's Health Insurance Program policy change (moving from six months of eligibility to 12 months) had inadvertently been included twice in the budget.

Lower Estimated "Clawback" Payment Based on new information from the federal government, Oregon's payment to the federal government for part of the Medicare Part D prescription drug benefit for clients eligible for both Medicaid and Medicare, known as the "clawback" payment, was reduced by \$6.0 million General Fund.

Increased Settlement Costs The reshoot included \$4.2 million General Fund and \$9.9 million total funds for expected cost settlements with Federally Qualified Health Clinics and health clinics affiliated with rural hospitals.

## Public Health Division

The reshoot lowered the General Fund budget for this division by \$2.6 million in the AIDS Drugs Assistance Program (ADAP). The savings are largely attributable to enrolling more ADAP clients into insurance plans with good benefits and lower co-payments for services. Technical adjustments and transfers lower the Public Health Division budget by an additional \$2.2 million total funds.

## Addictions and Mental Health Division

Lower Expected Community Mental Health Expenditures Community mental health expenditures are anticipated in the reshoot to be lower by \$6.2 million General Fund and \$19.2 million total funds. These lower expenditures are primarily the result of correcting a per bed cost error in the Governor's budget (\$4.0 million General Fund reduction), delays in developing new community residential treatment facilities (\$1.6 million General Fund), and difficulty in locating providers for residential services for forensic clients (\$0.4 million General Fund).

Oregon State Hospital Revenue Three adjustments related to Other Funds and Federal Funds were included in the reshoot. First, the reshoot acknowledged lower than originally budgeted federal Medicaid revenue of \$3.8 million. Second, the reshoot reduced Other Funds expenditure limitation by \$6.8 million to recognize a lower revenue estimate. Together, these revenue reductions required the addition of \$10.6 million

General Fund. This additional General Fund was partially offset by \$1.3 million of Medicare Part D reimbursement revenue (Other Funds) on behalf of Oregon State Hospital clients who are eligible for Medicare.

Higher Oregon State Hospital Costs The reshoot anticipates higher costs at the Oregon State Hospital and Eastern Oregon Psychiatric Center by adding \$13.7 million General Fund. These higher costs are primarily associated with professional staffing shortages, energy cost increases, and pharmaceutical cost increases, as well as costs related to the U.S. Department of Justice investigation of the hospital under the Civil Rights of Institutionalized Persons Act.

The Subcommittee was advised of steps DHS has taken to improve the business management of the Oregon State Hospital (OSH). DHS hired an experienced business manager and financial and budget analyst that will be exclusively devoted to OSH. The Subcommittee also discussed the difficulties that DHS faces in staffing Mental Health Facilities. As set out in the reshoot items above, higher staffing costs appear to be the result of having too few filled positions to meet obligatory standards of staff to patient ratios. Thus, OSH must have existing staff work more and must compensate these staff with overtime pay which is much higher than regular pay. The inability to fill professional clinical staff positions has required OSH to use contractors and this has driven services and supplies costs higher as well. These difficulties are exacerbated by a nationwide shortage of psychiatric professionals. Based on the Subcommittee's concerns over large, unanticipated increases in expenditures and shortfalls in revenues, the following budget note was approved:

#### **Budget Note**

The Department of Human Services is directed to report to the 2008 Special Session and Emergency Board on Oregon State Hospital actual revenue and costs as compared to budgeted amounts. The reports shall coincide with, but be in addition to, the Department's budget rebalance requests.

A second budget note relating to the replacement of the Oregon State Hospital capital construction project was also approved. This budget note is in addition to the budget note contained in the capital construction bill (House Bill 5006) that requires DHS and the Department of Corrections to report on the status of the "Junction City" property and project. The debt service expenditures for the hospital replacement project are included in the Department-Wide Support Services budget area.

#### **Budget Note**

The Department of Human Services is directed to report to the 2008 Special Session and to the Emergency Board at each of its meetings during the 2007-09 interim on the Oregon State Hospital replacement project. The report should include information on financing, expenditures, and other significant project issues. This report is in addition to the joint reporting required by budget note of the Department and the Department of Corrections on the Junction City property.

In addition to approving the reshoot adjustments, the Subcommittee added \$50.7 million General Fund to the Health Services budget, but reduced the total funds budget by nearly \$280.8 million. The overall decrease is primarily the result of removing \$155.9 million of new tobacco tax (Other Funds) expenditure limitation and federal matching funds that were included in the Governor's budget for an expansion of health coverage

for children (the Oregon Healthy Kids Plan) as well as numerous other program enhancements including the expansion of the Oregon Health Plan Standard program. These enhancements anticipated the approval of higher cigarette and other tobacco taxes by the Legislative Assembly. Because those tax increases have not occurred, this unsupported expenditure limitation was removed. If a tobacco tax increase is ultimately approved, Other Funds and Federal Funds expenditure limitation can be added by either the Legislative Assembly or Emergency Board.

The Subcommittee approved a reduction to the Governor's budget for Diagnostic Related Grouping (DRG) hospital reimbursement contained in managed care organization capitation rates for the Oregon Health Plan. The Governor's budget established this reimbursement at 90 percent of actuarial cost; the approved budget sets this reimbursement at 80 percent of actuarial cost. This is an overall increase in DRG reimbursement through managed care because the 2005-2007 biennial reimbursement was 72 percent of actuarial cost. The reduction from the Governor's budget amounted to \$21.7 million General Fund and \$58.8 million total funds.

The Subcommittee also added General Fund for a variety of program enhancements that were funded in the Governor's budget with new tobacco tax revenues. The Subcommittee replaced \$22.1 million of new tobacco tax with General Fund to support the Citizen Alien Waived Emergency Medical (CAWEM) program. The Subcommittee also added \$4.3 million General Fund to replace new tobacco tax revenues for the Early Assessment and Support Teams, which will augment efforts to provide early treatment for youth who have mental health or addiction disorders. It added \$2.0 million General Fund for school-based health clinics to expand health services for children and \$0.3 million General Fund for an expansion of the dental sealant program for children, replacing new tobacco tax revenues used by the Governor for those services.

The Subcommittee used \$12.3 million General Fund to replace most of two addiction prevention and treatment program additions funded in the Governor's budget with new Oregon Liquor Control Commission revenue. The General Fund was used to add \$10.4 million to support addiction treatment services for Temporary Assistance for Needy Families and child welfare program clients. Also, the Subcommittee added \$1.9 million General Fund for youth substance abuse prevention programs including suicide prevention phone lines and implementing the *Strengthening Families Program*.

The Subcommittee added \$11.0 million General Fund to expand community mental health programs, allocating \$2.0 million for case management; \$2.0 million for services to assist children who are not eligible for Medicaid; \$1.0 million each for the Children's (Mental Health) System Change Initiative, Jail Diversion, Supported Housing, Supported Employment and Afro-centric mental health services; \$1.5 million for Acute Care; and \$0.5 million for Local Administration. The budget adds \$5 million General Fund and \$12.8 million total funds to support graduate medical education, a program that had been eliminated several years ago because of state revenue reductions. It also adds \$7.0 million General Fund and \$17.9 million total funds for a physician access and incentive plan administered by the Medicaid managed care plans. This represents an attempt to further develop pay-for-performance programs within the Oregon Health Plan.

An additional \$4.9 million General Fund, along with federal matching funds of \$7.9 million, was used to restore a budgetary reduction, related to prescription drugs, that had been assumed in the Governor's budget. The savings in the Governor's budget were the result of a proposal to add prescriptions used to treat mental health disorders to the Department's preferred drug list, and to use prior authorization to control utilization and to leverage additional drug manufacturer rebate revenue.

During its hearings on the Health Services budget, the Subcommittee discussion was wide-ranging, covering a variety of policy issues that affect the budget, including health care system fragmentation, reimbursement for Medicaid service providers, and health care disparities among racial and ethnic populations. As a result, the Subcommittee adopted the following budget notes, which require DHS to report to interim legislative committees, including the Emergency Board, or to the 2009 Legislative Assembly.

### **Budget Note**

The Department of Human Services is directed to prepare a report on developing an integrated delivery system of health care for its Medicaid clients. The report will investigate ways to reduce system fragmentation, improve health outcomes, and control costs through an integrated system of care. In addition, the report shall include a proposal for the integration of Oregon Health Plan behavioral and physical health services. The Department will work with appropriate stakeholders to prepare the report and shall present it to appropriate 2007-09 interim legislative committees, including the Emergency Board, by June 30, 2008.

### **Budget Note**

It is the expectation of the Legislature that managed care plans and the hospitals with whom they contract, work together to ensure there is appropriate access to, and coordination of, services for Medicaid beneficiaries enrolled in managed care plans. Hospitals and managed care plans are expected to work closely to achieve reasonable payment schedules within the funds available. The Department of Human Services is directed to report to the 2009 Legislative Assembly on the status of contracts between hospitals and managed care plans.

### **Budget Note**

The Oregon Office of Health Policy and Research and Department of Human Services shall conduct a study of Medicaid reimbursement for Type A and B hospitals (ORS 442.470). The study shall review and analyze the current methods used to determine Medicaid reimbursement for these hospitals; if appropriate, include recommendations for changes to reimbursement; and estimate the fiscal impact of these recommendations on the hospitals and on the state's Medicaid health plan costs. The Office and the Department shall present the results of this study to appropriate interim legislative committees, including the Emergency Board, by June 30, 2008.

### **Budget Note**

The Department of Human Services is directed to report to the Emergency Board by June 30, 2008 on its efforts to reduce health care disparities among the variety of racial and ethnic populations served by the Oregon Health Plan. The report should include a discussion of the ways the Office of Multi-cultural Health within the Public Health Division has collaborated with the Division of Medical Assistance Programs to develop and implement strategies to achieve this goal. As an introduction, the report should discuss the costs of health care disparities and the benefits of reducing those disparities.

## Seniors and People with Disabilities

The Seniors and People with Disabilities (SPD) program area administers services that help keep seniors and people with disabilities as independent as possible. Services funded in the SPD program area include Medicaid long-term care, Oregon Project Independence, the federal Older Americans Act, direct financial assistance through the Oregon Supplemental Income Program (OSIP), and case management. These programs are managed by DHS staff and Area Agency on Aging (AAA) staff housed in offices around Oregon. Medicaid long-term care services are delivered through contracts with in-home care workers; substitute homes such as assisted living facilities, residential care facilities, and adult foster homes; and skilled nursing facilities.

The Subcommittee approved a General Fund budget of \$1,028,070,343, a total funds budget of \$2,878,722,952 and 1,993 positions (1,940.50 full-time equivalent) for this division. The approved budget is 17.3 percent General Fund and 14.3 percent total funds higher than the 2005-07 SPD budget as adjusted in Senate Bill 5547. It is a 1.2 percent General Fund and 1.5 percent total funds increase from the Governor's budget.

The approved budget includes adjustments requested in the DHS reshoot for caseload and cost changes. The reshoot adjusted the Governor's budget for issues that were approved at the May 2007 rebalance of the 2005-07 budget (Senate Bill 5547), workload increases, cost and revenue changes, corrections for policy packages in the Governor's budget, and transfers between divisions. The requested reshoot adjustments in SPD reduced the General Fund budget by \$3.5 million, but added \$2.1 million Other Funds, \$1.9 million Federal Funds, and 25 positions (40.98 full-time equivalent). The reshoot adjustments, all of which were approved by the Subcommittee, included the following major items:

- New Caseload Forecasts Overall, new caseload forecasts included in the reshoot lowered the General Fund budget by \$3.9 million. These forecasts increased the nursing facility forecast moderately, adding \$2.0 million General Fund and associated federal match. In contrast to the higher nursing facility caseload forecast, substitute home caseloads and the in-home caseload for adults and persons with physical disabilities is projected to be lower than the caseload forecasts used to construct the Governor's budget, reducing these budgets by \$9.7 million General Fund. The Oregon Supplemental Insurance Program (OSIP) caseload is expected to be somewhat lower than the level included in the Governor's budget, saving about \$0.2 million General Fund. Finally, the caseload for persons with developmental disabilities is expected to be higher, an additional \$3.6 million General Fund cost.
- Other Funds Revenue Changes Forecasts of Other Funds revenue sources increased by a total of \$0.6 million. This additional revenue is used to replace General Fund in the reshoot. Estate recovery revenue is forecast to increase over the amount included in the Governor's budget by \$2.3 million, but nursing facility provider tax revenue is expected to decline by about \$1.7 million. This decline is the result of federal provider tax law changes which decreased the maximum Medicaid provider tax rate from 6 percent to 5.5 percent.
- Modification to Area Agency on Aging Financing The Governor's budget included enhanced funding for Area Agency on Aging (AAA) programs that have contracted with the Department to administer the Medicaid long-term care program with AAA staff. These agencies are known as "Transfer AAA". The Governor's budget proposed to reimburse these agencies at 95 percent of the costs of operating a comparable state office. During the 2005-07 biennium, these agencies were reimbursed at about 84 percent of comparable costs. The total Governor's budget for Transfer AAA was \$124.4 million total funds, including \$55.6 million General Fund. In its reshoot, the Department reduced this budget by \$2.9 million General Fund and \$5.8 million total funds to align the 2007-09 budget with 2005-07 actual expenditures.

In addition to the above reshoot adjustments, the Subcommittee added \$15.5 million General Fund and \$41.7 million total funds to the Seniors and People with Disabilities program area. Most notable was an increase of \$8.0 million General Fund and \$20.6 million total funds to increase wages and benefits for employees of non-profit agencies which provide services for persons with developmental disabilities. This increase is in addition to a \$12 million General Fund and \$29.1 million total funds enhancement included in the Governor's budget. In total, this funding is expected to increase hourly wages by \$1.00 and other payroll expenses to 37 percent of wages, beginning February 1, 2008. These compensation increases are anticipated to reduce staff turnover in these agencies and thereby improve the quality of services for clients.

The budget establishes the Oregon Project Independence (OPI) program expenditure limitation at \$12.6 million. This is \$4.0 million less than the Governor's budget proposal, but still about 3 percent higher than the 2005-07 funding level. While the Subcommittee was anxious to enhance the OPI budget, it considered that the projected revenue inflow into the OPI fund from the senior property tax deferral account is expected to decrease from about \$20 million during the 2007-09 biennium to less than half that during the 2009-11 biennium. The budget approved by the Subcommittee would create a 2007-09 ending balance of about \$7.4 million, which would be available to maintain the program in the 2009-11 biennium when the revenue flowing into the OPI fund is expected to be significantly lower.

The Subcommittee added \$1.1 million General Fund and \$3.0 million total funds to provide new services for children with complex medical needs arising from significant developmental disabilities, consistent with House Bill 2406. That measure directs DHS to apply for a Medicaid waiver to serve these children in their own homes. Other General Fund support is included in the Health Services and Department-Wide Support Services' budgets within DHS.

The budget includes an additional \$9.8 million General Fund and \$25.0 million total funds to increase nursing facility reimbursement to the 63<sup>rd</sup> percentile of costs required under House Bill 57, legislation that extends the Medicaid provider taxes through the 2007-09 biennium. The Subcommittee reduced a proposal to enhance nursing facility Certified Nursing Assistant staffing levels from \$3.0 million General Fund and \$7.4 million total funds to \$1.5 million General Fund and \$3.7 million total funds.

The Subcommittee added \$0.7 million General Fund and \$6.3 million Federal Funds expenditure limitation to correct the Transfer AAA adjustment in the reshoot to properly align the state and federal funding mix more closely with actual expenditures during the 2005-07 biennium, but reduced the proposed Transfer AAA funding by \$2.7 million General Fund and \$5.7 million total funds. This brings the legislatively approved reimbursement level for 2007-09 to 90 percent of comparable state office costs, compared to the 84 percent in the current biennium.

The approved budget adds \$1.1 million General Fund and \$3.1 million total funds to keep the Eastern Oregon Training Center (EOTC) open. EOTC is a state-operated institution in Pendleton for persons with developmental disabilities. The Governor's budget proposed closing the training center as a budget reduction. Although the approved budget continues EOTC operations, it also anticipates General Fund savings of \$0.8 million as the facility is downsized during the 2007-09 biennium.

During the hearings on the SPD program area, the Subcommittee heard testimony on departmental planning efforts for the long-term care system in Oregon. The Subcommittee believes these efforts need more visibility, and consequently adopted the following budget note:

### **Budget Note**

The Department of Human Services is directed to report to the Emergency Board by June 30, 2008, and to the 2009 Legislative Assembly, on its comprehensive and on-going planning efforts for the long-term care system for seniors and people with disabilities (initially outlined in the department's draft report, *Recommendations on the Future of Long-Term Care in Oregon* in May 2006). The report shall include a discussion of recommendations for system changes, reimbursement rates and access for eligible clients, necessary Medicaid waivers, the development of an acuity-based care reimbursement system, and a timetable for implementing the proposed changes. In preparing the report, DHS should continue to work with appropriate stakeholders and advocates for senior and disability services.

The Subcommittee approved \$2.0 million General Fund and \$2.2 million total funds to provide services to children who have been accused of significant crimes to plead guilty except for insanity because of mental defect. The legislation which allows this kind of plea is Senate Bill 328, which was approved separately by the Subcommittee. Although the Subcommittee approved Senate Bill 328, it had concerns about implementation, and adopted the budget note below:

### **Budget Note**

The Department of Human Services and the Psychiatric Security Review Board shall report to the Emergency Board on their progress of implementing Senate Bill 328 when the Department presents its budget rebalance plans. The report shall provide the number of children receiving services under Senate Bill 328 and their placement status. In addition, the report shall include demographic data such as age, ethnic or racial identification, gender, geographic location and other pertinent information.

The Subcommittee also approved the following budget note regarding elderly and disabled transportation services:

### **Budget Note**

The Departments of Human Services and Transportation are directed to work together to investigate sources of new revenue to enhance funding for elderly and disabled transportation services, with consideration for both urban and rural Oregon. The departments shall report their findings to the Department of Administrative Services, Budget and Management Division and the Legislative Fiscal Office prior to the 2009 Legislative Session.

### **Capital Improvements**

The Subcommittee approved the \$1.2 million General Fund in the Governor's budget for capital improvements at the Oregon State Hospital. This is the same funding level as in the 2005-07 biennium.

## **Debt Service**

The approved budget includes \$11.5 million General Fund and \$4.1 million Other Funds for debt service. This compares to \$3.4 million General Fund debt service in the 2005-07 legislatively approved budget after Senate Bill 5547. The 2007-09 budget includes debt service costs on existing and new Certificates of Participation (COPs) planned for information system projects and the Oregon State Hospital facility replacement project. This budget is lower than proposed in the Governor's budget, primarily due to revised estimates for the Oregon State Hospital project. The original budget anticipated \$8.1 million Other Funds in capitalized debt service costs for the project during the 2007-09 biennium, compared to \$4.1 million in debt service now expected to be paid this biennium.

## **Summary of Performance Measure Action**

The Subcommittee approved the use of the Department's existing measures for the 2007-09 biennium, with modifications as in the attached *Legislatively Adopted 2007-09 Key Performance Measures* form, with the understanding that the Department will be reviewing its key performance measures during the interim with a goal to make the measures more useful in evaluating agency performance. The Department is to engage a review work group that includes agency staff, stakeholders, Legislators, and staff from the Oregon Progress Board, the Department of Administrative Services Budget and Management Division, and the Legislative Fiscal Office. The Department is to report to the Joint Legislative Audit Committee in fall 2008 with its recommended performance measures for the 2009-11 biennium.