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Ways and Means**

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To: Human Services Subcommittee
From: Tom MacDonald, Legislative Fiscal Office
Date: May 16, 2019
Subject: SB 5544 – Oregon Health Authority
Work Session Recommendations

The Oregon Health Authority (OHA) has submitted its third budget rebalance plan for the 2017-19 biennium and will present it to the Human Services Subcommittee on May 16, 2019. A work session is planned after this presentation to effectuate the required budgetary changes. The Department of Human Services did not submit a rebalance plan because the department does not currently anticipate needing to adjust its 2017-19 budget.

A typical rebalance plan reflects program cost increases and savings, revenue changes, and technical adjustments needed to ensure OHA’s budget remains in balance. This process also allows the agency to move General Fund between appropriations and adjust Other and Federal Funds expenditure limitation to carry out legislatively approved programs.

OHA’s proposal results in a net General Fund cost of \$10.6 million. Changes to this request recommended by the Legislative Fiscal Office (LFO) lower the net General Fund cost to \$8.2 million. Also, based on recommendations by the December 2018 Emergency Board, \$11.9 million General Fund remains unscheduled in OHA’s budget. This General Fund, which includes \$7 million in the Cover All Kids appropriation and \$4.9 million in the appropriation for other health service programs, can be rescheduled to pay for the rebalance costs. When including the available General Fund to reschedule, LFO’s overall recommendation is to disappropriate \$3.7 million General Fund. The recommendation also includes increases to expenditure limitations.

May 2019 Rebalance Summary <i>\$\$ in millions</i>	General Fund	Lottery Funds	Other Funds	Federal Funds	Total
2017-19 Leg. Approved Budget (Apr. 2019)	\$2,166.5	\$12.5	\$7,824.7	\$11,695.5	\$21,699.2
OHA Rebalance Cost / (Savings)	\$10.6	\$0.0	\$8.2	\$125.4	\$144.2
LFO Recommended Changes	(\$2.4)	\$0.0	\$2.0	\$0.0	(\$0.4)
Net Rebalance Cost / (Savings)	\$8.2	\$0.0	\$10.2	\$125.4	\$143.8
Available GF to Reschedule	(\$11.9)	\$0.0	\$0.0	\$0.0	(\$11.9)
LFO Recommended Changes	(\$3.7)	\$0.0	\$10.2	\$125.4	\$131.9

Senate Bill 5544 is a blank appropriation bill and will be the vehicle for the budget adjustments; the recommended -1 amendment incorporates those changes. The recommendation also includes a request for the Department of Administrative Services to reschedule General Fund to resolve the identified General Fund challenge. OHA's proposal and LFO's recommendations are discussed in more detail below.

OVERVIEW OF OHA REBALANCE PLAN

OHA's rebalance identifies net General Fund costs of \$10.6 million after accounting for program cost increases of \$35.1 million and savings of \$24.5 million. More than half of the General Fund costs are due to issues at the Oregon State Hospital related to lower than anticipated revenue collected from Medicare, increased staffing costs, and investments in patient safety to comply with federal standards. The remaining General Fund costs occur in the Health Systems Division and are mostly the result of Medicaid caseload, eligibility, and payment issues. Nearly all of the \$24.5 million in General Fund savings is achieved in the Health Systems Division through an increase in global settlement revenue, delays in procurement, vacant positions, and Medicaid cost changes. These savings are assumed to be one-time.

The following table shows the General Fund impact of the agency's rebalance request by program area:

OHA Proposal General Fund - \$\$ in Millions	Health Systems Division	Oregon State Hospital	Health Policy	Public Health	Central / Shared	Total
2017-19 Leg. Approved Budget (April 2019)	\$1,334.3	\$492.7	\$46.3	\$65.3	\$227.9	\$2,166.5
Rebalance Issues						
Costs	\$16.8	\$18.3	\$0.0	\$0.0	\$0.0	\$35.1
Savings	(\$23.4)	\$0.0	(\$1.1)	\$0.0	\$0.0	(\$24.5)
Net Change	(\$6.6)	\$18.3	(\$1.1)	\$0.0	\$0.0	\$10.6
Technical Adjustments	\$1.5	(\$1.5)	\$0.0	\$0.0	\$0.0	\$0.0
General Fund Changes - OHA Proposal	(\$5.1)	\$16.8	(\$1.1)	\$0.0	\$0.0	\$10.6

Health Systems Division (HSD)

OHA's rebalance includes several cost and savings adjustments in HSD resulting in a net General Fund decrease of \$5.1 million, Other Funds increase of \$9.7 million, and Federal Funds increase of \$122.9 million.

Medicaid Caseload: The rebalance includes changes in Medicaid caseloads based on the Spring 2019 caseload forecast. Corresponding budget changes result from differences between this forecast and the Fall 2018 forecast, which was incorporated into the budget through actions approved by the December 2018 Emergency Board. The Spring 2019 forecast results in a net caseload increase of 2,766 for 2017-19. Although most caseload categories are forecasted to decrease, the Affordable Care Act (ACA) and Parent/Caretaker Relative caseloads are forecasted to increase by meaningful amounts. The cost to the state for the ACA caseload increase is relatively minimal given the higher federal match received for this population. The Parent/Caretaker Relative caseload, however, receives the traditional Medicaid match, which makes increases in this caseload more expensive for the state. This caseload is forecasted to continue increasing through the 2019-21 biennium. The

cumulative impact of all caseload changes is a cost increase of \$5.0 million General Fund and \$25.9 million Federal Funds.

2017-19 Biennium Medicaid Caseload Category	Fall 2018 Forecast (current budget)	Spring 2019 Forecast (rebalance)	Difference	General Fund Impact \$\$ in Millions
Affordable Care Act	356,589	358,276	1,687	\$1.1
Parent/Caretaker Relative	73,906	75,687	1,781	\$9.9
Pregnant Women	10,428	10,251	(178)	(\$2.5)
Aid to Blind and Disabled	84,321	84,066	(255)	(\$3.0)
Old Age Assistance	45,499	45,362	(138)	(\$1.1)
Foster Care/Substitute/BCCP	20,694	20,539	(155)	(\$1.0)
Children's Health Insurance Program	84,163	84,719	556	\$0.1
Children's Medicaid	306,435	305,869	(565)	\$1.1
Non-OHP / CAWEM Prenatal	65,440	65,472	32	(\$0.0)
Total Caseload Forecast	1,047,476	1,050,241	2,766	\$4.5
Medicare Buy-in costs*	211,407	211,711	304	\$0.4
Total General Fund				\$5.0

*Individuals eligible for Medicare buy-in support are also part of other caseload categories.

Tobacco Tax Revenue Decrease: Based on the March 2019 revenue forecast by the Oregon Office of Economic Analysis, tobacco tax revenue dedicated for the Oregon Health Plan and non-Medicaid mental health services is expected to decrease by \$2.9 million compared to the previous forecast. To maintain the existing level of services for these programs, OHA's rebalance recognizes the revenue forecast change as a \$2.9 million decrease in Other Funds revenue and a commensurate increase in General Fund.

Mental Health Residential Services: In 2017, the Medicaid State Plan for home and community-based services was updated to manage individuals with chronic mental illness separately from other individuals who qualify for these services. After this change occurred, OHA identified 44 clients who had been enrolled and received services but did not meet the federal eligibility requirements. This results in a General Fund cost because OHA must repay the federal government for the Medicaid match provided for these clients. Additionally, since these clients are vulnerable and at-risk of homelessness, incarceration, and repeated emergency department use, OHA proposes to continue supporting these 44 clients in residential settings with General Fund through the duration of their need for services. This results in a General Fund cost of \$4.0 million in 2017-19.

Medicaid Payments Correction: Based on a review of Medicaid payments made to coordinated care organizations (CCOs) from 2014 through 2018, OHA identified payments for clients who were dually eligible for both Medicaid and Medicare but were incorrectly determined to be eligible for only Medicaid. This resulted in OHA over-claiming federal match and paying higher capitation rates than should have been paid. The agency has recovered the capitation overpayments but must still reimburse the federal government for the over-claimed federal match. The 2018 Emergency Board authorized OHA to use \$5.5 million in available tobacco tax revenue carried over from the prior biennium to support the estimated cost impact at that time. Based on final determination of the cost impact, OHA requests \$5.0 million General Fund and increased Other Funds of \$9.9 million to use the remaining tobacco tax carryover revenue.

Dual-Eligible Enrollment in CCOs: As part of its Medicaid waiver renewal in 2017, OHA implemented a policy change to enroll Oregon Health Plan clients eligible for both Medicaid and Medicare into CCOs with an option to opt-out and be covered through fee-for-service. This population had previously been enrolled in fee-for-service with the option to opt-in to CCO coverage. Due to one-time transitional costs related to an overlap in CCO and fee-for-service payments, the legislature approved a one-time investment of \$4.3 million General Fund in 2017-19. Due to a delay in the implementation of the policy change, most of this population was not enrolled in CCOs in 2017-19, resulting in savings of \$3.1 million. OHA plans to transition the remaining dual-eligible population into CCOs on July 1, 2019.

OHP Cost Changes: OHA recognizes \$6.5 million in General Fund savings based on multiple factors. First, the agency projects \$5.0 million in savings based on cash flow projections of the remaining revenue and payments necessary to support OHP through the remainder of the biennium after all other adjustments. Additionally, savings of \$1.2 million is achieved based on a lower than expected increase of Medicare Part B premiums, which are partially supported under Medicaid for certain eligible members. OHA has also identified savings of \$0.3 million from lower “clawback” payments owed to the federal government for prescription drugs paid under Medicare Part D.

Administrative Savings: OHA’s rebalance reflects Personal Services and Services and Supplies savings of \$13.8 million. Of this amount, \$4.8 million represents Personal Services savings from vacant positions. A significant portion of this savings is from the agency’s Behavioral Health program, which held leadership positions vacant pending the recruitment of a program director, as well as other vacancies experienced as part of the agency’s reorganization of this program. The remaining vacancies are across several HSD programs, including Medicaid, Business Information Systems, Governance and Process Improvements, and HSD Administration.

The remaining amount represents \$9.0 million from Services and Supplies savings. This includes \$6.7 million from revenue received through global settlements paid by large health care corporations. Another \$2.3 million is saved from procurement delays in the Program Integrity Unit. The legislature approved an investment of \$3.0 million General Fund in 2017-19 to enhance Medicaid auditing, oversight, and data analytics to reduce fraud, waste, and abuse. The program has not been able to roll-out this investment as quickly as anticipated but is on track to do so in 2019-21.

Tobacco Tax Carryover (Non-Medicaid): Of the available tobacco tax revenue statutorily dedicated for non-Medicaid mental health programs, the 2017-19 legislatively adopted budget included \$2.5 million for veterans’ behavioral health services. OHA anticipates using only \$0.5 million this biennium and requests to carryover the remaining \$2.0 million to 2019-21. LFO does not recommend approval of the carryover request given the \$2.5 million already included in OHA’s 2019-21 current service level budget to continue these services. The available tobacco tax revenue can be used in the current biennium for other non-Medicaid mental health services instead of General Fund, which results in General Fund savings of \$2.0 million in 2017-19.

Other HSD Adjustments: The agency’s plan also includes the reduction of \$1.7 million in Other Funds expenditure limitation related to the Rural Hospital Initiative Program. This initiative is supported with hospital assessment revenue carried over from 2015-17, which will not be fully expended in 2017-19. OHA is separately requesting to carryover the \$1.7 million balance into the next biennium as part of the 2019-21 budget process. Also, a \$0.5 million Federal Funds increase is included based on OHA’s receipt of the Promoting Integration of Primary and Behavioral Health Care federal grant. The legislature granted permission to apply for this grant in May 2017.

Oregon State Hospital

OHA's rebalance reflects General Fund costs of \$18.3 million, a decrease in Other Funds expenditure limitation of \$14.1 million, and an increase in Federal Funds expenditure limitation of \$2.6 million related to challenges at the Oregon State Hospital (OSH).

Revenue Shortfall: Of the \$18.3 million in General Fund costs, \$11.5 million is requested to backfill lower than expected collection of Other Funds revenue related to an effort by the hospital to increase insurance reimbursements, primarily from Medicare. With improvements made to OSH in 2016, the hospital achieved federal certification of an additional 454 hospital-licensed beds. This certification enables the hospital to bill for certain services covered by Medicare, Medicaid, and third-party insurance. The 2017-19 legislatively adopted budget included an additional \$40 million Other Funds based on the estimated increase in reimbursement while also reducing General Fund support by \$30 million. Due to significant delays in implementing the required billing infrastructure and staffing setbacks, reimbursements have fallen significantly short. The \$11.5 million General Fund requested as part of this rebalance is in addition to \$15 million General Fund approved by the December 2018 Emergency Board for the same reason. OHA continues trying to resolve the setbacks and increase revenues, but the outlook for 2019-21 remains unclear at this time.

Staffing Costs: The rebalance includes \$5.6 million General Fund due to staffing costs related to increased patient acuity and corresponding enhanced staff-to-patient ratios, as well as a high volume of daily call-outs and long-term absences. A contributing factor to these costs is related to Senate Bill 469 (2015), which made hospital nurse staffing committees responsible for setting nurse staffing levels and limited mandated overtime. The December 2018 Emergency Board approved \$13.1 million for the same issue and, at the time, the agency believed it could curtail additional increases in staffing costs.

OHA's request also includes \$0.4 million General Fund to cover increased costs resulting from increases in shift differentials for licensed nursing staff, which was implemented through the collective bargaining process as of January 2019. LFO does not recommend the \$0.4 million increase for approval since these types of mid-cycle agreements should be absorbed within the agency's existing resources.

Patient Safety: Approximately \$0.8 million General Fund is included for suicide prevention and ligature removal costs necessary to ensure patient safety and maintain compliance with federal standards. This amount is in addition to \$2.0 million approved by the December 2018 Emergency Board for the same purpose.

Health Policy and Analytics (HPA)

The Health Policy and Analytics Division recognizes \$1.1 million in General Fund savings. This amount includes \$0.5 million in savings due to the long-term vacancy of the state Medicaid Director (which has now been filled) and delayed hiring for other positions.

Another \$0.4 million results from underspending on Health Information Exchange (HIE) activities. HPA received \$0.5 million General Fund in 2017-19 to leverage new federal funding to support Medicaid providers' connection to HIE entities to encourage the adoption of electronic health records and increase providers' ability to exchange health information. OHA is separately seeking approval to re-appropriate the \$0.4 million in 2019-21 to continue onboarding providers.

The remaining \$0.2 million General Fund savings results from the closeout of the Common Credentialing project. This project, which was intended to streamline the credentialing processes for health care practitioners, was suspended in July 2018 due to significant challenges with implementing a cost-effective program beneficial to stakeholders.

Public Health

OHA requests an increase of \$12.5 million Other Funds expenditure limitation in the Public Health Division. Of this amount, \$11.6 million is due to increased spending in the CARE Assist Program, which helps people living with HIV or AIDS pay for medical care. The program implemented the End HIV Oregon project in 2017-19, which increased expenditures for contracts and medical supplies and services. The revenue is available from prescription drug insurance claims. The remaining \$0.9 million increase is needed to account for the cannabis tracking fee collected by the Oregon Medical Marijuana Program and transferred to the Oregon Liquor Control Commission. As established by Senate Bill 1057 (2017), this fee represents \$480 paid by certain grow sites to support the costs of tracking medical marijuana plants and products.

LEGISLATIVE FISCAL OFFICE RECOMMENDATIONS

Consistent with the modifications described above, LFO recommends approval of General Fund appropriation changes and adjustments to expenditure limitations, as shown in the table below. LFO also recommends requesting the Department of Administrative Services to reschedule General Fund amounts unscheduled by the December 2018 Emergency Board to support the rebalance recommendations.

LFO Recommendation	General Fund	Other Funds	Federal Funds	Total	Positions	FTE
Programs (Ch 545, OL 2017)	\$3,353,140	\$10,156,765	\$125,409,493	\$138,919,398	-	-
Health Care for All Oregon Children (Ch 652, OL 2017)	(\$7,004,243)	\$0	\$0	(\$7,004,243)	-	-
Total	(\$3,651,103)	\$10,156,765	\$125,409,493	\$131,915,155	-	-

Recommended Changes

LFO recommends adoption of the -1 amendment to SB 5544 to adjust General Fund appropriations, and Other Funds and Federal Funds expenditure limitations.

MOTION: I move adoption of the -1 amendment to SB 5544. (VOTE)

Final Subcommittee Action

LFO recommends that SB 5544, as amended by the -1 amendment, be moved to the Ways and Means Full Committee with a “do pass” recommendation.

MOTION: I move SB 5544, as amended, to the Full Committee with a “do pass” recommendation. (VOTE)

Carriers

Full Committee: _____

House Floor: _____

Senate Floor: _____