



OFFICE OF THE DIRECTOR

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October 29, 2018

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court St, NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

NATURE OF REQUEST

The Oregon Health Authority (OHA) requests receipt of this letter as its December 2018 Rebalance Report for the 2017-19 biennium.

AGENCY ACTION

Based on actual expenditures through July 2018 and updated projections based on the Fall 2018 Caseload Forecast, OHA is projecting a \$9.2 million General Fund savings after netting budget challenges with savings and management actions.

While this net savings is relatively small, it is the result of the agency offsetting significant challenges from across the agency—primarily in the Health Systems Division and Oregon State Hospital—with significant savings in the Health Systems Division. The General Fund challenges total \$96.8 million, General Fund savings total \$101.1 million, and General Fund reductions from management actions total \$4.8 million. (Note: Rounded amounts do not exactly add to \$9.2 the million savings.)

Additionally, OHA is projecting a need to increase Other Funds limitation by \$1,055.5 million and Federal Funds limitation by \$431.7 million.

The following table provides a summary of the OHA rebalance by General Fund and Total Funds.

Rebalance Changes	General Fund	Total Funds
2017-19 Legislatively Approved Budget (LAB)	\$2,163,848,809	\$20,211,631,740
Challenges	\$96,804,916	\$1,281,417,213
Savings	(\$101,126,622)	\$201,497,974
Management Actions	(\$4,840,000)	(4,840,000)
Subtotal: Net Savings (Challenges – Savings & MA)	(\$9,161,706)	\$1,478,075,187
December 2018 Rebalance	\$2,154,687,103	\$21,689,706,927
Percent Change from LAB	(0.4%)	7.3%

General Fund Challenges

OHA is identifying \$96.8 million in General Fund challenges. Approximately, 84 percent of those challenges are within the Health Systems Division at \$49.5 million and Oregon State Hospital at \$31.7 million.

Health Systems Division

Medical Assistance Programs Cost Changes (\$28.9 million) – After updating its budget models with projections through the end of the biennium and isolating the impact of caseload changes, the Health Systems Division is estimating a net increase in costs of \$28.9 million General Fund for medical assistance programs. These costs are driven by both an increase in budget need for coordinated care organization (CCO) rates and for services paid on a fee-for-service basis, including mental health, inpatient hospital, physician and other professional services. There is also increased need based on projected payments to Federally Qualified Health Centers and Rural Health Clinics. This challenge is mitigated with General Fund savings from revised Medicare Part B projections (\$18.1 million) and Medicare (Part D) clawback projections and (\$10.5 million).

Fraud Prevention Revenue Estimates (\$11.0 million) – The 2017-19 budget anticipated that OHA would recover an additional \$15 million in Other Funds from program integrity efforts. The Office of Program Integrity audits Medicaid claims, identifies overpayments tracks fraud prevention, and identifies cost avoidance, which are savings to the program by reducing or eliminating future costs. The \$15 million budget estimate was problematic because recoveries from provider audits are often not received until the following biennium and those recoveries must be split between the state share and federal share. Nevertheless, the office is engaging in new data strategies to identify more areas for review and recovery.

Tobacco Tax Forecast Decrease (\$3.9 million) – The Medicaid and non-Medicaid budgets are adjusted for the most recent Economic Forecast for projected tobacco tax revenues. The new forecast indicates a \$3.0 million decrease in revenue for Medicaid and a \$0.9 million decrease in revenue for non-Medicaid. OHA requests additional General Fund dollars to offset the reduction in tobacco tax revenue in both budgets.

Community Mental Health Wraparound Services (\$3.0 million) – Health Systems Division is requesting a \$3 million General Fund increase in Community Mental Health funding to support individuals who are found to no longer meet medical necessity criteria and denied ongoing Medicaid coverage for residence services. In conjunction with a Medicaid State Plan approval, the Centers for Medicare & Medicaid Services required the state to perform more stringent reviews for medical necessity. The Health Systems Division secured a contractor to perform face-to-face assessments. In some cases, individuals don't meet the criteria and need to transition to a lower level of care, but General Fund is needed to continue residential service payments while an individual is working on moving to a lower level of care, which can take some time in the current housing market.

Non-Medicaid Mandatory Caseload Forecast Increase (\$2.5 million) – Updating the Health Systems Division's non-Medicaid mandatory caseload from the Fall 2017 Caseload Forecast to the Fall 2018 Caseload Forecast results in a \$2.5 million General Fund need. The caseload for the guilty except for insanity population decreased by four clients. This would have decreased the budget by \$620,003; however, the caseload for civil commitment increased by 18 clients, which is an increased budget need of \$3,131,420. The result is a \$2,511,417 General Fund need.

Behavioral Health & Clinical Support Service Staffing (\$229,019 & 3 positions) – The Health Systems Division is requesting two Operations and Policy Analyst 3 positions in Behavioral Health to perform work necessary for compliance with the Oregon Performance Plan with the US Department of Justice. One position will be dedicated to implementing a behavioral health quality improvement plan and process. The second position will be focused on Assertive Care Treatment. The division is also requesting a Medical Review Coordinator in Clinical Support Services. Current staffing in this area is unable to meet the demand for prior authorizations and clinical review with direct impact on Oregon Health Plan clients receiving timely health care.

Oregon State Hospital

The Oregon State Hospital reports \$31.7 million in budget challenges, but also identifies \$4.8 million in management actions. See Management Actions discussed later.

Revenue Shortfall (\$15.0 million) – The 2017-19 Agency Request Budget included an increase for additional revenue from patient resources to cover the cost of care. During the budget development process, an additional \$10 million was added to the planned increase. Delays in procurement of needed infrastructure, such as systems and staff, has made this very aggressive increase unattainable, requiring a \$15 million General Fund backfill. Because of the progress made, however, the 2019-21 budget assumptions for revenue do not need to be adjusted.

Increased Staffing Costs (\$13.1 million) – The hospital is experiencing increased costs related to increased patient acuity and more physician-ordered enhanced supervision of patients, along with continued high nursing staff call out and long-term absence coverage. These additional staffing resource needs are typically funded through staff vacancy savings throughout the hospital, but these savings have not been sufficient to offset the increase nursing staff costs. A significant contributor of increased costs is related to Senate Bill 469 (2015 session) and the requirement to avoid mandating overtime, but still meet required nursing staffing levels. The hospital has been forced to use staffing agencies to fill nursing needs.

Suicide-Ligature Costs (\$2.0 million) – Federal awareness and new requirements for suicide prevention required the hospital to make extensive facility and other changes to mitigate risks for suicides. The changes were necessary for federal certification.

Increased Pharmacy Costs (\$1.6 million) – Increased utilization of long-acting injectable antipsychotics (LAIAs) has led to increased pharmacy costs in patient treatment. The hospital is often able to provide LAIAs just prior to patients discharge date, which increases the patients' ability to adhere to their prescribed dose of medication while transitioning to the community.

Health Policy and Analytics

Oregon Common Credentialing Program Suspension (\$5.5 million) – In July 2018, OHA made the decision to suspend the Oregon Common Credentialing Program. The program had been running a cash deficit in anticipation of receiving fee revenue to offset startup costs. Due to the suspension, there will be no revenue collected.

This General Fund request is to offset the Other Funds cash deficit used to cover startup costs up until the suspension of the program.

Public Health

Wallowa County (\$129,511) – In April, Wallowa County Board of Commissioners voted to transfer its local public health authority to OHA and cease all public health activity on May 1, 2018. To cover the costs of providing ongoing public health services in Wallowa County, Public Health needs \$129,511 in General Fund dollars.

Mediation Costs (\$35,172) – Public Health was unable to approve a certification of need for Newco requesting to build a 100-bed inpatient psychiatric facility in Wilsonville. Public Health needs \$35,172 to cover the cost of mediation services.

Statewide Assessments & Enterprise-Wide Costs (SAEC)

Shared Services Funding, Facilities & Unemployment (\$6.9 million) – The 2017-19 budget split between the Department of Human Services (DHS) and OHA was based on past biennia cost allocation statistics. OHA has now seen the impact of transitioning OHP Member Services to DHS in April 2018. With the transfer of many Medicaid funded positions to DHS, the proportion of OHA cost allocation hitting the General Fund has increased. Based on recent cost allocation results, OHA is requesting \$3.8 million General Fund for Shared Services Funding. OHA is also requesting \$2.0 million General Fund for the facilities budget and \$1.1 million General Fund for the unemployment budget within SAEC.

OHA Central

Treasury Loan Interest (\$3.1 million) – Because there is a time lag between expenditures and the receipt of Other Fund revenues budgeted in OHA, the agency must obtain a treasury loan to meet its cashflow needs at the end of the biennium. OHA estimates it will need to pay \$3.1 million in loan interest.

Human Resources FTE Funding (\$11,257) – The Office of Human Resources is requesting \$11,257 General Fund to increase two part-time positions to full-time.

General Fund Savings

OHA is identifying \$101.1 million in General Fund savings—all within the Health System Division.

Oregon Health & Science University (OHSU) Quality and Access Program Increase (\$44.3 million) – House Bill 2391 (2017 Session) excluded OHSU from the hospital assessment program and required OHA to ensure that OHSU received at least 84 percent of the cost of providing services paid for, in whole or in part, with Medicaid funds. In support of HB 2391, the Health Systems Division implemented a Quality and Access Program in January 2018 to make qualified directed payments to OHSU through CCOs. OHA funds the state of these qualified directed payments from the intergovernmental transfer agreement with OHSU. The program is based on the difference between average commercial reimbursement and Medicaid reimbursement. OHSU’s recently updated program projections. Based on those updated projections, the program will generate an additional \$44.3 million in Other Funds revenue available to offset General Fund dollars.

Fall 2018 Caseload Forecast Savings (\$22.2 million) – Updating the Health Systems Division medical assistance caseloads from the Fall 2017 Caseload Forecast to the Fall 2018 Caseload Forecast resulted in a \$22.2 million General Fund savings. While the new caseload is slightly higher overall, some eligibility groups with higher per-member-month costs—such as pregnant women and aid to the blind/disabled—had caseload forecasts that decreased. See Attachment B.

Cover All Kids Caseload Savings (\$17.3 million) – The Health Systems Division estimates \$17.3 million in General Fund savings from the Cover All Kids program. Most of the savings are from updating the caseload projections. Enrollment has been much lower than anticipated.

Insurers Tax Revenue Increase from CCOs (\$16.7 million) – The Health Systems Division is projecting an additional \$16.7 million in Other Fund revenue to offset General Fund dollars from the 1.5 percent premium assessment required in House Bill 2391 (2017 session). Revenue projections were updated based on the quarterly assessment payments received since implementation.

Safety Net Grant Recoupments (\$0.7 million) – In the 2015-17 biennium, the Legislatively Adopted Budget included \$10 million General Fund for Safety Net Grants. Grants agreements required community providers to return any unspent dollars from their grant. The Health Systems Division has received \$660,095 from 13 providers.

Management Actions

The Oregon State Hospital is implementing three management actions to save \$4.8 million in General Fund costs.

Nursing/Clinical Staffing Cost Reduction (\$3.3 million) – The hospital is reducing staffing costs through more effective interventions to address patient acuity. Specifically, the hospital is evaluating the staffing associated with physician-ordered supervision of patients.

Non-Payroll Cost Reduction (\$1.2 million) – The hospital is reducing the spending in discretionary services and supplies, such as limiting or eliminating travel and training and delaying non-critical maintenance for the remaining months of the biennium.

Pharmacy Drug Cost Reduction (\$0.3 million) – The hospital has implemented strategies to lower pharmacy drug costs. Because of the increased utilization of LAIAs, the hospital started participation in a drug replacement program in June 2018. The program allows for the hospital to request LAIA manufacturers to refill two more doses per patient, which cost between \$1,500 and \$2,260 per dose. The hospital has also expanded the use of outpatient drug voucher programs, which allows discharged patients to redeem vouchers at a pharmacy for prescriptions rather than the hospital discharging the patient with a full set of prescriptions.

Limitation Request

Treasury Loan Limitation Request (\$800 million) – OHA requests \$800 million in Other Fund limitation to borrow cash from Oregon State Treasury. Because there is a time lag between expenditures and the receipt of Other Fund revenues budgeted in OHA, the agency must obtain a treasury loan to meet its cashflow needs at the end of the biennium.

OEBB Other Funds Limitation Request (\$81.0 million) – The Oregon Educators Benefit Board is requesting additional Other Funds limitation. OEBB open enrollment ended in September. Final enrollment numbers will not be available until December or January. Because of enrollment volatility, OEBB is requesting additional limitation to finish the biennium.

PEBB Other Funds Limitation Request (\$80.0 million) – The Public Employees Benefit Board is requesting additional Other Funds limitation. PEBB fully insured plans have increased enrollments, which caused the premiums to increase.

Substance Abuse Disorder Federal Funds Limitation Request (\$18.6 million) – The Health Systems Division is requesting additional limitation to spend increased Substance Abuse Disorder federal grant dollars.

Public Health Other Limitation Increase (\$16.5 million Other Funds and \$11.8 million Federal Funds) – Public Health requests additional limitation for programs and grants to spend available Other Funds and Federal Funds revenue. The request includes position authority for nine positions at 2.50 FTE.

Health Care Incentive Other Funds Limitation Increase (\$9.4 million) – Health Policy & Analytics is requesting additional Other Funds limitation to spend revenue for an agreement for OHSU to administer the Healthy Oregon Workforce Training Opportunity (HOWTO) grant program.

OHSU Graduate Medical Education Limitation Increase (\$7.3 Other Funds and \$14.5 Federal Funds) – The Health Systems Division is requesting additional Other Funds and Federal Funds limitation to support Graduate Medical Education payments to OHSU, which funds the state share of these Medicaid payments.

Insurers Tax Limitation Increase (\$6.0 million Other Funds and \$16.7 Federal Funds) – The Health Systems Division is requesting additional Other Funds and Federal Funds limitation to spend the increase in insurers tax revenue from CCOs.

Dual-Eligibles Correction Other Funds Limitation Increase (\$5.5 million) – The Health Systems Division is requesting additional Other Funds limitation for tobacco tax funds carried over from the 2015-17 biennium to fund anticipated eligibility corrections. The \$5.5 million is the net amount the needed to pay the state share of corrected payments after refunding the federal government its portion.

Oral Health HRSA Grant Limitation Request (\$0.4 million) – Health Policy & Analytics is requesting Federal Funds limitation and two positions based on federal approval of an Oral Health Workforce Activities grant from HRSA. The request includes position authority for two positions at 0.84 FTE.

On the next page is a table that a summary of the OHA Rebalance by fund type.

Summary of OHA Rebalance by Fund Type (in millions)

(Due to rounding, numbers may not add up precisely to totals.)

Challenges	General Fund Need/(Savings)	Other Funds Need/(Savings)	Federal Funds Need/(Savings)	Total Funds Need/(Savings)	Pos.	FTE
Medical Assistance Cost Changes	\$28.9		\$149.4	\$178.3		
OSH Revenue Shortfall	\$15.0	(\$15.0)		-		
OSH Increased Staffing Costs	\$13.1			\$13.1		
Fraud Prevention Revenue Estimates	\$11.1	(\$11.1)		-		
Shared Srvcs. Funding, Facilities & Un.	\$6.9	(\$3.9)	\$1.2	\$4.2		
Oregon Common Credentialing Program	\$5.5			\$5.5		
OSH Ligature and Pharmacy Costs	\$3.6			\$3.6		
Tobacco Tax Forecast Decrease	\$3.9	(\$3.9)		-		
Treasury Loan Interest	\$3.1			\$3.1		
Community Mental Health Wraparound	\$3.0			\$3.0		
Non-Medicaid Caseload Increase	\$2.5			\$2.5		
Behavioral Health/Clinical Services Staff	\$0.2		\$0.0	\$0.3	3	1.14
Public Health Funding Needs	\$0.2			\$0.2		
OHA Central – HR Position Funding	\$0.0	\$0.0	\$0.0	\$0.0	0	0.36
Total Costs	\$96.8	(\$33.9)	\$150.6	\$213.5	3	1.14
Savings						
OHSU Quality and Access Program	(\$44.3)	\$67.3	\$72.2	\$95.2		
Medicaid Fall 2018 Caseload Forecast	(\$22.2)		\$146.8	\$124.6		
Cover All Kids Caseload Savings	(\$17.3)			(\$17.3)		
Insurers Tax Revenue Increase for CCOs	(\$16.7)	\$16.7		-		
Safety Net Grant Recoupments	(\$0.7)	\$0.7		-		
Total Savings	(\$101.1)	\$84.7	\$219.0	\$202.6	0	0
Management Actions						
Reduce OSH Costs	(\$4.8)			(\$4.8)	0	0
Limitation Adjustments						
Oregon State Treasury Loan		\$800.0		\$800.0		
OEBB		\$81.0		\$81.0		
PEBB		\$80.0		\$80.0		
Health Systems Division		\$17.7	\$49.8	\$67.5		
Public Health		\$16.5	\$11.8	\$28.3	9	2.50
Health Policy & Analytics		\$9.4	\$0.4	\$9.8	2	0.84
Total Limitation Increase		\$1,004.6	\$62.0	\$1,066.6		
Net OHA December 2018 Rebalance	(\$9.2)	\$1055.5	\$431.7	\$1,478.0	14	4.84

Risk Factors, Challenges and Outstanding Issues

OHA must continue to closely monitor the following for the remainder of the biennium:

- While Oregon's economy continues to improve, caseloads are always the major driver of costs in the OHA budget. Small changes in the caseload forecasts can have large impacts on the General Fund need.
- Tobacco tax revenue forecasts have historically fluctuated—increasing and decreasing widely—affecting the tobacco tax revenue anticipated to fund the Oregon Health Plan and community mental health investments.
- OHA is continuing its research and analysis into ongoing and emerging issues reported to the Governor's Office. As OHA resolves these issues, corrections may have a General Fund impact.

ACTION REQUESTED

Acknowledge receipt of the OHA December 2018 Rebalance Report for the 2017-19 biennium.

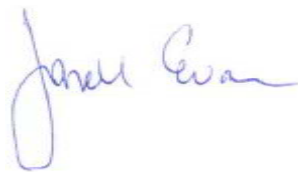
LEGISLATION AFFECTED

See Attachment A.

Sincerely,



Patrick M. Allen
Director



Janell Evans
Budget Director

ENC: Attachment A – Legislation Affected
Attachment B – Caseload Forecast Changes

CC: Linda Ames, Legislative Fiscal Office
Thomas MacDonald, Policy Budget Analyst, DAS/CFO

ATTACHMENT A

OREGON HEALTH AUTHORITY DECEMBER REBALANCE ACTIONS APPROPRIATION AND LIMITATION ADJUSTMENTS

DIVISION	PROPOSED LEGISLATION/ SECTION	FUND	REBALANCE ADJUSTMENTS	APPR #
Central Services/SAEC	Ch. 545 1(2)	General	\$10,270,769	87401
Central Services/SAEC	Ch. 545 2(2)	Other	(\$3,902,097)	34401
	Ch. 545 4(2)	Federal	\$1,098,487	64401
		Total	\$7,467,159	
Debt Service	Ch. 545 1(4)	GF – Debt	-	85801
	Ch. 545 2(5)	OF – Debt	-	35802
	Ch. 545 5(2)	FF Debt NL	-	63801
		Total	-	
Shared Services	Ch. 545 2(3)	Other	-	34402
OHA Health Services Programs	Ch. 545 1(1)	General	(\$2,168,720)	87801
	Ch. 652, section 4	GF – SB 558	(\$17,263,755)	87819
	Ch. 545 3(1)	Lottery	-	44801
	Ch. 545 2(1)	Other	\$898,444,435	34801
	Ch. 545 2(4)	OF Cap Imp	-	34811
	Ch. 545 4(1)	Federal	\$430,596,068	64801
	Ch. 545, section 6	Other PEBB Revolving Fund	\$80,000,000	34804
	Ch. 545, section 7	Other OEGB Revolving Fund	\$81,000,000	34805
	Ch. 545 5(1)	Other, PH NL	-	32801
	Ch. 545 5(1)	Federal, PH NL	-	62801
		Total	\$1,470,608,028	

ATTACHMENT B

Fall 2018 Medicaid Caseload Forecast

2017-19 Fall 2017 Forecast Compared to Fall 2018 Forecast					
Eligibility Category	17-19 Caseload at Fall 2017 Rebalance	17-19 Caseload at Fall 2018 Forecast	Difference	Percent Change	Problem/ (Savings) Total Funds in Millions
Affordable Care Act (ACA)	344,382	356,589	12,207	3%	\$169.7
Parent/Caretaker Relative	72,342	73,906	1,565	2%	\$23.2
Pregnant Women	11,811	10,428	(1,382)	-13%	(\$48.5)
Children's Medicaid Program	303,347	306,435	3,088	1%	\$0.1
Aid to Blind and Disabled	84,819	84,321	(498)	-1%	(\$17.4)
Old Age Assistance	45,514	45,499	(14)	0%	(\$2.8)
Foster/Adoption/BCCP	21,243	20,694	(549)	-3%	(\$7.5)
Children's Health Insurance Program	82,637	84,163	1,526	2%	\$7.6
Non-OHP (CAWEM, QMB)	64,423	63,378	(1,045)	-2%	(\$0.6)
CAWEM Prenatal	1,779	2,062	284	14%	\$9.2
Other Non-OHP (Part A & B Premiums, Clawback)	133,772	132,394	(1,377)	-1%	(\$8.4)
2017-19 Total	1,032,296	1,047,476	15,180	1%	\$124.6
		GF	OF	FF	TF
Impact of Fall 2018 Caseload		(\$22,219,845)	-	\$146,826,662	\$124,606,817