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**Department of Human Services**  
**Analyst: Johnson**

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**Request:** Report on the 2007-09 biennium budget by the Department of Human Services (DHS). Allocate \$15.1 million General Fund authority from the DHS general Special Purpose Appropriation. Allocate \$2.4 million General Fund authority from the Oregon State Hospital (OSH) Continuous Improvement Plan Special Purpose Appropriation.

**Recommendation:** Acknowledge receipt of the financial update report and approve the requests for General Fund and position authority from the Special Purpose Appropriations established during the 2008 Supplemental Session as follows:

- Allocate \$15,080,056 General Fund from the DHS general Special Purpose Appropriation made to the Emergency Board.
- Allocate \$2,435,027 General Fund from the Special Purpose Appropriation made to the Emergency Board for the OSH Continuous Improvement Plan.
- Establish 168 permanent positions (21.48 full-time equivalent) for OSH needs.
- The Department of Administrative Services will unschedule the above funds pending presentation of the full rebalance plan to the December 2008 meeting of the Emergency Board.

**Executive Summary:** DHS is submitting a financial update report to the September 2008 meeting of the Emergency Board in lieu of a full rebalance plan. It is anticipated that a full rebalance plan will be presented at the December 2008 Emergency Board. DHS last submitted a financial update at the June 2008 Emergency Board which reported a projected \$7.3 million General Fund shortfall for the 2007-09 biennium. New estimates put the shortfall at \$71.6 million General Fund with the majority of the increased need due to forecasted caseload growth and loss of tobacco tax revenue.

The department provides detailed information on the issues that make up the budget problem as well as management actions taken to date in an effort to mitigate the General Fund shortfall. Most, if not all, of both the problems and management actions were outlined in the June 2008 financial update with this latest update incorporating the changes that have taken place in the ensuing three months. The most notable changes are an increase in forecasted caseload costs of \$41.8 million General Fund and a decrease in the anticipated tobacco tax revenue of \$14.0 million. Other changes include updated estimates of the effects of federal rule changes, the unfunded portion of the 2007-09 salary package, and the added cost related to the new Medicaid Management Information System (MMIS) system.

It should be noted that the estimated \$71.6 million General Fund shortfall incorporates the \$17.5 million remaining in the two Special Purpose Appropriations. Therefore, the estimated shortfall compared to current General Fund authority is \$89.1 million.

Finally, DHS is developing a management action plan to address the budget shortfall and will present it at the Emergency Board meeting.

**Discussion:**

**Caseload and Cost-Per-Case Changes by Division**

It should be noted that the Fall 2008 Caseload Forecasts were completed in late August and the information detailed in the financial update and summarized below is preliminary and subject to change. DHS has indicated that final caseload and cost-per-case pricing calculations will be completed in time to be presented at the September Emergency Board.

*Division of Medical Assistance Plans (DMAP):*

The Fall 2008 Caseload Forecast increased 2007-09 cost estimates by \$32.3 million General Fund for DMAP. The most notable increases are in the Children's Health Insurance Program (CHIP), Poverty Level Medical Children (PLMC), and Aid to Blind and Disabled. These increases were partially offset by a savings in Medicare Parts A and B Buy-In.

*Children, Adults and Families (CAF):*

Substantial increases in CAF self-sufficiency program caseloads, such as Temporary Assistance for Needy Families (TANF) and Food Stamps, are already being seen and the new forecast estimates increased costs of \$25.3 million General Fund. A shift of TANF Emergency Assistance federal funds from Child Welfare offsets the increase by \$7.6 million and a decline in Child Welfare Out-of-Home case costs reduce need by another \$1.1 million.

*Seniors and People with Disabilities (SPD):*

The SPD long-term care caseloads are down a little compared to the spring forecast resulting in a savings of \$8.0 million General Fund. In-Home continues to decline slightly, Community-Based Care is holding steady, and Nursing Facilities, while still increasing, have leveled off somewhat. The Community-Based Care rate increase approved during the February 2008 session went into effect July 1, 2008 and may account for some of the stabilization in those caseloads. Additionally, SPD's diversion efforts and Oregon on the Move program are expected to continue to lessen the nursing facility caseloads.

**Tobacco Tax Revenue Forecast**

The latest Tobacco Tax Revenue Forecast by the Oregon Department of Economic Analysis has projected an additional \$14.0 million decline. This brings the total tobacco tax revenue shortfall to \$21.0 million Other Funds for the current biennium.

**Unfunded Compensation Plan**

The 2007-09 salary package approved by the June 2008 Emergency Board covered approximately 80 percent of the compensation plan and none of the supplemental management compensation increase resulting in an \$10.1 million General Fund shortfall for the department. DHS anticipates offsetting \$6.2 million of the shortfall by implementing an administrative cost control plan which will include targeted reductions in discretionary Services & Supplies expenditures and short-term hiring delays for non-direct service positions.

## **Oregon State Hospital (OSH) Continuous Improvement Plan**

DHS submitted a separate report on the OSH Continuous Improvement Plan; however, in the Financial Update they do request the \$2.4 million General Fund that remains in the Special Purpose Appropriation as well as the establishment of 168 permanent full-time positions (21.5 full-time equivalent).

## **Other DHS Budget Challenges**

The department has identified several issues that create budget holes in certain programs. These issues are discussed below.

### *DHS Other Funds – Provider Tax Interest:*

This revenue source was used to finance the Oregon Health Plan (OHP) Plus program. Upon further review, it is restricted to the OHP Standard program and cannot be used for OHP Plus. Since the OHP Standard program is funded exclusively with provider tax and Medicaid funds, the interest earned on the provider tax would not displace the need for General Fund. Since the provider tax revenue cannot be used for OHP Plus as budgeted, this will become a DHS budget management challenge to DHS and DMAP of \$1.2 million General Fund.

### *DHS Federal Funds – Transition Grant:*

During the restructure of DHS in 2001-03, several federal grant ending balances within the accounting system were consolidated into one grant called the DHS Transition Grant. This was done as part of the consolidation into one agency. Further analysis has determined that the “Transition Grant” balance is erroneous and should be eliminated. Since the DHS Transition Grant was included as part of CAF budgeted funding, the correction of this grant will present a budget management challenge to DHS and CAF of \$1.5 million Federal Funds.

### *DHS Federal Funds – Overpayment Recoveries:*

The federal portions of overpayment recoveries of the old TANF program collected between 1996 and 2006 were not correctly returned to the federal program resulting in a payment of \$2.4 million being owed to the federal government.

### *Social Services Block Grant Rule Changes:*

Rule changes to the Social Services Block Grant (SSBG) imposed a limit of nine percent to administrative cost reimbursement where previously there was no limit. This change results in a disallowance of \$2.9 million in SSBG administrative charges. DHS proposes shifting the \$2.9 million and an additional \$5.1 million in other carry-over SSBG funds to the Developmentally Disabled Family Support program in SPD in exchange for General Fund. The Family Support program meets SSBG funding requirements and is currently fully General Fund supported. The fund shift will be brought forward to the December 2008 Emergency Board as part of the DHS rebalance plan.

### *Medicaid Funding for the OSH Geriatrics Program:*

A report by The Centers for Medicare and Medicaid Services (CMS) resulting from a survey conducted in February 2008 found that some OSH patients over age 65 were not receiving active psychiatric treatment and therefore were not eligible for Medicaid reimbursement. This results in a \$3.7 million reduction in federal funding. DHS proposes to backfill this reduction with \$750,000 of unanticipated Medicare Part D revenue and \$2.2 million of savings for contracted mental health residential treatment services that are currently tracking below planned levels.

*Targeted Case Management Rule Changes:*

Rule changes in Targeted Case Management (TCM) that went into effect March 3, 2008 make the following changes:

- Eliminate claiming Medicaid reimbursement for child welfare and juvenile justice staff, some administrative functions, and restricts reimbursement to only one case manager per client.
- Reduce claiming time for individuals transitioning from institutions.
- Require claims to be documented and billed on a medical service model in 15 minute increments.
- Prohibit community providers from authorizing covered services as part of an overall case planning strategy.

DHS estimates that these changes will result in a loss of approximately \$12.9 million in federal Medicaid revenue for the remainder of the 2007-09 biennium.

*Temporary Assistance for Needy Families (TANF) Emergency Assistance (EA) Redetermination:*

The Administration for Children and Families conducted an audit of the TANF EA program and provided clarification regarding annual redeterminations of eligibility for TANF EA children. DHS does not currently conduct annual redeterminations so this will reduce the number of children eligible and also reduce federal financial participation by an estimated \$37.6 million through the end of the 2007-09 biennium. DHS has identified alternative uses for the TANF EA funds in other CAF programs and will swap the federal funds for General Fund.

*Medicaid Management Information System (MMIS) Efficiencies:*

The new MMIS system will come on line by the end of this biennium. It is anticipated that the on-line electronic billing and payment capability of the system will speed up provider payments resulting in approximately \$3.0 million General Fund in payments being processed during the 2007-09 biennium instead of 2009-11.

**Management Actions:** The financial update report outlines over \$51.6 million in management actions that DHS has identified as solutions to help close the budget gap. However, there still remains an estimated \$71.6 million General Fund hole that needs to be addressed. DHS is in the process of developing additional management actions and will present a plan to balance their budget to the September 2008 Emergency Board.

**Legal Reference:** Allocation of \$15,080,056 from the Special Purpose Appropriation made to the Emergency Board by chapter 16, section 16(1), Oregon Laws 2008, to supplement the appropriation made by chapter 743, section 1(2), Oregon Laws 2007, for the 2007-09 biennium.

Allocation of \$2,435,027 from the Special Purpose Appropriation made to the Emergency Board by chapter 16, section 38(1), Oregon Laws 2008, to supplement the appropriation made by chapter 743, section 1(3), Oregon Laws 2007, for the 2007-09 biennium.