

## **Major Budget Drivers and Environmental Factors**

The demand for DHS programs is affected by a number of outside factors. Changing demographics, social behavior, and economic trends all contribute a degree of uncertainty in planning for a two-year budget cycle.

The major environmental factors affecting DHS include:

### **Population Growth**

Oregon's population growth has continued to outpace the national average – between 1990 and 2000 Oregon's population increased by 20.4 percent. As the population has grown, so has the demand for many of the department's programs, including services relating to public health; mental health; abuse and neglect of children and vulnerable adults; persons with disabilities; and the Oregon Health Plan.

### **Growing Number of Seniors and People with Disabilities**

Elderly Oregonians are among the fastest growing segment of the state population. While the total Oregon population is expected to increase by 13 percent by 2010, the over 65 age group will grow by 19.6 percent. The 85 and older age group is expected to increase by 32.7 percent during this same time period. Both of these groups are expected to continue rapid growth at least through the year 2040. By that year, the over 65 age group will have increased by 157.7 percent and the 85 and over age group will have grown 253 percent. As these populations live longer through medical advances, they also run the risk of spending down available resources and falling within the poverty guidelines of DHS. Long-term care is currently the second largest program in DHS. In addition, since 1991, the number of

younger individuals with disabilities served by Seniors and People with Disabilities has more than doubled.

## **Economic Factors**

The economy of the state and the nation has a large impact on the policies and budget of the department. A downturn in the economy can affect the number and type of services needed by DHS clients. Major programs like Food Stamps, Temporary Assistance to Needy Families (TANF), child care assistance, public health, the Oregon Health Plan and other programs are impacted by the health of the economy. In addition, the indirect effects of economic changes may impact DHS services. For example, increased stress due to loss of a job or income can lead to an increase in domestic violence, child abuse and neglect, alcohol and drugs and increase the demand for services.

Conversely, a weak state economy increases the percentage of the federal government's Medicaid match rate. Federal Funds provide about 60 percent of the revenue for DHS programs, and Medicaid is the largest of those programs. When Oregon's economy declines relative to the rest of the nation, the match rate changes so that Oregon contributes a smaller share of the state General Fund to receive federal matching funds.

## **Children Living in Poverty**

Poverty in Oregon is a complex problem fueled by many factors including unemployment or underemployment, lack of education, low wages, unaffordable housing, and untreated mental health and substance abuse. The number of children living in poverty continues to increase at an alarming rate. Close to 20 percent of Oregon's children under age five live in poor households. Ninety-two percent of the families in TANF in Oregon are single-parent households headed by women. The effects of poverty,

especially in those households with children, increases the demand for the department's alcohol and drug, teen pregnancy, child abuse and neglect, and mental health treatment services.

### **Abuse of Alcohol and Other Drugs**

If any one specific factor leads to long-term demand for many of the department's services it is abuse of alcohol and other drugs. Dependence on public assistance, child abuse and neglect, and mental health problems can often be traced to alcohol and other drug abuse. Recent findings demonstrate a high rate of continued abuse of these substances, especially by adolescents. Given that early substance abuse is a definite risk factor for later problems with alcohol and other drugs, this increased level of substance abuse will likely lead to greater demand for DHS services in the future.

In particular, the increase in methamphetamine use over the past 10 years has impacted several areas of the Department, from addiction treatment services to child welfare to drug lab seizures. As an example, over 71 percent of the children who entered foster care in federal fiscal year 2004 had an allegation of suspected parental drug abuse.

### **Rising Cost of Health Care and Other Provider Costs**

Over the past decade, one of the fastest growing components of budgets in many states is the Medicaid program. This is partially due to federal program and eligibility changes, but a major factor is continued rising medical costs especially for pharmaceuticals. After a few years of moderate growth in medical inflation, large increases in costs are expected in the coming years.

Other provider costs have also increased pressure on the department's budget and quality of service. For many of the client direct-care employees providing services to DHS clients in community settings, low wages

continue to be a significant problem. This has led to high employee turnover rates for many DHS providers.

### **Actions by the Federal Government**

About 60 percent of the resources for DHS programs come from the federal government, the majority of which come from the Medicaid (Title XIX) program. This dependence constrains the ability of the department to adjust to the needs of its clients when federal resources are reduced or the rules that accompany the funding are altered substantially.

The federal reauthorization of the Temporary Assistance to Needy Families (TANF) Program is likely to be finalized in 2005. An expected increase in participation requirements in work-like activities, as well as an elimination or phase out of the caseload reduction credit, could require the department to shift limited resources away from the services we believe many of our TANF clients need the most.

The Oregon Health Plan demonstration project has as one of its primary innovative components the “Prioritized List of Health Services.” Movement of the “line” of covered services on this list was intended to be one of the primary tools to keep the program within available revenue. However, the federal Centers for Medicare and Medicaid Services (CMS) has been extremely reluctant to allow Oregon to move the line – our last request for a 30-line movement resulted in approval of only a 3-line movement from CMS – thus limiting the State’s ability to use this tool.

The enactment of the federal Medicare Modernization Act has implications for several areas of the department, though the full impacts will be known when the final rules for this program are released in the spring of 2005. Medicare recipients will be eligible for a prescription drug benefit (known as Part D) beginning January 1, 2006. Under current state law, dual Medicare/Medicaid beneficiaries can choose to participate in the federal Part

D program or receive benefits through the state equivalent program. If they choose coverage through the state, the cost will be paid for entirely with State General Funds — no federal matching funds will be available. DHS introduced Senate Bill 88 which eliminates the statutory requirement that Oregon finance a Medicaid-equivalent drug benefit for dual eligibles when no federal match is available. It is estimated this would avoid new expenditures of \$128 million State General Funds. In addition, there will be a role for the State in determining eligibility for the Part D low-income drug benefits that will have an impact on administrative and staffing costs. Work is underway with stakeholder partners across the state in developing transition plans for seniors, especially those who are dual eligibles.

## Major Changes in the Department

The past decade has brought significant changes to DHS, and in the economic and policy environment in which the agency operates.

### **Federal waivers, federal legislation and state ballot measures**

Federal waivers have provided Oregon flexibility, allowing the department to provide supports to greater numbers of vulnerable citizens. The future of some of these waivers is uncertain, due to their pending expiration, budget constraints, or serious reductions in the impacted programs. State Ballot Measures have also had an impact on the department.

**The Oregon Health Plan:** The Oregon Health Plan (OHP), approved in 1993, expanded health care coverage to more than 100,000 low income Oregonians not eligible for Medicaid. While the plan expanded and added services in the 1990s, it has been severely limited in recent years. In 2002, the prioritized list was revised to limit services. In 2003, more revisions were made to limit services. Basic benefits were renamed OHP Plus and an

OHP Standard package was developed with even fewer services. In 2004, OHP standard was closed to new enrollment, more services were reduced on the prioritized list, and a hospital and managed care organization provider tax was instituted to finance OHP Standard benefits.

**In-Home Supports for Seniors and People with Physical Disabilities:**

Since 1981 home and community based service waivers have helped seniors and people with disabilities find care alternatives that are less costly than nursing facility care. The number and variety of community based living options increased during the 1990s, as did the caseload. In 2000, Oregonians passed Ballot Measure 99, creating the Home Care Commission and extending collective bargaining rights to Homecare Workers. In 2003, the state signed the first labor agreement with the homecare workers union. Currently, there are approximately 13,000 home care workers in the state who are employed by clients.

**Death with Dignity Act:** Oregon’s Death with Dignity Act is a voter-approved citizens’ initiative that went into effect in November 1997. The Death with Dignity Act allows terminally ill Oregon residents to obtain prescriptions from their physicians and use such prescriptions for self-administered, lethal medications. DHS is required to collect information pertaining to the Act and to make the information available on a yearly basis.

**Medical marijuana:** The Oregon Medical Marijuana Act was passed by Oregon voters on November 3, 1998, and went into effect on December 3, 1998. DHS was given the responsibility of developing a registration system for patients using marijuana to treat an illness or medical condition, and their caregivers.

**Employment for People with Disabilities:** Federal waivers have permitted people with disabilities to become employed, while remaining eligible for

federal support for medical expenses, personal attendants and other essential supports.

**Foster Care and Adoption:** The Title IV-E waiver allows DHS to use federal foster care funds in flexible ways to prevent the need for foster care, or to reduce time children spend in foster care.

The Adoption and Safe Families Act, passed by Congress in 1997, shortens the time that parents have to resolve issues that prevent them from providing a safe home for children who have been court-ordered into DHS care. Under this federal law, parents have about 15 months to make changes in lifestyle and behavior in order to have children returned from substitute care.

**HIPAA:** The federal Health Insurance Portability and Accountability Act, requires major technology and business process changes to protect health information, to standardize its use and to make other changes. To meet the requirements, the department created the Information Security Office in order to implement HIPAA regulations and provide leadership and services that assist DHS in securing the confidentiality, integrity and availability of its information and systems.

## **Litigation**

A variety of legal actions have required provision of services to certain populations. The financial crisis may compromise DHS' ability to comply with its obligations under various settlements.

**Staley lawsuit:** The Staley lawsuit alleged that the state had failed to provide adequate services for adults with developmental disabilities. A settlement agreement reached in 2000 established a plan to phase in new services for more than 5,000 citizens with developmental disabilities by June 2007.

**Elimination of OHP co-payments:** As the result of a lawsuit, the court ordered the department in 2004 to eliminate co-payments for clients on the OHP Standard benefit package.

**System of care:** In 1995, the adequacy of child welfare services was challenged by a coalition of concerned parties. A settlement with the Juvenile Rights Project and the National Youth Law Center requires use of a “system of care” model, in which specialized service plans are created based on each family’s unique strengths and needs.

**Medicaid Upper Payment Limit (MUPL):** The federal Medicaid Upper Payment Limit (MUPL) program is a Federal financing option which allowed states to pay publicly affiliated nursing facilities a rate equal to the maximum Medicare rate for all Medicaid nursing facility clients in the state, when the Medicare rate exceeded the rate the state would otherwise pay for Medicaid clients. Oregon has participated in this program since 1998. During the 2001 Legislative Session, Oregon expanded leveraging MUPL pursuant to changes in Federal Regulations. In April 2003, the Centers for Medicare and Medicaid took issue with Oregon’s revised methodology and deferred payment on a request for Medicaid reimbursement. Oregon has been in active discussions with the Centers for Medicare and Medicaid in an effort to reach resolution on the dispute.

### **Budget reductions, rising caseloads, and reduced state revenue**

As budgets have been reduced over the past several legislative sessions, the impacts have resulted in changes to eligible populations and services. These changes bring additional pressure on a variety of remaining service systems. With the highest unemployment rate in the nation, Oregon continues a slow recovery from the recent recession. This increases the need for services at a time when revenue to finance these services is declining. In addition, the cost of certain services and supports, most notably prescription drugs, has risen sharply.

**Service Priority Levels:** In 2003, Service Priority Levels 12 - 17 were eliminated from the department, eliminating long term care and medical services to seniors and people with disabilities originally deemed Medicaid eligible for these services. The 2003 Legislature restored funding for levels 12 and 13.

**Moving from institutional to community-based care:** Fairview Training Center was closed in 2000, and DHS developed a network of group homes to provide community-based care for developmentally disabled adults. Dammasch State Hospital closed in 1995 after services were developed in the community to provide acute treatment and long-term psychiatric care. In January 2002, children 13 years and younger were moved from the Oregon State Hospital to a secure community-based facility. Further downsizing of the state hospital has been proposed with continued expansion of community-based care.

**Reductions in mental health and substance abuse treatment:** Reductions made in these programs in both the 2001-03 and 2003-05 biennia have resulted in wait lists and people who are unable to access services when they are ready for treatment. Reductions have been made in the numbers of people eligible for mental health and chemical dependency benefits in the Oregon Health Plan as well. The cuts jeopardize early intervention for older adolescents and young adults, experiencing their first psychotic episode.

**Caseload growth:** DHS has experienced caseload increases in food stamps, Oregon Health Plan, long-term care and other caseloads without associated staffing increases. Increasing methamphetamine use in Oregon has also seriously impacted caseloads for child welfare. Oregon's anticipated continued growth in its aging population, along with increased numbers of seniors moving to the state, is expected to significantly increase caseloads in future years.

## **Service integration, efficiencies, community planning, and reorganization**

The 1990s brought increased emphasis on integrating services, and on involving communities in the planning and delivery of services. The department continues to look for ways to increase its efficiencies and centralization of administrative services, while working toward more efficient community-based delivery of human services.

**Shared Services for administrative functions:** The department centralized its human resources, facilities, contracts, document management, public affairs, information services, and financial services, gaining a number of efficiencies and reducing expenditures.

**Information systems efficiencies:** The department received funding approval from Centers for Medicare and Medicaid Services for the replacement of Oregon’s Medicaid Management Information System (MMIS), which is more than 25 years old, extremely out-dated, and inefficient.

**Locally-based human services:** SB 1099, passed by the 1991 Legislature, directed DHS to work locally to establish eight “family-centered human-investment demonstration projects.” Throughout the 1990s, DHS partnered with communities to create service integration projects across the state. These integration projects lead to more efficient and effective use of state resources and better outcomes for individuals and families.

**Department reorganization:** SB 303, passed in 1999, gave the DHS director increased flexibility to manage resources across the various divisions of DHS. A reorganization that began in 2000 resulted in the standardization and consolidation of administrative functions. SB 2294, passed in 2001, dissolved the former divisions, clearing the way for major

reorganization and included the consolidation of separate field service offices.

## **Cost Control and Coordination**

To reduce costs and improve coordination of activities, the Department has undertaken the following:

- ◆ Consolidation and streamlining of administrative processes throughout the department, such as a single travel reimbursement process and a comprehensive cost allocation plan.
- ◆ Title IV-E Waiver - Oregon received approval in November 1996, from the Department of Health and Human Services, Administration for Children and Families, to implement a child welfare waiver demonstration project under section 1130 of the Social Security Act. The waiver contract provides Oregon with greater flexibility to use title IV-E funds for services that can facilitate permanence for children. The waiver contract was renewed in April 2004 for another 5 years.
- ◆ Implementation of Targeted Case Management has replaced General Fund dollars for child welfare in the amount of \$105 million.
- ◆ Increase enrollment in managed care in the Oregon Health Plan by ensuring clients who move are automatically re-enrolled in the plan they were in, if it's available in the new area, and auto-enroll clients into FCHPs every month unless they have already selected a plan or do not meet the criteria.
- ◆ Centralization of all fee-for-service prior authorizations in OMAP (for speech therapy, audiology, hearing aids, occupational therapy, physical therapy, home health services, private duty nursing, and durable medical equipment and supplies) should provide consistency and cost savings.

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- ◆ Contracting with the Oregon State University School of Pharmacy (OSU) and other contractors to administer various cost saving initiatives. Those initiatives currently in place include: a Poly-pharmacy Review Program that focuses on patients using 15 different drugs in 180 days (Section 20 of HB 3624); a Preferred Drug List (PDL); as well as other initiatives.
- ◆ OMAP provides comprehensive case management, including concurrent review, with the Disease Case Management and Medical Case Management Programs in contract with McKesson Health Solutions. OMAP's projection and goal for these programs is to achieve a five percent savings in program costs. The programs target clients who have high medical costs and have high utilization of medical services.
- ◆ OMAP also contracts with the Oregon Medical Professional Review Organization, Inc. (OMPRO) to prior authorize about 300 selected inpatient and outpatient surgeries per month. The contract with OMPRO also reviews 200 hospitalizations per quarter to determine if the hospitalization or length of stay was appropriate.
- ◆ The Perinatal Health Program provides smoking cessation counseling and referral through the OHP Maternity Case Management program. Research on maternal smoking cessation has estimated that smoking cessation programs save \$3 for every \$1 spent in maternity care.
- ◆ Regionalization of newborn screening for genetic disorders of body chemistry to include Alaska, Nevada, Idaho, Oregon, Hawaii, and military bases has produced large economies of scale in processing 230,000 samples per year. As a result, Oregon's Public Health Laboratories are more efficient and the cost to Oregon taxpayers reduced.

- ◆ The 2003 Legislature passed SB 267 which drives the mental health and substance abuse treatment systems to the use of Evidence-Based Practices. These are services that have been studied by independent researchers and are proven to be effective in delivering positive treatment outcomes.
- ◆ Continuing development of community-based services for adults who are either civilly or criminally committed to state care and custody. This will allow the expansion of the extended care system in the community.

## **Agency Approach to Professional Services and Purchasing Contracts**

All areas within Department of Human Services use professional services contracts in order to effectively implement and administer programs. The largest portion of services that the Department contracts for is through intergovernmental agreements with local governments and contracts with health care providers - over 83 percent of the Department's budget goes back into communities to pay for client benefits and services.

The decision to contract for professional services is be made for a variety of different reasons including: statutory requirements, a lack of expertise within a particular discipline, the inability to hire sufficient numbers of qualified staff due to administrative restraints within a particular discipline, a cost benefit, or a critical short-term need.

## Major Budgetary Issues

### Reliance on federal revenues

- ◆ Approximately 83 percent of the General Funds in the department's budget are either used to match federal Medicaid funds or are needed to provide a maintenance of state effort for other federal programs.
- ◆ Much of the Medicaid program is an entitlement to the services for those eligible (although the OHP Standard program is not an entitlement). Since income is part of the eligibility standard, when the economy is in decline and the unemployment rate is high, demand for these services increases.

### Growth in cost of health care

- ◆ The cost of health care has grown both in the public and private sectors. The changes approved by the federal government for the Oregon Health Plan provided the state more flexibility in managing the benefit level for clients on the Health Plan. However, a minimum level of services will continue to be prescribed by the federal government.
- ◆ Prescription drugs are a significant driver in the cost of the Health Plan, comprising 30 percent of the cost. Controlling pharmaceutical costs is a critical issue for both the public and private sectors.

### Financial stability of local providers and access to services

- ◆ Lack of increases in payment rates put private providers in financial risk. While providers may continue to maintain services for a time, inadequate funding levels jeopardize their viability because the state revenues are such a large share of the business for many of our providers.

- ◆ The Governor's Recommended Budget provides for a cost of living adjustment in fees and rates for all providers, except for fee-for-service medical providers.
- ◆ The reduction or elimination of less intensive services will probably result in the need for more intensive services. For example, a reduction in community-based care may result in higher cost institutional care.

## **Mental Health**

- ◆ The department provides residential mental health treatment to both civilly committed and criminally committed (forensic) patients at Oregon State Hospital in Salem, and inpatient wards in Portland and Pendleton. An increase in forensic commitments has put a strain on both residential capacity and the budget.
- ◆ During the interim, the Emergency Board authorized the Department to issue a Request for Proposal (RFP) to develop a Master Plan for the Oregon State Hospital. This plan will recommend changes in the hospital's physical plant and systems, and will examine the role of the hospital within the mental health treatment system.

## Essential and Policy Option Packages

The following is a summary of the essential and policy option packages and adjustments that were incorporated in the development of the 2005-07 budget for the Department of Human Services.

### Essential Packages

#### **Package 010 – Vacancy Factor and Non-PICS Personal Services**

**Adjustments:** The Vacancy Factor calculation projects budget changes related to staff turnover and position vacancy in the 2005-07 biennium. Non-PICS Personal Services inflation includes any items not part of the PICS generated totals. These include unemployment assessment, overtime, temporary services, shift differential, and Mass Transit Tax. The general inflation factor of 2.4 percent was applied to these Non-PICS Personal Services items.

**Package 021 – Phase In:** This package is related to new programs and expansion of non-mandated programs funded for less than 24 months during the 2003-05 biennium, but needing a full 24 months in the 2005-07 biennium. The costs for the additional months of funding needed to achieve the 24-month funding level are included in this package.

**Package 022 – Phase Out:** This package is related to any programs permanently eliminated during the 2003-05 biennium, to remove costs in the base budget for the months the program operated during 2003-05. Phase-outs are also related to decreased costs resulting from discontinuation of pilot projects programs and other one-time costs that will not be continued in the 2005-07 biennium.

**Package 030 – Inflation and Price List Adjustments:** The standard inflation factor of 2.4 percent and the Department of Administrative Services (DAS) Price List were used for calculation of general increases for Services and Supply, Capital Outlay, and Special Payments. Biennial inflation factor exceptions were requested for appropriate medical services and high cost prescriptions at an additional 2.6 percent, for Real Property Services at an additional 1.4 percent, for Non-Uniform Rent at an additional 2.9 percent, and to adjust Oregon Health Plan provider rates to actuarial provided rates.

**Package 040 – Mandated Caseload:** This includes only programs that have been designated as “mandated” in the DAS budget instructions. Mandated caseload costs reflect the changing costs from caseload and/or cost-per-case fluctuations, plus related inflation. Program caseloads considered mandatory for budget purposes including the following: Oregon Health Plan—Medicaid only; Supportive/Remedial Day Care; Other Medicaid expenditures within Medical Assistance Programs; Community-based and nursing home care; Children’s Foster Care; Adoption Assistance; Civil and Criminal commitments for people with either mental illness or developmental disabilities; Crisis services for adults with developmental disabilities; and Food Stamps.

**Package 050 – Fund Shifts:** This package reflects significant budgeted changes in the funding sources for existing programs. This includes changes in the federal Medicaid match rate for the state, which may change the level of federal funding. For the 2005-07 biennium, the general program Medicaid match rate changes from 62.32 percent to 61.61 percent, resulting in an additional General Fund need of \$54,953,383

**Package 060 – Technical:** This package is used to make adjustments to the budget for issues that do not fit within any other package type, related to unique needs, such as structural changes. The consolidation of the former

Community Human Services structure into Children, Adults and Families (CAF) is an example.

**Package 070 – Revenue Shortfalls:** This package reduces the Other Fund and Federal Fund expenditures essential budget level to available OF and FF revenues.

**Package 084 – November 2004 Emergency Board:** Reflects 2005-07 impact of the actions taken at the November 2004 Oregon Legislative Emergency Board meeting that affected the Department.

**Package 090 – Analyst Adjustments:** Additional actions to achieve the Governor’s Recommended Budget that affected the Department.

**Package 095 CNIC Participating Agency:** Under the Governor’s direction to improve efficiency and effectiveness of state government operations, 12 state agencies are collaborating to consolidate much of the state’s data center and networking infrastructure. The 12 agencies represent the largest data centers across the state and the bulk of state government’s data center and networking capacity. The Department of Human Services is one of these 12 participating agencies. In addition to changing the state’s approach to delivering certain technology infrastructure services, the initiative, dubbed CNIC (Computing and Networking Infrastructure Consolidation), will likely require realignment of participating agency budgets, including expenditure limitation and position authority. The CNIC initiative is now in the detailed implementation planning phase. Until this phase is completed, the specific funding, position, and/or full-time equivalent impacts for any given participating agency remains unknown. This package shifts \$1 General Fund from personal services to services and supplies as a placeholder to account for potential impacts, with an expectation that a technical adjustment during the Legislative process would reconcile to the final implementation plan details.

**Package 096 – CFAA Fundshift:** This package shifts the Criminal Fines and Assessment Account (CFAA) from Other Funds to General Fund.

## **Policy Packages**

### **Package 103 – Partially Restore Standard Benefit Package/Provider**

**Taxes:** Provides limited benefit package for approximately 24,000 Oregon Health Plan Standard clients using provider tax funds. Costs include staff to administer the program and determine eligibility and funds to pay the contract with the William Earhart Company to collect premiums. The Department previously eliminated staff related to the operation of the Standard program and funds for the Earhart contract when state funds were eliminated for the Standard Benefit Package. However, when the Centers for Medicare and Medicaid Services approved the taxes on Medicaid managed care plans and hospitals, part of the staff were restored in 03-05. This package continues that staffing level.

### **Package 104 – Attorney General Representation for Child Welfare in**

**Court Hearings:** Funds Attorney General representation for child welfare caseworkers in court hearings (along with a parallel DOJ package). Provides additional Attorney General representation (paralegal, support, and attorneys) for Child Welfare caseworkers in court hearings where currently not available. Result will enable caseworkers to spend more time doing casework rather than court work.

**Package 105 – Adult Protective Services:** Improves Adult Protective Services staffing by converting Risk Intervention staff positions into Adult Protective Service staff positions. This package funds the increase costs associated with this increase in staffing level for these positions. Adequate Adult Protective Service staffing levels are necessary to meet statutory requirements and increased public expectations to assure protective services abuse investigations are performed and completed in a timely fashion.

**Package 108 – Gambling Treatment Program Restoration:** Restore funding of Gambling Treatment program to full 1 percent of dedicated Lottery funds. House Bill 3665 included a one-time redirection of a portion (\$1,278,546) of the dedicated funding, during the 2003-05 biennium, from the DHS Gambling Addiction program to the Administrative Services Economic Development fund. This action would restore this redirected funding back to the DHS Gambling Treatment program and also adjust total DHS Gambling Treatment funding to 1 percent of the latest Lottery Earnings estimate for 2005-07.

**Package 110 – Medicare Modernization Act Implementation:** Implements the Federal Medicare Modernization Act eligibility assessments regarding drug benefits. The new federal Medicare Prescription Drug, Improvement and Modernization Act of 2003 creates a Medicare prescription drug benefit called Medicare Part D. Effective January 2006, states will no longer be eligible for federal Medicaid matching funds for Medicare/Medicaid dual eligible drug coverage. Dual eligible beneficiaries will receive their drug benefits through Medicare unless they opt out of Medicare Part D. States may provide additional drug benefits, but they will not receive federal match for these expenditures with a few minor exceptions.

**Package 111 – Medicare Modernization Act Cost Avoidance:** Eliminates Medicaid-equivalent prescription drug coverage for dual Medicare/Medicaid eligibles when the Medicare Part D drug coverage begins January 1, 2006, unless there are federal matching funds available. This policy package requires a statutory change, which is contained in SB 88.

**Package 112 – SACWIS (Statewide Automated Child Welfare Information System):** This package funds the replacement of the state's current SACWIS applications. The state is required to maintain an automated system that supports the child welfare program and child welfare workers. DHS maintains a legacy child welfare system that is 30 years old.

Oregon started work on the SACWIS in 1994. Currently, the federal government considers Oregon's Child Welfare system to be non-SACWIS compliant. The federal government has indicated that without a replacement system, prior federal financial participation would need to be refunded; this could cost the state approximately \$12 million.

**Package 115 – Caseload Forecasting:** Improves DHS's capacity to forecast critical client caseloads by adding staff resources to the Forecasting and Performance Measurement Office in the Finance and Policy Analysis Cluster.

**Package 119 – Enhanced Overpayment Collections Staff:** Establishes permanent positions in Overpayment Collections to enhance recovery, enables state to recover third party liability and reduces costs associated with accounting. This is a continuation of the pilot project in 2003-05, and is expected to result in a net General Funds savings of approximately \$2.9 million the 2005-07 biennium.

**Package 122 – Child and Adolescent Health Risk Reduction:** Improves child and adolescent health status by expanding access to care through the addition of school-based health centers in five counties with significant unmet need for preventive and primary care for school-aged children and adolescents. This package would increase the number of local health departments who participate to 19 counties.

**Package 123 – HIPAA Security Rule Compliance:** Completes federally required implementation of the HIPAA Security Rule. Complete the implementation of security measures necessary to meet compliance with HIPAA Security Rule and achieve essential information security performance thresholds specified by Department of Administrative Service's Cyber Security Program.

**Package 127 – Oregon State Public Health Lab Rent Increase:** Provides lease costs increase associated with the state’s new Public Health Lab. Portland State University will not renew the lease for the Oregon State Public Health Lab (OSPHL) or the Department of Environmental Quality (DEQ) laboratory after June 2007. As a result of this, the 2003 Legislature approved building a new joint lab for DEQ and OSPHL. Anticipated Other and Federal Revenues are insufficient to fully fund the rent increase. The purpose of this policy package is to increase Other Fund and Federal Fund limitation for the increase in rent, and to increase General Fund authority for the shortfall in other and federal funding needed to fully fund the increase.

**Package 129 – Implement Federally Mandated Medicaid Quality Control Process:** Improve State’s Medicaid Quality Control Process and implements Improper Payment Error Rate Measurement as required by federal government. Due to changes at the federal level, including enactment of the Improper Payments Act of 2002, the department has been informed our current Medicaid Quality Control process will no longer be acceptable. Starting with FFY 2005, the department must submit a yearly plan for approval by DHHS-CMS. The department is required to discontinue QC review of the OHP standard population and include a review of categorical Medicaid programs. Changes necessary include increasing the sample size by about 300 percent. Starting with FFY 2006 the department will be under a requirement to complete an additional prescribed MEQC review every third year. This requirement is currently being piloted by one-third of the states and they are finding it takes more resources to complete this required review.

**Package 139 – Senate Bill 333 Fee Increases:** Fee increases for statewide immunization registry, vital records, drinking water certification and other related public health issues. After establishment of these fees, and DAS administrative approval under the SB 333 process, the fees must be approved by the Legislature to be continued into the 2005-07 biennium.

**Package 141 – Oregon State Hospital Overtime Reduction:** Adds positions to the Oregon State Hospital to reduce the need for overtime and generates a potential maximum net savings of \$0.8 million in personal service costs and services and supplies costs. The Secretary of State’s overtime audit of OSH recognized that a significant amount of overtime is unavoidable, but that about 7,900 overtime hours per month were routinely incurred and could be replaced by straight-time workers, with resultant savings.

**Package 143 – Type A&B Hospital Reimbursement:** In order to ensure compliance with federal law, this proposed change would result in reimbursement of Types A and B hospitals (under 50 beds) by managed care organizations at either a separately negotiated rate or a rate prospectively determined by the Department’s contracted actuary to be 100 percent of their costs.

**Package 144 – Board of Nursing Investigations:** Provides matching funds for the Board of Nursing Policy Option Package 102 which increases the investigative program in the Board.

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## DHS Governor's Recommended Budget 2005-07

	General Funds	Lottery Funds	Other Funds	Federal Funds	Total Funds	Pos	FTE
<i>Base Budget</i>	2,262,201,588	5,438,497	1,121,020,099	5,897,968,255	9,286,628,439	9,326	9,083.86

### *Essential Packages*

Pkg 010- Vacancy Factor and Non PICS Personal Services	19,958,658		2,286,040	21,826,988	44,071,686	(1)	(1.00)
<i>Adjustments</i>							
Pkg 021-Phase In	30,222,143		(2,642,512)	68,620,451	96,200,082	56	55.50
Pkg 022-Phase Out	(60,544,901)		(72,132,333)	(391,147,367)	(523,824,601)		
Pkg 030-Inflation & Price List	102,608,590	130,574	130,191,452	381,631,514	595,588,899		
Pkg 040-Mandated Caseload	116,053,721		3,880,302	187,809,146	307,743,169	54	48.21
Pkg 050-Fund Shift	231,893,549		(164,565,556)	(67,521,523)	(193,530)		
Pkg 060-Technical	163,946		(55,709)	(181,510)	(73,273)		
<b>Total Essential Packages</b>	<b>440,355,706</b>	<b>130,574</b>	<b>(103,038,316)</b>	<b>205,037,699</b>	<b>542,485,663</b>	<b>109</b>	<b>102.71</b>

### *Adjustments to Achieve the Governor's Recommended Budget:*

Pkg 084-November 2004 E-Board	(32,324,114)		(9,710,133)	(14,261,260)	(56,295,507)	87	87.00
Pkg 090-Analyst Adjustments	(255,169,375)	(32,643)	9,847,167	(274,720,443)	(520,075,294)	(155)	(243.86)
Pkg 096-CFAA Fundshift	3,005,126		(3,005,126)		0		
<b>Total Adjustments</b>	<b>(284,488,363)</b>	<b>(32,643)</b>	<b>(2,868,092)</b>	<b>(288,981,703)</b>	<b>(576,370,801)</b>	<b>(68)</b>	<b>(156.86)</b>

### *Policy Packages included in the Governor's Recommended Budget:*

Pkg 070-Revenue Shortfalls			(1,218,941)	2	(1,218,939)	(9)	(9.50)
Pkg 103-Partial OHP Std Benefit Pkg			186,267,277	289,522,229	475,789,506	35	31.14
Pkg 104-AG Rep for Child Welfare in Court Hearings	5,272,995			3,303,770	8,576,765	42	35.42
Pkg 105-Adult Protective Services	429,662			283,334	712,996		
Pkg 108-Gambling Treatment Program Restoration		2,268,416			2,268,416		
Pkg 110-Medicare Modernization Act Implementation	133,219,947		(24,569,478)	(187,036,548)	(78,386,079)	3	3.00
Pkg 111-Medicare Modernization Act Cost Avoidance	(128,178,105)		(1,372,536)	809,718	(128,740,923)		
Pkg 112-OIS – SACWIS	1,948,821		13,669,095	13,669,095	29,287,011	8	8.00

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Pkg 115-Caseload Forecasting	457,181		68,494	604,857	1,130,532	7	7.00
Pkg 119-Enhanced Overpayment Collections Staff	(2,897,620)		452,000	413,886	(2,031,734)	13	13.00
Pkg 122-Child and Adolescent Health Risk Reduction	500,000				500,000		
Pkg 123-HIPAA Security Rule Compliance	500,000			3,991,330	4,491,330	6	6.00
Pkg 127-Public Health Lab	163,015		273,383	97,552	533,950		
Pkg 129-Implement Fed Mandated Medicaid QC Process	698,538			698,538	1,397,076	11	10.25
Pkg 139-SB 333 Fee Increases			1,025,038	(2)	1,025,036	9	9.50
Pkg 141-OSH Overtime Reduction	(588,206)		(66,348)	(173,955)	(828,509)	41	41.00
Pkg 143-Type A&B Hospital Reimbursement	(108,360)			(169,629)	(277,989)		
Pkg 144-Board of Nursing Investigations			64,305	64,305	128,610		
<b>Total Policy Packages</b>	<b>11,417,868</b>	<b>2,268,416</b>	<b>174,592,289</b>	<b>126,078,482</b>	<b>314,357,055</b>	<b>166</b>	<b>154.81</b>
<b>Governor's Recommended Budget</b>	<b>2,429,486,799</b>	<b>7,804,844</b>	<b>1,189,705,980</b>	<b>5,940,102,733</b>	<b>9,567,100,356</b>	<b>9,396</b>	<b>9,058.52</b>

*Note: Package 090 contains an error in Positions and FTE that will be corrected in reshoot, the correct DHS position count is 9,396 and FTE is 9,058.52.*

## Other Fund Balances and Long-term Vacancy Report

### Other Fund Balances

The Department receives a wide array of other fund from regulatory fees, licensing, inspections, certifications, contracts, inter-governmental agreements, sales of certificates, special taxes, charges for services, and grants. The majority of these other fund sources are in the Health Services cluster, Office of Public Health Services.

Other Fund ending balances within the Governor's Recommended Budget are in three areas:

In the **Children, Adults, and Families cluster**, an ending balance of \$3.1 million is from the Law Enforcement Medical Liability Account (LEMLA), which was created by the 1991 Legislature. LEMLA provides a means for reimbursing medical providers for medical expenses incurred for treating injuries sustained by an individual as a result of law enforcement activity. Claims are only paid out of the account when recovery from the injured party is unsuccessful or when insurance fails to pay. Liability for coverage by LEMLA ends when the individual is released from physical custody. LEMLA is an account separate and distinct from the General Fund. The account is fully funded from assessments added to fines and bail forfeitures. No taxpayer funds are involved. This dedicated fund accumulates cash to be used for potential liabilities as a result of law enforcement activities. Although most claims are small in nature, there is a potential for very large claims. These large claims could include surgeries, intensive care and extensive emergency room services.

Within the regulatory programs of the **Health Services Cluster, Office of Mental Health and Addiction Services**, there are ending balances related to dedicated funds resulting from greater revenues than expenditure limitation in lottery and beer & wine receipts that are specifically dedicated for gambling and Alcohol addiction treatment programs. In the Governor's Recommended Budget, total Office of Mental Health and Addiction Other Fund ending balances are approximately \$1.8 million.

Other Fund ending balances also exists within the regulatory programs of the **Health Services Cluster, Office of Public Health Services**. Revenues from licensing, inspections, certifications, contracts, inter-governmental agreements and sales of certificates are used to support the Other Fund Programs within Public Health. In the Governor's Recommended Budget, total Public Health Services Other Fund ending balances are approximately \$19.6 million. Some program areas that have ending balances exceeding three to six months of estimated expenditure levels, anticipate spending

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down the balances to alleviate the need for future fee increases. Other program areas have adopted temporary fee reductions through the administrative rules process.

## Long-term Vacancy Report

### DHS Vacancy List for the Quarter Ending 12/15/04

*Positions Vacant for more than Six Months*

Reasons for Vacancy	Department Wide Support Services	Child. Adults and Families	Health Services	Senior and People with Disabilities	DHS Total	Percent of Total
1 - Abolished, either by legislative action, or dropped by the agency	27	64	11	38	140	52%
2 - Filled or in the process of being filled (recruitment in process, announcement posted, etc.)	7	13	24	17	61	23%
3 - Seasonal job	0	0	0	0	0	0%
4 - Vacancy due to pending reclass process (reclass package already submitted or in the process of submission)	3	1	1	2	7	3%
5 - Recruitment difficulties	0	2	0	1	3	1%
6 - Position held open to accumulate savings, such as administrative savings, with the understanding that the money will not be spent	0	0	0	0	0	0%
7 - Position used to finance unbudgeted costs	0	0	0	0	0	0%

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8 - Position used to finance another position, including double-fills, contracts and temporary employment	8	8	0	0	16	6%	
9 - Position scheduled to phase-in on a later date	26	0	0	0	26	10%	
10 - No available funds to finance the position	0	5	8	4	17	6%	
<b>Total</b>	<b>Total</b>	<b>71</b>	<b>93</b>	<b>44</b>	<b>62</b>	<b>270</b>	<b>100%</b>

## Summary of Proposed Legislation

- ◆ **HB 2086 – Provider Health Care Tax Assessment Payments:** This bill gives medical program providers the option to pay Health Care Provider Taxes electronically using the National Automated Clearing House (NACHA) system.
- ◆ **HB 2146 – Negligent Third Party Claims:** Gives the Department authority to independently pursue recovery actions against liable third parties through the assignment of the recipient’s litigation rights to DHS.
- ◆ **HB 2147 – Elimination of Provider Assessment Suspense Accounts:** Eliminates an inefficient, duplicative process by doing away with suspense accounts established for each of four Provider Assurance Funds.
- ◆ **SB 88 – Eliminate Medicaid-equivalent eligibility for prescription drug coverage for dual Medicare/Medicaid eligibles:** Eliminates the statutory requirement that Oregon finance a Medicaid-equivalent drug benefit for dual eligibles when no federal match is available, and is estimated to avoid new expenditures of \$128 million State General Funds.

- ◆ **SB 98 – Adult Foster Home Licensing Delegation:** Specifically allows the Department to designate Area Agencies on Aging and their staff as approved licensures for Adult Foster Homes (AFH).
- ◆ **SB 99 – Genetic privacy:** Eliminates special requirements related to the use and disclosure of genetic information for treatment, payment and healthcare operations. This bill will simplify Oregon’s genetic privacy statutes by bringing the law more in line with national regulations and will decrease administrative work for health care providers.
- ◆ **SB 174 – Adult Foster Homes’ Home Owner’s Insurance Protection:** This bill prohibits an insurer who offers homeowners insurance from canceling or denying coverage solely on the basis of an applicant operating an Adult Foster Home (AFH) in their home.
- ◆ **SB 189 – Pediatric Immunizations:** Modifies the statute to clarify that it applies to all pediatric vaccines for use in all children, and allows the state to distribute thimerosal-containing vaccines for pediatric use if the only product available causes an undue burden on immunizations providers.
- ◆ **SB 221 – Special Studies statute:** This bill clarifies the confidentiality provisions of the Special Studies statute and facilitates critical public health investigations.

- ◆ **SB 222 – Mental Health Housing Definitions:** The current statutory definition of community housing for people with chronic mental illness is inconsistent with the array of residential alternatives needed. This bill facilitates the development of housing for people with mental illness.
- ◆ **SB 225 – Immunizations Law Changes:** This bill requires international college students entering Oregon to meet the state’s immunizations requirements for measles vaccination. It also allows Oregon Immunization ALERT to release immunization records to authorized users for individuals 18 years or older (such as college students) without a signed release from that person. The bill also gives students transferring to schools within the United States (through 12th grade) a grace period to provide their immunization records until the annual mandatory exclusion day for all Oregon students.