

Please note that the following represents preliminary recommendations only. The material has not yet been analyzed or approved by the DAS Budget and Management division (BAM) or by the Governor's Office.

Theresa McHugh, Deputy Director
Department of Administrative Services
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Dear Theresa:

Enclosed is the preliminary draft plan from the Department of Human Services for actions necessary to meet the disappropriation targets, as well as for the loss of tobacco revenue (10 cents of the tobacco tax dedicated to the Oregon Health Plan), should Measure 30 fail.

The enclosed, organized by cluster, begins with a statement of the disappropriation targets established by the Legislature. Next, although the department has not yet submitted a formal rebalance plan to the Emergency Board, we then apply to those targets the net problems and savings currently projected to accrue within the individual clusters (a separate explanation of major contributors is also enclosed). Finally, we identify recommended actions to meet the "net" target for each cluster.

Recommended actions to meet the targets include the following:

- Discontinue the regular Emergency Assistance program;
- Discontinue day care assistance to students;
- Reduce child welfare System of Care flex funds;
- Reduce funding for longer-term adult acute psychiatric care;
- Reduce mental health and substance abuse services for families under the Children's Plan;
- Discontinue lottery-funded gambling addiction programs;
- Discontinue funding for Juvenile Diabetes Data System;
- Reduce children's Emergency Medical Services;
- Do not implement prescription drug assistance for low-income elderly and persons with disabilities not otherwise eligible for the OHP (MEDS program);

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- Do not implement expansion of the Children's Health Insurance Program from 185% to 200% of the federal poverty level (FPL);
- Eliminate all OHP coverage for clients currently in OHP Standard;
- Eliminate OHP coverage for pregnant women between 133% and 185% of the FPL;
- Eliminate OHP Plus coverage for adult dental, adult vision and adult therapies;
- Eliminate OHP Plus coverage for adult outpatient mental health and chemical dependency services;
- Eliminate OHP coverage for remaining non-mandated children;
- Reduce OHP Plus coverage for adult prescription drugs.

Because of the structure of the disappropriation bill, along with the loss of tobacco tax revenues included in the measure, the most significant reductions occur within the Health Services cluster, which is predominantly the budget for the Oregon Health Plan (OHP).

In pricing the OHP actions, we are assuming that we would work with the federal government to allow us to keep the structure of the OHP (such as the prioritized list), even while temporarily reducing those eligible for coverage. Because of the need for those negotiations, followed by the actions necessary to undertake them, we anticipate that the OHP changes would not occur until August 1, 2004.

Reductions in the OHP often result in offsetting costs to other programs within the department, so we have included a separate matrix that identifies and estimates such offsetting costs. For clarity, the recommended actions we would propose to offset those costs are listed separately in the preliminary draft plan.

The additional recommended actions needed by other clusters to meet the costs incurred because of loss of OHP coverage are as follows:

- Eliminate funding for System of Care (results in increased foster care caseloads);

- Establish household income threshold for no-parent households in TANF and limit to 150% FPL; and
- Restrict support service payments for TANF clients.

Because of significant savings in the budget for the Seniors and People with Disabilities (SPD) cluster, no management actions were necessary neither to meet the SPD disappropriation target nor to cover the additional costs incurred from the loss of OHP coverage.

The final recommended action on the list of OHP reductions, a \$25.6 million General Fund reduction in prescription drugs, is the “balancer”. We do not yet know how or if we could achieve those savings. It is also likely that such a significant reduction in prescription drug coverage will result in costs that could easily exceed those savings, such as in long-term care, mental health and within the OHP itself (e.g. loss of drug coverage would increase the use of mandated Medicaid services, such as physician and hospital).

Because of the significant reductions to the OHP required to achieve the “net” target for the Health Services cluster, we are recommending that additional actions be considered to avoid needing to make the most severe reductions in the OHP. We have identified the following recommended actions to offset some of the OHP reductions:

- Transfer rebalance savings remaining in the SPD budget (\$18.6 million);
- Utilize special hospital appropriation originally intended to help support a hospital benefit for the OHP Standard population (\$8 million); and
- Not restore medical and long-term care coverage for persons in levels 12 and 13 (\$9.4 million in SPD, \$1.6 million in Health Services).

Let me speak specifically to the last recommended action (levels 12 and 13). Because of significant savings projected in the SPD budget, SPD would not be required to take any additional management actions to meet its disappropriation targets. Although the Legislature approved funding to restore coverage for levels 12 and 13, that action

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has not yet been approved by the federal Centers for Medicare and Medicaid Services (CMS), consequently the estimated 1200 people who might benefit from that coverage are not currently receiving services. At the same time, in order to meet the net Health Services target, we would be severely restricting critical OHP services (such as prescription drugs and mental health and chemical dependency treatment) to the remaining adults on OHP Plus, including tens of thousands who are elderly or persons with disabilities. We believe it is more important that we try to preserve some of those services than to add coverage for those who are not currently receiving it.

In addition, revenues from the taxes imposed on hospitals and Medicaid managed care organizations, originally intended to help support costs of the OHP Standard population, would be available to offset some of the OHP reductions.

Because of the complexity of the DHS budget and the short timeframe to present an initial plan, we will continue to refine our estimates of the potential savings and costs associated with the actions we have identified.

Sincerely,

Jean I. Thorne
Director

Enclosures