OFFICE OF THE DIRECTOR
John A. Kitzhaber, MD, Governor

Oregon Health Authority

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December 9, 2013

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Peter Buckley, Co-Chair
Interim Joint Committee on Ways and Means
900 Court St, NE
H-178 State Capitol
Salem, OR 97301

Re: Oregon Health Authority (OHA) 2013-2015 Budget Rebalance

Dear Co-Chairpersons:

NATURE OF REQUEST

The Oregon Health Authority (OHA) requests receipt of this letter as its January 2014 Rebalance for the 2013-2015 biennium and referral of the Rebalance to the 2014 Legislative Assembly.

Major Rebalance Drivers

With only three to four months of actual expenditure data in the 2013–2015 biennium, the agency is projecting an estimated $35.2.M General Fund (G/F) need. This represents less than 2 percent of the OHA G/F legislatively adopted budget. The change in the OHA G/F status is primarily attributed to the recently negotiated salary and wage increases and the 2 percent statewide supplemental holdback which represent more than a $68.5M G/F need for the agency. However, with caseload forecast savings (including adjustments for clawback), changes in the Federal Medicaid match rate (FMAP) and one-time carryover of Other Fund revenue, the agency reduces the net G/F need to $35.2M. However, several significant risks remain.

At a summary level, the OHA Rebalance is comprised of:

Cost changes relative to the 2013-2015 Need/(Savings)	General/Lottery Fund Need/(Savings)	Other Funds Need/(Savings)	Federal Funds Need/(Savings)	Total Funds Need/(Savings)	Pos. Req	FTE Req.
Negotiated salary increases	29,716,753	11,921,575	11,465,483	53,103,811	-	-
OHA Statewide Supplemental holdback	38,808,960	0	0	38,808,960	-	-
MAP A&D Res. Facilities > 16 beds	15,685,000	0	(15,685,000)	0	-	-
ACA caseload impact/ Adults	0	0	1,150,000,000	1,150,000,000	-	-
MAP fee assessment from Cover Oregon	7,600,000	0	7,600,000	15,200,000	-	-
ACA Recovery Audit Contractor	0	150,000	150,000	300,000	-	-
MAP/Cover Oregon Grantee Program	0	2,857,866	0	2,857,866	-	-
MAP Tobacco Tax Revenue Forecast	1,833,000	(1,833,000)	0	0		
MAP Presumptive eligibility-hospitals	7,037,974	0	11,968,167	19,006,141		
MAP Non-state home health workers	1,861,322	0	3,177,567	5,038,889	-	-
AMH Grant Partnership with OSP	0	154,918	0	154,918	-	-
AMH BMRC Extension of closed date	2,000,000	0	0	2,000,000		
Assessments- DAS Price list changes	337,802	96,265	323,389	757,456	-	-
AMH & PH Fed grants approved	0	0	946,241	946,241	4	3.00
OHLA/OHA transition/ HB-2074	0	3,760,280	0	3,760,280	35	17.50
Net transfers between OHA/DHS	(1,754,216)	306,476	(2,453,683)	(3,901,423)	0	.24
Total Challenge/ Request	**103,126,595**	**17,414,380**	**1,167,492,164**	**1,288,033,139**	**39**	**20.74**
Savings/Mgmt Actions/Tech. Adjst.						
MAP Caseload Impact (Fall Forecast)	(19,600,799)	(3,287,200)	(45,820,400)	(68,708,399)		
MAP One-time carryover from 11-13	(26,000,000)	26,000,000	0	0		
MAP Clawback payment to CMS	(1,775,661)	0	0	(1,775,661)	-	-
MAP FMAP Rate change	(20,300,000)	0	20,300,000	0	-	-
AMH FMAP Rate change	(225,577)	0	225,577	0		
PHD- C-Care limitation adjustment			(900,000)	(900,000)		
PHD- TURA Revenue/ Forecast		(73,000)	0	(73,000)		
Adjust limitation for assessments	0	(1,940,939)	0	(1,940,939)		
Net Savings and Mgmt Actions	**(67,902,037)**	**20,698,861**	**(26,194,823)**	**(73,397,999))**		
NET OHA Rebalance change at January	**35,224,558**	**38,113,241**	**1,141,297,341**	**1,214,635,140**	**39**	**20.74**

Medical Assistance Program (MAP) Caseload forecast changes

Caseload variances are within the *Medical Assistance Program* (MAP). The net MAP G/F savings of $19.6M, represent 1.7 percent of the MAP legislatively adopted G/F budget.

There are savings attributed to the MAP Fall forecast from various caseloads (see attachment B.) The caseload changes within the OHP remain volatile with the implementation of the Affordable Care Act (ACA). While the MAP budget is based upon the best caseload assumptions available, there continues to be many

risks from the implementation of the ACA and the overall impact on numbers of people coming onto OHP resultant caseload changes these individuals may ultimately create when a redetermination is needed later this biennium. OHA has accounted for the $19.6M in G/F savings in the summary, but the Agency is requesting that this amount be considered for *unscheduling* or placed into a *special purpose appropriation (SPA)*

Addictions and Mental Health (AMH)
The OHA Rebalance includes the projected estimates of the salary and wage distribution and 2% holdback attributed to AMH. These two items combined represent more than $36.7M G/F, which is primarily attributed to the Oregon State Hospital (OSH). During the last legislatively adopted budget cycle, OSH incurred more than $27.M in G/F reductions, and has literally exhausted its options to curtail costs any further without jeopardizing patient/staff safety and welfare. The AMH Rebalance also includes a $2M G/F challenge to keep the Blue Mountain Recovery Center open an additional 3 months. The OHA legislatively adopted budget assumed closure by December 31, 2013.

Central Office, the Health Policy Director and the Transformation Center
When OHA first separated from DHS and entered into the 11-13 biennium, the agencies identified which positions/functions were best suited to be placed in each agency. This was referred to the "lift and place" process. As OHA has moved further into its health transformation efforts, it has become evident that a "re-alignment and true up" of positions within OHA is needed in order to provide more accurate accountabilities within its operational structure. OHA has created the Office of the Health Policy Director within its Health Program structures as an initial step to achieve the needed accountability and alignment. This central restructuring includes creation of the OHA Transformation Center, and a partial re-alignment of existing positions where appropriate. OHA will continue to work on its position true up for the remaining elements (including double-filled positions), and would expect to make any necessary position and funding adjustments as part of its current service level in the 2015-2017 budget build process.

Oregon Health Licensing Agency/OHLA
House Bill 2074 moves the Oregon Health Licensing Agency into the Oregon Health Authority, on or before, June 30, 2014. OHA has worked with OHLA to determine the appropriate limitation and has established the necessary financial and budgetary structures that will be needed for the second half of the 2013-2015

biennia. Creation of the limitation and positions within OHA at this time will enable a smoother transition for both agencies in setting the base budget necessary for the 2015-2017 budget build process. Corresponding reductions could appropriately be made to the OHLA budget bill with a June 30, 2014 effective date.

Updated Federal and Other Funds Revenue projections
For MAP, the Federal Medicaid Match Rate (FMAP) produces a $20.3M G/F savings. Additionally, there is $1.775M in G/F savings for the adjustments in the Medicare Part D Clawback rates.

The OHP budget is also adjusted by $26M G/F for O/F revenues receipted during the past 4 months (e.g. global settlements, drug rebates.) These are "one-time" revenues which generated higher than originally budgeted balances. The agency can spend down this revenue within the OHP budget.

Other budget corrections and technical adjustments that are neutral to the OHA budget, or that account for transfers between OHA and DHS are included in the rebalance that move limitation, positions or General Fund within OHA budget structures or to the Central Assessments Services and Shared Services Funding budget. There is one adjustment to the Assessments budget attributed to changes in the DAS price list, which were not finalized in time for OHA to include them in the Spring.

Risk factors, challenges and outstanding issues with this Rebalance Plan
The OHA rebalance provides the known details associated with the OHA 2013-15 budget. Major challenges the OHA will continue to monitor and maximize options for include:

- While the economy is showing signs of a slow recovery, caseloads are always a major driver of costs in the OHA budget. We remain at risk to changes to volatility in the caseload forecasts, implementation of the ACA, and the rules regarding eligibility redeterminations.
- Changes in federal policy may create risks to the AMH and PH budgets. The specific impacts for the 2014 federal fiscal year sequestration have not been finalized due to the congressional actions that moved the federal budget out until January 2014.
- Several reductions in the OSH budget made through the 13-15 budget build, were taken against the total services and supplies budget for the OSH, with

the expectation that vacancy savings and reductions in overtime costs would be used as an offset in managing to the reduced levels. While the OSH management continues to aggressively manage efficiencies where possible, patient and staff safety must remain a top priority.

- Tobacco Tax revenues have historically fluctuated, increasing and decreasing widely and affects the Tobacco Tax revenues anticipated to fund the Oregon Health Plan programs. Because these forecasts are volatile, there continues to be risk to the expected level of Tobacco Tax revenues assumed in this financial update.
- OHA is now in the second year of the DSHP Waiver. The revenues assumed by the arrangement of the DSHP waiver remain to be contingent upon the anticipated spend plan of other entities outside of the OHA budget (e.g. university system, community colleges, and DHS.)

ACTION REQUESTED

Acknowledgement of OHA's January 2014 Rebalance and referral to the Legislative Assembly is requested.

LEGISLATION AFFECTED

See Attachment A for statutory changes.

Sincerely,

Kelly R Ballas

Kelly Ballas
Chief Financial Officer

William J Coulombe

William J. Coulombe
Budget Director

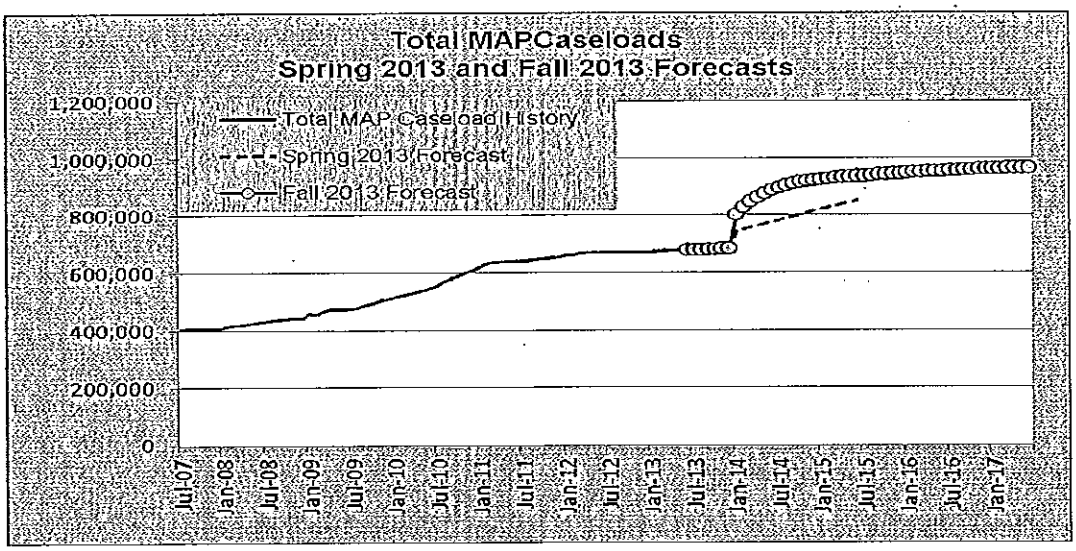
Attachments A- Legislation Affected
B- MAP Caseload
C- Tobacco Tax Forecast variations

CC: Linda Ames, Legislative Fiscal Office
Michelle Lisper, Budget Analyst, DAS/CFO

Attachment A

OREGON HEALTH AUTHORITY					ATTACHMENT A	
2013-15 January 2014 Rebalance Report to Joint Interim W&M						
APPROPRIATION AND LIMITATION ADJUSTMENTS						
DIVISION	PROPOSED LEGISLATION/ SECTION	FUND	REBALANCE ADJUSTMENTS	REQUEST FROM E-FUND RESERVE	NET ADJUSTMENTS	Appr #
Central Services/SAEC	ch 668 1(2)	General	(3,133,945)		(3,133,945)	87401
	ch 668 2(2)	Other	(996,383)		(996,383)	34401
	ch 668 4(2)	Federal	(78,558,728)		(78,558,728)	64401
Debt Service	ch 668 1(4)	GF -Debt	-		-	85801
	ch 668 2(4)	OF-Debt-Ltd	-		-	35802
	ch 668 4(2)	FF NL - Debt	-		-	63801
Shared Services	ch 668 2(3)	Other	5,619,048		5,619,048	34402
Addictions and Mental Health						
	ch 715 10	General				87804
	ch 709 14	General	(19,784)			87805
Public Health Program						
	ch 605 (4)	General	(19,784)			87802
	ch 683 (4)	General	(58,473)			87803
	ch 726 (10)	Other	(269,115)			34810
	ch 668 5(5)	Other, Non-Limited	-			
	ch 668 5(5)	Federal, Non-Limited	-		-	
Capital Improvement	ch 668 1(3)	GF	-		-	81001
Capital Construction	ch 727 1(1)	OF	-		-	30006
Public Employees Benefit Board	ch 668 2(1) and 668 (6)	Other	292,704		292,704	34804
Oregon Educators Benefit Board						
	ch 723 99(6)	Other, Non-Limited	-		-	32805
Private Health Partnerships						
Health Licensing Office	ch 668 2(1)	Other	4,106,488		4,106,488	
OHA Health Services Programs	ch 668 1(1)	General	38,456,544		38,456,544	87801
	ch 668, 3	Lottery Funds	-		-	44801
	ch 668 2(1)	Other	33,759,691		33,759,691	34801
	ch 668 4(1)	Federal	1,219,856,069		1,219,856,069	64801
	ch 668 5(3) and 5(4)	Other, Non-Limited OEBB	-		-	32805
	ch 668 5(1)	Other, Non-Limited PHD	-		-	32801
	ch 668 5(7)	Other, Non-Limited OMP	-		-	32807
	ch 668 5(1)	Federal, Non-Limited PH	-			63801

Attachment B – Medical Assistance Program Caseload



Biennial Averages	Spring 13 Forecast 2013-15	Fall 13 Forecast 2013-15	*% Diff. Spring 13 to Fall 13 2013-15*
TANF RM	154068	145984	-5.25%
TANF EX	42416	44186	4.17%
PLMW	13417	13726	2.30%
Aid to the Blind & Disabled	85577	85578	0.00%
Old Age Assistance	37826	37826	0.00%
Foster/Substitute	19208	18852	-1.85%
CHIP	77824	70546	-9.35%
PLMC	150990	172607	14.32%
CAWEM CW	25286	23171	-8.36%
CAWEM Pre-natal	1169	2209	88.96%
Qualified Medicare Beneficiary	22726	23444	3.16%
BCCP	1131	969	-14.32%
ACA Adults with children	44352	64328	45.04%
ACA Adults without children	78816	126967	61.09%

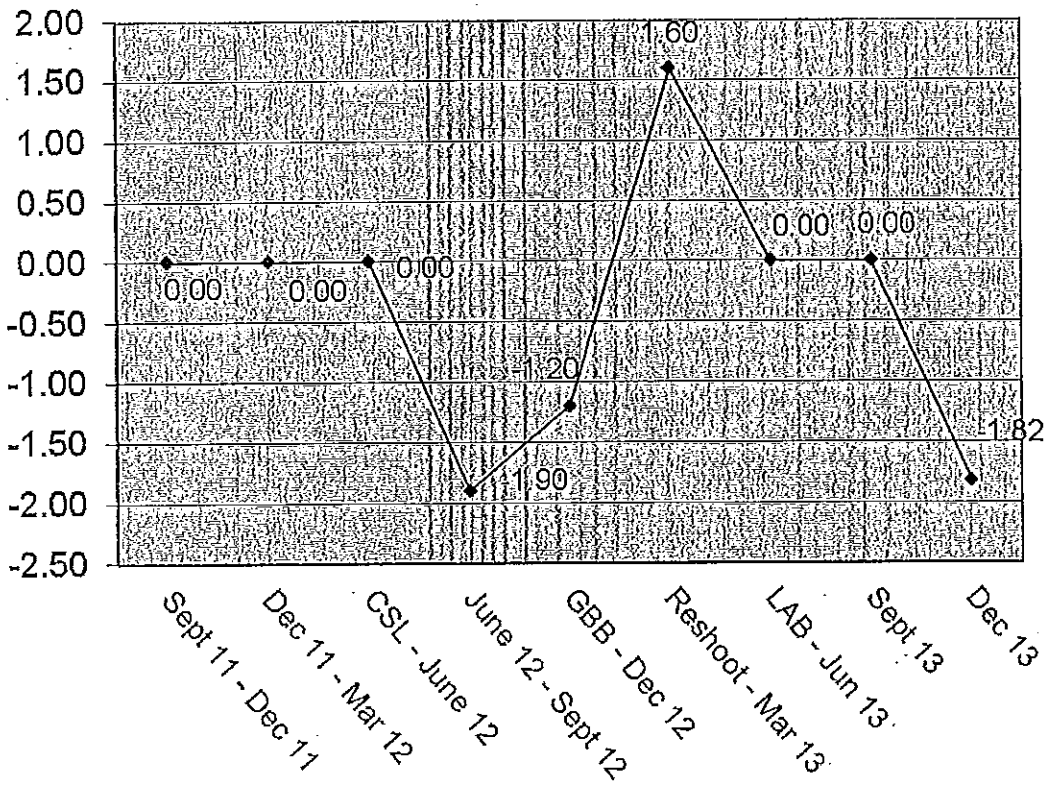
Attachment B – Medical Assistance Program Caseload Continued

Caseload Impact by Fund Type/ Non ACA Adult Population

Eligibility Category	13-15 LAB	13-15 Fall 2013 Forecast	Monthly Average Eligibles Change problem/ (savings)	Funding GF	Hospital Tax	FF	TF
OHP Plus							
TANF-Adult	69,018	65,786	(3,233)	$ (12,826,315)	$ (2,524,960)	$ (26,206,047)	$ (41,557,322)
TANF-Children	127,465	124,384	(3,081)	$ (4,236,334)	$ (823,360)	$ (8,637,367)	$ (13,697,061)
PLMW	13,417	13,726	309	$ 2,603,531	$ 633,011	$ 5,525,076	$ 8,761,618
PLMC 0-1	16,225	15,195	(1,030)	$ (4,756,208)	$ (1,543,822)	$ (10,754,735)	$ (17,054,765)
PLMC 1-5	53,341	54,741	1,400	$ 1,339,566	$ 220,917	$ 2,663,889	$ 4,224,372
PLMC 6-18	81,424	102,671	21,247	$ 21,035,541	$ 2,562,146	$ 52,390,872	$ 75,988,559
AB/AD w/o Medicare	85,577	85,578	0	$ (911,826)	$ (202,028)	$ (1,901,453)	$ (3,015,307)
OAA w/o Medicare	37,826	37,826	(0)	$ (569,680)	$ (78,342)	$ (1,106,233)	$ (1,754,255)
FC/SAC & BCCP	20,339	19,821	(518)	$ (4,627,209)	$ (796,292)	$ (9,258,417)	$ (14,681,918)
Total OHP Plus	**504,633**	**519,727**	**15,093**	**$ (2,948,934)**	**$ (2,552,730)**	**$ 2,715,585**	**$ (2,786,079)**
CHIP							
CHIP 0-1	856	998	142	$ 450,039	$ 126,220	$ 1,652,982	$ 2,229,241
CHIP 1-5	15,954	18,370	2,416	$ 1,664,903	$ 277,160	$ 5,570,755	$ 7,512,818
CHIP 6-18	61,014	51,178	(9,836)	$ (8,543,179)	$ (1,039,588)	$ (27,487,900)	$ (37,070,667)
CAWEM Prenatal (CX)	2,120	2,209	89	$ 836,666	$ 187,067	$ 2,936,550	$ 3,960,283
Total CHIP+CAWEM P	**79,945**	**72,756**	**(7,189)**	**$ (5,591,571)**	**$ (449,141)**	**$ (17,327,613)**	**$ (23,368,325)**
Non OHP							
CAWEM	25,286	23,171	(2,115)	$ (1,187,936)	$ (306,076)	$ (2,550,417)	$ (4,044,429)
QMB	22,726	23,444	718	$ 322,711	$ 20,747	$ 586,315	$ 929,773
(ESI) Healthy Kids Connect[1]	12,040	0	(12,040)	$ (10,195,069)	$ -	$ (29,244,270)	$ (39,439,339)
Total Non OHP	**60,052**	**46,615**	**(13,437)**	**$ (11,060,294)**	**$ (285,329)**	**$ (31,208,372)**	**$ (42,553,995)**
Net Total MAP				**$ (19,600,799)**	**$ (3,287,200)**	**$ (45,820,400)**	**$ (68,708,399)**

Attachment C - Fall 2013 Tobacco Tax Forecast Change

(in millions)



Agency Report

Item 3: Oregon Health Authority

Rebalance

Analyst: Linda Ames

Request: Acknowledge receipt of a report on the agency's 2013-15 biennium financial status.

Recommendation: Acknowledge receipt of the report. The Legislative Fiscal Office (LFO) further recommends that the interim Joint Committee on Ways and Means recommend associated budgetary changes be refined and included in a budget reconciliation bill during the February 2014 legislative session. Specific changes, recommendations, and dollar amounts are not identified at this time as they are primarily contingent on pending statewide budget decisions that are expected to be resolved during the 2014 session.

Analysis: The Oregon Health Authority (OHA) is presenting its first financial report for the 2013-15 biennium to the interim Joint Committee on Ways and Means, in anticipation of legislative action during the February 2014 session. A typical agency rebalance plan reflects program cost increases and savings, revenue changes, and proposed management actions, if any, needed to balance the OHA budget. Rebalancing allows OHA, with legislative approval, to move General Fund between appropriations and adjust Other Funds and Federal Funds expenditure limitation as needed.

The agency's plan reflects a number of issues affecting OHA's budget, including the statewide issues of the 2% supplemental ending balance holdback and the cost of contract negotiations. As with most agencies, 2% of the General Fund budget was removed from the legislatively adopted budget to provide a supplemental ending balance. This totaled $38.8 million General Fund for OHA, and is shown as a budget shortfall in the plan. While dollar amounts have been identified, alternatives (program modifications) to restoring General Fund are not yet refined as these will likely depend on the statewide budget forecast and additional legislative direction. The plan also includes a shortfall of $31.6 million General Fund related to the increased costs resulting from contract negotiations. While dollars have been set aside in the Emergency Fund for both state and non-state worker compensation costs, amounts to be released and the associated adequacy of those amounts are uncertain.

LFO also notes that the agency's calculation for state worker compensation costs has not yet been validated against a statewide estimate and numbers may change. It is anticipated that this work, along with a review of the agency's 2% restoration list currently being developed will be completed prior to finalizing agency rebalance numbers. Those numbers, along with any management actions or program changes, would be documented as part of a budget reconciliation bill during the 2014 legislative session.

Although the agency does not explicitly request funding to backfill sequestration funding reductions, this is also an on-going issue for the agency. All these issues will be handled on a statewide basis and will not be included in the discussions or recommendations below. In addition, the information below does not include the availability of a Children's Health Insurance Program Reauthorization Act (CHIPRA) bonus of $24.4 million that was recently announced.

The agency plan includes budget problems of $34.5 million General Fund related to the following issues:

- Loss of federal match for Alcohol & Drug residential facilities that have more than 16 beds.
- Assessments to Cover Oregon for the cost of processing Medicaid clients.
- Claims costs for hospital patients thought to be eligible for Medicaid, but later found ineligible.
- Additional costs to keep Blue Mountain Recovery Center open through March 2014.

Savings of $67.9 million General Fund result from changes in caseload, federal match rate changes, and one-time Other Funds revenues received above forecasted amounts. After considering both costs and savings, the plan results in a net General Fund savings of $33.4 million.

The agency reports a need for additional Federal Funds expenditure limitation of $1.1 billion mostly related to a faster enrollment of new clients under the Affordable Care Act (ACA) expansion than was originally forecast. In addition, the agency has proposed a new budget structure called Health Policy Programs, with budget and staff being transferred from Central Services, Office of Policy and Research and the Transformation Center. A second budget structure is created for the transfer of the Oregon Health Licensing Agency into OHA effective July 1, 2014 per HB 2074 (2013). There are also a number of technical adjustments/transfers included in this plan as the agency continues to refine its organizational structure. Normally these adjustments net to zero for the agency as a whole. In this case there are some transfers between OHA and the Department of Human Services, and the adjustments net to zero across the two agencies. For OHA, these adjustments result in a reduction of General Fund of $1.8 million.

Although no formal budget challenges have been laid out, the agency does describe a number of budget risks, including changes to caseloads, federal sequestration reductions, the Oregon State Hospital budget, and state expenditures required to meet the federal Designated State Health Programs (DSHP) waiver conditions.

The General Fund budget impact of the identified problems, savings, management actions and technical adjustments are summarized in the table below:

General Fund $$ in millions	Health Care Programs	AMH	Public Health	Central/ Shared/ SAEC	Capital	Debt Service	Total
2013-15 Leg. Approved Budget	1,119.4	652.7	38.6	89.8	0.7	70.9	1,972.2
Statewide Issues							
2% holdback	22.9	13.4	0.7	1.8	-	-	38.8
Compensation plan funding	4.0	23.5	0.7	3.4	-	-	31.6
New Rebalance Issues							
Costs	32.2	2.0	-	0.3	-	-	34.5
Savings - caseload, FMAP, revenues	(67.7)	(0.2)	-	-	-	-	(67.9)
Transfer to new Health Policy Program	9.4	-	-	(9.4)	-	-	-
Technical Adjustments, Transfers	17.0	(19.4)	0.1	0.6	-	-	(1.8)
Net New Rebalance Issues	(9.2)	(17.6)	0.1	(8.5)	-	-	(35.2)
Change including Statewide Issues	17.7	19.2	1.5	(3.2)	-	-	35.2

This Legislative Fiscal Office (LFO) analysis will focus on the significant changes in each program area, with further explanation or discussion as warranted.

HEALTHCARE PROGRAMS

The OHA rebalance plan for Healthcare programs includes several adjustments to the Medical Assistance Programs (MAP). New rebalance issues (excluding statewide issues) in this program result in overall savings of $35.5 million General Fund. In addition, the budget is increased by $26.4 million as a result of transfers and technical adjustments. As noted above, these numbers do not include the CHIPRA bonus. The agency's rebalance plan includes a net increase of $24.8 million Other Funds, a net increase of $1.2 billion Federal Funds, and an increase of one position (1.00 FTE).

A number of issues increase General Fund costs. The loss of federal match for Alcohol and Drug (A&D) residential facilities that have more than 16 beds results in a $15.7 million General Fund cost. Oregon has claimed federal match on these facilities since 1999. As the agency was preparing to move the budget for these facilities into the Coordinated Care Organizations (CCOs) and looking in depth at the funding stream, this issue came to light. According to federal regulation, residential facilities of more than 16 beds are considered institutions, for both A&D and mental illness, and are not eligible for match. Like many other states, Oregon was in compliance for facilities treating mental illness, but was not for A&D facilities. The agency proactively corrected this situation effective April 1, 2013.

The agency plan includes a $7.6 million General Fund cost, matched with a corresponding federal match, to pay Cover Oregon for the cost of processing Medicaid clients. Once the Cover Oregon website is fully functioning, it is expected that most Medicaid eligibility, enrollments, and redeterminations will be done through the site.

The rebalance plan includes a cost of $7.0 million General Fund to cover claims costs for hospital patients thought to be eligible for Medicaid, but not yet through the formal eligibility process. The ACA requires this process, called presumptive eligibility, be followed for all patients going to a hospital without insurance. Based on a questionnaire including information on income levels, household size, residency, and citizenship, the hospital then determines whether the patient is considered eligible for Medicaid. During the period before the patient completes the formal eligibility process, the federal match for services already received is at the state's regular match rate. If the patient is found eligible under the "newly eligible" criteria, then the match rate will switch to the 100% match rate for the expansion population. CMS has only recently clarified this particular process. These early estimates will be updated at the next agency rebalance in the fall of 2014.

Finally, the plan includes a shortfall of $1.8 million in tobacco tax based on the December 2013 revenue forecast. This is replaced with General Fund.

OHA reports $19.6 million General Fund savings from lower caseloads and cost per case. Overall caseloads are down slightly, a 0.9% reduction from the forecast used for the legislatively adopted budget. Savings are primarily the result of lower caseloads in the TANF program as the economy improves. This forecast also reflects a number of changes in categories as the ACA is implemented. Children currently in CHIP with family incomes between 100-133% of FPL move to Poverty Level Medical Children effective January 1, 2014. Children that were previously in Health Kids Connect are now moved to CHIP. Changes to the forecast are shown in more detail in the following table.

2013-15 Biennium	Adopted Budget	January 2014	Difference	% Change	$MM Difference
OHP Caseload					
TANF	196,483	190,170	(6,313)	-3.2%	(55.3)
Poverty Level Medical Women	13,417	13,726	309	2.3%	8.8
Poverty Level Medical Children	150,990	172,607	21,617	14.3%	63.2
Aid to Blind/Disabled	85,577	85,578	1	0.0%	(3.0)
Old Age Assistance	37,826	37,826	-	0.0%	(1.8)
Child Protective Services/BCCP	20,339	19,821	(518)	-2.5%	(14.7)
Total OHP excluding Standard	504,632	519,728	15,096	3.0%	(2.8)
Children's Health Insurance	79,945	72,756	(7,189)	-9.0%	(23.4)
Medicare Buy-in, CAWEM, & Healthy Kids Connect	60,052	46,615	(13,437)	-22.4%	(42.6)
MAP Caseloads - without ACA expansion	644,629	639,099	(5,530)	-0.9%	(68.7)
Total General Fund Impact					(19.6)

Other savings include a reduction in the clawback payment to the federal government of $1.8 million General Fund, as well as a $20.3 million General Fund savings resulting from an increase in the federal match rate for Oregon. Finally, one-time Other Funds revenues received are $26 million above forecast, and can be used instead of General Fund. Most of the revenues result from additional drug rebates, from adding the managed care drugs to the rebate process. There was a long lag in getting the necessary information and systems to be able to claim these rebates, so most of this amount is a catch-up of revenue. A part of the increase comes from settlements resulting from national lawsuits brought against drug companies, of which Oregon receives a share. These revenues are sporadic and difficult to forecast.

The agency reports a need for an additional $1.2 billion in Federal Funds expenditure limitation, primarily because the state is enrolling new clients under the ACA expansion faster than originally forecast. The agency received a federal waiver to use a "fast track" process for enrolling new clients in the Oregon Health Plan, by using eligibility data available for current SNAP recipients. They have already enrolled about 150,000 new clients between the fast track process and Cover Oregon. LFO notes that this limitation calculation was done well before the current enrollment numbers were known. The rate of enrollment as of January is much faster than was anticipated even a month ago, and more Federal Funds limitation may be needed. The agency will continue to update numbers, and additional limitation can be added to the budget during the February session if necessary.

There are two organizational changes in this part of the budget. The agency has proposed a new budget structure called Health Policy Programs. The Office of Health Policy and Research, and the new Transformation Center will be transferred over to this new structure from the existing Central Services budget. In addition, the $30 million Health Transformation Pool and the $4 million for loan repayment for healthcare professionals are moved out of MAP and into the new Health Policy Programs. The resulting budget for Health Policy Programs will be $44.1 million General Fund, $129.4 million Total Funds, and 128 positions (122.37 FTE). These changes all net to zero agency-wide.

A second new budget structure is created for the Oregon Health Licensing Agency, which will transfer to OHA on July 1, 2014 as a result of HB 2074 (2013). This program will then be called the Health Licensing Office. The second year budget amount of $3.8 million Other Funds is added to OHA, as well as the 35 positions (17.50 FTE) in the current agency. A corresponding adjustment will be made in the 2014 session to remove this limitation from the Oregon Health Licensing Agency budget.

There is one technical adjustment of note in this budget. A total of $16.7 million General Fund and $50.2 million Total Funds is transferred from Addictions and Mental Health to MAP. A large transfer was already made in the legislatively adopted budget to move those programs receiving Medicaid match into the CCOs, and so into the MAP budget. This final adjustment will true up those numbers to include all programs now anticipated to be moved to CCOs this biennium.

LFO recommends one adjustment to the rebalance plan presented by the agency. The $7.6 million General Fund assessment to Cover Oregon to pay for processing Medicaid clients is not recommended at this time. Conceptually, these are legitimate OHA costs and the 50% federal match rate for administrative functions is available for these costs. However, LFO has not yet examined a detailed methodology showing the anticipated costs and the apportioning of these costs between Medicaid costs and costs for other Cover Oregon clients. In addition, it is expected that the OHA call center will do some ongoing work related to Cover Oregon clients, and the pricing of these services is not yet complete. Finally, it is anticipated that there will eventually be savings to OHA as a result of much of the Medicaid eligibility and redetermination work being done through the Cover Oregon website. The agency will not be able to estimate these savings, or the timing of the savings, until call center staffing levels have stabilized and the Cover Oregon website is fully functioning. This issue will be revisited in the fall 2014 rebalance.

Although the agency is forecasting slightly lower caseloads than in the spring 2013 forecast, caseloads continue to be a major risk to this budget. Caseloads are especially uncertain as the state implements the ACA expansion. The agency has requested that the caseload savings be unscheduled or put in a special purpose appropriation in the event that funding is needed later in the biennium.

ADDICTIONS AND MENTAL HEALTH

New rebalance issues in Addictions and Mental Health (AMH) result in an overall shortfall of $1.8 million General Fund. This includes a cost of $2 million General Fund to keep Blue Mountain Recovery Center open until the end of March 2014, at the request of legislative leadership. This is offset by savings of $0.2 million General Fund as a result of the increase in the federal match rate. In addition, the budget is decreased by $19.4 million General Fund as a result of transfers and technical adjustments. This is primarily the result of the transfer of remaining programs in AMH that will be moved to the CCOs during this biennium, as discussed above. In addition, there is a transfer to the Department of Human Services (Aging and People with Disabilities) of $2.8 million General Fund for the development of facilities for people served by AMH. At the same time, the Department of Human Services is transferring $0.9 million General Fund to AMH for enhanced outreach services.

The agency's rebalance plan includes a net decrease of $0.8 million Other Funds and $34.8 million Federal Funds, and a reduction of one position (0.76 FTE). These adjustments are mostly a result of the transfer to MAP for programs moving to CCOs.

Although the agency believed it was too early to bring forward as a formal request, there is significant risk to the Oregon State Hospital budget. Early estimates show the budget nearly $5 million short of anticipated expenditures, excluding statewide issues. The hospital's 2013-15 budget was reduced to encourage efficiencies, and then the 2% holdback and the 5% reduction to Services and Supplies were applied on top of that. Once the statewide issues of the 2% holdback and compensation cost increases are settled, this budget risk can be better evaluated. If necessary, the agency will bring this issue forward in the fall 2014 rebalance.

The AMH budget will probably also face reductions as a result of federal sequestration. The specific programs affected or the magnitude of the reductions will not be known until at least January when detailed federal budgets are passed.

CENTRAL AND SHARED SERVICES/STATEWIDE ASSESSMENTS AND ENTERPRISE-WIDE COSTS

New rebalance issues in these programs result in overall reductions of $8.5 million General Fund, $3.6 million Other Funds, and $81.7 million Federal Funds, as well as a reduction of 128 positions (122.46 FTE). These are primarily the result of transferring the budget and staff from the Office of Health Policy and Research and the new Transformation Center, currently in Central Services, over to the new Health Policy Programs. The agency plan also includes $337,802 General Fund in Statewide Assessments to true up the budget to the final state Price List for State Government Service Charges. After further analysis, the adjustment is reduced to $131,437 General Fund.

SUMMARY

Based on the LFO recommendations discussed above, excluding the statewide issues of the 2% holdback and costs for compensation changes, adjustments to the agency budget would be a reduction of $43.0 million General Fund, and increases of $26.1 million Other Funds and $1.1 billion Federal Funds. While final decisions on the statewide issues are unknown, this General Fund number represents a "best-case" scenario where the full 2% holdback is returned to the agency and compensation costs are fully funded.

Alternatively, under a "worst-case" scenario where none of the 2% holdback is returned and no funding is provided for compensation costs, the agency would need an additional $27.4 million General Fund.

These numbers do not include the impact of the $24.4 million CHIP bonus, or other issues that were still being discussed when this analysis was completed.

LEGISLATIVE FISCAL OFFICE RECOMMENDATIONS

Acknowledge receipt of OHA's 2013-15 biennium financial report, with the understanding that the Legislative Fiscal Office will develop specific recommendations for legislative action during the 2014 session. Recommendations will be consistent with decisions on statewide issues (2% holdback, compensation costs) and any additional legislative direction.

3
Oregon Health Authority
Analyst: Lisper

Request: Report on the financial status of the Oregon Health Authority (OHA)

Recommendation: Acknowledge receipt of the report.

Executive Summary: OHA is submitting a report on its first rebalance plan for the 2013-15 biennium. The plan updates caseload and cost projections through the fall of 2013. It also revises revenues, federal financing assumption and makes other adjustments and corrections. Finally, the plan includes various recommended management actions as well as a list of other outstanding issues and risks.

After all actions, the department reports a General Fund need of $35.2 million, but this assumes no restoration of the two percent holdback or compensation plan distributions from the Emergency Fund. It is expected that a portion of this amount with be covered by special purpose appropriations from the Legislative Emergency Fund. The agency is requesting that this rebalance plan be referred to the February 2041 session.

Discussion: Below are major identified categories that impact OHA's rebalance report.

- House Bill 5008 included a two percent supplemental ending balance holdback (budget reduction). The budget report for this bill anticipates the reduction may be restored during the 2014 Legislative Session depending on statewide economic conditions. For the Oregon Health Authority this reduction amounted to $38.8 million General Fund.
- Wage and benefit increases granted during the 2013-15 biennium will increase the costs of personal services. OHA has estimated these increases could cost an additional $29.7 million General Fund, most of which relates to the Oregon State Hospital. House Bill 5008 includes an $86.5 million General Fund special purpose appropriation to the Emergency Board for state employee compensation changes across all of state government.
- The Medical Assistance Program (MAP) is estimating a net General Fund caseload savings of $19.6 million. These savings are attributed to various updates to caseload forecasts. (Additionally, the caseload changes within the Oregon Health Plan (OHP) remain volatile with the implementation of the Affordable Care Act (ACA). OHA is requesting consideration of un-scheduling or placing this estimated savings into a special purpose appropriation.
- During the November 2013 Legislative Days, legislative leadership extended the Blue Mountain Recovery Center closure to March 31, 2014. The initial legislative adopted date of closure was December 31, 2013. The agency is including a $2.0 million need for this extension.

Below are other major program, revenue and forecast issues by division:

<u>The Medical Assistance Program (MAP)</u>
Overall General Fund MAP savings is estimated to be $67.8 million. The following MAP categories contributing to these savings are: a) declining caseload forecasts, $19.6 million; b) a better Federal Medicaid Assistance Percentage (FMAP), $20.3 million; c) the spending down of one time carryovers from the 2011-13 biennium, 26.0 million. The Oregon Health Plan generated

$26.0 million in General Fund for Other Fund revenues receipts during the past four months due to global settlements, drug rebates, etc; and d) Medicare part D Clawback program, $1.8 million. This program essentially requires each state participating in Medicaid to pay a monthly "premium" to the federal government to cover the costs of prescription drugs used by its dual-eligible population.

Central Office, the Health Policy Director and the Transformation Center

Beginning with the 2011-13 biennium OHA separated from the Department of Human Services. Early in 2011, the two agencies identified which positions/functions were best suited to be placed in each agency. Since that time, OHA has created the Office of the Health Policy Director within its Health Program structure to achieve the needed accountability and alignment as part of its health transformation efforts. OHA will continue to work on position true-up and is expected to make any necessary position and funding adjustments as part of its 2015-2017 budget build process.

Oregon Health Licensing Agency (OHLA)

House Bill 2074 requires OHLA to be moved into OHA by June 30, 2014. OHA has worked with OHLA to determine the appropriate limitation, establish the necessary financial and budgetary structures, and positions that will be needed for the second half for the 2013-2015 biennium.

Below are budget challenges and risks that OHA should continue to review and provide updates during the 2014 Legislative Session.

- OHA is in the second year of the Designated State Hospital Program (DSHP) waiver with the Center for Medicare and Medicaid Services (CMS). The $1.9 billion revenues are contingent upon anticipated spend plans from other agencies outside of the OHA budget.
- Slow economic recovery and caseloads are major drivers for the OHA budget. The implementation of the ACA and rules regarding eligibility, along with the volatility in caseload forecasts are additional factors that may alter the OHA rebalance by the 2014 Legislative session.
- Changes in federal policy pertaining to sequestration may create a risk to OHA's Addictions and Mental Health and Public Health Program in 2014. Once the federal budget has been finalized, OHA will work with federal grantors to determine if there are any fiscal impacts expected for 2014.
- Several reductions to the OSH budget made during this past biennium are challenging the hospital's ability to manage efficiencies while maintaining patient and staff safety.
- The Tobacco Tax revenue forecast projections are showing a $1.8 million projected decrease. Additional analysis should be provided to define what impacts and alternatives are available for the affected Oregon Health Plan Programs.

OFFICE OF THE DIRECTOR
John A. Kitzhaber, MD, Governor

Oregon Health Authority

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December 13, 2013

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Peter Buckley, Co-Chair
Interim Joint Committee on Ways and Means
900 Court St, NE
H-178 State Capitol
Salem, OR 97301

Re: Oregon Health Authority (OHA) update on the Oregon State Hospital (OSH) Budget Note

Dear Co-Chairpersons:

NATURE OF REQUEST
The Oregon Health Authority (OHA) Addictions and Mental Health (AMH) Division requests receipt of this letter as required by the Budget Note in House Bill 5008.

The specific language of the budget note contained in HB 5008 stated:
The Oregon Health Authority shall report to the interim Joint Committee on Ways and Means or the Emergency Board by December 2013 on recommendations for decreasing the use of overtime and improving patient and staff safety at the Oregon State Hospital. In order to make recommendations, the Oregon State Hospital will form a work group that will include representation from some of the major classifications of employees, particularly those providing direct care of patients, such as psychologists, psychiatrists, registered nurses, mental health therapists, mental health therapy technicians, mental health security technicians, and managers.

AGENCY ACTION
The attached report includes data related to overtime and assaults at the Oregon State Hospital (OSH). The structure of the group is building on work that has been identified through already existing committees at OSH. Analysis of overtime use already completed by the Nursing Staffing Committee and analysis of data

regarding assaults already conducted by the Protection From Harm Committee work has been presented to the workgroup to aid in guiding the recommendations in the budget note. Preliminary recommendations are included in the report. The group intends to meet regularly to continue to problem solve and address these issues, which OSH will take under consideration as the work related to the committees progress.

ACTION REQUESTED
Acknowledge receipt of OHA's budget note report related to overtime and assault reduction at the Oregon State Hospital.

LEGISLATION AFFECTED
None

Sincerely,

Pamela A. Martin, Ph.D., ABPP
Director

CC: Ken Rocco, Legislative Fiscal Office
Linda Ames, Legislative Fiscal Office
Michelle Lisper, Department of Administrative Services
Cathy Connelly, Department of Administrative Services
Kim Wisdom, Department of Administrative Services

Agency Report

Item 4: Oregon Health Authority

Oregon State Hospital

Analyst: Linda Ames

Request: Acknowledge receipt of a report on safety and overtime issues at the Oregon State Hospital.

Recommendation: Acknowledge receipt of the report.

Analysis: A budget note in HB 5008 (2013) directs the Oregon Health Authority (OHA) to form a workgroup to develop recommendations for decreasing the use of overtime, and improving patient and staff safety at the Oregon State Hospital. The group met during the fall, and was able to utilize considerable data already collected by other committees. The group consisted of eight nurses (4 Registered Nurses, 3 Mental Health Technicians, the Chief Nursing Officer), a security technician, a psychologist, the Superintendent, and Deputy Superintendent. Both SEIU and AFSCME were represented in this group. The following summarizes the conclusions and recommendations of the report.

Patient and Staff Safety

The report concludes that only 2.7% of patients are responsible for nearly half of all aggression in the hospital, and aggression that results in injuries tends to be concentrated in certain wards as well as in certain dining halls. The group concluded that simply adding more staff does not in itself address the safety concerns. Rather, what is needed is improved staff training. The report describes the training initiatives currently being implemented, including training focused on de-escalation of situations, as well as an improved team process for physically intervening in emergency situations.

The agency is also meeting regularly with Marion County District Attorney staff to review information on patients where criminal prosecution is being pursued or considered. OHA received $100,000 in its budget to pay for these services.

A number of the recommendations center on training. Training and mentoring should be provided on the unit itself, focused on units where assaults are most common. Training should also be mandatory for more staff. Other recommendations focus on reducing the number of patients admitted to the hospital in order to restore their ability to aid and assist in their defense (Aid and Assist patients). A number of these patients exhibit very aggressive behaviors. Finally, the report recommends clarifying the procedures to be used in responding to incidents and adding security staff to certain dining rooms where mealtime violence is most prevalent.

Overtime

While overtime is down more than 10% since the 2009-11 biennium, it is still a significant cost at about $760,000 per month over the 18-month period reported. The report describes several reasons for the use of overtime:

- Unscheduled absences, averaging 62 per day, resulting from Family Medical Leave, callouts, and self-cancellation of overtime.

- Unpredictable staffing needs, resulting from patients with Behavioral Precautions (who need 1:1 or 2:1 staffing), as well as changes in the numbers of Aid and Assist patients.
- Unfilled vacancies, resulting from staff turnover and prolonged timelines to hire new staff.

The agency has already implemented a float pool consisting of both temporary and limited duration employees who are able to move among wards as staffing requirements change. Recommendations include strategies to reduce unscheduled absences, a new permanent part-time pool to assist with unpredictable staffing needs, and strategies to reduce the Aid and Assist population in the hospital. Strategies aimed at reducing vacancies include a modification to the lateral transfer policy to speed up the hiring process, training programs at the hospital to speed up the hiring process for Mental Health Technicians as well as to bring them in better prepared for their jobs, and exit interviews to understand and eventually reduce attrition.

The workgroup intends to continue to meet and address these issues.

The Legislative Fiscal Office recommends acknowledging receipt of the report.

4
Oregon Health Authority
Analyst: Lisper

Request: Report on recommendations for reducing the use of overtime and improving patient and staff safety at the Oregon State Hospital.

Recommendation: Acknowledge receipt of the report

Discussion: The Oregon State Hospital (OSH) as outlined in a budget note, is tasked with forming a work group to address overtime hours worked, the number and type of assaults on patients and staff for the past 12 to 18 months, and recommendations to reduce overtime and improve patient and staff safety at the Oregon State Hospital. This work group builds on existing OSH safety committee programs and staff, and includes stakeholders as specified in the budget note. The reporting period for this report is April 2012 to September 2013.

Oregon State Hospital Initiative

OSH has established two key initiatives: 1) the Safe Together Work Team Initiative and Pro ACT, a training program approval list for restraint and de-escalation; and, 2) the Safe Containment Work Team Initiative, approaches to applying safe containment methods for OSH patients and staff.

The Safe Together initiative has developed a training program that involves key stakeholder participation. The program has developed a train the trainer format and is in the process of identifying key staff to train. The Safe Containment initiative has completed a piloted training program for new staff in the hospital's community rehabilitation program for forensic patients Currently, they are working on the Trainer's manual; completion is expected soon to continue the training roll-out to the nursing staff.

Aggression (related to assaults on patients and staff)

OSH is defining aggression as any assault or physical behavior that could result in injury, regardless of the severity. During the report time period there were 1,702 patients, with 1,734 aggressive events reported. Twenty-seven percent of the patient population account for all of the events. Outliers (patients with greater than 8 events) account for 46 percent of all aggression at OSH; but they represent only 2.7 percent of the population. The table below is a monthly computed average of the statistical detail provided in the OSH report.

OSH Aggressions

April 2012 - September 2013

(Monthly average)

Patient to Patient Aggressive Events	Patient to Staff Aggressive Events	Injuries during Patient to Patient Events	Injuries during Patient to Staff Events
35	59	4.2	9.5

The degree of injuries during patient to patient aggressive events are outlined on a month to month basis in the OSH report. Overall there were a total of 76 injuries, of which 7 were classified as severe and 69 classified as moderate.

The degree of injuries during patient to staff aggressive events include a total of 171 injuries, of which 24 were classified as severe and 147 classified as moderate.

Aggressive events during the report period resulted in 47 workers' compensation claims totaling $310,670, with an average cost of $6,610 per claim. At this time, isolating the patient to staff claims cost figures was not possible.

Overtime Hours/Costs

The report identifies nursing overtime hours and costs, other staff hours and costs, and mandated overtime hours and costs.

During the time period being reported there were 33,216 occurrences, resulting in 279,960 hours of overtime. The table below is a monthly average of the statistical data provided.

OSH Overtime Hours/Costs

April 2012 - September 2013

(Monthly average whole numbers)

	Nursing	Other	Mandated
Hours	20,391	3,545	368
Costs	$592,000	$90,000	*

*This detail was not available from the OSH report; the costs for this category are reflected in the monthly overtime costs per staffing group mentioned above.

Nursing includes Registered Nurses (RNs), Licensed Practical Nurses (LPNs) and Mental Health Technicians (MHT). Other overtime includes food service, housekeeping, administrative and security staff.

Work Group Recommendations

There are six key areas of recommendations the work group reported: reduction of overcrowding, patient acuity, number of staff available to work, call-outs, assaults, and operations.

- Reduction of overcrowding predominately is related to addressing the Aid and Assist client admissions. These clients are defendants that are court ordered under Oregon Law (ORS 161.370) for mental health treatment that will enable them to understand the criminal charges against them and to assist in their own defense. The focus is to evaluate all of these clients prior to admissions, and the circuit courts are only allowed to refer these clients to OSH, send mobile teams out to counties to conduct an assessment where applicable, alter the evaluation process when a patient's attorney is not present and eliminate misdemeanors as qualifying for .370 admissions. Some of these recommendations may require statutory and administrative rule changes.

- Patient acuity addresses reviewing historical data to better staff shifts, and requiring utilization reviews of every patient that is on precaution more than seven days to modify the treatment plan.

- Number of staff available to work includes solutions that OSH will need to address as it pertains to certification requirement for MHTs, modifying the process for transferring LPNs and MHTs between units and shifts, redefining staff to patient ratios, modifying work schedules, and reviewing the attrition problem by conducting mover exit interviews to determine patterns of deficiencies. Some of these recommendations will require agreements between management and the bargaining units representing the employees.

- Call-outs recommendations are focused around human resources and union contract language enforcement where possible.

- The work group consensus indicates that adding staff is not the primary solution to assault issues; staff competency and unit-based training is a more effective solution.

- Outside of the recommendations indicated above, operations recommendations include: re-examining the "Code Green" process, increasing programs and activities in the later afternoon and evenings for patients, addressing dining room security during meals, developing an advanced group of well-trained /properly equipped teams to respond to incidences, and addressing the use and availability of personal alarm devises and panic buttons.

The Chief Financial Office recommends acknowledging receipt of the report but directing OHA to include an outcome analysis and progress report in their 2015-2017 agency request budget.