

Oregon Health Authority Budget

The 2011 – 2013 Oregon Health Authority budget passed by the Legislature includes some significant reductions. Due to rising costs, rising caseloads, and the loss of nearly \$1 billion in federal stimulus funds, nearly every person who receives or provides services funded through the Oregon Health Authority budget will be affected by the reductions.

Agencywide, most budget reductions made in 2009 – 2011 will continue through 2011 – 2013. In addition, \$44.3 million, or 19 percent of the OHA state General Fund administrative budget will be cut. We will continue to increase efficiencies through lean management techniques, reduction of unnecessary processes, and continually improving services.

However, because most of the OHA budget pays for health care, providers of the Oregon Health Plan will be taking a significant reduction. We have been working closely with them to help implementing the reductions, and will continue to do so over the coming months.

2011-2013 Budget Reductions

OHA budget:

\$11.9 billion Total Fund

\$1.7 billion General Fund

Oregon's fiscal reality has meant that legislators and Governor Kitzhaber had to make difficult decisions. Due to increased demand for services and the loss of nearly \$1 billion in federal stimulus funds, the Oregon Health Authority budget will be 39 percent less than what is needed to maintain current services. Nearly every person who receives or provides services funded through the Oregon Health Authority budget will be affected by the reductions. This budget also calls for reducing by approximately \$239 million the cost of delivering health care to

Oregon Health Plan clients at the local level through better coordination of care, reduced inefficiencies, and improved health for clients.

In all divisions, most budget reductions made in 2009-2011 will continue through 2011-2013. In addition, \$44.3 million, or 19 percent of the OHA state General Fund administrative budget will be cut. The Oregon Health Authority will continue to increase efficiencies through lean management techniques, reduction of unnecessary processes, and continually improving services.

Oregon Health Authority (OHA) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,553,376,197	1,461,404,697	1,750,220,034	1,721,639,876
Lottery Funds	12,637,762	10,903,639	11,142,377	10,779,583
Other Funds	1,444,908,082	1,661,707,350	1,514,812,956	1,989,328,229
Federal Funds	3,183,652,436	4,900,795,113	3,901,322,655	4,877,574,818
Other Funds (NL)	484,649,262	2,902,669,952	3,294,911,521	3,294,911,521
Federal Funds (NL)	101,996,686	104,800,827	107,103,462	107,103,462
Total Funds	\$6,781,220,425	\$11,042,281,578	\$10,579,513,005	\$12,001,337,489
Positions	3,351	4,030	3,695	4,089
FTE	2,976.58	3,638.62	3,629.84	4,033.27

NOTE: The Governor's Recommended column includes those programs that were proposed to be moved to the Early Learning Council. This allows comparisons with the 2011-13 Legislatively Adopted column.

Agency Overview

The Oregon Health Authority (OHA) is a new agency. It was created by the 2009 Legislature (HB 2009) to bring most health-related programs into a single agency to maximize its purchasing power and to contain rising health care costs statewide. OHA is overseen by a nine-member, citizen-led board called the Oregon Health Policy Board. Members are appointed by the Governor and confirmed by the Senate.

OHA's mission is to help people and communities achieve optimum physical, mental, and social well-being through partnerships, prevention and access to quality, affordable health care. It has three goals to transform the health care system in Oregon: improve the lifelong health of Oregonians; increase the quality, reliability, and availability of care for all Oregonians; and lower or contain the cost of care so it is affordable to everyone.

The Oregon Health Authority combines the Public Employees Benefit Board (PEBB), the Oregon Educators Benefit Board (OEBB), the Office of Private Health Partnerships, and the Oregon Medical Insurance Pool (OMIP; from the Department of Consumer and Business Services) with the health services programs from the Department of Human Services (DHS): Medical Assistance programs, Addiction and Mental Health programs, and Public Health programs. OHA will be the largest health care purchaser for the state of Oregon, purchasing health care for about 800,000 Medicaid clients, state employees, and local educators.

OHA is the largest agency within the Human Services program area, making up about 60% of total program area expenditures. Overall, OHA's 2011-13 legislatively adopted budget comprises about 12% of the state's combined \$14.6 billion General Fund and Lottery Funds budget, and 21% of the state's total funds budget.

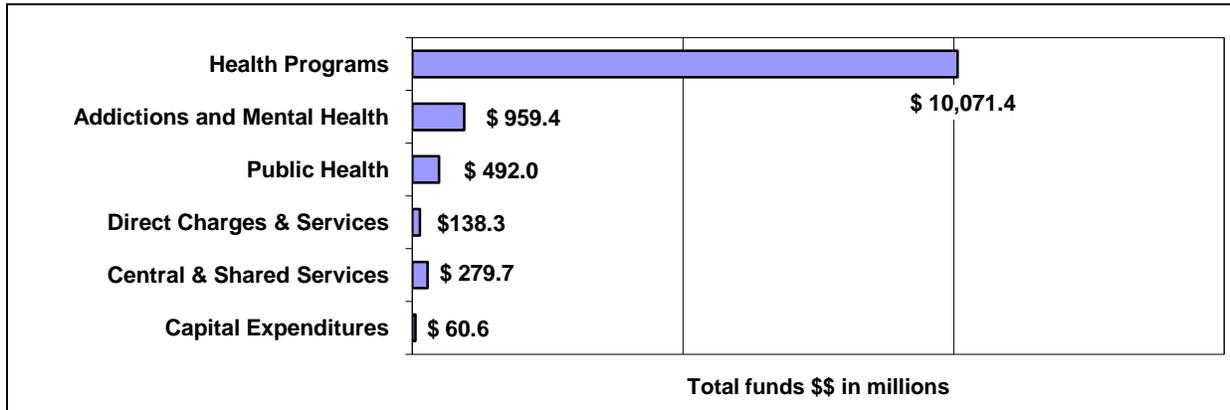
The numbers in all the charts for this agency have been adjusted in 2007-09 and 2009-11 to include the new programs that have been moved into OHA from other agencies for 2011-13. While these numbers are estimates, it does provide context for how the program costs have changed over time.

The OHA budget is organized into six program areas:

- **Health Programs** consists of four programs: the Medical Assistance Programs, which includes the Oregon Health Plan; the Public Employees Benefit Board; the Oregon Educators Benefit Board; and Private Health Partnerships.
- **Addictions and Mental Health** includes community mental health services; alcohol and drug treatment and prevention; the Oregon State Hospital and Blue Mountain Recovery Center; and gambling treatment and prevention.
- **Public Health** includes community health, environmental public health, family health, and disease prevention and epidemiology.
- **Direct Charges and Services** includes central government assessments and usage charges.
- **Central and Shared Services** includes the OHA Director's Office, central administrative and support functions and shared services, as well as the debt service payments on OHA's capital construction financing.

- Capital expenditures support the Oregon State Hospital (OSH) facility replacement project and limited capital improvements for OSH.

The chart below shows how OHA’s \$12,001.3 million total funds legislatively adopted budget for 2011-13 is allocated among these program areas.



Revenue Sources and Relationships

For the 2011-13 biennium, the General Fund supports 14% of OHA’s budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds. The OHA budget includes \$10.8 million of expenditure limitation to allow the use of statutorily dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues, excluding Nonlimited, support 17% of OHA expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider taxes, Article XI-Q bonds, grants, beer and wine taxes, fees, estate collections, health care premiums, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. Since 2003, health care provider taxes have been a significant source of Other Funds revenue. These taxes are used to support higher Medicaid reimbursement for services as well as benefits for the Oregon Health Plan. The 2009 Legislature approved new hospital taxes and health insurance premium assessments through September 30, 2013 (HB 2116). During the 2011 legislative session, significantly higher hospital taxes were negotiated in order to avoid large budget reductions in the Oregon Health Plan. The tax is increased from the old rate of 2.32%, potentially up to a rate of 5.25%. A portion of the increase is subject to approval by the Centers for Medicare and Medicaid Services (CMS).

This budget includes significant amounts of Nonlimited expenditures. Nonlimited expenditures are not constrained by a budgetary restriction and agencies may make these expenditures as long as revenue is available. Nonlimited Other Funds (27% of the total budget) primarily represent self-insurance payments in PEBB, and insurance premium payments in OEGB and OMIP. Nonlimited Other Funds also come from infant formula rebates in the Women, Infants and Children (WIC) program.

Overall, Federal Funds support 42% of OHA expenditures in the legislatively adopted budget for the 2011-13 biennium. Federal Funds subject to expenditure limitation are about \$4.9 billion. The largest source of these Federal Funds comes from the Title XIX Medicaid program, and to a lesser extent, the Child Health Insurance Program (CHIP). Nonlimited Federal Funds are for the Women, Infants and Children (WIC) nutrition program.

Budget Environment

Given the broad range of Oregonians it serves, and multiple funding sources, OHA must operate within a complex and dynamic budget environment. Demographics and economics, federal law and funding, health care cost inflation and utilization, and state policies and politics all greatly influence this budget.

Demographics and Economics

Population changes, especially the number of people who are elderly, disabled, or living in poverty, greatly affect the need or demand for OHA services. The health of the economy also has a significant effect on this

budget. Typically, when the economy is poor, demand for OHA services increases and program caseloads grow. Although the caseload forecasts on which OHA's 2011-13 legislatively adopted budget is based have attempted to factor in economic conditions projected for the biennium, there is still considerable risk to OHA's budget as demand for its services often continues even as the economy recovers.

Federal Law and Funding

Federal revenue supports about 42% of OHA's total expenditures. Federal revenue is tied to a significant body of law and federal administrative rules. A number of OHA's programs, such as the Oregon Health Plan (OHP), are governed by waivers of certain federal regulations. The waivers must be approved by federal agencies, with later approvals again if the state wants to make program changes. Federal laws generally require state staff to ensure that federal regulation and policy is carried out consistently or that information management systems are capable of producing federally required reports. Most of the General Fund in OHA's budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. As a result, General Fund budget reductions often also result in federal revenue reductions, and might jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

Federal funding levels are also subject to statutory change or program re-interpretation. For example, the new federal health care reform law requires states to maintain eligibility levels that were in place when the legislation passed, March 23, 2010. This eliminates one of the tools the state has used historically to control costs. In addition, the federal match rate for Medicaid services is significantly reduced in 2011-13 compared to last biennium when the state received the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA). The OHA budget must adjust for such changing federal revenue estimates on an on-going basis.

Health Care Cost Inflation and Utilization

The biggest single share of OHA's budget is medical costs. At the legislatively adopted budget level, OHA uses \$6.4 billion of its \$12 billion total funds budget for direct payments to acute health care providers or Medicare premium payments in the OHP, Non-OHP, and CHIP budgets. Health care inflation rates over the last several years have significantly outpaced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care has consumed a larger share of the total state budget.

Politics

About 79% of the OHA budget is earmarked for special payments to individuals, local governments, insurance companies, health care providers and suppliers, and others who deliver services. As a result, numerous organizations, trade associations, labor unions, advocates, and clients have a direct economic interest in the budget. When budget reductions need to be made, or major enhancements are proposed, these groups become actively involved in the politics that surround the OHA budget.

All of the factors described above tend to make significant policy changes difficult. A proposed program change might have a significant fiscal impact, might be inconsistent with federal law (or at least require a lengthy federal approval process), might challenge past policy direction and create controversy, or might simply be unable to survive navigation through the political process.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Oregon Health Authority is \$1,721.6 million General Fund and \$12,001.3 million total funds. For comparison, OHA's 2009-11 legislatively approved budget was \$1,461.4 million General Fund and \$11,042.3 million total funds. The 2011-13 legislatively adopted budget is 17.8% General Fund and 8.7% total funds more than the agency's 2009-11 legislatively approved budget; it is 1.6% General Fund less and 13.4% total funds more than the Governor's budget. These numbers do not include an \$8 million special purpose appropriation that was appropriated to the Emergency Board for caseloads or other costs for programs and services, available for either the Oregon Health Authority or the Department of Human Services.

As in other agencies, OHA's 2011-13 legislatively adopted budget reflects several statewide budget adjustments. The budget includes the Governor's proposed 5.5% reduction to projected personal services costs, assuming savings from final employee compensation decisions. It also includes standard reductions to continue allotment reduction savings from the 2009-11 biennium, as well as the elimination of inflation. OHA's reduction for the

statewide supplemental ending balance totals \$62.4 million General Fund and \$0.4 million Lottery Funds. At this time, no program or administrative budget impacts are specifically tied to this action; the funding may be restored in the February 2012 session for the second year of the budget, depending on economic conditions. All or part of this amount may be added back later in the biennium depending on economic conditions. Also, all General Fund services and supplies expenditures were reduced by 6.5% from the Governor's proposed budget level, a \$6.7 million General Fund reduction across OHA.

Although the General fund budget increases \$260 million over 2009-11, that does not begin to cover the back-fill of the nearly \$700 million in one-time revenues that were used in the 2009-11 biennium – mostly from the ARRA federal stimulus package and provider tax ending balances. In order to avoid the large program cuts in the Medical Assistance Programs that would have resulted from this level of General Fund, significantly higher hospital provider taxes were negotiated during the legislative session. Even with these additional resources, reimbursement rates to providers will be less than in the 2009-11 biennium.

The adopted budget also assumes additional cost savings of \$239 million in the second year of the biennium as a result of health care transformation (HB 3650), passed in the 2011 legislative session. This will result in an additional reimbursement reduction to providers in the second year. HB 3650 establishes the Oregon Integrated and Coordinated Health Care Delivery System in which Coordinated Care Organizations (CCOs) are used to improve health, increase the quality of care, and reduce costs. CCOs will be managed within fixed global budgets, and will be accountable for integrating physical, mental, and oral health care. CCOs are expected to operate under contracted performance standards to ensure that care is being improved while costs are reduced.

With the exception of the Medical Assistance Programs, most programs in the agency are funded at their 2009-11 levels. More detail follows on each of the five major program areas in OHA: Health Programs; Addictions and Mental Health; Public Health; Direct Charges; and Central and Shared Services.