

**Governor John Kitzhaber Remarks  
Oregon Health Policy Board meeting  
January 18, 2011  
DoubleTree Lloyd Building  
Portland, OR**

**Chair Parsons:**

It's always easy and in this case particularly a pleasure to introduce someone who needs no introduction. Governor Kitzhaber, as you know, was here to see us once before and this is the second time in a few months that we've had the honor of your presence. We appreciate that. We've spent a good share of this morning talking through some of the issues as we see them, recognizing that you're dealing with some very significant and very difficult issues and trying to organize ourselves in a way that we can make some contribution to the cause. We're looking forward to your comments and then perhaps a little discussion about how we can be helpful.

**Governor Kitzhaber:**

Thanks very much for having me again – I'm legitimate this time, which may be good or bad depending on whose perspective. I thought I'd give you an update about where we are with the budget, which is the overriding challenge that we face here in Oregon other than getting the private sector economy back on its feet. And the implications and opportunities of that budget crises for some significant changes not just in healthcare but I think in the whole enterprise of public education and really across the board.

As you know, this last budget was propped up with about \$1.3 billion of one time revenue, a lot of that from federal stimulus but in the case of healthcare – the tail of the provider tax, tobacco tax, and a number of other things. Most of our stimulus went to Oregon health plan and into the state school fund. So those are the two areas that are hit most profoundly by the loss of those revenues. I've tried to change the budget process, or take the first step in changing Oregon's budget process to move from what used to be called the current service level budget where you take the spent last year and then inflate it by a number of factors and that's the starting point for next year. The problem is that a lot of the money that's in that current service level budget just simply isn't coming back. So I've asked the budget management department to create a baseline budget with the general fund and the lottery fund that we know we have going forward so it's a very clear starting point based on real revenues that we can expect. So in the case of the state school fund, just to let you know that you're not out there all by yourselves, the state school fund is about 32% of the general fund – it's a big chunk – that's the K-12 appropriation. And I think what most school advocates would argue is that we need just around \$5.7 billion over the next biennium to maintain some semblance of a system of public education. Under this methodology, it comes out just a little under \$5.4. We're trying to figure out how we manage through that. We are going to have some revenue growth – about 9% revenue growth in this biennium, which will produce about \$1.2 billion.

So the question that we have to ask ourselves is, how we reallocate that back in a way that makes sense, but also that doesn't just prop up the current budget and kick the can down the road, but how do we use that to actually begin to transform systems to make them more efficient and cost effective in the future. In healthcare, if you combine the Oregon Health Plan and long term care services, you need about \$1.2 billion to maintain the levels of services you have right now. Now that takes into account the lost one time revenues plus a significant increase in enrollment in the Oregon Health Plan which is directly related to the economy. If you pencil that out, that's just under a 40% reduction, so that's the biggest hit of anybody – the second biggest being the state school system. So the challenge is, how do we take some of those resources we know, in terms of revenue growth, apply them back here (of course we have to use these for a

number of other things) and then how do we begin to change the way we deliver care? I think all of us know that all things being equal, we can deliver health care in America a lot more cheaply a lot more effectively and get better outcomes but it would require a different delivery system. The opportunity for us, instead of just doing less of the same, is to actually try to do things differently. So the group that we put together under the leadership of Mike and Bruce – and it was kind of a disparate group of stakeholders involved and providers and consumers – the approach they've taken is to try to manage through the first year of the biennium, recognizing that there will be benefit changes, that there will be reimbursement changes – significant ones – in the first year of the biennium. Then put in place a design effort to change the way we deliver services in the second year of the biennium, starting July 1, 2012, to recoup those cuts by a more efficient delivery.

We recommend that we start with the Oregon Health Plan and the dual and triple eligibles. That's about 500,000 people. Now I want to make it clear this in no way seeks to derail the good work you've been doing on a much broader level. It's just, how do we stage this in a way that makes sense? And we do have to deal with this population because they're the direct responsibility of the state of Oregon. And so the idea is to focus on that population; to try to create incentives and pathways for better integration of physical health, mental health, long term care, dental health – to try to create regional delivery organizations. We're looking at least initially at hospital referral areas, logical catchments areas for care provision. This will require significant federal waivers. I've talked to Secretary Sebelius and also Don Berwick and I think they're very interested in working with us very early on because some of these we have to have probably by June to proceed. The second phase of this, which would be down the road in the beginning of the next biennium, would be to bring in public employees into this net, this system and then try to make it available to other lines of businesses in the state Oregon. So I don't want to suggest this isn't going to be a real heavy lift, and I think the worst thing that could happen is if we tear each other apart as stakeholders in the first year because this isn't going to get any better unless we change the system.

We truly are in this together. I think if we do it together, and if we do it right, this could be profoundly positive for Oregon and really provide a light at the end of the tunnel for how healthcare is delivered certainly in this region and probably around the country. So, what I'd like to do is figure out a way to make this mesh with the good work of Oregon Health Policy Board and what I'm recommending is that we create a design team that's chartered by the Health Policy Board that would begin this design work immediately with some fairly challenging timeframes to produce a product. We need some level of detail in order to seek the waivers that were going to need from the federal government. And then, as you know, Mike has agreed to serve as my health policy advisor on this issue so he has a foot in both camps, if you will, so I think the lines of communication should be very good. I'm very excited about this and I think you should be too. I'd like to come back here a year from now and congratulate ourselves on really getting out in front and leading the way.

**Chair Parsons:**

Thank you. I have just a couple of quick comments and then if you have a couple minutes, maybe invite some questions. We had a little bit of advanced news as to what your thinking has been because of the connection with Mike and Bruce and so on, and so we spent a good share of our time this morning talking about the situation that we all face as Oregonians, and I think we're very much in agreement that the need is to change the way healthcare is delivered; that the place to start is with the Medicaid system. I think we have all bought into a theory of change which says that we can bring the full purchasing capacity of OHA and ultimately others as well to bear on the issue of changing the way healthcare is delivered. But I think we're all very much in agreement that unless we're able to do that and do it successfully, we probably don't have anything more than a short term fix and we really want to be focused on doing it right, doing

it well and we want to participate with you in this effort. Do you have time for just a couple questions?

**Governor Kitzhaber:**

Yes I do.

**Mr. Hofmann:**

Thank you Governor. What you're talking about is, I think in all of our minds, very consistent with where we're heading. I understand the budgetary reasons for starting with Medicaid, but to a certain extent that sets us up for criticism of trying to balance the budget on the backs of the most vulnerable. Have you thought about how we might at the same time speed up involving the rest of the insurers that are under our authority – PEBB/OEBB. Have those discussions started? How can we accelerate that?

**Governor Kitzhaber:**

I've had discussions with SEIU, both at the state level and their national team came in – it's a little bit of a different animal because of collective bargaining agreements. But I also want to say in terms of the most vulnerable – I don't think we can manage even through this biennium without some additional resources. I spent all weekend on the budget – we got some of the resources back into the health plan. It's not going to be enough. I guess my bottom line is that, I am open to that, but that if we are able to find additional resources to help us through this first year, it has to be bridge money; it has to be resources that are going to help us maintain our responsibilities to this population of Oregon, move to a new system, and not simply kick the problem down the road.

**Vice Chair Shirley:**

Governor, you've been a national voice for prevention in health populations, as opposed to individual health. Can you give us some of your thinking, the specifics of how you see our work, around for example payment reform, folding into making prevention a health priority?

**Governor Kitzhaber:**

It's clear that the clinical delivery system has got to be integrated with community based efforts to really get at the big drivers of population health. There's another very complimentary piece and that's my belief that we need to begin to view education as a 0 through 20 continuum and a big chunk of that is the lost step child, which is early childhood investment. I think we have six state programs or agencies and dozens of individual and county programs to which \$1 billion per year goes that aren't coordinated, have no clear line of accountability, and are very siloed. The idea is that if you could create a system that turns that into a capitation rate, which flows through a family resource manager whose job it is to make sure the resources are used to ensure that child is well and healthy, and ready to learn when they get to school (and we're talking about kindergarten or elementary school), and doing it through the same regional structure as the formal medical system. So it seems to me that the function of prevention and wellness and making sure kids are ready to learn is almost the same as prevention in the health care system. If you do that right on the front end, you keep people healthy, they go to school, they don't end up in the criminal justice system, they require fewer social supports. There's a very elegant interface here, and I think it has to be built into the payment model – that these are resources that are specifically to be used for this purpose. But politically, other than the fact that no one wants to change, everyone wants to hold onto their little piece of the boat, but politically, if you want to reduce poverty, reduce social dependence, lower involvement in the criminal justice system, and

produce healthier citizens, there's a set of common investments that you can make on that front end that accomplish all of those things.

**Ms. Brady:**

Governor, thank you for making some time for us. I think we're completely aligned with where you're going. As a matter of fact we chartered our health system transformation committee this morning. We're hoping that's going to be a leadership group. And in its charter, it basically says, "you need to come up with ways to restructure the delivery system for the Medicaid program." And I'm wondering if we shouldn't include something about ready-to-learn assessments; having the Medicaid system be part of a ready-to-learn assessment and having a joint program with education, and formalizing that a little bit.

**Governor Kitzhaber:**

I would advise you to have Pam Curtis and Lynne Saxton, who ran our transition team, come in...Because what they're talking about – in the Medical system now there's the metabolic assessments that are required of kids at various ages. But there's also a socioeconomic assessment, and there's a couple of other asses that deal with other risk factors. It seems that those should all be done on the medical side because the kids are already there. It would be really worthwhile to sit down and align those because I think, not only are there cost savings, but I think there are huge opportunities there for improvements in outcomes.

**Ms. Hagins:**

Governor, I think everybody agrees with the changes you want to make, and the idea that they have to be long term and structural, and I know that you've talked a lot about getting out of this two year biennial budget doldrums. How are you thinking about, once you get through this biennium's budget, how are you going to think about a longer term budget plan?

**Governor Kitzhaber:**

I have a group designing a ten year budget frame that allows you to make projections on both expenditures and revenues. Means we're going to have to get a better revenue prediction model than we have right now. For example, right now, under the current budget model, if you want to spend money on early childhood, there's no way you can show a return on investment in one biennium, so you need a way to be able to put a context around your individual fiscal investments and policy choices in each budget year. And I think this is a good time to fold this in, because we're going to annual sessions. So we will obviously have to use the old budget machinery for this particular budget but we are going to want to redesign the whole budget structure in Oregon and move towards that kind of a system. Some of them might be able to be brought in during the second year of the biennium, but clearly in the 13-15 biennium.

**Mr. Crespo:**

Thank you for being here. You mentioned the integration of education and health and I think this is very very important, because that's where we get both populations. There's another group – business, private industry – who will benefit from improved education and lower healthcare costs. My question: how would you plan to integrate business into improving education and health?

**Governor Kitzhaber:**

I'm not quite sure I understand the question

**Mr. Crespo:**

How is business going to be involved? How can we get the input of business, private industry in facilitating all these changes in education and healthcare?

**Governor Kitzhaber:**

Well, I guess, I have been working very closely with the Oregon Business Council, just to throw one out there, on the design of a ten year budget, on our 0-20 education agenda. I think probably I would venture to guess the business community in Oregon is probably more focused on the educational side of the agenda. They've done a lot of work on that and probably less on the healthcare, which I think is viewed often just as an expense on the bottom line. And I think there's an educational component here – and I think this is my job – to do an outreach to the business community in Oregon, to explain the inter relationships, but also to explain the significant downstream benefits to Oregon business if we could reduce the overall costs of healthcare. And I think we should include people on our design committee who have ties with the business community. You know, the worker's comp reforms, as controversial as they were, that we made back in 1989, have saved Oregon businesses about \$14 billion. And can you imagine what a competitive advantage this state would have if we could even lower the rate of growth of medical inflation to the CPI or 3% a year. I mean, it would be very significant, so I think it's a connecting the dots, and I do think that the leadership and business community is ready to lean into this with us.

**Chair Parsons:**

Any other thoughts?

**Governor Kitzhaber:**

May I make just one last comment?

**Chair Parsons:**

Please.

**Governor Kitzhaber:**

If you saw the paper yesterday, it talked about how the United States was about ready to break through the, run up against our \$14 trillion debt ceiling. I remember sometime, 4 or 5 years ago, traveling around the country giving my famous healthcare speech, and how much is a trillion dollars analogy when we were going from 8 to 9 (trillion dollars in debt). And now we're at 14 and this is going to go up almost exponentially, because the first boomers are coming onto the Medicare program this month. So as all of us, those of you at this table, those of you who are out in the audience, start worrying about what's going to happen to me in the short term: I think we need to recognize that, you know, just cause the hole is in the other end of the canoe, doesn't mean you're not going to sink. And we are literally in a very short window of time here where I think the management of the national debt is going to be a credit issue for the United States, I think its going to be a national security issue for the United States, and what's driving the national debt right now going forward, is Medicare and Medicaid costs. So this is something we have to do and we have a moment in time when we can be architects of the future, or we can become victims of circumstances. And in Oregon, we are going to be architects of our own future.

**Chair Eric Parsons:**

Governor, I think your canoe analogy could be a good candidate for quote of the day, once again. And I want to say thank you very much for your support. I want to tell you that, as you've heard from others, I think we really are very much aligned. And we're looking forward to supporting your efforts.

**Governor Kitzhaber:**  
Thank you very much.

**Chair Eric Parsons:**  
Thank you for your time today; Thank you for joining us; We appreciate it.