



OFFICE OF THE DIRECTOR

Kate Brown, Governor



500 Summer St NE E20
Salem OR 97301
Voice: 503-947-2340
Fax: 503-9472341
www.Oregon.Gov/OHA
www.health.oregon.gov

May 10, 2017

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Nancy Nathanson, Co-Chair

900 Court St, NE
H-178 State Capitol
Salem, OR 97301-4048

Re: Oregon Health Authority (OHA) 2015-2017 Budget Rebalance Report

Dear Co-Chairpersons:

NATURE OF REQUEST

The Oregon Health Authority (OHA) requests receipt of this letter as its April 2017 Rebalance Report for the 2015-2017 biennium.

AGENCY ACTION

Based on actual expenditures through January 2017 and updated projections based on the Spring 2017 Caseload Forecast, OHA is projecting a \$7.6 million General Fund net savings.

Additionally, the agency is projecting a need to increase Other Funds limitation by \$16.8 million and reduce Federal Funds limitation by \$941.4 million.

Rebalance Changes	General Fund	Total Funds
December 2016 Emergency Board	\$2,169,921,934	\$21,071,791,787
Costs	\$22,049,007	\$21,248,737
Savings	(\$29,601,114)	(\$953,371,898)
Technical Adjustments/DHS Transfers	\$0	\$0
Net Savings (Costs – Savings)	(\$7,552,107)	(\$932,123,161)
Spring 2017 Rebalance	\$2,162,369,827	\$19,771,445,045
Percent Change from December 2016 Emergency Board	-0.003%	-4.4%

Savings

OHA is identifying \$29.6 million in total General Fund savings. Those savings are driven by three factors:

- Updates to revenue and caseload forecasts;
- Updates to program funding; and,
- Administrative savings.

Updates to Revenue and Caseload Forecasts

Drug Rebate Revenue (\$6.0 million) – Revenue from drug rebates is projected to be higher than budgeted. The increase is driven by an increase in rebate invoicing for physician administered drugs and an expansion in the drugs eligible for rebate. This additional rebate revenue is used to offset General Fund in the Medicaid budget.

Medicaid Tobacco Tax Forecast (\$5.0 million) – The Medicaid budget is adjusted for the most recent Economic Forecast for projected tobacco tax revenues, indicating a \$5.0 million increase above forecast included at the December 2016 Rebalance. This additional tobacco tax revenue is used to offset General Fund in the Medicaid budget.

Spring 2017 Caseload Forecast (\$3.6 million) – The Health Systems Division medical assistance caseloads are updated from the Fall 2016 Caseload Forecast to the Spring 2017 Caseload Forecast. The new forecast is 0.3 percent lower than the Fall 2016 Caseload Forecast. Caseload increases for Parent & Caretaker Relatives, Children’s Health Insurance Program (CHIP), and individuals who are disabled create a General Fund need, but that need is offset by caseload decreases for Pregnant Women, Children’s Medicaid Program, and Old Age Assistance. The result is a General Fund savings of \$9.5 million. This savings, however, is offset by the \$6 million in General Fund caseload challenge that the Emergency Board did not fund at the December 2016 Rebalance, resulting in a net \$3.6 million in General Fund savings. (See Attachments B and C.)

Updates to Program Funding

Special Needs Rate Group Settlement (\$5.3 million) – Starting in November 2012, OHA increased capitation rates for coordinated care organizations (CCOs) to provide coverage for a Special Needs Rate Group (SNRG). This small high-risk population included individuals found eligible under the Breast and Cervical Cancer Medical program, the Medically Fragile Children program, and individuals diagnosed with end

stage renal disease and HIV. Starting January 2014, OHA also enrolled under this new rate category former members of the Oregon Medical Insurance Program (OMIP). The risk sharing agreement specified in CCO contracts dictated that CCOs would submit encounter data reports to determine settlement payments by CCOs to OHA or by OHA to CCOs. The settlement resulted in a net payment by CCOs of \$5.3 million received as Other Funds to OHA, which allows \$5.3 million in General Fund savings.

CAREAssist Program Savings (\$3.0 million) – CAREAssist helps people living with HIV or AIDS pay for medical care expenses by paying for insurance premiums and prescription/medical services co-pays. Drug rebate revenue largely funds the program. Drug rebate collections are exceeding budget expectations. The program, therefore, can reduce its General Fund need by \$3 million.

Federal Grant Funding Savings (\$2.4 million) – OHA was awarded \$45 million in 2013 for the State Innovation Modeling (SIM) federal grant. The federal government approved a no-cost extension to the award allowing OHA to utilize unspent grant funding to complete work that would have otherwise been paid by General Fund dollars in the amount of \$2.4 million.

Breast and Cervical Cancer Program Savings (\$0.2 million) – The Breast and Cervical Cancer Program provides breast cancer and cervical cancer screenings to uninsured women. Public Health projects that program spending will be under budget, allowing \$227,000 in General Fund savings.

CCO Transformation Funds Returned (\$53,000) – The 2013 Legislature appropriated to OHA \$27 million in General Funds to disperse to CCO as transformation grants. The Legislature required CCOs to return to OHA any unexpended funds. Columbia Pacific CCO returned \$53,000.

Administrative Savings

ONE System Savings (\$3.7 million) – At the December 2016 Rebalance, the Health Systems Division requested \$9.9 million in General Fund dollars to support the need for large numbers of temporary staff to address the backlog of redeterminations for medical assistance and for ongoing ONE system maintenance and operations costs. By carefully managing its resources, the division is projecting \$3.7 million less in General Fund need.

DAS Risk Charge (\$0.3 million) – OHA updated internal coding for the distribution of

risk billing to the Department of Administrative Services (DAS) methodology for billing, resulting in \$346,000 less General Fund need.

Costs

OHA identified \$22.0 million in increased General Fund costs. Here is how those increased costs are quantified:

Medicaid Clawback Rate Increase (\$5.9 million) – The Medicare Modernization Act of 2003 (MMA) established the Medicare Part D prescription drug benefit. To help finance the new Medicare drug benefit, the law requires each state Medicaid agency to make monthly payments to the federal government based on the number of individuals dually eligible for Medicaid and Medicare and a federally-calculated rate for the cost of outpatient prescription drugs. The monthly payments—known as “clawback” payments—are intended to equal the amount each state would have paid if it continued to pay for outpatient prescription drugs for these individuals under Medicaid. The federal government updates the calculated rate each year. The recent rate update results in a \$5.9 million General Fund increase in projected clawback payments. These payments are not eligible for federal matching funds.

Legal Fees (\$4.8 million) – During the 2015-17 biennium, OHA incurred \$4.8 million in General Fund costs associated with legal fees specific to the Cover Oregon litigation with Oracle. OHA requests this amount from the legal settlement.

Shared Service Funding (\$6.6 million) – OHA is experiencing a continued overall shift of DHS/OHA Shared Services costs being allocated to OHA based on changes in personal services for each agency. Also, in previous rebalances, the impact of the Oregon State Hospital was not fully known and funding splits were projected based on biennium-to-date experience. Now that the impact has stabilized, the Shared Services Funding budget is projected based on newly anticipated funding splits, with an increased General Fund need. The overall result is that the OHA portion of Shared Services Funding has an increased need of \$6.6 million in General Funds.

Enterprise Technology Services (\$3.9 million) – OHA has an increased budget need for DAS Enterprise Technology Services (ETS). There are two factors driving this increased budget need. First, changes in cost allocation over the course of the 2015-17 biennium has caused an overall shift in State Government Service Charges to General Fund based on the use of agency-wide cost allocation pools. Second, OHA has increased utilization of the network services and other ETS activities. The overall

result is that OHA has a \$3.9 million General Fund need for its ETS budget.

Telecommunication (\$0.4 million) – DAS is implementing the new Project MUSIC telecommunication system to move telephone services to a contract with IBM. The DAS telecommunication budget was reduced in anticipation of savings, but the IBM billing contract estimated budget is lower than what is now contracted. This budget request is based on the number of users migrated, DAS phones, DAS rates, IBM rates for desk phones and call center phones, and monthly DAS billing.

Increased Utilization of DAS Services (\$0.3 million) – OHA is experiencing higher levels of utilization of services and systems offered by the Department of Administrative Services and other agencies, causing a \$341,845 General Fund need in the State Assessments & Enterprise-Wide Costs (SAEC) budget. OHA has increased its utilization of Datamart records, State Financial Management Services (SFMS) records, the iLearn training system, and the E-Recruit on-line recruitment system.

On the next page is a table that displays the OHA Rebalance costs and savings by fund type. The agency is not requesting any change in position authority.

Summary of OHA Savings and Costs by Fund Type (in millions)*

Savings	General Fund Need/(Savings)	Other Fund Need/(Savings)	Federal Fund Need/(Savings)	Total Fund Need/(Savings)	Pos.	FTE
Drug Rebate Revenue	(\$6.0)	\$6.0	-	\$0.0		
Medicaid Tobacco Tax Forecast	(\$5.0)	\$5.0	-	\$0.0		
OHP Spring 2017 Caseload Forecast	(\$3.6)	-	(\$16.0)	(\$19.6)		
SNRG Settlement	(\$5.3)	\$5.3	-	\$0.0		
CAREAssist Program	(\$3.0)	-	-	(\$3.0)		
Federal Grant Funding - SIM	(\$2.4)	-	-	(\$2.4)		
Breast and Cervical Cancer Program	(\$0.2)	-	-	(\$0.2)		
CCO Transformation Funds Returned	(\$0.05)	-	-	(\$0.05)		
ONE System Savings	(\$3.7)	-	(\$7.6)	(\$11.3)		
DAS Risk Charge	(0.3)	\$0.1	\$0.2	\$0		
Total Savings	(\$29.6)	\$16.4	(\$23.4)	(\$36.6)	0	0
Costs						
Medicaid Clawback Rate Increase	\$5.9	-	-	\$5.9		
Legal Fees	\$4.8	-	-	\$4.8		
Shared Services Funding	\$6.6	(\$0.6)	(\$0.5)	\$5.5		
Enterprise Technology Services	\$3.9	\$0.8	(\$1.9)	\$2.8		
Telecommunication	\$0.4	\$0.2	\$1.0	\$1.6		
Increase Utilization of DAS Services	\$0.3	(\$0.02)	\$0.2	\$0.5		
Total Costs	\$22.0	\$0.3	(\$1.1)	\$21.2	0	0
Remove Empty Federal Fund Limitation			(\$916.8)	(\$916.8)		
Net OHA April 2017 Rebalance	(\$7.6)	\$16.8	(\$941.4)	(\$932.1)	0	0

*Due to rounding, numbers may not add up precisely to totals.

Risk Factors, Challenges and Outstanding Issues

Challenges that OHA must continue to closely monitor for the remainder of the biennium include:

- While Oregon’s economy continues to improve, caseloads are always the major driver of costs in the OHA budget. Small changes in the caseload forecasts can have large impacts on the General Fund need.
- The Oregon State Hospital budget relies on the anticipation of increased Other Fund revenue from the reimbursement of Medicare and Medicaid, based on the

certification of hospital beds from the federal government. The revenue anticipated from the billing activity may not be received before the end of the biennium, which could result in an Other Fund shortfall.

- Tobacco tax revenue forecasts have historically fluctuated—increasing and decreasing widely—affecting the tobacco tax revenue anticipated to fund the Oregon Health Plan and community mental health investments.
- OHA is watching for potential changes in treatments for hepatitis C. New drugs treatment options have become available that may have a financial impact if implemented for all known cases.
- OHA is continuing to hold discretionary Oregon Health Plan fee-for-service rates constant, except when rate increases are needed to maintain access to specific services. Additional access issues may arise, requiring additional rate increases.

ACTION REQUESTED

Acknowledge receipt of the OHA April 2017 Rebalance Report for the 2015-17 biennium.

LEGISLATION AFFECTED

See Attachment A.

Sincerely,



Lynne Saxton
Director



Janell Evans
Budget Director

Enc: Attachment A – Legislation Affected
Attachment B & C – Caseload Forecast Changes

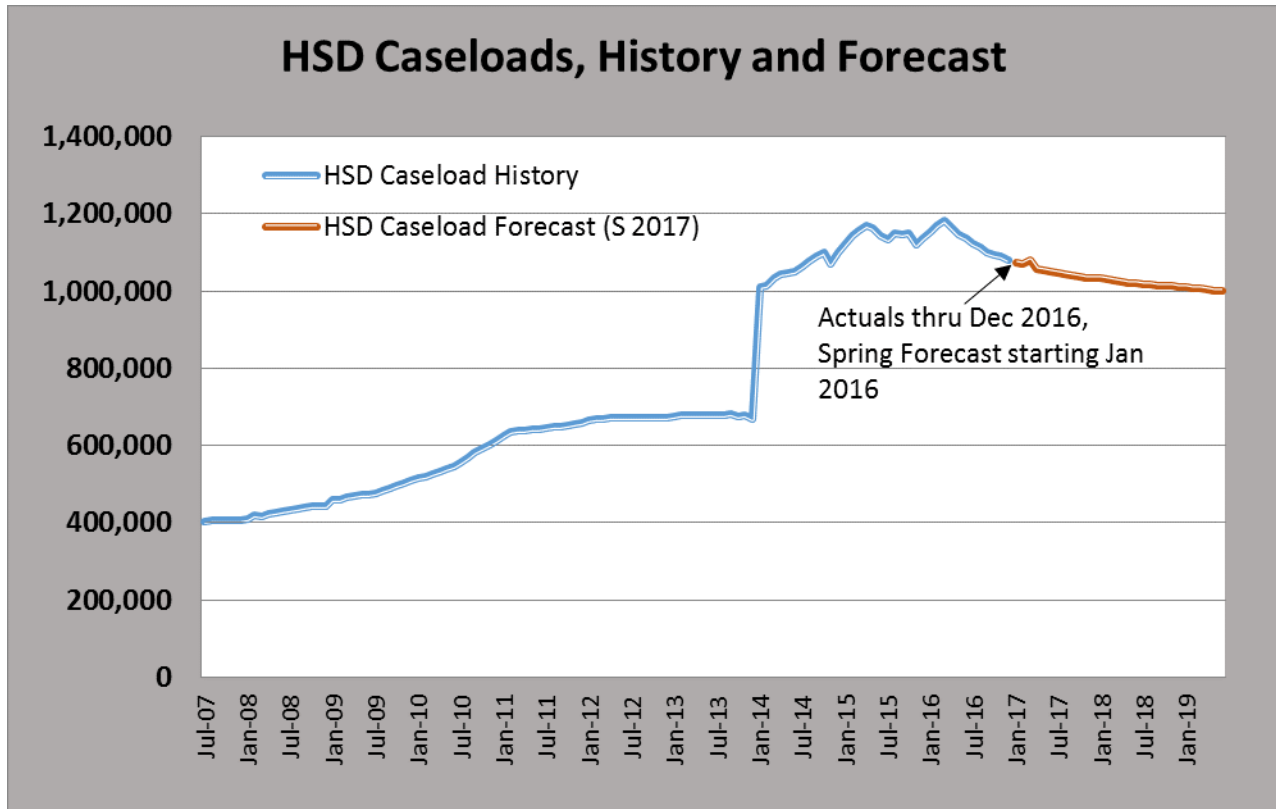
CC: Linda Ames, Legislative Fiscal Office
Thomas MacDonald, Policy Budget Analyst, DAS/CFO

ATTACHMENT A

OREGON HEALTH AUTHORITY APRIL 2017 REBALANCE ACTIONS APPROPRIATION AND LIMITATION ADJUSTMENTS

DIVISION	PROPOSED LEGISLATION/ SECTION	FUND	REBALANCE ADJUSTMENTS	APPR #
Central Services/SAEC	Ch 838 1(2)	General	\$11,030,371	87401
	Ch 838 2(2)	Other	\$475,262	34401
	Ch 838 4(2)	Federal	(\$17,306,106)	64401
		Total	(\$5,800,473)	
Debt Service	Ch 838 1(4)	G/F Debt	\$0	85801
OHA Health Services Programs	Ch 838 1(1)	General	(\$18,582,478)	87801
	Ch 838 2(1)	Other	\$16,304,929	34801
	Ch 838 4(1)	Federal	(\$924,045,139)	64801
	Ch 838 (6)	Other PEBB Revolving Fund	\$0	34804
	Ch 838 (7)	Other OEGB Revolving Fund	\$0	34805
		Total	\$(926,322,688)	

ATTACHMENT B



ATTACHMENT C

Spring 2017 Medicaid Caseload Forecast

2015-17 Fall 2016 Forecast Compared to Spring 2017 Forecast					
Eligibility Category	15-17 Caseload at Fall 2016 Forecast	15-17 Caseload at Spring 2017 Forecast	Difference	Percent Change	Problem/ (Savings) Total Funds in Millions
Affordable Care Act (ACA)	409,098	404,970	(4,128)	-1.0%	(\$40.1)
Parent/Caretaker Relative	68,770	70,491	1,721	2.4%	\$22.0
Pregnant Women	16,639	16,471	(167)	-1.0%	(\$4.8)
Children's Medicaid Program	342,797	338,931	(3,866)	-1.1%	(\$16.7)
Aid to Blind and Disabled	82,008	82,154	146	0.2%	\$5.3
Old Age Assistance	42,338	42,133	(205)	-0.5%	(\$2.0)
Foster/Adoption/BCCP	20,046	20,050	5	0.0%	(\$0.1)
Children's Health Insurance Program	61,706	65,281	3,576	5.8%	\$14.0
Non-OHP (CAWEM and QMB)	71,255	70,587	(668)	-0.9%	(\$0.2)
CAWEM Prenatal	2,168	2,120	(49)	-2.3%	(\$1.6)
Other Non-OHP (Part A & B Premiums)	125,050	201,785	(855)	-0.4%	(\$1.4)
2015 - 17 Total	1,116,825	1,113,189	(3,636)	-0.3%	(\$25.5)
		GF	OF	FF	TF
Impact of Spring 2017 Caseload		(\$9,525,840)	-	(\$15,993,933)	(\$25,519,773)
Unfunded Caseload Cost at December 2016 Rebalance		\$5,964,451	-	-	\$5,964,451
Net Caseload Forecast Impact		(\$3,561,389)	-	(\$15,993,933)	(\$19,555,322)